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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-K**

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**ANNUAL REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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For the fiscal year ended December 26, 2003

Commission file number 1-7182

**Merrill Lynch & Co., Inc.**  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

13-2740599  
(I.R.S. Employer Identification No.)

4 World Financial Center  
New York, New York  
(Address of principal executive offices)

10080  
(Zip Code)

Registrant's telephone number, including area code: (212) 449-1000

**Securities registered pursuant to Section 12(b) of the Act:**

Common Stock, par value \$1.33 1/3 and attached Rights to  
Purchase Series A Junior Preferred Stock.

New York Stock Exchange;  
Chicago Stock Exchange; Pacific  
Exchange; Euronext Paris S.A.;  
London Stock Exchange; and  
Tokyo Stock Exchange  
New York Stock Exchange

Depository Shares representing 1/400th share of 9% Cumulative Preferred Stock, Series A; S&P  
500® Market Indexed Target-Term Securities® (MITTS® Securities) due September 28, 2005; Top  
Ten Yield MITTS Securities due August 15, 2006; and S&P 500 Inflation Adjusted MITTS  
Securities due September 24, 2007.

See the full list of securities listed on the American Stock Exchange on the page directly following this cover.

**Securities registered pursuant to Section 12(g) of the Act:**

See the full list of securities registered pursuant to Section 12(g) of the Act on the page directly following this cover.

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

As of the close of business on June 27, 2003, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately \$43.3 billion.

As of the close of business on February 24, 2004, there were 967,399,005 shares of Common Stock and 2,894,802 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting and other rights equivalent to Common Stock.

**Documents Incorporated By Reference:** Portions of the Merrill Lynch 2003 Annual Report to Shareholders are incorporated by reference in this Form 10-K in response to Parts I, II, III and IV. Portions of the Merrill Lynch Proxy Statement dated March 9, 2004 for its 2004 Annual Meeting of Shareholders to be held April 23, 2004 are incorporated by reference in this Form 10-K in response to Parts III and IV.

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**Securities registered pursuant to Section 12(b) of the Act and listed on the American Stock Exchange are as follows:**

MITTS Securities based upon the Russell 2000® Index due March 30, 2009; Nikkei® 225 Securities due March 30, 2009; S&P 500 MITTS Securities due June 29, 2009; MITTS Securities based upon the Dow Jones Industrial Average<sup>SM</sup> due August 7, 2009; S&P 500 MITTS Securities due September 4, 2009; MITTS Securities Linked to the USD/EUR Exchange Rate due September 13, 2005; Russell 2000 MITTS Securities due September 30, 2004; Global MITTS Securities due December 22, 2004; S&P 500 MITTS Securities due July 1, 2005; Nikkei 225 MITTS Securities due September 21, 2005; Energy Select Sector SPDR® Fund MITTS Securities due February 21, 2006; EuroFund MITTS Securities due February 28, 2006; S&P 500 MITTS Securities due March 27, 2006; Consumer Staples Select Sector SPDR Fund MITTS Securities due April 19, 2006; Select Sector SPDR Fund Growth Portfolio MITTS Securities due May 25, 2006; Major 11 International MITTS Securities due May 26, 2006; MITTS Securities based upon the Dow Jones Industrial Average due June 26, 2006; Russell 2000 MITTS Securities due July 21, 2006; Nikkei 225 MITTS Securities due August 4, 2006; S&P 500 MITTS Securities due August 4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; MTN, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Telebras Indexed Callable Protected Growth Securities (ProGroS® Securities) due May 19, 2005; 1% Convertible Securities Exchangeable into McDonald's Corporation common stock due May 28, 2009; Market Recovery Notes<sup>SM</sup> Linked to the Dow Jones Industrial Average due January 31, 2005; Callable MITTS Securities due October 5, 2007 based upon Semiconductor HOLDRS®; Callable MITTS Securities due September 13, 2007 based upon Broadband HOLDRS; Callable Nasdaq-100® MITTS Securities due August 3, 2007; Callable MITTS Securities due May 4, 2009 Linked to the S&P 500 Index; Callable MITTS Securities due May 4, 2009 Linked to the Amex Biotechnology Index; Callable MITTS Securities due June 1, 2009 Linked to the Amex Defense Index; Callable MITTS Securities due August 3, 2007 based upon Biotech HOLDRS; Medium-Term Notes, Series B, 2% Callable and Exchangeable Stock-Linked Notes due July 26, 2005 (Linked to the performance of the common stock of Johnson & Johnson); Medium-Term Notes, Series B, Nikkei 225 MITTS Securities due March 30, 2007; Callable MITTS Securities due March 5, 2007 based upon Internet HOLDRS; Medium-Term Notes, Series B, 0.50% Callable and Exchangeable Stock-Linked Notes due February 3, 2005 (Linked to the performance of a specified portfolio of common stocks); Global MITTS Securities due December 22, 2004; Medium-Term Notes, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due January 7, 2008 (Linked to the performance of Wells Fargo & Company); Nikkei 225 MITTS Securities due June 27, 2007; Strategic Return Notes® Linked to the Nasdaq-100 Index® due November 30, 2004; Strategic Return Notes Linked to the Industrial 15 Index due February 1, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due February 8, 2007; Strategic Return Notes Linked to the Select Ten Index due March 1, 2007; Strategic Return Notes Linked to the Oil and Natural Gas Index due March 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due May 3, 2007; Strategic Return Notes Linked to the Select Ten Index due May 3, 2007; Strategic Return Notes Linked to the Select European 50 Index due June 11, 2007; Strategic Return Notes Linked to the Select Ten Index due June 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due August 30, 2007; Strategic Return Notes Linked to the Select Ten Index due October 25, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due November 1, 2007; Strategic Return Notes Linked to the Select Ten Index due May 30, 2006; Strategic Return Notes Linked to the Industrial 15 Index due June 26, 2006; Strategic Return Notes Linked to the Institutional Holdings Index due June 28, 2006; Strategic Return Notes Linked to the Select Ten Index due July 31, 2006; Strategic Return Notes Linked to the Select Ten Index due November 2, 2006; 8% Callable STock Return Income DEbt Securities® due January 29, 2004, payable at maturity with Xilinx, Inc. common stock; 6% Callable STock Return Income DEbt Securities due February 11, 2004, payable at maturity with Bed Bath & Beyond Inc. common stock; 8% Callable STock Return Income DEbt Securities due February 23, 2004, payable at maturity with Applied Materials, Inc. common stock; 8% Callable STock Return Income DEbt Securities due March 22, 2004, payable at maturity with The Gap, Inc. common stock; 7% Callable STock Return Income DEbt Securities due March 22, 2004, payable at maturity with Texas Instruments Incorporated common stock; 7% Callable STock Return Income DEbt Securities due March 29, 2004, payable at maturity with Dell Computer Corporation common stock; 6% Callable STock Return Income DEbt Securities due May 7, 2004, payable at maturity with The Boeing Company common stock; 8% Callable STock Return Income DEbt Securities due May 14, 2004, payable at maturity with Adobe Systems Incorporated common stock; 7% Callable STock Return Income DEbt Securities due August 23, 2004, payable at maturity with Starbucks Corporation common stock; 7% Callable STock Return Income DEbt Securities due September 1, 2004, payable at maturity with Citigroup Inc. common stock; 8% Callable STock Return Income DEbt Securities due October 1, 2004, payable at maturity with Hewlett-Packard Company common stock; 8% Callable STock Return Income DEbt Securities due October 29, 2004, payable at maturity with Bank of America Corporation common stock; and 7% Callable STock Return Income DEbt Securities due November 18, 2004, payable at maturity with Amgen, Inc. common stock; Convertible Securities Exchangeable into Exxon Mobil Corporation Common Stock due October 3, 2008; Convertible Securities Exchangeable into The Coca-Cola Company Common Stock due September 30, 2008; Accelerated Return Notes linked to Pfizer, Inc. common stock due November 23, 2004; Accelerated Return Notes linked to Citigroup Inc. common stock due January 4, 2005; Accelerated Return Notes linked to the AMEX Biotechnology Index due October 5, 2004; Accelerated Return Notes Linked to Semiconductor HOLDRS<sup>SM</sup> due December 31, 2004; 8% Callable STock Return Income DEbt Securities due November 15, 2004, payable at maturity with Micron Technology, Inc. common stock; 7% Callable STock Return Income DEbt Securities due October 28, 2004, payable at maturity with Cisco Systems, Inc. common stock; 8% Callable STock Return Income DEbt Securities due October 22, 2004, payable at maturity with QUALCOMM Incorporated common stock; and 7% Callable STock Return Income DEbt Securities due February 22, 2005, payable at maturity with Intel Corporation common stock.

**Securities registered pursuant to Section 12(g) of the Act are as follows:**

S&P 500 MITTS Securities due June 29, 2007; S&P 500 MITTS Securities due November 20, 2007; S&P 500 MITTS Securities due August 29, 2008; MITTS Securities based upon the Dow Jones Industrial Average due September 29, 2008; Enhanced Return Notes® Linked to the Nasdaq-100 Index due March 1, 2004; MITTS Securities based upon the Dow Jones Industrial Average due January 16, 2009; 7% Callable STock Return Income DEbt Securities due January 3, 2005, payable at maturity with General Electric Company common stock; 6.5% Callable STock Return Income DEbt Securities due February 1, 2005, payable at maturity with International Business Machines Corporation common stock; 7% Callable STock Return Income DEbt Securities due February 28, 2005, payable at maturity with Cisco Systems, Inc. common stock; Market Recovery Notes Linked to the Nasdaq-100 Index due March 31, 2005; Strategic Return Notes Linked to the Select Ten Index due February 28, 2008; S&P 500 MITTS Securities due June 3, 2010; S&P 500 MITTS Securities due September 3, 2008; S&P 500 MITTS Securities due August 5, 2010; Dow Jones Industrial Average MITTS Securities due December 27, 2010; Nikkei 225 MITTS Securities due March 8, 2011; Nikkei 225 MITTS Securities due September 30, 2010; Market Recovery Notes Linked to the Nasdaq-100 Index due July 22, 2004; Market Recovery Notes Linked to the S&P 500 Index due May 28, 2004; Market Recovery Notes Linked to the Nasdaq-100 Index due November 24, 2004; Strategic Return Notes Linked to the Select Ten Index due June 27, 2008; Strategic Return Notes linked to the Industrial 15 Index due October 31, 2008; Strategic Return Notes linked to the Select Ten Index due September 30, 2008; Strategic Return Notes linked to the Industrial 15 Index due August 5, 2008; Strategic Return Notes linked to the Select Ten Index due March 2, 2009; Accelerated Return Notes linked to the S&P 500 Index due May 2, 2005; 6% Callable STock Return Income DEbt Securities due March 28, 2005, payable at maturity with Merck & Co., Inc. common stock; 8% Callable STock Return Income DEbt Securities due April 5, 2005, payable at maturity with Comcast Corporation Class A common stock; 9% Callable STock Return Income DEbt Securities due April 29, 2005, payable at maturity with Best Buy Co., Inc. common stock; 9% Callable STock Return Income DEbt Securities due May 9, 2005, payable at maturity with Nextel Communications, Inc. Class A common stock; 6.5% Callable STock Return Income DEbt Securities due July 5, 2005, payable at maturity with Intuit Inc. common stock; 9% Callable STock Return Income DEbt Securities due August 1, 2005, payable at maturity with Brocade Communications Systems common stock; 6% Callable STock Return Income DEbt Securities due August 18, 2005, payable at maturity with The Walt Disney Company common stock; 7% Callable STock Return Income DEbt Securities due December 22, 2005, payable at maturity with EMC Corporation common stock; and 97% Protected Notes linked to the performance of the Dow Jones Industrial Average due March 28, 2011.

## **Part I.**

<a href="#"><u>Item 1</u></a>	<a href="#"><u>Business</u></a>	1
	<a href="#"><u>Overview</u></a>	1
	<a href="#"><u>Available Information</u></a>	2
	<a href="#"><u>Business Environment</u></a>	3
	<a href="#"><u>Description of Business Activities</u></a>	4
	<a href="#"><u>Competition</u></a>	23
	<a href="#"><u>Regulation</u></a>	24
<a href="#"><u>Item 2</u></a>	<a href="#"><u>Properties</u></a>	31
<a href="#"><u>Item 3</u></a>	<a href="#"><u>Legal Proceedings</u></a>	32
<a href="#"><u>Item 4</u></a>	<a href="#"><u>Submission of Matters to a Vote of Security Holders</u></a>	38
	<a href="#"><u>Executive Officers of Merrill Lynch &amp; Co., Inc.</u></a>	39

## **Part II.**

<a href="#"><u>Item 5</u></a>	<a href="#"><u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	41
<a href="#"><u>Item 6</u></a>	<a href="#"><u>Selected Financial Data</u></a>	41
<a href="#"><u>Item 7</u></a>	<a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	41
<a href="#"><u>Item 7A</u></a>	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	41
<a href="#"><u>Item 8</u></a>	<a href="#"><u>Financial Statements and Supplementary Data</u></a>	41
<a href="#"><u>Item 9</u></a>	<a href="#"><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	42
<a href="#"><u>Item 9A</u></a>	<a href="#"><u>Controls and Procedures</u></a>	42

## **Part III.**

<a href="#"><u>Item 10</u></a>	<a href="#"><u>Directors and Executive Officers of the Registrant</u></a>	42
<a href="#"><u>Item 11</u></a>	<a href="#"><u>Executive Compensation</u></a>	43
<a href="#"><u>Item 12</u></a>	<a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	43
<a href="#"><u>Item 13</u></a>	<a href="#"><u>Certain Relationships and Related Transactions</u></a>	45
<a href="#"><u>Item 14</u></a>	<a href="#"><u>Principal Accountant Fees and Services</u></a>	45

## **Part IV.**

<a href="#"><u>Item 15</u></a>	<a href="#"><u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u></a>	46
	<a href="#"><u>Index to Financial Statements and Financial Statement Schedule</u></a>	F-1
	<a href="#"><u>Signatures</u></a>	II-1
	<a href="#"><u>DEFERRED STOCK UNIT &amp; STOCK OPTION PLAN</u></a>	
	<a href="#"><u>STATEMENT RE: COMPUTATION OF RATIOS</u></a>	
	<a href="#"><u>EXCERPT OF 2003 ANNUAL REPORT TO SHAREHOLDERS</u></a>	
	<a href="#"><u>SUBSIDIARIES OF ML &amp; CO.</u></a>	
	<a href="#"><u>CONSENT OF DELOITTE &amp; TOUCHE LLP</u></a>	
	<a href="#"><u>CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER</u></a>	
	<a href="#"><u>CERTIFICATION OF THE CHIEF FINANCIAL OFFICER</u></a>	
	<a href="#"><u>SECTION 906 CERTIFICATION</u></a>	
	<a href="#"><u>SECTION 906 CERTIFICATION</u></a>	
	<a href="#"><u>OPINION OF DELOITTE &amp; TOUCHE LLP</u></a>	
	<a href="#"><u>OPINION OF DELOITTE &amp; TOUCHE LLP</u></a>	
	<a href="#"><u>CHARTER OF THE AUDIT COMMITTEE</u></a>	
	<a href="#"><u>ML &amp; CO. CORPORATE GOVERNANCE GUIDELINES</u></a>	

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### **Forward Looking Statements**

Certain statements in this Report may be considered forward-looking, including those about management expectations, strategic objectives, business prospects, anticipated expense levels and financial results, the impact of off balance sheet arrangements, significant contractual obligations, the expensing of stock options, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch's beliefs regarding future performance, which are inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in Management's Discussion and Analysis in the 2003 Annual Report to Shareholders and throughout this Report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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## PART I

### Item 1. *Business*

#### Overview

Merrill Lynch & Co., Inc.,<sup>1</sup> a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include:

- securities brokerage, trading and underwriting;
- investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities;
- wealth management products and services, including financial, retirement and generational planning;
- asset management and investment advisory services;
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange products;
- securities clearance, settlement financing services and prime brokerage;
- equity, debt, foreign exchange and economic research;
- private equity and other principal investing activities;
- banking, trust and lending services, including deposit taking, commercial and mortgage lending and related services;
- insurance and annuities sales and annuity underwriting services; and
- investment advisory and related record keeping services.

Merrill Lynch provides these products and services to a wide array of clients, including individual investors, small businesses, corporations, financial institutions, governments and government agencies.

Merrill Lynch reports its results in three business segments: the Global Markets and Investment Banking group (“GMI”), Global Private Client (“GPC”), and Merrill Lynch Investment Managers (“MLIM”). Merrill Lynch provides financial services worldwide through various subsidiaries and affiliates.

Merrill Lynch’s operations outside the United States are organized into five geographic regions: Europe, Middle East, and Africa (“EMEA”); Japan; Asia Pacific; Canada; and Latin America. Merrill Lynch conducts its business from various locations throughout the world. Its world headquarters is located at the World Financial Center in New York City and its other principal United States business and operational centers are located in New Jersey, Utah and Florida. Merrill Lynch has a presence in 34 countries outside the United States, including offices in Buenos Aires, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Melbourne, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Tokyo, Toronto and Zurich.

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<sup>1</sup> Unless the context otherwise requires, the term “Merrill Lynch” means Merrill Lynch & Co., Inc. and its consolidated subsidiaries. The term “ML & Co.” is used herein where appropriate to refer solely to Merrill Lynch & Co., Inc., the parent holding company.

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Merrill Lynch employed approximately 48,100<sup>2</sup> people at the end of 2003. Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December 2003, 2002 and 2001, including a description of the principal sources of consolidated net revenues, the amount of total net revenues contributed by classes of similar services that accounted for 10% or more of its consolidated net revenues in any one of these fiscal periods, as well as information with respect to Merrill Lynch's operations by operating segment and geographic area, is set forth in Merrill Lynch's Management's Discussion and Analysis, Consolidated Financial Statements and the Notes thereto in the Merrill Lynch 2003 Annual Report to Shareholders ("2003 Annual Report"). Management's Discussion and Analysis, Consolidated Financial Statements and the Notes thereto are included as an exhibit to this Report.

At the end of 2003, total client assets were approximately \$1.5 trillion.

#### **Available Information**

ML & Co.'s internet address is [www.ml.com](http://www.ml.com). ML & Co. makes available, free of charge, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Investors can find this information under "Financial Reports - SEC Reports" through the investor relations section of our website which can be accessed directly at [www.ir.ml.com](http://www.ir.ml.com). These reports are available through our website as soon as reasonably practicable after ML & Co. electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Additionally, Merrill Lynch's Corporate Governance Guidelines, Guidelines for Business Conduct, Code of Ethics for Financial Professionals and charters for the committees of our Board of Directors have been filed as exhibits to SEC reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and are also available on Merrill Lynch's Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com). The information on Merrill Lynch's websites is not incorporated by reference into this report. Shareholders may obtain copies of these materials, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

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<sup>2</sup> Excludes 200 full-time employees on salary continuation severance at year-end 2003.

## Business Environment

The financial services industry, in which Merrill Lynch is a leading participant, is extremely competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment and investor sentiment. In addition to these factors, Merrill Lynch and other financial services companies may be affected by regulatory and legislative initiatives that may affect the conduct of their business, including increased regulation, and by the outcome of legal and regulatory investigations and proceedings, including those described under *Legal Proceedings* in Part I, Item 3 of this Report. These conditions or events can significantly affect the volatility of the financial markets as well as the volumes and revenues in businesses such as brokerage, trading, investment banking, wealth management and asset management. Revenues and net earnings may vary significantly from period to period due to the unpredictability of these factors and the resulting market volatility and trading volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers, competition from new and established competitors and diminishing margins in many mature products and services. Commercial and investment bank consolidations have also increased the competition for investment banking and capital markets business, due in part to the extension of credit in conjunction with investment banking and capital raising activities.

The global market environment improved in 2003. Despite continued geopolitical concerns and additional accounting and corporate governance scandals, the United States-led economic recovery, combined with low interest rates and a steep yield curve, created a favorable climate for fixed income products and stimulated an equity markets recovery.

The financial services industry is also impacted by the regulatory and legislative environment. In 2003, additional aspects of the Sarbanes-Oxley Act of 2002 were implemented as rules relating to corporate governance (including Board member and Board Committee independence), auditor independence and disclosure became effective and/or were adopted in their final form. Various federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange and the National Association of Securities Dealers) and industry participants also continued to review and, in many cases, adopt changes to their established rules and policies in areas such as corporate governance, research analyst conflicts of interest and certifications, practices related to the initial public offering of equity securities, mutual fund trading, disclosure practices and auditor independence. Changing requirements for research may continue to affect the cost structure for such services. Regulatory actions affecting the trading practices and pricing structure of mutual funds could change the manner in which business is conducted by the asset management industry. Both inside and outside the United States, there is continued focus by regulators and legislators on regulatory supervision of both commercial and investment banks as an industry and on an individual basis, especially in the areas of capital and risk management.

## **Description of Business Activities**

Merrill Lynch's business activities are grouped into three business segments, GMI, GPC and MLIM, and are conducted through numerous U.S. and non-U.S. subsidiaries and affiliates. GMI provides capital markets and investment banking products and services to corporate, institutional and government clients around the world. GPC provides wealth management products and services globally to individuals, small-to mid-size businesses and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients. In August 2003, Merrill Lynch formed its Wealth Management Group to enhance the linkage between GPC's individual wealth business activities and related MLIM asset management business activities. See Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements in the 2003 Annual Report for further information about Merrill Lynch's business segments, business activities, services, and the geographic markets within which Merrill Lynch operates.

### **GLOBAL MARKETS AND INVESTMENT BANKING ("GMI")**

GMI provides equity and debt trading, capital markets services, investment banking and strategic merger and acquisition advisory services to issuer and investor clients around the world. These activities are conducted through a network of subsidiaries, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), Merrill Lynch International ("MLI") and a number of other subsidiaries located in and outside the United States. GMI raises capital for its clients through securities underwritings, private placements and loan syndications. It also makes a market in securities, derivatives, currencies and other financial instruments to satisfy client demand for these instruments, and for proprietary trading activities. Merrill Lynch has one of the largest equity trading and underwriting operations in the world and is a leader in the origination and distribution of equity products. GMI is also a leader in the global origination and distribution of fixed income products and provides clients with financing, securities clearing, settlement and custody services. In 2003, GMI continued to maintain its expense discipline, invest in profitable growth opportunities and improve client alignment and product capabilities, while becoming more focused on providing superior execution and service. GMI's strategic growth opportunities include equity derivatives, portfolio trading, prime brokerage, secured financing, municipal bond trading and foreign exchange, which are anticipated to be continued focus areas in 2004.

GMI implemented a new operating structure for its businesses in 2003, improving the alignment of its capabilities to meet the increasingly integrated needs of its issuer and investor clients. The Global Markets division combines the debt and equity sales and trading activities for investor clients, while the Investment Banking division provides integrated investment banking and origination services for issuer clients.

GMI's new Global Markets structure includes the following businesses:

- Global Rates and Foreign Exchange Group — global responsibility for interest rate derivatives, foreign exchange, complex foreign exchange options, commodities, United States government and other Federal agency securities, obligations of other sovereigns, municipal securities, pass-through and collateralized mortgage obligations trading, and debt financial futures and options;



- Global Principal Investments and Secured Finance Group — responsibility on a global basis for asset-based lending, securitization and secured commercial real estate lending as well as equity investments in real estate and other secured assets;
- Global Credit Products Group — responsibility for the corporate new issue business, cash corporate bond trading, secondary loan trading, credit derivative trading, emerging markets, and structured credit products on a global basis;
- Global Investor Client Group — responsibility for sales efforts across debt and equity products on a global basis;
- Global Cash Equity Group — responsibility for cash equity trading activities on a global basis;
- Global Equity-Linked Group — responsibility for global trading activities in equity derivatives, exchange-traded options, convertibles and financial futures;
- Equity Structured Products Group — global responsibility for the creation and issuance of structured equity securities to meet investors’ financial needs; and
- Equity Financing & Services Group — responsibility for global prime brokerage, stock loan, money manager services and clearing, settlement and custody functions.

GMI’s new Investment Banking structure includes the following businesses:

- Global Capital Markets & Financing Group — global responsibility for all capital-related activities for GMI’s issuer clients, including equity and debt capital markets, corporate finance, public finance and leveraged finance;
- Global Mergers and Acquisitions Group — responsibility for mergers and acquisitions activities worldwide; and
- Global and regional industry coverage groups — including the Energy & Power group, the Financial Institutions group and the Corporate Banking group.

Other businesses within GMI include the Private Equity group and bank lending. (For a full description of GMI bank lending activities, please see the “GMI Lending Activities in the United States” and “GMI Banking Activities Outside the United States” sections under *Global Bank Group Activities* in Part I, Item 1 of this Report.)

GMI’s operations in the United States are conducted primarily from Merrill Lynch’s headquarters in New York City and from other office locations throughout the United States. Merrill Lynch’s GMI activities outside the United States are primarily conducted through MLI, which has a significant presence in London, and through locally established affiliates strategically located in 25 countries.

*Investment Banking Activities:*

Merrill Lynch is a leading global investment banking firm that participates in virtually all aspects of investment banking for corporate, institutional, government and municipal clients and acts in principal, agency and advisory capacities. Merrill Lynch provides a wide variety of financial services, including underwriting the sale of securities to the public, structured and derivative financing, project financing, privately placing securities with investors and mortgage and lease financing. Its financial advisory services include advice on strategic matters, including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring, leveraged buyouts and defensive projects.

In connection with its investment banking activities, including the underwriting and private placement of securities, Merrill Lynch has from time to time taken principal positions in transactions and has extended credit to clients through the purchase of senior and subordinated debt, provided bridge financing on a select basis and participated in both syndicated loans/credit facilities and credit lines for commercial paper programs for certain corporate issuers. Before engaging in any of these financing activities, an analysis is performed to ascertain the underlying creditworthiness of the particular client and the liquidity of the market for the securities that may be issued in connection with any such financings and to determine the likelihood of refinancing within a reasonable period of time. In addition, equity interests in the subject companies are from time to time acquired as part of, or in connection with, such activities.

According to league table results published by *Thomson Financial Securities Data* statistics based on full credit to book managers, in 2003 Merrill Lynch ranked third in global debt underwriting and fifth in global equity and equity-linked underwriting with market shares of 7.1% and 8.0%, respectively. Merrill Lynch ranked third in global completed mergers and acquisitions in 2003 with a market share of 17.1%. In GMI, there has been a shift in focus in investment banking towards higher margin activities balanced with aggregate market share goals. Additional market share information is disclosed in Management's Discussion and Analysis on pages 23 and 24 of the 2003 Annual Report.

*Brokerage, Dealer and Related Activities:*

In the United States, MLPF&S is a broker (i.e., agent) for corporate, institutional and government clients, and is a dealer (i.e., acts for its own account) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, futures and options, including option contracts for the purchase and sale of various types of securities. Merrill Lynch, through MLPF&S, MLI and various other subsidiaries, is a dealer in equity and fixed income securities of a significant number of U.S. and non-U.S. issuers, in government obligations of the United States and other sovereigns, in U.S. municipal securities, in mortgage-backed and asset-backed securities and in loans and related financial instruments.

As part of its trading activities, Merrill Lynch places its capital at risk by engaging in block positioning to facilitate transactions in large blocks of listed and over-the-counter securities and by engaging, from time to time, in arbitrage and other transactions for its own account. In its block positioning activities, Merrill Lynch purchases securities or sells them short for its own account, without having full commitments for their resale or covering purchase, thereby employing its capital to effect large transactions. Such positioning activities are undertaken after analyzing a given security's marketability and any position taken typically is liquidated as soon as practicable. In addition, Merrill Lynch facilitates various trading strategies involving the purchase and sale of financial futures contracts and options and, in connection with this activity, it may establish positions for its own account and risk. Merrill Lynch may also take proprietary positions for its own account, not in connection with block positioning or other customer facilitation.

Merrill Lynch makes markets in Nasdaq and over-the-counter securities, including non-U.S. securities. In 2003, Merrill Lynch consolidated trading activities in Nasdaq and over-the-counter stocks on its New York trading floor and closed its New Jersey trading floor. In June 2003, Merrill Lynch integrated its listed and Nasdaq equity trading functions into a single unit, allowing the trading of securities within a sector, regardless of whether they are listed on the New York Stock Exchange or Nasdaq. Outside the United States, MLI is a registered market maker in the equity securities of the more active non-U.S. corporations. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed and corporate and government fixed-income securities. Nearly all Nasdaq institutional client trades are now executed on an agency, rather than principal, basis.

Merrill Lynch Government Securities Inc. (“MLGSI”) is a primary dealer in obligations issued or guaranteed by the U.S. Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, such as Government National Mortgage Association, Fannie Mae and Freddie Mac, among others. MLGSI deals in mortgage-backed pass-through certificates issued by certain of these entities and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers’ transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York (“FRBNY”) in the conduct of open market operations and regularly reports positions and activities to the FRBNY.

An integral part of MLGSI’s business involves entering into repurchase agreements and securities lending transactions. These transactions aid in financing MLGSI’s inventory and provide short-term investment vehicles for customers, including Merrill Lynch affiliates. As part of MLGSI’s business as a dealer in government obligations, MLGSI also enters into reverse repurchase transactions whereby MLGSI buys securities from counterparties and simultaneously agrees to sell them back at a future date. Such agreements provide MLGSI with access to desired securities and customers with temporary liquidity for their investments in U.S. Government and agency securities.

Various non-U.S. Merrill Lynch subsidiaries act as dealers in certain securities issued or guaranteed by the governments of the countries where such subsidiaries are located.

*Derivative Dealing and Foreign Exchange Activities:*

Merrill Lynch, through MLPF&S, MLI, Merrill Lynch Capital Services, Inc. (“MLCS”) and Merrill Lynch Derivative Products AG (“MLDP”), acts as an intermediary and principal in equity, interest rate, currency and other over-the-counter derivative transactions. MLI engages in equity and credit derivatives business in the over-the-counter markets. MLCS and MLDP are Merrill Lynch’s primary interest rate and currency derivative product dealers. MLI is Merrill Lynch’s primary credit and equity derivatives product dealer.

MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate and currency swaps, caps, and floors and options. MLCS maintains positions in interest-bearing securities, financial futures and forward contracts to hedge its interest rate and currency risk related to derivative exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies. MLCS also engages in certain commodity-related transactions as a principal.

MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address certain swap customers' preference to limit their trading to those dealers having the highest credit quality. MLDP has been assigned the Aaa, AAA and AAA counterparty rating by the rating agencies Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively. Customers meeting certain credit criteria enter into swaps with MLDP and, in turn, MLDP enters into offsetting mirror swaps with MLCS. However, MLCS is required to provide MLDP with collateral to meet certain exposures MLDP may have to MLCS.

Merrill Lynch Capital Markets Bank Limited ("MLCMBL"), an Irish bank with branch offices in Frankfurt and Milan, acts primarily as a credit intermediary (with market risk hedged through various affiliates) for swap, options and other derivative transactions, and secondarily, as principal for a variety of debt derivative transactions. In addition to its derivatives activities, MLCMBL engages in advisory, lending and institutional sales activities.

GMI's Global Rates and Foreign Exchange Group, primarily through Merrill Lynch International Bank Limited ("MLIB"), provides foreign exchange trading services to corporations, other institutional investors and high-net-worth individuals in various countries. For this business, MLIB primarily operates out of its Head Office in London, and through affiliated agents in New York and Tokyo.

*Mortgage Dealing Activities:*

Merrill Lynch Mortgage Capital Inc. ("MLMCI") is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing and syndicated commercial loans. MLMCI, through its CMO Passport® service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations, mortgage pass-through certificates and asset-backed securities. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI's inventory and serve as short-term investments for MLMCI's customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing them with temporary liquidity.

Merrill Lynch Mortgage Lending, Inc. ("MLML") is a commercial mortgage conduit that makes, and purchases from lenders, both commercial and multi-family mortgage loans and then securitizes these loans for sale to investors. MLML purchases subprime residential mortgage loans from originators of these loans and aggregates these loans for sale in the securitization market. In January 2004, Merrill Lynch agreed to purchase Wilshire Credit Corporation, one of the leading companies in the subprime, nonperforming and reperforming residential mortgage special servicing markets. It is expected that this acquisition will accelerate the growth of GMI's residential mortgage business and complement GMI's existing whole loan trading and securitization activities. Currently, it is planned that Wilshire Credit Corporation will retain its name and operate as a subsidiary of MLMCI.

*Principal Investing and Structured Finance Activities:*

Merrill Lynch, through various subsidiaries, provides to its qualified institutional clients term, mezzanine and bridge financing which may be secured by performing, subperforming and nonperforming commercial real estate, portfolios of residential real estate, consumer receivables or other assets. Merrill Lynch also makes proprietary investments in all levels of the capital structure of U.S. and non-U.S. companies, and in special purpose companies owning real estate, mortgages, consumer receivables and other assets.

*Money Markets and Related Activities:*

Merrill Lynch, through various subsidiaries including Merrill Lynch Money Markets Inc. (“MLMMI”) and MLPF&S, provides a full range of origination, trading and marketing services with respect to money market instruments. These instruments include commercial paper, institutional and retail certificates of deposit, medium-term notes, bank notes and auction rate preferred securities.

*Futures Business Activities:*

Merrill Lynch’s futures business activity is conducted through MLPF&S and other subsidiaries. MLPF&S holds memberships and/or has third party clearing relationships with respect to all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States through affiliates and/or third party clearing brokers. Other Merrill Lynch subsidiaries hold memberships on major commodity and financial futures exchanges and clearing associations outside the United States and may carry proprietary and/or customer positions in accounts maintained on their books. All futures and futures options transactions are executed by, cleared through and/or carried by MLPF&S or other Merrill Lynch subsidiaries engaged in futures activities. However, in certain contracts, or on certain exchanges, third party brokers are utilized to execute and clear trades. MLPF&S and several of its affiliates may also take proprietary market positions in futures and futures options in certain instances.

*Securities Finance, Settlement and Clearance and Prime Brokerage:*

Merrill Lynch provides financing to clients, including securities lending, margin lending and other extensions of credit such as repurchase and derivative transactions in connection with prime brokerage services. In a margin-based transaction, Merrill Lynch extends credit for a portion of the market value of the securities in the client’s account up to the limit imposed by internal Merrill Lynch policies and applicable margin rules and regulations. Since Merrill Lynch may have financial exposure if a client fails to meet a margin call, margin loans made by Merrill Lynch are generally collateralized by securities in the client’s account. Financial reviews, margin procedures and other credit standards are used in an effort to limit any exposures resulting from this margin lending activity. Interest on margin loans is an important source of revenue for Merrill Lynch. To finance margin loans, Merrill Lynch uses funds on which it pays interest (including ML & Co. borrowings), funds on which it does not pay interest (including its own capital), funds derived from clients’ free credit balances to the extent permitted by regulations and funds derived from loaned securities.

Merrill Lynch provides securities clearing services for its own account and for the account of its customers, third party broker-dealers and other professional trading entities, through its subsidiaries including MLPF&S and Merrill Lynch Professional Clearing Corp. (“ML PRO”). MLPF&S provides these services to approximately 100 unaffiliated broker-dealers. While the introducing broker-dealer firm retains all sales functions with its customers, MLPF&S services the customers’ accounts and handles all settlement and credit aspects of transactions. ML PRO clears transactions for specialists and market-makers on various national and regional stock exchanges and clears futures transactions for clients through a divisional clearing arrangement with MLPF&S. In addition, ML PRO clears transactions for arbitrageurs, customers and other professional trading entities. ML PRO also clears transactions for broker-dealers engaged in proprietary trading, for introducing brokers whose accounts are carried on a fully disclosed basis and for selected institutional accounts as direct accounts of ML PRO that transact business primarily on a prime brokerage basis.

In November 2003, Merrill Lynch entered the listed options electronic market-making business by purchasing this business from The Bear Stearns Companies Inc. This business will initially function through the International Securities Exchange, a fully electronic United States options platform. In January 2004, GMI agreed to acquire ABN AMRO’s United States equities and options execution and clearing business. In the case of ABN AMRO’s correspondent clearing business, Merrill Lynch selectively will enter into new clearing agreements only with certain former clients of ABN AMRO.

In its Prime Brokerage business, Merrill Lynch, through its MLPrime<sup>SM</sup> platform, services Merrill Lynch’s hedge fund clients through a single relationship with GMI’s Equity Financing & Services Group. Services offered to eligible clients include financing alternatives, risk management, profit and loss analytics, global securities lending and capital introduction.

*Private Equity Investing Activities:*

Merrill Lynch makes investments for its own account in private companies and also engages in taking public companies private. Merrill Lynch sponsors and manages private equity funds that invest principally in equity and debt securities of various private companies. In Merrill Lynch-sponsored funds, a Merrill Lynch entity serves as the general partner or manager of the funds and may also invest its own capital or monies as a limited partner. The other limited partners of the Merrill Lynch-sponsored funds are corporate and institutional investors as well as Merrill Lynch’s high-net-worth client base and its eligible employees. Private equity investments are also offered to clients in the MLIM and GPC business segments. Merrill Lynch also invests as a limited partner in third party funds.

Merrill Lynch may underwrite, trade, invest and make markets in certain securities of companies in which Merrill Lynch or Merrill Lynch-sponsored funds have invested, and may also provide financial advisory services to these companies or maintain a commercial relationship with them. The Merrill Lynch employees who invest and manage the investment assets of Merrill Lynch or Merrill Lynch-sponsored funds may participate in the gains on those investment assets.

## GLOBAL PRIVATE CLIENT (“GPC”)

GPC provides a full range of advice-based wealth management products and services to assist clients in managing all aspects of their financial profile through the *Total Merrill* <sup>SM</sup> platform. GPC’s offerings include:

- commission and fee-based investment accounts;
- credit products;
- banking services;
- cash management and credit cards;
- trust and generational planning;
- consumer and small business lending;
- retirement services; and
- insurance products.

GPC serves individual investors and small and middle market corporations and institutions through approximately 13,500 Financial Advisors (“FAs”) in approximately 640 offices around the world as of year-end 2003. Assets in GPC accounts totaled \$1.3 trillion at December 26, 2003.

GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services and self-directed online accounts to align asset account structure with each client’s specific investment requirements and goals. In 2003, GPC continued the integration of its U.S. and non-U.S. private client businesses and its emphasis on segmentation, revenue diversification and operating leverage.

### *Brokerage, Dealer and Related Investment Activities:*

In the United States, GPC’s brokerage and advisory services are provided through MLPF&S. MLPF&S is a broker and a dealer for individual, corporate, institutional and government clients in the purchase and sale of corporate equity and fixed income securities, money market instruments, government securities, high-yield bonds, municipal securities, futures and options. In addition, MLPF&S acts as a dealer in the distribution of mutual funds. MLPF&S also provides financing to clients, including margin lending and other extensions of credit. See *Securities Finance, Settlement and Clearance and Prime Brokerage* in Part I, Item I of this Report.

GPC also provides discretionary and non-discretionary investment advisory services through MLPF&S, including Merrill Lynch Consults<sup>®</sup> Service, the Merrill Lynch Mutual Fund Advisor<sup>®</sup> program, the Personal Investment Advisory Program and the Merrill Lynch Mutual Fund Advisor Selects<sup>®</sup> program. GPC offers a number of financial planning services, including the Financial Foundation<sup>®</sup> report. GPC also provides enhanced services such as pre-trade verifications and post-trade e-mail confirmations for certain Section 16 insider transactions for corporate directors and officers of publicly-traded companies.

GPC also structures and sponsors a wide variety of alternative investment products for qualified high-net-worth clients and enters into selling agreements to distribute third party sponsored funds. These products include hedge funds, private equity funds, managed futures and exchange funds that are managed by non-affiliated third party managers. Through its HedgeAccess® product, Merrill Lynch offers qualified clients the opportunity to invest in a select, diverse group of single manager hedge funds with consistent terms and exchange privileges. These products are sold to both U.S. and non-U.S. high-net-worth investors. At the end of 2003, GPC acted as sponsor of alternative investment products in which approximately \$9.7 billion of client capital was invested.

*Client Service:*

Brokerage and advisory financial services are provided in the United States to GPC clients principally through the Financial Advisor network. Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products through a network of offices located in 25 countries. In certain countries such as the United Kingdom and Japan, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services as well as asset management services are also offered to private clients in many countries.

MLPF&S has established commission rates or fixed charges for all brokerage services that it performs. For certain accounts, however, its policy is to negotiate commissions based on economies of scale and the complexity of the particular trading transaction, and for its institutional customers, based on the competitive environment and trading opportunities. Clients may elect to enroll in a non-discretionary brokerage service called Unlimited Advantage®, which offers securities and investment transaction services, as well as other planning, research and account services, for an annual asset-based fee.

To be more responsive to client needs and enhance the quality of its clients' experience, both inside and outside the United States, Merrill Lynch offers a multi-channel service model, more closely aligning its FAs with clients based on levels of investable assets. For example, ultra-high-net-worth clients will be aligned with Private Wealth Advisors ("PWAs"). PWAs are FAs who have completed a rigorous accreditation program and who focus on clients with more than \$10 million of investable assets. For clients in the U.S. with less than \$100,000 of investable assets, Merrill Lynch utilizes its Financial Advisory Center ("FAC") to more effectively serve these clients. All FAC customers receive a team-based advisory service relationship, with 24-hour-a-day, seven-day-a-week access by telephone or online. GPC also has created International Financial Advisory Centers to more effectively serve non-U.S. clients with lower levels of investable assets.

The Wealth Management Technology Platform, which will be deployed in 2004, will provide a new standard of desktop technology to more than 23,000 users including FAs, Client Associates, the Financial Advisory Center and call centers by providing a fully integrated desktop that incorporates market data and financial planning tools.

Merrill Lynch also provides electronic brokerage service through Merrill Lynch Direct®, an internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct offers online equity and fixed income trading, mutual funds, access to Merrill Lynch research and a variety of online investing tools.



*Client Accounts:*

Individual clients access the full range of GPC brokerage and advisory services through the CMA<sup>®</sup> account. At the end of 2003, there were more than 2.1 million CMA accounts with aggregate assets of approximately \$580 billion. Small- and medium-sized businesses obtain a wide range of securities account and cash management services through the Working Capital Management Account<sup>®</sup> (“WCMA<sup>®</sup> account”) and related services. The WCMA account combines business checking, borrowing (through MLPF&S or its affiliate, Merrill Lynch Business Financial Services Inc.), investment and electronic funds transfer services into one account for participating business clients. At the end of 2003, there were more than 121,000 WCMA accounts that, in the aggregate, had investment assets of more than \$93 billion. Through Merrill Lynch OnLine<sup>®</sup>, clients can access their Merrill Lynch accounts, including account information, real time quotes, Merrill Lynch research and a variety of other investment information.

In early 2003, GPC introduced *Total Merrill*, a fully integrated array of wealth management services. In conjunction with the introduction of *Total Merrill*, *Beyond Banking*<sup>®</sup> was also introduced. *Beyond Banking* is a special securities account product designed for everyday transactions, savings and cash management that combines Visa<sup>®</sup>, check writing and ATM access with available advice and guidance. This enables clients to separate such activities from their longer-term investment accounts and thus offers them an alternative to their current third-party banking relationships. At the end of 2003, there were more than 98,000 *Beyond Banking* accounts with aggregate assets of approximately \$20 billion. To augment its account services products, during 2003 Merrill Lynch entered into a strategic alliance with MBNA America Bank N.A. in order to provide Merrill Lynch-branded credit cards to Merrill Lynch’s clients.

*Retirement Services:*

The Merrill Lynch Retirement Group is responsible for approximately \$302 billion in retirement assets for approximately 5.8 million individuals. These assets are held either in individual accounts or through one of approximately 24,000 workplace-based retirement programs covered by the group.

MLPF&S provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts (“IRAs”) and through small business retirement programs such as the Merrill Lynch Simplified Employee Pension Plan and the Merrill Lynch Simple Retirement Account Plan. MLPF&S also provides investment, administration, communications and consulting services to corporations and their employees for their retirement programs. These programs include 401(k), pension, profit-sharing and non-qualified deferred compensation plans, as well as other retirement benefit plans. In March 2003, Merrill Lynch launched Merrill Lynch AdviceAccess, an investment advisory service for individuals in retirement plans that provides plan participants with the option of obtaining advice through their local FA, an advisor at the Financial Advisory Center or through Merrill Lynch’s Benefits Online<sup>®</sup> website. In January 2004, Merrill Lynch announced a strategic alliance with Wealth Management Systems, Inc. to offer retirement plan participants online tools for assessing their distribution options and subsequently making those distributions via a web-enabled platform.

*Insurance Activities:*

Merrill Lynch's insurance activities primarily consist of issuing annuity products through Merrill Lynch Life Insurance Company ("MLLIC") and ML Life Insurance Company of New York ("ML Life"). These activities also include the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States, Guam and the United States Virgin Islands. In February 2003, MLLIC and ML Life discontinued the underwriting of life insurance products although they continue to underwrite annuity products.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, Puerto Rico, the District of Columbia, Guam and the United States Virgin Islands. ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities and accident and health insurance in nine states; however, it does not presently underwrite accident and health insurance. At year-end 2003, MLLIC and ML Life had approximately \$8.9 billion of life insurance in force and annuity contracts in force of more than \$9.7 billion in value.

Through agency agreements, licensed affiliate insurance agencies and other insurance agencies associated with MLPF&S sell life and health insurance and annuity products to MLPF&S customers. A significant portion of these sales consists of annuities issued by MLLIC and ML Life.

*Trust Activities:*

Merrill Lynch provides personal trust, employee benefit trust and custodial services. Trust services in the United States are provided by Merrill Lynch Trust Company, FSB, a federally chartered savings bank. Trust services outside of the United States are provided by Merrill Lynch Bank and Trust Company (Cayman) Limited, Merrill Lynch Trust Services S.A. and Merrill Lynch Corporate (New Zealand) Limited.

*GPC Lending/Bank Activities:*

For a full description of GPC activities within the Global Bank Group, including activities relating to credit products and banking services, please see the "GPC Deposit Taking and Lending Activities in the United States" and "GPC Banking Activities Outside the United States" sections under *Global Bank Group Activities* in Part I, Item 1 of this Report.

## **MERRILL LYNCH INVESTMENT MANAGERS (“MLIM”)**

MLIM is among the world’s largest asset managers with approximately \$500 billion of assets under management at the end of 2003. The principal subsidiaries engaged in asset management activities conducted through the Merrill Lynch Investment Managers brand name are Merrill Lynch Investment Managers, L.P. (“MLIM LP”) and Merrill Lynch Investment Managers Limited (“MLIM Limited”).

With portfolio managers located in the United States, the United Kingdom, Japan and Australia, MLIM:

- manages a wide variety of investment products ranging from money market funds and other forms of short-term fixed income investments to long-term taxable and tax-exempt fixed income funds or portfolios, along a broad spectrum of quality ratings and maturities;
- offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele;
- manages transitional portfolio restructurings for institutional clients changing investment objectives or managers; and
- offers a wide assortment of index-based equity and alternative investment products.

Current industry standards typically measure investment results for institutional accounts against a benchmark (such as the S&P 500 Index) and investment results for retail mutual funds against competitor results ranked by quartile within investment category as reported by third-party organizations. Approximately 70% of MLIM’s global assets under management were above benchmark or median for the 1-, 3- and 5-year periods ending December 2003.

MLIM’s clients include institutions, high-net-worth individuals, retail investors, mutual funds and other investment vehicles. MLIM-branded mutual fund products are available through third-party distribution networks and the GPC distribution channel. MLIM also distributes certain of its products through GMI. MLIM maintains a significant sales and marketing presence in both the United States and outside the United States that is focused on acquiring and maintaining institutional investment management relationships, marketing its services to institutional investors both directly and through pension consultants. In December 2003, MLIM was granted a preparatory license from the Chinese Security Regulatory Commission to establish a joint venture fund management company with BOC International Holdings Limited (“BOCIH”). BOCIH is a wholly owned subsidiary of the Bank of China Group.

In the United States, the MLIM brand of mutual funds (except for its money market funds) is generally offered pursuant to the Merrill Lynch Select Pricing system, which allows investors to choose from various pricing alternatives. At the end of 2003, MLIM provided global advisory services for mutual funds, unit investment trusts and other non-U.S. equivalent products totaling approximately \$206 billion. MLIM’s international mutual fund activities are carried out principally through a single mutual fund family, Merrill Lynch International Investment Funds.

MLIM manages separate accounts for high-net-worth retail investors. MLIM also manages assets for governments, pension funds, endowments and other institutional investors in a wide variety of active and passive strategies relating to both equity and fixed-income assets. At the end of 2003, MLIM managed a total of approximately \$253 billion in institutional accounts.

In addition to its retail fund business, MLIM offers a wide assortment of alternative investment products, including hedge funds, hedge fund of funds, private equity fund of funds, real estate funds, managed futures funds and exchange funds. These products are sold to both U.S. and non-U.S. high-net-worth retail and institutional investors. At the end of 2003, a total of approximately \$5.4 billion of client capital was committed and approximately \$3.6 billion was invested in alternative investment products.

## OTHER BUSINESS ACTIVITIES

### *Global Bank Group Activities:*

The Merrill Lynch Global Bank Group provides the management platform for Merrill Lynch's retail and capital markets banking products and services worldwide. Banks in the United States within this group include Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co. ("MLBT" and with MLBUSA, the "ML U.S. Banks"). Both are state chartered depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). International banks in the group include Merrill Lynch International Bank Limited ("MLIB"), Merrill Lynch Capital Markets Bank Limited ("MLCMBL"), Merrill Lynch Capital Markets AG, Merrill Lynch Bank (Suisse) S.A. and Merrill Lynch Bank and Trust Company (Cayman) Limited ("MLBT Cayman"). At year-end 2003, the ML U.S. Banks (including subsidiaries) had total assets of approximately \$80.5 billion and the international banks (including subsidiaries) had total assets of approximately \$35.6 billion.

### **GPC Deposit Taking and Lending Activities in the United States**

#### Deposit Taking:

The ML U.S. Banks offer certificates of deposit, transaction accounts and money market deposit accounts. They also issue VISA debit cards. The ML U.S. Banks derive the majority of their deposits from GPC securities brokerage clients. Rates for certain deposit products are based on the scope of the clients' relationships with Merrill Lynch as defined by the value of the deposits and other assets in their accounts. The combined ML U.S. Banks' deposits were approximately \$65 billion at year-end 2003. The ML U.S. Banks' deposits are utilized by MLBUSA for its own lending activities and for the lending activities of its subsidiaries. MLBT uses deposit funding to purchase residential mortgage loans and securities-based loans originated by MLBUSA and its subsidiaries. The ML U.S. Banks also utilize deposits to invest in a high credit quality investment securities portfolio.

#### Residential Mortgage Lending Activities:

Merrill Lynch Credit Corporation ("MLCC"), a wholly owned subsidiary of MLBUSA headquartered in Jacksonville, Florida, offers residential mortgage financing throughout the United States. MLCC offers clients a full range of credit products including first mortgage loans, home equity lines of credit and construction-to-permanent home financing enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate, fixed-to-adjustable-rate and fixed-rate mortgages. These products are delivered primarily through a long-term outsourcing arrangement with Cendant Mortgage Corporation ("Cendant") in which Cendant performs substantially all of the origination processing functions on behalf of MLCC. Additionally, MLCC acquires a small portion of its loans pursuant to its correspondent lending program, which it plans to expand in 2004. Merrill Lynch employees remain engaged in the sales, marketing and distribution of MLCC mortgages and these financing solutions are offered to Merrill Lynch clients through Merrill Lynch's FAs, the Financial Advisory Center and websites. MLCC is a major participant in the residential jumbo mortgage market in the U.S. During 2003, it originated approximately \$20.6 billion in residential mortgage loans and additionally acquired approximately \$2.2 billion of loans through its correspondent lending program. All of MLCC's loans are serviced or sub-serviced by Cendant at its servicing headquarters located in Mt. Laurel, New Jersey.

Business Financial Services:

Merrill Lynch provides cash management and business financing services to small and mid-sized businesses. It provides cash management services through the Working Capital Management Account (“WCMA”), a brokerage account with MLPF&S that integrates cash management, investing and financing through one account. For additional information about WCMA accounts at MLPF&S, see *Client Accounts* in Part I, Item 1 of this Report.

Merrill Lynch Business Financial Services Inc. (“MLBFS”), a wholly owned subsidiary of MLBUSA, provides commercial financing for qualifying small and mid-size businesses, including lines of credit and reducing revolver loans through the WCMA Commercial Line of Credit and the WCMA Reducing Revolver<sup>SM</sup> Loan, respectively. MLBFS also assists its qualifying business clients with equipment financing, owner-occupied commercial real estate and other specialized financing needs. At the end of 2003, total outstanding loans and unfunded commitments held by MLBFS and its affiliates (exclusive of its Merrill Lynch Capital division) were more than \$5.4 billion and \$2.9 billion, respectively, of which approximately 98% and 91%, respectively, were secured by assets pledged by clients.

Securities Based Lending:

MLBUSA, its subsidiary, MLCC, and its affiliate, Merrill Lynch Private Finance Ltd., offer securities-based loans primarily to individual clients. These loans are separate and distinct from margin loans available to clients from MLPF&S. Securities-based loans are collateralized by eligible securities held in MLPF&S securities brokerage accounts which are pledged by the borrower or a guarantor. The interest rates on securities-based loans are tied to a variable index, such as LIBOR, although some loans may have a fixed rate of interest.

Transfer Agency Services:

Financial Data Services Inc., a wholly-owned subsidiary of MLBT, is a registered transfer agent and provides support and services for both Merrill Lynch and non-Merrill Lynch mutual fund products.

**GMI Lending Activities in the United States**

Global Bank Group commercial lending activities are coordinated with GMI and include syndicated and bridge financing, asset based lending, commercial real estate lending, equipment financing, and standby or “backstop” credit in various forms (including syndicated and bilateral loans and lines of credit and standby letters of credit) for large institutional clients generally in connection with their commercial paper programs. The Loan Portfolio Management Group is responsible for the ongoing management of Merrill Lynch’s syndicated loan portfolio, including borrower surveillance (in partnership with Merrill Lynch’s Credit Risk Management group), documentation management, loan administration and credit risk hedging/loan sales activities.

Merrill Lynch also provides corporate finance, commercial real estate and equipment financing lending to qualifying mid- and large-sized business clients through the Merrill Lynch Capital division of MLBFS (“Merrill Lynch Capital”). At the end of 2003, total outstanding loans and unfunded commitments held by Merrill Lynch Capital were more than \$3.0 billion and \$1.7 billion, respectively, of which approximately 98% were secured by assets pledged by clients.

#### **GPC Banking Activities Outside the United States**

MLIB, an authorized credit institution under the UK Financial Services and Markets Act 2000, provides collateralized lending, letter of credit and foreign exchange services to, and accepts deposits from, international private clients. In addition, it has a number of branch offices in which FAs are located who provide these services to various GPC affiliated entities or their customers.

MLBT Cayman, licensed as a Bank & Trust company under the laws of the Cayman Islands, provides trust services and accepts current and time deposits from international private clients.

Merrill Lynch Bank (Suisse) S.A. is a Swiss licensed bank, providing a full array of banking and brokerage products, including securities trading and custody, secured loans and overdrafts, fiduciary deposits, foreign exchange trading and portfolio management services to international private clients.

#### **GMI Banking Activities Outside the United States**

Commercial lending through banks outside of the United States is conducted through MLCMBL and MLIB, as well as through other non-bank Merrill Lynch affiliates. For a description of additional capital markets activities conducted by MLCMBL and MLIB, please see *Derivative Dealing and Foreign Exchange Activities* in Part I, Item 1 of this Report.

#### *Research Services:*

The Global Securities Research & Economics Group provides equity, debt, foreign exchange and economic research services on a global basis to Merrill Lynch’s institutional and individual client sales forces and their customers. This group distributes fundamental equity and fixed-income research, economic analyses, technical market and quantitative analyses, convertible securities research and investment strategy recommendations covering both equity and fixed-income markets.

Merrill Lynch’s rating system for equity securities offers investors three components to consider in assessing stocks: (1) the 0-to-12-month investment recommendation based on clearly defined levels of total return, including price appreciation potential; (2) the projected risk as measured by potential price volatility; and (3) the dividend outlook.

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 21 countries cover approximately 2,400 companies. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch’s individual and institutional customers through their FAs and account executives and various electronic sources, including Merrill Lynch’s websites.

In April 2003, the Global Securities Research & Economics Group was reorganized across products, disciplines and regions to provide enhanced research analysis. The new structure includes the following groups: Global Strategy and Economics; Global Credit and Equity-Linked Research; Global Equity Research; Global Private Client Research; and the regional Research Recommendations Committees. In November 2003, The Global Securities Research & Economics Group formed the GPC Research Investment Committee (“RIC”). The RIC, in partnership with senior members of GPC management, reviews the disciplines and views of Merrill Lynch’s macroeconomic specialists to assist Research in focusing on providing targeted research to GPC clients.

In December 2003, Merrill Lynch announced its intent to build its next-generation Research Analyst Workbench on Microsoft’s technology platform. It is anticipated that the Research Analyst Workbench will provide Merrill Lynch’s analysts with an integrated technology platform for research creation, product workflow and client distribution.

Over the previous two years, the research function at integrated broker-dealers has been the subject of substantial regulatory and media attention. As a result of regulatory and legal mandates as well as firm initiatives, Merrill Lynch has enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming regional Research Recommendations Committees to review equity analysts’ investment recommendations; adopting a new, simplified securities rating system; implementing new policies and procedures to comply with all legal requirements, including those limiting communications between equity research analysts and investment banking and other origination personnel; and adding additional disclosures on research reports regarding potential conflicts of interest. ML has also appointed an independent consultant to identify independent third-party research providers that will provide fundamental research on certain companies covered by Merrill Lynch. This research will be made available to Merrill Lynch private clients in the U.S. and, upon request, to institutional clients in the U.S. in accordance with legal requirements.

The compensation system for research analysts includes an evaluation of the performance of analysts’ recommendations, including the extent to which the analyst’s insights and recommendations have benefited investors. The compensation of all analysts responsible for the substance of an equity research report is required to be reviewed and approved by a committee reporting to the Board of Directors of MLPF&S. The Management Development and Compensation Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, also reviews evaluation and compensation policies and processes applicable to research analysts to ensure compliance with legal and regulatory requirements. Additionally, the Audit Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, reviews budgeting and expense allocation processes applicable to compensation of research analysts to ensure compliance with legal and regulatory requirements. Merrill Lynch’s Investment Banking Group has no input into research analyst compensation.



## Strategic Growth Initiatives

Merrill Lynch has been investing in various growth initiatives intended to enhance its operating platform so that the firm can better serve the full breadth of client needs, further diversify and grow its revenues and profits, expand areas that complement existing scale and expertise, and address areas where market share, product range or efficiency can be improved. Management strives to identify industry trends early, carefully control spending and capital allocation, and actively monitor and measure the progress of these initiatives to enhance the probability of success. The strategic initiatives listed below are central to this strategy of disciplined growth.

### GMI

In GMI's Global Markets business, growth initiatives emphasize building out revenue opportunities across asset classes and regions, including secured financing, principal investing, emerging markets debt, credit and other fixed income derivatives, foreign exchange, high yield products, commodities, portfolio trading, equity derivatives and prime brokerage. These initiatives include investments in personnel, infrastructure and technology. Select strategic investments or acquisitions may be used to accelerate the process of growth within various areas of the business. Examples include:

- In March of 2003, GMI entered into a joint venture with UFJ Holdings ("UFJ") as part of its efforts to further develop business in Japan. UFJ is Japan's fourth-largest financial group. The joint venture focuses on managing problem loans made to small and medium-size companies in Japan.
- In May 2003, GMI purchased a minority stake in Mizuho Advisory, Inc. Mizuho Advisory, Inc. is a consolidated subsidiary of Mizuho Financial Group and seeks to assist Mizuho's corporate customers with financial restructuring. In November, GMI also reached an agreement with Nishi-Nippon Bank to assist in that bank's corporate revitalization efforts.
- In November of 2003, as part of its efforts to expand market-making capabilities, GMI purchased the listed options electronic market-making business of The Bear Stearns Companies Inc. This business functions through the International Securities Exchange, a fully electronic United States options platform.
- In January 2004, GMI agreed to acquire ABN AMRO's U.S. equities and options execution and clearing business. This acquisition is expected to accelerate GMI's efforts to build its options clearing business, expand GMI's client base and enhance services that are provided to clients in these businesses.
- Also in January 2004, GMI agreed to purchase Wilshire Credit Corporation, one of the leading companies in the subprime, nonperforming and reperforming residential mortgage special servicing markets. It is expected that this acquisition will accelerate the growth of GMI's residential mortgage business and complement GMI's existing whole loan trading and securitization activities. In addition, the acquisition is expected to enable GMI to significantly grow its principal investment business and expand into new product areas including the servicing of nonperforming, reperforming, and closed-end second mortgages.

In Investment Banking, GMI has emphasized the integration of its capital markets, origination and advisory functions while strengthening its industry-focused practices in financial institutions, real estate and energy and power. It has also emphasized the building out of coverage of areas such as consumer retail and industrial companies and areas where Merrill Lynch is under-represented such as leveraged finance and corporate derivatives. This is expected to be accomplished by targeted recruiting of seasoned senior investment bankers.

## **GPC**

Growth initiatives in GPC have emphasized improving the array of value-added products and services Merrill Lynch Financial Advisors offer clients, as well as enhancing distribution capacity.

The 2003 introduction of *Total Merrill*, a fully integrated array of wealth management services, is intended to broaden and enhance existing relationships and attract new clients in the United States. The *Beyond Banking* product, part of the *Total Merrill* relationship, offers clients a comprehensive, convenient cash management solution including nationwide ATM access, checking, direct deposit and charge cards. As another part of GPC's efforts to expand the services included in the *Total Merrill* financial management platform, in September of 2003 GPC formed a strategic partnership with MBNA America Bank N.A., one of the largest independent credit card lenders in the world. As part of this partnership, MBNA will develop, market and service a full line of unsecured Merrill Lynch branded credit cards for Merrill Lynch clients. MBNA will also market Merrill Lynch products and services to certain of its customers.

Additionally, GPC is placing more resources of the firm behind retirement products and services to strengthen the platform, improve client service and increase the IRA rollover business.

GPC also remains focused on building and enhancing the profitability of its non-U.S. business. Following a strategic review of the private client business in Germany, in October of 2003, GPC agreed to sell this business to UBS Wealth Management AG. GPC is also making investments to enhance its presence in Swiss private banking.

To increase distribution capacity, GPC has announced and is implementing plans to increase its recruiting and training of high-quality experienced Financial Advisors and trainees. GPC has also emphasized the formation of teams of Financial Advisors that leverage the expertise of each individual across a wider array of clients and products.

## **MLIM**

MLIM's growth strategy has focused on enhancing the distribution of its asset management products by enhancing its relationship with GPC as well as establishing and building relationships with third-party retail distributors in Europe, Japan, and Asia, as well as in the U.S. MLIM is also working to expand its presence in the U.S. institutional market.

In December of 2003, MLIM announced that it had been granted a preparatory license from the Chinese Security Regulatory Commission to establish a joint venture fund management company with BOH International China Limited and BOC International Holdings (“BOCIH”). BOCIH is a wholly owned subsidiary of the Bank of China Group. By partnering with the Bank of China Group, it is expected that MLIM will achieve strategic entry into China’s investment management market alongside a financial institution in the region.

## **Competition**

All aspects of Merrill Lynch’s business are intensely competitive, particularly underwriting, trading and advisory activities, and have been affected by consolidation within the financial services industry and by the entry of non-traditional competitors, such as commercial banks, insurance companies and online financial services providers.

Merrill Lynch competes for clients, market share and human talent in every aspect of its business.

Merrill Lynch competes directly on a global basis with other U.S. and non-U.S. trading, investment banking and financial advisory service firms and brokers and dealers in securities. It also competes with commercial banks and their affiliates in these businesses, particularly in its derivatives and capital markets businesses. Many of Merrill Lynch’s non-U.S. competitors may have competitive advantages in their home markets. Merrill Lynch’s competitive position depends to an extent on prevailing worldwide economic conditions and U.S. and non-U.S. government policies.

Merrill Lynch also competes for investment funds with mutual fund management companies, insurance companies, finance and investment advisory companies, banks and trust companies and other institutions. Merrill Lynch competes for individual and institutional clients on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation.

In the financial services industry, there is significant competition for qualified employees. Merrill Lynch faces competition for qualified employees from both traditional and non-traditional competitors, including commercial banks, insurance companies, online financial services providers and private equity funds. Merrill Lynch’s ability to compete effectively in its businesses is substantially dependent on its continuing ability to attract, retain and motivate qualified employees, including successful FAs, investment bankers, trading professionals and other revenue-producing or experienced personnel.

Merrill Lynch’s businesses are highly dependent on the ability to timely process a large number of transactions across numerous and diverse markets in many currencies, at a time when transaction processes have become increasingly complex and are increasing in volume. The proper functioning of financial, control, accounting and other data processing systems is critical to Merrill Lynch’s businesses and its ability to compete effectively.

## Regulation

Certain aspects of Merrill Lynch's business, and the business of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. government agencies or regulatory bodies, securities exchanges and central banks, each of which has been charged with the protection of the financial markets and the interests of those participating in those markets.

- These regulatory agencies in the United States include, among others, the Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), the FDIC, the Municipal Securities Rulemaking Board ("MSRB"), the State of New Jersey Department of Banking and Insurance ("NJDBI"), the State of New York Banking Department ("NYSBD"), the State of Utah Department of Financial Institutions ("UTDFI") and the Office of Thrift Supervision ("OTS").
- Outside the United States, these regulators include the Financial Services Authority ("FSA") in the United Kingdom; the Irish Financial Services Regulatory Authority; the Federal Banking Supervisory Authority in Germany; the Commission Bancaire Comite des Etablissements de Credit des Entreprises d'Investissement and the Conseil des Marches Financiers in France; the Swiss Federal Banking Commission; the Johannesburg Securities Exchange; the Japanese Financial Supervisory Agency; the Monetary Authority of Singapore; the Office of Superintendent of Financial Institutions in Canada; the Canadian Securities Administrators; the Securities Commission in Argentina; the Securities Commission in Brazil; the National Securities and Banking Commission in Mexico; and the Securities and Futures Commission in Hong Kong, among many others.

Additional legislation and regulations, and changes in rules promulgated by the SEC or other U.S. Federal and state government regulatory authorities and self-regulatory organizations and by non-U.S. government regulatory agencies may directly affect the manner of operation and profitability of Merrill Lynch. Certain of the operations of Merrill Lynch are subject to compliance with privacy regulations enacted by the U.S. Federal and state governments, the European Union, other jurisdictions and/or enacted by the various self-regulatory organizations or exchanges.

Outside the United States, there has been continued focus by regulators and legislators on regulatory supervision of both commercial and investment banks as an industry and on an individual basis, especially in the areas of capital and risk management. Recent European Union legislation will require that financial services groups based outside the European Union with regulated entities within a country in the European Union have “equivalent” consolidated supervision at the parent-company level in their home country. As a response to these developments, in November of 2003, the SEC proposed certain rule amendments under the Securities Exchange Act of 1934 that would establish a voluntary alternative method for computing net capital charges for certain broker-dealers. In order to use the voluntary method, which is based on mathematical models for market and credit risk, a broker-dealer (such as MLPF&S) must apply to the SEC for approval and its holding company (such as ML & Co.) must consent to group-wide supervision by the SEC as a consolidated supervised entity. The holding company would undertake, among other things, to permit the SEC to examine the books and records of the holding company and any affiliate that does not have a “principal regulator,” compute its capital as required under the proposal; and provide certain reports to the SEC. Merrill Lynch is in the process of addressing these developments.

## **UNITED STATES REGULATORY OVERSIGHT AND SUPERVISION**

### *Broker Dealer Regulation:*

MLPF&S and certain other subsidiaries of ML & Co. are registered as broker-dealers with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, such as securities exchanges (including The New York Stock Exchange, Inc. (“NYSE”)) and the National Association of Securities Dealers, Inc. (“NASD”). Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S and the MLIM entities, are registered as investment advisers with the SEC.

The Merrill Lynch entities that are broker-dealers registered with the SEC are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (“Exchange Act”) which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, these entities are required to maintain the minimum net capital deemed necessary to meet broker-dealers’ continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of such broker-dealers to allow withdrawal of such capital by ML & Co. or other Merrill Lynch affiliates. Additional information regarding certain net capital requirements is set forth in Note 17 to the Consolidated Financial Statements on page 89 of the 2003 Annual Report.

In response to an agreement entered into with the Department of Justice with respect to regulatory inquiries regarding Enron, Merrill Lynch formed the Special Structured Products Committee in November 2003. This Committee, which is comprised of senior managers across business, support, risk and compliance functions, reviews a variety of complex structured transactions with the objective of advancing the appropriateness and integrity of client dealings.

Certain Merrill Lynch subsidiaries are also subject to the risk assessment rules adopted by the SEC under the Market Reform Act of 1990 which requires, among other things, that certain broker-dealers maintain and preserve records and other information, describe risk management policies and procedures and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operating condition of the broker-dealer.

In 1995, Merrill Lynch, along with certain other major U.S. securities firms, implemented a voluntary oversight framework to address issues related to capital, management controls and counterparty relationships arising out of the over-the-counter derivatives activities of unregulated affiliates of SEC-registered broker-dealers and CFTC-registered futures commission merchants. Merrill Lynch formed its Risk Oversight Committee at that time as an extension of its risk management process to provide general oversight of risk management for all of its institutional trading activities and to monitor compliance with its commitments respecting this voluntary oversight initiative. See “Risk Management” on page 36 of Management’s Discussion and Analysis in the 2003 Annual Report.

Broker-dealers are also subject to other regulations covering the operations of their business, including sales and trading practices, use of client funds and securities and the conduct of directors, officers and employees. Broker-dealers are also subject to regulation by state securities administrators in those states where they do business. Violations of the regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses, the imposition of censures or fines, the issuance of cease and desist orders and the suspension or expulsion from the securities business of a firm, its officers or its employees. The SEC and the national securities exchanges emphasize in particular the need for supervision and control by broker-dealers of their employees.

*Sarbanes-Oxley and Related Rules:*

Aspects of Merrill Lynch’s public disclosure, corporate governance principles and the roles of auditors and counsel are subject to the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and certain related regulations and rules proposed and/or adopted by the SEC and the NYSE. Sarbanes-Oxley requirements include requiring our Chief Executive Officer and Chief Financial Officer to certify that Merrill Lynch’s financial information is fairly presented and fully complies with disclosure requirements. Additionally, they must evaluate the effectiveness of disclosure controls and procedures and disclose the results of their evaluation. Additional areas of focus as a result of Sarbanes-Oxley include: disclosures of off-balance sheet arrangements and contractual obligations; management’s assessment of internal controls and procedures for financial reporting; the adoption of a code of ethics for the Chief Executive Officer and senior financial and accounting officers; and disclosure of whether the audit committee of our Board of Directors includes a financial expert. Related rules proposed by the NYSE were approved by the SEC in November 2003 and will require that the Chief Executive Officer certify compliance with NYSE corporate governance standards. These rules require listed companies to, among other items, adopt corporate governance guidelines and a code of business conduct, tighten applicable criteria for determining Board, director and audit committee member independence, and increase the authority and responsibilities of the audit committee.

Additionally, beginning in December 2004, Section 404 of Sarbanes-Oxley will require that Merrill Lynch's management make an assertion as to the effectiveness of its internal controls over financial reporting. Merrill Lynch's independent auditors will be required to attest to management's assertion. In preparation for this requirement, 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 the 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, risk, operations, technology and legal functions. This Committee is responsible for reviewing the progress of the Section 404 compliance initiative and directing the efforts of the Project Management Office.

*Mutual Fund Industry Regulation:*

During 2003, abuses by certain participants in the mutual fund industry, including market timing, late trading and selective disclosure, prompted legislative and regulatory scrutiny of a wide range of fund-related activities. This scrutiny resulted in the adoption of new rules and a number of legislative and regulatory proposals relating to fund practices. In this regard, the SEC proposed rules designed to strengthen existing prohibitions relating to late trading and enhance required disclosure and supervision of market timing policies and pricing. The SEC also adopted and proposed additional rules requiring corporate governance changes including the adoption of compliance policies and requiring that funds designate a single chief compliance officer. It is expected that these actions and any additional legislative and regulatory actions taken to address abuses will affect the manner in which funds and their service providers conduct business and could increase fund expenses and therefore adversely affect the profitability of these businesses.

*Research Related Regulation:*

In April 2003, the SEC's Regulation Analyst Certification ("Regulation AC") became effective. Regulation AC requires research analysts to certify that the opinions expressed by them in research reports accurately reflect their views on the securities and issuers discussed in the research report and that they have not been compensated for the specific recommendations or views contained in the report. Regulation AC also requires analysts to make substantially equivalent certifications on a quarterly basis to their firm with respect to recommendations and views expressed on securities and issuers by them in public appearances during that quarter.

Additionally, during 2003, the NYSE and the NASD adopted new rules relating to equity research, including a new registration requirement for equity analysts. Also, pursuant to the requirements of Sarbanes-Oxley, the NYSE and NASD adopted rules requiring additional disclosures to be made in research reports and in analysts' public appearances relating to potential conflicts of interest that may arise from the firm's non-investment banking business relationships with covered companies. These new disclosure rules become effective in April 2004. Additionally, Merrill Lynch has added disclosure on research reports to provide investors with additional information about potential conflicts of interest in response to the requirements of regulators outside of the U.S.

In connection with global regulatory settlements relating to investment banking and research practices, Merrill Lynch and several other major investment banking firms agreed to adopt a policy of prohibiting the allocation of “hot issue” initial public offerings to executive officers or directors of any U.S. public company, or their immediate family members. Merrill Lynch adopted such a policy in October 2003.

*Client Information Regulation:*

Broker-dealers and certain other financial institutions are subject to the USA PATRIOT Act of 2001, which amends the Bank Secrecy Act and was designed to detect and deter money laundering and terrorist financing activity. The USA PATRIOT Act requires broker-dealers and other financial institutions to establish anti-money laundering compliance programs which must include policies and procedures to verify client identity at account opening and to detect and report suspicious transactions to the government. Institutions subject to the Act must also implement specialized employee training programs, designate an anti-money laundering compliance officer and submit to independent audits of the effectiveness of the compliance program. Merrill Lynch has established policies, procedures and systems designed to comply with these new regulations. Compliance with the Act may result in additional financial expenses for financial institutions, including Merrill Lynch, and may subject firms to additional liability. In compliance with the Act, in October 2003, Merrill Lynch also adopted a Customer Identification Program.

Additionally, in May 2003, the SEC’s Client Data Validation rule became effective requiring brokerage firms to provide clients with a confirmation of certain data used for making investment recommendations or suitability determinations with respect to an account.

Financial institutions, including Merrill Lynch, have also become subject to increasingly comprehensive legal requirements concerning the use and protection of certain client information including those adopted pursuant to the Gramm-Leach Bliley Act in the United States and the European Union Data Protection Directive in EU countries. Merrill Lynch has adopted additional policies and procedures in response to such requirements and may experience incremental operating and technology costs as a result.

*Additional Regulation of U.S. Entities:*

MLPF&S and ML PRO are registered futures commission merchants and, as such, are regulated by the CFTC and the National Futures Association (“NFA”). The CFTC and the NFA impose net capital requirements on these companies. In addition, these companies are subject to the rules of the futures exchanges and clearing associations of which they are members.

Each of MLIM Alternative Strategies LLC and Merrill Lynch Investment Managers LLC is registered with the CFTC as a commodity pool operator and a commodity trading advisor and each is a member of the NFA in such capacities.

MLGSI is subject to regulation by the NASD and, as a member of the Chicago Board of Trade, is subject to the rules of that exchange. It is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch’s municipal finance professionals are subject to various trading and underwriting regulations of the MSRB.



Merrill Lynch's banking and lending activities are supervised and regulated by a number of different Federal and state regulatory agencies. MLBT is regulated primarily by the NJDBI and the FDIC.

MLBUSA is regulated primarily by the UTDFI and the FDIC. MLBFS and MLCC are wholly-owned subsidiaries of MLBUSA, and certain of their activities are regulated and subject to examination by the FDIC and the UTDFI. In addition to Utah and the FDIC, MLCC is also licensed or registered to conduct its lending activities in 30 other jurisdictions and MLBFS is licensed or registered in eight jurisdictions, subjecting each to regulation and examination by the appropriate authorities in those jurisdictions. Merrill Lynch Trust Company, FSB, a federal savings bank, is subject to regulation by the OTS and, in addition, is an investment adviser subject to regulation by the SEC.

Merrill Lynch's insurance subsidiaries are subject to state insurance regulatory supervision. ML Life is subject to regulation and supervision by the New York State Insurance Department. MLLIC is subject to regulation and supervision by the Insurance Department of the State of Arkansas. Both MLLIC and ML Life are subject to similar regulation in the other states in which they are licensed.

## **NON-U.S. REGULATORY OVERSIGHT AND SUPERVISION**

Merrill Lynch's business is also subject to extensive regulation by various non-U.S. regulators including governments, securities exchanges, central banks and regulatory bodies. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the United States are regulated by various government entities in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activities. In some cases, the legislative and regulatory developments outside the U.S. applicable to these subsidiaries may have a global impact. In particular, recent European Union legislation will require that ML & Co., as a financial services group based outside the European Union with regulated entities in countries in the European Union, have "equivalent" consolidated supervision at the parent-company level, as discussed above.

Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission and the NYSBD. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking. Banco Merrill Lynch S.A. is also regulated by the Brazilian Central Bank. Additionally, Merrill Lynch Reinsurance Solutions Ltd. and Merrill Lynch Credit Reinsurance Limited, subsidiaries engaged in insurance, reinsurance and financial products activities, are regulated by the Bermuda Registrar of Companies.

MLI and MLIB are regulated and supervised in the United Kingdom by the FSA and in other jurisdictions, by local regulators. MLCMBL, which engages in the derivatives business, is regulated by the Irish Financial Services Regulatory Authority. MLIB and MLCMBL are also subject to regulation by the NYSBD. Merrill Lynch's activities in Australia are regulated by the Australian Securities and Investments Commission or the Australian Prudential Regulatory Authority, and its Hong Kong and Singapore operations are regulated and supervised by the Hong Kong Securities and Futures Commission and The Monetary Authority of Singapore, respectively. Merrill Lynch's Japanese business is subject to the regulation of the Financial Supervisory Agency as well as other Japanese regulatory authorities.

Merrill Lynch Canada Inc. is an investment dealer in Canada and is regulated under the laws of the Canadian provinces by securities commissions and by the Investment Dealers Association of Canada. It is also a member of all major Canadian exchanges and is subject to their rules and regulations.

The business of MLIM Limited and other non-U.S. investment advisors is regulated by a number of non-U.S. regulatory agencies or bodies. Their activities in the United Kingdom are regulated by the FSA and, in other jurisdictions, by local regulators.

Merrill Lynch's activities in Mexico, Brazil and Argentina are regulated by their respective securities commissions and exchanges as well as other regulatory authorities.

## **Item 2. Properties**

Merrill Lynch has offices in various locations throughout the world. Other than those described below as being owned, substantially all Merrill Lynch offices are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is the location and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities support various Merrill Lynch business segments. Information regarding Merrill Lynch's property lease commitments is set forth in "Leases" in Note 13 to the Consolidated Financial Statements in the 2003 Annual Report.

### *Principal Facilities in the United States:*

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in New York City. Merrill Lynch affiliates lease the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower. As of December 2003, Merrill Lynch occupies the entire North Tower and approximately 20% of the South Tower.

In New York City, MLPF&S leases 662,000 square feet in lower Manhattan. The lease for these premises expires in 2007. Merrill Lynch occupies 70% of a 760,000 square foot building at 222 Broadway that is owned by a Merrill Lynch subsidiary. In New Jersey, a Merrill Lynch affiliate owns a 389,000 square foot hotel, conference and training center that is currently being marketed for sale and a 669,000 square foot office building in Plainsboro. Another Merrill Lynch affiliate owns a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset that was vacated in 2001 and is currently being marketed for sale. MLPF&S holds a 590,000 square foot lease at 101 Hudson Street in Jersey City, which expires in 2007 if certain renewal rights are not exercised. A Merrill Lynch affiliate owns and occupies facilities of 1,251,000 square feet of office space and 273,000 square feet of ancillary buildings in Hopewell, New Jersey. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings (a large portion of one is leased to a third party). In April 2003, Merrill Lynch sold a 70-acre campus in Englewood, Colorado that included two buildings that were closed in June 2002.

### *Principal Facilities Outside the United States:*

Merrill Lynch occupies various sites in London. Merrill Lynch owns and occupies 100% of its 560,000 square foot London headquarters facility known as Merrill Lynch Financial Centre. In addition to the Merrill Lynch Financial Centre, Merrill Lynch leases approximately 604,486 square feet in other London locations with various terms, the longest of which lasts until 2015. It occupies 339,104 square feet of this space and has either sublet or is currently marketing the remainder. In December 2003, Merrill Lynch entered into a lease agreement with a 10 year term for Merrill Lynch's new headquarters in Tokyo. Construction on this building has been completed and Merrill Lynch is in the process of occupying 260,000 square feet of office space in the building. The new headquarters replaces certain other leased facilities in Tokyo.

**Item 3. Legal Proceedings**

ML & Co., certain of its subsidiaries, including MLPF&S, and other persons have been named as parties in various legal actions and arbitration proceedings arising in connection with the operation of ML & Co.'s businesses. These include the following:

*IPO Allocation Litigation:*

In re Initial Public Offering Antitrust Litigation: Merrill Lynch is named as one of ten underwriting defendants in this consolidated class action filed in the United States District Court for the Southern District of New York. The complaint alleges that the defendants and unnamed co-conspirators violated antitrust laws by conspiring to “require from customers consideration in addition to the underwriters’ discount for allocation of shares of initial public offerings of certain technology companies . . . and to inflate the aftermarket prices for such securities.” On November 3, 2003, the district court granted the defendants’ motions to dismiss the complaint. The plaintiffs have appealed.

In re Initial Public Offering Securities Litigation: Merrill Lynch has been named as one of the defendants in approximately 110 class action complaints alleging violations of the federal securities laws. The complaints involve the initial public offerings and follow-on offerings of the stock of 106 different issuers, as well as claims related to the B2B Internet HOLDERS Trust and Internet Infrastructure HOLDERS Trust. Merrill Lynch was a book runner for the offerings of 15 issuers, joint book runner for the offerings of 5 issuers, a co-managing underwriter for the offerings of 30 issuers, and a small percent underwriting syndicate member for 56 issuers. The complaints allege that Merrill Lynch and dozens of other underwriting defendants artificially inflated and maintained the stock prices of the relevant securities by creating an artificially high aftermarket demand for shares. On July 1, 2002, Merrill Lynch and the other underwriter defendants moved to dismiss the complaints. On February 19, 2003, the court issued an opinion denying in part and granting in part the underwriter defendants’ motion to dismiss. On July 21, 2003, Merrill Lynch filed Answers denying the substantive allegations in the Complaints. The matter is now in the discovery phase of the litigation. On October 14, 2003, plaintiffs selected five focus cases for purposes of determining the propriety of class certification. On November 26, 2003, Merrill Lynch selected a focus case for purposes of determining the propriety of class certification. The class certification issues are scheduled to be fully briefed by April 2004.

In June 2003, plaintiffs announced that they had entered into a Memorandum of Understanding with the issuer defendants and the issuers’ present and former officers and directors. Under the terms of the Memorandum of Understanding, the insurers of the issuers would guarantee recovery of at least \$1 billion by the class members. To the extent that plaintiffs recover from the underwriter defendants, this amount would be reduced. Over 40 underwriters, including Merrill Lynch, remain as defendants in the actions.

*Enron Litigation:*

Newby v. Enron Corp. et. al.: On April 8, 2002, Merrill Lynch was added as a defendant in a consolidated class action filed in the United States District Court for the Southern District of Texas against 69 defendants purportedly on behalf of the purchasers of Enron's publicly traded equity and debt securities during the period October 19, 1998 through November 27, 2001. The complaint alleges, among other things, that Enron, certain Enron executives and directors, its accountants, law firms and investment banks violated the federal securities laws by artificially inflating the price of Enron securities. The complaint alleges that Merrill Lynch violated the securities laws in connection with its role as an underwriter of Enron stock, its research analyst coverage of Enron stock, and its role as placement agent for and limited partner in an Enron-controlled partnership called LJM2. Merrill Lynch filed a motion to dismiss on May 8, 2002. The court denied the motion to dismiss on December 19, 2002. On January 27, 2003, the Court issued an order denying Merrill Lynch's motion for reconsideration of its order denying Merrill Lynch's motion to dismiss, but clarifying that the lead plaintiff would be required to file an amended complaint as to Merrill Lynch and that Merrill Lynch would have an opportunity to challenge the adequacy of the amended complaint through an additional motion to dismiss. On May 14, 2003, the plaintiffs filed a Second Amended Complaint. On June 18, 2003, Merrill Lynch filed a motion to dismiss the Second Amended Complaint. Merrill Lynch's motion to dismiss is fully briefed. In addition, the issue of class certification has been fully briefed.

Tittle v. Enron Corp. et. al.: On April 8, 2002, Merrill Lynch was added as a defendant in a consolidated class action complaint filed in the United States District Court for the Southern District of Texas against numerous defendants, including Merrill Lynch. The complaint alleges that the defendants conspired and/or aided and abetted the Enron insider defendants in defrauding Enron employees and inducing them to purchase and/or hold Enron securities in their retirement plans at inflated prices. In May 2002, the defendants, including Merrill Lynch, filed motions to dismiss. On October 1, 2003, the court issued an opinion granting Merrill Lynch's motion to dismiss in its entirety.

In re Enron Corp.: On September 24, 2003, Enron Corporation filed an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against a large collection of financial institutions, including Merrill Lynch. An amended complaint was filed on December 5, 2003. The complaint alleges that the conduct of Merrill Lynch and other bank defendants contributed to Enron's bankruptcy. Merrill Lynch is vigorously defending the action.

Other Litigation: Numerous other actions have been brought against Merrill Lynch and other investment firms in connection with their Enron-related activities, including actions by state pension plans and other state investment entities that purchased Enron securities and actions by other purchasers of Enron securities. There has been no adjudication of the merits of these claims.

Government Actions: On March 17, 2003, Merrill Lynch announced that it had entered into a final settlement agreement with the Securities and Exchange Commission regarding a previously disclosed investigation into two 1999 transactions with Enron. This agreement, in which Merrill Lynch neither admitted nor denied any wrongdoing, finalized a previously reported settlement-in-principle of February 20, 2003 and concluded the SEC's investigation of all Enron-related matters with respect to Merrill Lynch. In September 2003, the United States Department of Justice agreed not to prosecute Merrill Lynch for crimes that may have been committed by its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch's continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counter-party financial statements, complex structured finance transactions and year-end transactions. The Department of Justice has indicted certain former Merrill Lynch employees for alleged criminal misconduct in connection with transactions with Enron, and the SEC has brought civil actions against certain former employees as well. The former employees have denied the allegations and are awaiting trial.

*Research Litigation:*

In re Merrill Lynch & Co., Inc. Research Reports Securities Litigation : Merrill Lynch has been named in over 30 research-related class actions brought in or transferred to the United States District Court for the Southern District of New York. These actions challenge the independence and objectivity of Merrill Lynch's research recommendations and related disclosures.

On February 7, 2003, Merrill Lynch moved to dismiss several actions that had been filed under state law. On April 10, 2003, and May 6, 2003, the court granted Merrill Lynch's motions to dismiss these actions. Plaintiffs appealed the dismissal of two of these actions to the United States Court of Appeals for the Second Circuit, and these appeals have been fully briefed and argued.

On June 30, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to 24/7 Real Media, Inc. and Interliant, Inc. On July 2, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the Global Technology Fund. On August 15, 2003, the court denied plaintiffs' motion for reconsideration of these decisions. On October 7, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to Rhythms Net Connections, Inc. On October 22, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the Focus Twenty Fund. On October 29, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to eToys, Inc., Homestore.com, Internet Strategies Fund, iVillage Inc., Lifeminders, LookSmart Ltd., Openwave Systems, Inc., Pets.com, Inc., and Quokka Sports. Merrill Lynch has moved or is in the process of moving to dismiss the remaining research class actions. Plaintiffs have appealed the dismissals to the United States Court of Appeals for the Second Circuit.

In re Merrill Lynch Tyco Research Securities Litigation : On June 4, 2003, shareholders of Tyco International filed a class action in the United States District Court for the Southern District of New York alleging that a former Merrill Lynch research analyst engaged in a variety of improper practices in connection with research analysis on Tyco International. On February 18, 2004, the court granted Merrill Lynch's motion to dismiss the claims related to Tyco.

Government Actions: On April 28, 2003, the Securities and Exchange Commission, New York Stock Exchange, National Association of Securities Dealers, and state securities regulators announced that the settlements-in-principle that the regulators had disclosed on December 20, 2002 had been reduced to final settlements with regard to ten securities firms, including Merrill Lynch. On October 31, 2003, the United States District Court for the Southern District of New York entered final judgments in connection with the April 28, 2003, research settlements. The final settlements pertaining to Merrill Lynch, which involved both monetary and non-monetary relief set forth in the regulators' announcements, brought to a conclusion the regulatory actions against Merrill Lynch related to alleged conflicts of interest affecting research analysts. Merrill Lynch entered into these settlements without admitting or denying the allegations and findings by the regulators, and the settlements did not establish wrongdoing or liability for purposes of any other proceedings.

State of West Virginia v. Bear Stearns, et al. : On or about June 27, 2003, the Attorney General for the State of West Virginia brought an action against the defendants that participated in the April 28, 2003, settlement described above. The action, filed in the West Virginia State Court, alleges that the defendants' research practices violated the West Virginia Consumer Credit and Protection Act. On August 27, 2003, defendants moved to dismiss on grounds that the West Virginia Consumer Credit and Protection Act does not relate to or apply to securities and the complaint exceeds the Attorney General's authority. In addition, Merrill Lynch filed a supplemental brief asserting that because it had already settled with the State of West Virginia in November 2003 concerning the same alleged research practices, the present action was barred. On October 1, 2003, the West Virginia Attorney General filed his response, and on October 27, 2003, the defendants filed their replies. No decision has been issued.

*IPO Underwriting Spread Litigation:*

In re Public Offering Fee Antitrust Litigation : Merrill Lynch is one of approximately two dozen defendants that have been named in purported class actions filed in the United States District Court for the Southern District of New York alleging that underwriters conspired to fix the "fee" paid to purchase initial public offering securities at 7% in violation of antitrust laws. These complaints have been filed by both investors and certain issuers in initial public offerings. On February 9, 2001, the court dismissed the consolidated amended complaint filed by the investors, and on April 11, 2001, denied the investors' motion for reconsideration. On December 13, 2002, the United States Court of Appeals for the Second Circuit vacated the decision and remanded the case back to the district court. Defendants again moved to dismiss the investor claims, and that motion has been fully briefed. With regard to the issuer claims, the defendants also moved to dismiss those claims on September 28, 2001. The court denied defendants' motion to dismiss on September 25, 2002. On October 15, 2002, defendants filed a motion to certify the denial of the motion to dismiss to the Second Circuit for interlocutory review. On January 17, 2003, the district court issued an order deferring a ruling on that motion until there is a ruling on the defendants' motion to dismiss the investor claims. On February 24, 2004, the district court granted defendants' motion to dismiss the claims for damages and penalties, and permitted the case to proceed only with regard to plaintiffs' claim for injunctive relief. An earlier investigation by the Department of Justice into related practices was closed without action.

*Global Crossing Litigation:*

In re Global Crossing Ltd. Securities Litigation: On or about January 28, 2003, Merrill Lynch was named as one of several dozen defendants in a class action filed in the United States District Court for the Southern District of New York. Plaintiffs assert claims against Merrill Lynch in connection with a March 1999 fairness opinion that Merrill Lynch issued to the Board of Directors of Global Crossing in connection with its acquisition of Frontier Corporation, as well as in connection with two Global Crossing securities offerings that took place in April 2000 in which Merrill Lynch was a member of the underwriting syndicate. Merrill Lynch filed a motion to dismiss on April 21, 2003. On April 14, 2003, plaintiffs filed an amended complaint adding allegations related to Asia Global Crossing. On December 18, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the issuance of the fairness opinion but denied Merrill Lynch's motion to dismiss with regard to its role as an underwriter for the April 2000 offerings.

*Allegheny Energy Litigation:*

Merrill Lynch v. Allegheny Energy, Inc. : On September 24, 2002, Merrill Lynch filed an action in the United States District Court for the Southern District of New York against Allegheny Energy, Inc. The complaint alleges that Allegheny owes Merrill Lynch the final \$115 million payment due in connection with Allegheny's purchase of Merrill Lynch's energy trading business and assets in 2001. The following day, Allegheny filed an action against Merrill Lynch in the Supreme Court of the State of New York claiming misrepresentations in connection with Merrill Lynch's sale of the energy trading business to Allegheny. In July 2003, Merrill Lynch filed a motion to dismiss. On November 24, 2003, the court denied Merrill Lynch's motion to dismiss. The case is now in the document discovery phase.

*Boston Chicken Litigation:*

BCI Trustee Litigation: The Plan Trustee, appointed by the Boston Chicken Inc. ("BCI") Plan of Reorganization, has filed claims against numerous defendants, including Merrill Lynch and other underwriters, alleging damages to BCI resulting from debt and equity offerings in which the underwriters participated between 1993 and 1997. The Plan Trustee's suit is pending in federal district court in Phoenix, Arizona. The court has denied the motions to dismiss filed by the Underwriter defendants, inviting a re-filing, in the form of a motion for summary judgment, before trial. Discovery has now been concluded. In February 2004, the Underwriters filed motions for summary judgment, which are pending before the court.



*Worldcom ERISA Litigation:*

In re Worldcom ERISA Litigation : On December 20, 2002, plaintiffs filed a Consolidated Master Class Action Complaint in the United States District Court for the Southern District of New York against approximately 20 defendants, including Merrill Lynch Trust Co. of America (“ML Trust”) in its capacity as a directed trustee for the Worldcom 401(k) Salary Savings Plan. The complaint, brought on behalf of participants in the Worldcom 401(k) Salary Savings Plan and its predecessor plans, alleges as to ML Trust that it should have informed fiduciaries of the Plan or participants in the Plan that the investments that the participants chose to make in Worldcom stock were increasingly risky and potentially imprudent. On June 17, 2003, the court issued an order granting in part and denying in part Merrill Lynch’s motion to dismiss. The matter is now in discovery.

*Shareholder Derivative Actions:*

In the shareholder derivative actions discussed below, ML & Co. is named as a nominal defendant because the action purports to be brought on behalf of ML & Co. Any recovery obtained by plaintiffs would be for the benefit of ML & Co.

Miller v. Schreyer, et. al., a consolidated derivative action instituted October 11, 1991 in the Supreme Court of the State of New York, New York County, alleges, among other things, breach of fiduciary duty against certain present or former ML & Co. directors, in connection with securities trading transactions that occurred at year-end 1984, 1985, 1986 and 1988 between subsidiaries of ML & Co. and Guarantee Security Life Insurance Company, which was later liquidated. On December 15, 2003, the matter was settled. The directors vigorously contested the allegations in the complaint, and there was no finding of any liability. Before the settlement, a Special Litigation Committee made up of outside directors recommended that the action be dismissed, and a motion to dismiss the action was pending at the time of the settlement.

Spear v. Conway, et. al., a derivative action instituted on or about August 1, 2002, in the Supreme Court of the State of New York, County of Kings, alleges breach of fiduciary duty by ML & Co. directors in connection with, among other things, allegedly failing to establish internal controls sufficient to ensure that the company’s business activities were carried out in a lawful manner. The complaint alleges the breach principally in connection with Merrill Lynch’s research practices. On October 24, 2003, the Supreme Court granted the defendants’ motion to dismiss. A notice of appeal was filed on November 26, 2003.

Mullin v. Komansky, et. al., a derivative action instituted on or about June 19, 2003, in the Supreme Court of the State of New York, County of New York, makes allegations similar to the allegations in Spear v. Conway, described above. The Mullin action is not currently being prosecuted while the Spear action is on appeal.

Fink v. Komansky, et. al., a derivative action instituted on or about January 17, 2003 in the United States District Court for the Southern District of New York, alleges breach of fiduciary duty by ML & Co. directors in connection with Merrill Lynch’s involvement with Enron. Damages in an unspecified amount are sought. On or about November 21, 2003, defendants moved to dismiss the action. That motion is pending.

*Other:*

Merrill Lynch has been named as a defendant in various other legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 has resulted in increased legal actions against many firms, including Merrill Lynch, and will likely result in higher professional fees and litigation expenses than those incurred in the past.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these legal actions, investigations and proceedings, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and, where appropriate, will vigorously contest these actions. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch often cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch believes, based on information available to it, that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

**Item 4. *Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the 2003 fourth quarter.

## EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

The following table sets forth the name, age, present title, principal occupation and certain biographical information for the past five years for ML & Co.'s executive officers, all of whom have been elected by the ML & Co. Board of Directors. Unless otherwise indicated, the officers listed are of ML & Co. Under ML & Co.'s By-Laws, elected officers are elected annually to hold office until their successors are elected and qualify or until their earlier resignation or removal.

### E. Stanley O'Neal (52)

Chairman of the Board since April 2003; Chief Executive Officer since December 2002; President and Chief Operating Officer since July 2001; Executive Vice President from April 1997 to July 2001; President of U.S. Private Client (now a part of Global Private Client) from February 2000 to July 2001; Chief Financial Officer from March 1998 to February 2000.

### Rosemary T. Berkery (50)

Executive Vice President since October 2001; General Counsel since September 2001; Senior Vice President and Head of U.S. Private Client (now a part of Global Private Client) Marketing and Investments from June 2000 to September 2001; Co-Director of Global Securities Research and Economics Group from April 1997 to June 2000.

### Robert C. Doll (49)

Senior Vice President since April 2002; Chief Investment Officer and President of Merrill Lynch Investment Managers ("MLIM") since September 2001; Co-Head MLIM Americas from November 1999 to September 2001; Chief Investment Officer for Equities for MLIM Americas from June 1999 to November 1999; prior to joining Merrill Lynch, Chief Investment Officer of OppenheimerFunds, Inc. from January 1999 to June 1999.

### Ahmass L. Fakahany (45)

Executive Vice President since December 2002; Chief Financial Officer since November 2002; Chief Operating Officer for Global Markets and Investment Banking ("GMI") from October 2001 to November 2002; Senior Vice President and Finance Director from December 1998 to October 2001.

### Gregory J. Fleming (41)

Executive Vice President since October 2003; President of GMI since August 2003; Chief Operating Officer of the Global Investment Banking Group of GMI from January 2003 to August 2003; Co-Head of the Global Financial Institutions Group of GMI from April 2001 to August 2003; Head of the United States Financial Institutions Group of GMI from June 1999 to April 2001; Managing Director of the Global Investment Banking Group of GMI from February 1999 to October 2003.

James P. Gorman (45)

Executive Vice President since July 1999; President of Global Private Client since November 2002; President of U.S. Private Client (now a part of Global Private Client) from September 2001 to November 2002; Head of U.S. Private Client Relationship Group from May 2000 to September 2001; Chief Marketing Officer from July 1999 to May 2000; Joined Merrill Lynch in July 1999. Prior to joining Merrill Lynch, Senior Partner, Financial Institutions Practice of McKinsey & Company, Inc. from June 1997 to July 1999.

Do Woo Kim (41)

Executive Vice President since October 2003; President of GMI since August 2003; Head of the Global Debt Markets Group of GMI from October 2001 to August 2003; Managing Director and Head of Global Enterprise Risk Management within the Global Debt Markets Group of GMI from April 2000 to October 2001; Head of the Fixed Income business in Japan from July 1997 to March 2000.

Robert J. McCann (45)

Executive Vice President and Vice Chairman, Wealth Management Group since August 2003; Vice Chairman and Director of Distribution and Marketing for AXA Financial from March 2003 to August 2003; Head of the Global Securities Research and Economics Group of Merrill Lynch from October 2001 to March 2003; Chief Operating Officer of GMI from September 2000 to October 2001; Head of the Global Institutional Client Division of GMI from August 1998 to September 2000.

## PART II

### **Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The principal market on which our common stock is traded is the New York Stock Exchange. Our common stock is also listed on the Chicago Stock Exchange, Pacific Exchange, Euronext Paris S.A., London Stock Exchange and Tokyo Stock Exchange. Information relating to the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of common stock, and the frequency and amount of cash dividends declared for the two most recent fiscal years, is set forth under the captions "Dividends Per Common Share" and "Stockholder Information" on page 90 of the 2003 Annual Report and such information is incorporated herein by reference.

In February 2004, Merrill Lynch announced that its board of directors has authorized the repurchase of up to \$2 billion of the company's outstanding common shares. The authority will be exercised from time to time as market conditions warrant and subject to regulatory considerations. Any repurchases are intended to make appropriate adjustments to the company's capital structure and are for general corporate purposes.

### **Item 6. *Selected Financial Data***

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table "Selected Financial Data" on page 16 of the 2003 Annual Report (excluding for this purpose the information set forth under the headings "Financial Ratios" and "Other Statistics"). Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 46 to 89 of the 2003 Annual Report.

### **Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 17 to 44 of the 2003 Annual Report under the caption "Management's Discussion and Analysis" and is incorporated herein by reference. All of such information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 46 to 89 of the 2003 Annual Report.

### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

Quantitative and qualitative disclosure about market risk is set forth on pages 37 to 38 of the 2003 Annual Report under the caption "Management's Discussion and Analysis" and in Note 6 to the Consolidated Financial Statements, and is incorporated herein by reference.

### **Item 8. *Financial Statements and Supplementary Data***

The Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Auditors thereon, are contained in the 2003 Annual Report on pages 46 to 89, and are incorporated herein by reference. In addition, the information on page 90 of the 2003 Annual Report under the caption "Quarterly Information" is incorporated herein by reference.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

**Item 9A. *Controls and Procedures***

In 2002, ML & Co. formed a Disclosure Committee to assist with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.'s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.'s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.'s disclosure controls and procedures are effective.

In addition, no change in ML & Co.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth fiscal quarter of 2003 that has materially affected, or is reasonably likely to materially affect, ML & Co.'s internal control over financial reporting.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

Information relating to Directors of the Registrant is set forth under the caption "Election of Directors" on pages 6 to 8 of ML & Co.'s Proxy Statement dated March 9, 2004 for its 2004 Annual Meeting of Shareholders to be held on April 23, 2004 ("2004 Proxy Statement") and is incorporated herein by reference. Information relating to ML & Co.'s executive officers is set forth at the end of Part I of this Report on pages 39 and 40 under the caption "Executive Officers of Merrill Lynch & Co., Inc." Also incorporated herein by reference is the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" on page 42 of the 2004 Proxy Statement.

Information relating to the ML & Co. Board of Directors' determination regarding the service of an audit committee financial expert on the Board's Audit Committee and the names and independence of such experts are set forth under the captions "Board Independence and Expertise" on page 14 of the 2004 Proxy Statement and "The Audit Committee" on page 19 of the 2004 Proxy Statement and is incorporated herein by reference. Information relating to the identities of the members of the Board's Audit Committee is set forth under the caption "Board Committee Membership and Meetings" on page 18 of the 2004 Proxy Statement and is also incorporated herein by reference. The information regarding the procedures by which shareholders may recommend nominees to the ML & Co. Board of Directors is incorporated herein by reference from the information appearing under the captions "Information on the Director Nomination Process" and "Information Regarding Shareholder Proposals for the 2005 Annual Meeting" on pages 17 and 41 respectively, of the 2004 Proxy Statement.

The Company's *Guidelines for Business Conduct: Merrill Lynch's Code of Ethics for Directors, Officers and Employees* ("Guidelines") sets forth the fundamental principles and key policies and procedures that govern the conduct of all of the Company's directors, officers and employees. Financial Professionals are required to conduct their personal and professional affairs in a manner that is consistent with the ethical and professional standards set forth in the Guidelines, as well as the supplemental *Code of Ethics for Financial Professionals* ("Financial Code"). In 2002, ML & Co.'s Board of Directors adopted an amended version of the Guidelines that was designated as the Company's code of ethics for directors, officers and employees in performing their duties. A copy of the Guidelines is filed as exhibit 14.1 to this Report. In 2003 the Board of Directors adopted the Financial Code that applies to all Merrill Lynch professionals who participate in the Company's public disclosure process. The Financial Code is filed as exhibit 14.2 to this Report. Both the Guidelines and the Financial Code may also be found on the ML Corporate Governance Website at [www.ml.com](http://www.ml.com) and copies of these documents may be obtained, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510. We will post any amendments to the Guidelines and/or the Financial Code and any waivers to either that are required to be disclosed by the rules of the SEC or NYSE on our website.

#### **Item 11. *Executive Compensation***

Information relating to ML & Co. director and executive officer compensation set forth on pages 22 to 23 and 29 to 38 of the 2004 Proxy Statement is incorporated herein by reference.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on page 28 of the 2004 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on page 27 of the 2004 Proxy Statement is incorporated herein by reference. Information concerning compensation plans under which ML & Co. equity securities are authorized for issuance is as follows:

The following table provides information on the shares that are available under the Company's stock compensation plans and, in the case of plans where stock options may be granted, the number of shares of common stock issuable upon exercise of those stock options.

Merrill Lynch has four shareholder approved plans - the Long-Term Incentive Compensation Plan for executive officers (for stock grants made to executive officers) ("LTICP-Executive"), the Equity Capital Accumulation Plan (for restricted share grants made to a broad group of employees) ("ECAP"), the Merrill Lynch & Co., Inc. 1986 Employee Stock Purchase Plan ("Employee Stock Purchase Plan") and the Merrill Lynch & Co., Inc. Employee Stock Compensation Plan (for stock grants made to key managers and producers).

Merrill Lynch has adopted stock compensation plans that are used to compensate non-executive employees - the Financial Advisor Capital Accumulation Award Plan (stock based compensation to the financial advisor population) ("FACAAP") and the Long-Term Incentive Compensation Plan for Managers and Producers (for stock grants made to key managers and producers) ("LTICP-M&P").

Merrill Lynch has also adopted the Merrill Lynch & Co., Inc. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors ("Non-Employee Director Plan"), which provides for the issuance of deferred stock units and non-qualified stock options to the Merrill Lynch non-employee directors as compensation for their director services.

The information presented in the table is as of December 26, 2003.

### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(2)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
<i>Equity compensation plans approved by security holders</i>	<b>30,935,465</b>	<b>\$ 28.067</b>	<b>146,637,273</b>
<i>Equity compensation plans not approved by security holders(1)</i>	<b>185,326,283</b>	<b>\$ 46.890</b>	<b>67,786,043</b>
<b>Total</b>	<b>216,261,748</b>	<b>\$ 44.198</b>	<b>214,423,316(3)</b>

- (1) These plans are (i) FACAAP, (ii) LTICP-M&P and (iii) the Non-Employee Director Plan. The material features of these plans are described in Note 15 to the Consolidated Financial Statements included in the 2003 Annual Report and are incorporated herein by reference. Those descriptions do not purport to be complete and are qualified in their entirety by reference to the plan documents that are exhibits to this Report.
- (2) Merrill Lynch has the following grants under its stock compensation plans that remain outstanding as of December 26, 2003: 44,668,824 units (payable in stock) under FACAAP that vest over an 8-10 year period and 41,049,083 Restricted Shares and Restricted Units granted under LTICP-Executive and LTICP-M&P. In addition, in January 2004, 10,977,449 Restricted Shares, 1,762,532 Restricted Units and 9,561,879 Stock Options/Stock Appreciation Rights were granted under LTICP-Executive and LTICP-M&P, and approximately 2,712,948 units (payable in stock) were granted under FACAAP.
- (3) This amount includes, as of December 26, 2003: 35,862,086 shares available under LTICP-Executive; 45,182,736 shares available under LTICP-M&P; 10,843,278 shares available under ECAP; 24,931,909 shares available under the Employee Stock Purchase Plan; 22,087,047 shares available for issuance under FACAAP; 516,260 shares available for issuance under the Non-Employee Director Plan and 75,000,000 shares remain available for issuance under the Employee Stock Compensation Plan. After giving effect to stock grants made in January 2004, Restricted Units paid out at the end of January 2004 and Stock Option exercises in January and February of 2004, 35,018,580 shares remain available under LTICP-Executive, 35,583,695 shares remain available under LTICP-M&P and 19,374,119 shares remain available under FACAAP.



**Item 13. *Certain Relationships and Related Transactions***

Information regarding certain relationships and related transactions set forth under the caption “Certain Transactions” on page 39 of the 2004 Proxy Statement is incorporated herein by reference.

**Item 14. *Principal Accountant Fees and Services***

The information concerning ML & Co.’s independent auditor’s Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees on page 26 of the 2004 Proxy Statement and the disclosure of ML & Co.’s Audit Committee’s pre-approval policies and procedures for services performed by ML & Co.’s independent auditor on page 25 of the 2004 Proxy Statement is incorporated herein by reference.

## PART IV

### Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

#### (a) Documents filed as part of this Report:

1. Consolidated Financial Statements  
The consolidated financial statements required to be filed hereunder are listed on page F-1 hereof by reference to the corresponding page number in the 2003 Annual Report.
2. Financial Statement Schedule  
The financial statement schedule required to be filed is listed on page F-1 and the schedule included herewith appears on pages F-2 through F-10 hereof.
3. Exhibits  
Certain exhibits were previously filed by Merrill Lynch as exhibits to other reports or registration statements and are incorporated herein by reference as indicated parenthetically below. ML & Co.'s Exchange Act file number is 001-07182. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K and Registration Statements on Form S-3 are designated herein as "10-Q," "10-K," "8-K" and "S-3," respectively.

#### Articles of Incorporation and By-Laws

- 3.1 Restated Certificate of Incorporation of ML & Co., effective as of May 3, 2001 (Exhibit (3)(i) to 10-Q for the quarter ended March 30, 2001).
- 3.2 By-Laws of ML & Co., effective as of April 28, 2003 (Exhibit (3) to 10-Q for the quarter ended March 28, 2003).

#### Instruments Defining the Rights of Security Holders, Including Indentures

ML & Co. hereby undertakes to furnish to the SEC, upon request, copies of any agreements not filed defining the rights of holders of long-term debt securities of ML & Co., none of which authorize an amount of securities that exceed 10% of the total assets of ML & Co.

- 4.1 Senior Indenture dated as of April 1, 1983, as amended and restated as of April 1, 1987, between ML & Co. and JPMorgan Chase Bank<sup>3</sup> ("1983 Senior Indenture") and the Supplemental Indenture thereto dated as of March 15, 1990 (Exhibit 4(i) to 10-K for fiscal year ended December 29, 1999 ("1999 10-K")).

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<sup>3</sup> As used in Item 15 of this Report, "JPMorgan Chase Bank" shall mean the entity formerly known as The Chase Manhattan Bank and Chemical Bank (successor by merger to Manufacturers Hanover Trust Company).

- 4.2 Sixth Supplemental Indenture, dated as of October 25, 1993, to the 1983 Senior Indenture (Exhibit 4(ii) to 1999 10-K).
- 4.3 Twelfth Supplemental Indenture to the 1983 Senior Indenture dated as of September 1, 1998 between ML & Co. and JPMorgan Chase Bank (Exhibit 4(a) to 8-K dated October 21, 1998).
- 4.4 Thirteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of July 31, 2002, between ML & Co. and JPMorgan Chase Bank (Exhibit 4(b)(vii) to S-3 (file no. 333-109802)).
- 4.5 Fourteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of September 23, 2002, between ML & Co. and JPMorgan Chase Bank (Exhibit 4(b)(viii) to S-3 (file no. 333-109802)).
- 4.6 Fifteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 14, 2003, between ML & Co. and JPMorgan Chase Bank (Exhibit 4(b)(ix) to S-3 (file no. 333-109802)).
- 4.7 Senior Indenture dated as of October 1, 1993 between ML & Co. and JPMorgan Chase Bank (1993 Senior Indenture) (Exhibit (4)(iv) to 10-K for fiscal year ended December 25, 1998 ("1998 10-K")).
- 4.8 First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and JPMorgan Chase Bank (Exhibit 4(a) to 8-K dated July 2, 1998).
- 4.9 Form of certificate representing Preferred Stock of ML & Co. (Exhibit 4(d) to S-3 (file no. 33-55363)).
- 4.10 Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (Exhibit (3)(i)(c) to 1999 10-K).
- 4.11 Deposit Agreement dated as of November 3, 1994 among ML & Co., Citibank, N.A., as Depositary, and the holders from time to time of the Depositary Receipts (Exhibit (3)(i)(e) to 1999 10-K).
- 4.12 Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and ChaseMellon Shareholder Services, L.L.C. (Exhibit 4 to 8-K dated December 2, 1997).

## Material Contracts

- 10.1† ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to 10-Q for the quarter ended June 25, 1999).
- 10.2† Written description of retirement programs for non-employee directors (page 23 of ML & Co.'s Proxy Statement for the 2004 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 9, 2004).
- 10.3† Form of Severance Agreement between ML & Co. and certain of its directors and executive officers (Exhibit 10(x) to 10-K for fiscal year ended December 29, 1995).
- 10.4 Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10(viii) to 1998 10-K).
- 10.5† Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).
- 10.6† Written description of ML & Co.'s compensation policy for directors and executive officers (pages 22 to 23 and pages 29 to 38 of ML & Co.'s Proxy Statement for the 2004 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 9, 2004).
- 10.7 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
- 10.8 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
- 10.9 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
- 10.10 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
- 10.11 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).
- 10.12 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).
- 10.13 Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-59143)).

- 10.14† ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 (“1996 10-K”).
- 10.15† Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 (“1997 10-K”).
- 10.16† ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 10-Q for the quarter ended March 28, 1997).
- 10.17† Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1999 10-K).
- 10.18† ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xix) to 1999 10-K).
- 10.19† ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).
- 10.20† ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
- 10.21† ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997).
- 10.22† ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 25, 1998).
- 10.23† ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiv) to 1999 10-K).
- 10.24† ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiii) to 10-K for the fiscal year ended December 28, 2001 (“2001 10-K”).
- 10.25† ML & Co. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxv) to 2001 10-K).
- 10.26† ML & Co. 2003 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10.26 to 10-K for the fiscal year ended December 27, 2002).
- 10.27† ML & Co. 2004 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 26, 2003).
- 10.28† ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).

- 10.29† Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10(xxxii) to 1996 10-K).
- 10.30† Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996 and 1997 (Exhibit 10.31 to 1997 10-K).
- 10.31† Merrill Lynch Financial Advisor Capital Accumulation Award Plan (Exhibit 10.30 to 10-K for the fiscal year ended December 27, 2002 (“2002 10-K”)).
- 10.32†\* ML & Co. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors.
- 10.33† ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended April 27, 2001 (Exhibit 10(xxx) to 2001 10-K).
- 10.34† ML & Co. Long-Term Incentive Compensation Plan for executive officers, as amended April 27, 2001 (Exhibit 10(i) to 10-Q for the quarter ended June 29, 2001).
- 10.35† Form of Executive Annuity Agreement by and between ML & Co. and certain of its high level senior executive officers (Exhibit 10(xxxii) to 2001 10-K).
- 10.36† Merrill Lynch & Co., Inc. Employee Stock Compensation Plan (Exhibit C to ML & Co.’s Proxy Statement for the 2003 Annual Meeting of Shareholders contained in ML & Co.’s Schedule 14A filed on March 14, 2003).
- 12\* Statement re: computation of ratios.
- 13\* Excerpt of 2003 Annual Report to Shareholders.
- 14.1 ML & Co. Guidelines for Business Conduct: Merrill Lynch’s Code of Ethics for Directors, Officers and Employees (Exhibit 99.11 to 2002 10-K).
- 14.2 ML & Co. Code of Ethics for Financial Professionals (Exhibit 99.1 to 10-Q for the quarter ended September 26, 2003).
- 21\* Subsidiaries of ML & Co.
- 23\* Consent of Independent Auditors, Deloitte & Touche LLP.
- 31.1\* Rule 13a-14(a) Certification of the Chief Executive Officer.
- 31.2\* Rule 13a-14(a) Certification of the Chief Financial Officer.

- 32.1\* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Additional Exhibits**

- 99.1\* Opinion of Deloitte & Touche LLP with respect to the Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends, which is included in Exhibit 12.
- 99.2\* Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Part II, Item 6.
- 99.3\* Charter of the Audit Committee of the ML & Co. Board of Directors.
- 99.4 Charter of the Finance Committee of the ML & Co. Board of Directors (Exhibit 99.6 to 2002 10-K).
- 99.5 Charter of the Management Development and Compensation Committee of the ML & Co. Board of Directors (Exhibit 99.7 to 2002 10-K).
- 99.6 Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors (Exhibit 99.8 to 2002 10-K).
- 99.7 Charter of the Public Policy and Responsibility Committee of the ML & Co. Board of Directors (Exhibit 99.1 to 10-Q for the quarter ended June 27, 2003).
- 99.8\* ML & Co. Corporate Governance Guidelines.

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\* Filed herewith

† Management contract or compensatory plan or arrangement

**(b) Reports on Form 8-K**

The following Current Reports on Form 8-K were filed by the Registrant during the fourth quarter of 2003 with the Commission under either of the captions “Item 5. Other Events” or “Item 12. Results of Operations and Financial Condition:”

1. Current Report on Form 8-K dated September 30, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Nikkei 225 Market Indexed Target-Term Securities due September 30, 2010.
2. Current Report on Form 8-K dated September 30, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Strategic Return Notes Linked to the Select Ten Index due September 30, 2008.
3. Current Report on Form 8-K dated September 30, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Convertible Securities Exchangeable into The Coca-Cola Company Common Stock due September 30, 2008.
4. Current Report on Form 8-K dated October 1, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Nikkei 225 Warrants Expiring January 19, 2007.
5. Current Report on Form 8-K dated October 3, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Convertible Securities Exchangeable into Exxon Mobil Corporation Common Stock due October 3, 2008.
6. Current Report on Form 8-K dated October 14, 2003, for the purpose of filing ML & Co.’s Preliminary Unaudited Earnings Summary for the three and nine month periods ended September 26, 2003.
7. Current Report on Form 8-K dated October 22, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s 8% Callable Stock Return Income Debt Securities due October 22, 2004, payable at maturity with QUALCOMM Incorporated common stock.
8. Current Report on Form 8-K dated October 28, 2003 for the purpose of filing Merrill Lynch & Co.’s Preliminary Unaudited Consolidated Balance Sheet as of September 26, 2003.
9. Current Report on Form 8-K dated October 28, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s 7% Callable Stock Return Income Debt Securities due October 28, 2004, payable at maturity with Cisco Systems, Inc. common stock.
10. Current Report on Form 8-K dated October 30, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Accelerated Return Notes Linked to the S&P 500 Index due May 2, 2005.
11. Current Report on Form 8-K dated October 31, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Accelerated Return Notes Linked to Semiconductor HOLDRS due December 31, 2004.
12. Current Report on Form 8-K dated October 31, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Strategic Return Notes Linked to the Industrial 15 Index due October 31, 2008.
13. Current Report on Form 8-K dated November 4, 2003 for the purpose of filing the form of Merrill Lynch & Co.’s Global Currency Basket Notes due November 4, 2004.



14. Current Report on Form 8-K dated November 4, 2003 for the purpose of filing the form of Merrill Lynch & Co.'s Accelerated Return Notes linked to Citigroup Inc. common stock due January 4, 2005.
15. Current Report on Form 8-K dated November 14, 2003 for the purpose of filing the form of Merrill Lynch & Co.'s 8% Callable Stock Return Income Debt Securities due November 15, 2004, payable at maturity with Micron Technology, Inc. common stock.
16. Current Report on Form 8-K dated December 8, 2003 for the purpose of filing the form of Merrill Lynch & Co.'s Nikkei 225 Market Indexed Target-Term Securities® due March 8, 2011.
17. Current Report on Form 8-K dated December 17, 2003 for the purpose of filing the form of Merrill Lynch & Co.'s Currency Notes Linked to the United States Dollar/Canadian Dollar Exchange Rate due June 17, 2005.
18. Current Report on Form 8-K dated December 22, 2003 for the purpose of filing the form of Merrill Lynch & Co.'s 7% Callable Stock Return Income Debt Securities due December 22, 2005, payable at maturity with EMC Corporation common stock.

**MERRILL LYNCH & CO., INC.****INDEX TO FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULE  
ITEMS 14(A)(1) AND 14(A)(2)****Page Reference**

	<b>Form 10-K</b>	<b>2003 Annual Report to Stockholders</b>
<u>Consolidated Financial Statements</u>		
Independent Auditors' Report		46
Consolidated Statements of Earnings		47
Consolidated Balance Sheets		48-49
Consolidated Statements of Changes in Stockholders' Equity		50
Consolidated Statements of Comprehensive Income		51
Consolidated Statements of Cash Flows		52
Notes to Consolidated Financial Statements		53-89
<u>Financial Statement Schedule</u>		
Schedule I - Condensed Financial Information of Registrant	F-2 to F-9	
Condensed Statements of Earnings	F-2	
Condensed Balance Sheets	F-3	
Condensed Statements of Cash Flows	F-4	
Notes to Condensed Financial Statements	F-5 to F-9	
Independent Auditors' Report	F-10	
Specifically incorporated elsewhere herein by reference are certain portions of the following unaudited items:		
(i) Selected Financial Data		16
(ii) Management's Discussion and Analysis		17-44
(iii) Quarterly Information		90

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 2003 Annual Report to Stockholders, which are incorporated herein by reference.

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**MERRILL LYNCH & CO., INC.**  
**(Parent Company Only)**  
**CONDENSED STATEMENTS OF EARNINGS**  
*(dollars in millions)*

	Year Ended Last Friday in December		
	2003	2002	2001
REVENUES			
Interest (principally from affiliates)	\$1,551	\$ 1,865	\$ 3,397
Management service fees (from affiliates)	448	444	448
Other	2	15	14
Total Revenues	2,001	2,324	3,859
Interest Expense	1,617	1,838	3,694
Net Revenues	384	486	165
NON-INTEREST EXPENSES			
Compensation and benefits	305	387	316
Other	166	306	375
Net (recoveries) expenses related to September 11	18	(55)	71
Restructuring and other charges	13	57	239
Total Non-Interest Expenses	502	695	1,001
EQUITY IN EARNINGS OF AFFILIATES	4,036	2,626	1,095
EARNINGS BEFORE INCOME TAXES	3,918	2,417	259
Income Tax Benefit	70	96	314
NET EARNINGS	<u>\$3,988</u>	<u>\$ 2,513</u>	<u>\$ 573</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	19	(202)	(23)
COMPREHENSIVE INCOME	<u>\$4,007</u>	<u>\$ 2,311</u>	<u>\$ 550</u>
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	<u>\$3,950</u>	<u>\$ 2,475</u>	<u>\$ 535</u>

**See Notes to Condensed Financial Statements**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**MERRILL LYNCH & CO., INC.**  
**(Parent Company Only)**  
**CONDENSED BALANCE SHEETS**  
*(dollars in millions, except per share amounts)*

	December 26, 2003	December 27, 2002
<b>ASSETS</b>		
Cash and cash equivalents	\$ 119	\$ 939
Cash pledged as collateral	296	375
Investment securities (includes securities pledged as collateral of \$7,350 in 2003 and \$0 in 2002)	16,203	7,983
Advances to affiliates:		
Senior advances	65,574	58,354
Subordinated loans and preferred securities	12,708	15,471
	78,282	73,825
Investments in affiliates, at equity	29,332	25,194
Equipment and facilities (net of accumulated depreciation and amortization of \$222 in 2003 and \$236 in 2002)	66	109
Other receivables and assets	3,996	4,568
<b>TOTAL ASSETS</b>	<b>\$ 128,294</b>	<b>\$ 112,993</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Payables under repurchase agreements	\$ 6,558	\$ —
Commercial paper and other short-term borrowings	3,400	3,371
Payables to affiliates	7,816	9,246
Other liabilities and accrued interest	5,078	4,050
Long-term borrowings	77,791	73,451
<b>Total Liabilities</b>	<b>100,643</b>	<b>90,118</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stockholders' Equity	425	425
Common Stockholders' Equity:		
Shares exchangeable into common stock	43	58
Common stock, par value \$1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2003 - 1,063,205,274 shares; 2002 - 983,502,078 shares	1,417	1,311
Paid-in capital	6,709	5,315
Accumulated other comprehensive loss (net of tax)	(551)	(570)
Retained earnings	21,426	18,072
	29,044	24,186
Less: Treasury stock, at cost:		
2003 - 117,294,392 shares; 2002 - 116,211,158 shares	1,195	961
Unamortized employee stock grants	623	775
<b>Total Common Stockholders' Equity</b>	<b>27,226</b>	<b>22,450</b>
<b>Total Stockholders' Equity</b>	<b>27,651</b>	<b>22,875</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 128,294</b>	<b>\$ 112,993</b>

**See Notes to Condensed Financial Statements**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**MERRILL LYNCH & CO., INC.**  
**(Parent Company Only)**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
*(dollars in millions)*

	<b>Year Ended Last Friday in December</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash Flows from Operating Activities:			
Net Earnings	\$ 3,988	\$ 2,513	\$ 573
Noncash items included in earnings:			
Equity in earnings of affiliates	(4,036)	(2,626)	(1,095)
Depreciation and amortization	23	35	65
Amortization of stock-based compensation	52	58	84
Restructuring and other charges	13	57	144
Other	409	(189)	(303)
Changes in Operating Assets and Liabilities:			
Cash pledged as collateral	79	(375)	—
Payables under repurchase agreements	6,558	—	—
Other, net	3,872	1,352	402
Cash Provided by (Used for) Operating Activities	10,958	825	(130)
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Loans to affiliates, net of payments	(5,742)	5,943	3,162
Maturities of available-for-sale securities	4,695	8,856	2,003
Sales of available-for-sale securities	7,489	111	5,444
Purchases of available-for-sale securities	(20,517)	(14,164)	(2,449)
Investments in affiliates, net of dispositions	(800)	(1,448)	(886)
Dividends and partnerships distributions from affiliates	863	1,014	1,113
Equipment and facilities	20	(20)	(104)
Cash Provided by (Used for) Investing Activities	(13,992)	292	8,283
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	29	1,462	(11,069)
Issuance and resale of long-term borrowings	27,631	23,754	35,380
Settlement and repurchase of long-term borrowings	(25,505)	(25,866)	(31,211)
Common stock transactions	693	241	143
Dividends to shareholders	(634)	(591)	(579)
Cash Provided by (Used for) Financing Activities	2,214	(1,000)	(7,336)
Increase (Decrease) in Cash and Cash Equivalents	(820)	117	817
Cash and Cash Equivalents, beginning of year	939	822	5
Cash and Cash Equivalents, end of year	\$ 119	\$ 939	\$ 822
Supplemental Disclosure			
Cash paid for:			
Income taxes	\$ (62)	\$ 487	\$ 313
Interest	1,641	1,858	3,746

**See Notes to Condensed Financial Statements**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
(PARENT COMPANY ONLY)**

**NOTE 1. BASIS OF PRESENTATION**

The condensed unconsolidated financial statements of Merrill Lynch & Co., Inc. (“ML & Co.” or the “Parent Company”) should be read in conjunction with the Consolidated Financial Statements of Merrill Lynch & Co., Inc. and subsidiaries (collectively, “Merrill Lynch”) and the Notes thereto in the Merrill Lynch 2003 Annual Report to Stockholders (the “Annual Report”) included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation.

Investments in affiliates are accounted for in accordance with the equity method.

For information on the following, refer to the indicated Notes to the Consolidated Financial Statements within the Annual Report.

- Summary of Significant Accounting Policies (Note 1)
- Commercial Paper and Short- and Long-Term Borrowings (Note 9)
- Stockholders’ Equity and Earnings Per Share (Note 12)
- Commitments, Contingencies and Guarantees (Note 13)
- Employee Benefit Plans (Note 14)
- Employee Incentive Plans (Note 15)
- Income Taxes (Note 16)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations and investments in and loans to foreign subsidiaries. See Note 9 and the “Derivatives” section of Note 1 to the Consolidated Financial Statements in the Annual Report, respectively, for additional information on these hedges.

**NOTE 2. OTHER SIGNIFICANT EVENTS**

*Restructuring Charge*

During the fourth quarter of 2001, Merrill Lynch’s management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth, which included the resizing of selected businesses and other structural changes.

As a result, in 2001 ML & Co. incurred a fourth quarter pre-tax restructuring charge to earnings of \$239 million. In 2002 and 2003, ML & Co. incurred additional pre-tax restructuring charges of \$57 million and \$13 million, respectively, related to changes in the estimate for the 2001 restructuring.

Structural changes include targeted workforce reductions of 225 through a combination of involuntary and voluntary separations, across various business groups. At December 28, 2001, the majority of employee separations were completed or announced and all had been identified. Substantially all employee separations were completed in 2002. The remaining employee separations were completed in 2003.

Any unused portion of the original restructuring reserve will be reversed. Utilization of the restructuring reserve and a rollforward of the staff reductions at December 26, 2003 is as follows:

(dollars in millions)

	Balance Dec. 28, 2001	Utilized in 2002	Net Change in Estimate	Balance Dec. 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec. 26, 2003
Category:							
Severance Costs	\$ 85	\$ (66)	\$ (6)	\$ 13	\$ (10)	\$ (3)	\$ —
Facilities Costs	120	(24)	68	164	(51)	16	129
Technology & fixed asset write-offs	—	4	(4)	—	—	—	—
Other costs	7	(4)	(1)	2	(2)	—	—
	<u>\$ 212</u>	<u>\$ (90)</u>	<u>\$ 57</u>	<u>\$ 179</u>	<u>\$ (63)</u>	<u>\$ 13</u>	<u>\$ 129</u>
Staff Reductions	224	(215)	(1)	8	(8)	—	—

For information on the consolidated restructuring charges, refer to Note 2 to the Consolidated Financial Statements in the Annual Report.

#### *September 11-Related Expenses*

On September 11, 2001 terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North Tower of the World Financial Center, the South Tower of the World Financial Center and from offices at 222 Broadway to back-up facilities.

ML & Co. is insured for loss caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. In 2003, expenses related to September 11 were \$18 million. Expenses related to September 11 were \$95 million and \$176 million in 2002 and 2001, respectively. In 2002, ML & Co. recorded and received September 11-related insurance recoveries of \$150 million. In 2001, ML & Co. recorded September 11-related expenses of \$71 million, net of insurance recoveries of \$105 million. ML & Co. has now concluded its insurance recovery efforts related to the events of September 11. In aggregate, ML & Co. received a total of \$255 million of insurance recoveries.

For information on the consolidated September 11-related expenses, refer to Note 2 to the Consolidated Financial Statements within the Annual Report.

**NOTE 3. GUARANTEES**

ML & Co. guarantees certain senior debt instruments issued by subsidiaries, which totaled \$5.4 billion and \$5.8 billion in 2003 and 2002, respectively.

In the normal course of business, ML & Co. guarantees certain of its subsidiaries' obligations under derivative contracts. The current exposure associated with this activity at December 26, 2003 was approximately \$40.5 billion, which represents the current fair value of the subsidiaries' obligations. The maximum payout is not quantifiable because, for example, changes in the value of the underlying of the derivative contract could be unlimited. Under FIN 45, ML & Co. is not required to record a liability for its exposure to guarantees of its subsidiaries' obligations. Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. (See the "Derivatives" section of Note 1 to the Consolidated Financial Statements for discussion of risk management of derivatives.)

In addition to the derivative contracts described above, ML & Co. guarantees certain liquidity facilities. ML & Co. also provides residual value guarantees associated with the Hopewell campus and aircraft leases of \$325 million. As of December 26, 2003, the carrying value of the liability on the Consolidated Financial Statements is \$34 million. (See Note 13 to the Consolidated Financial Statements in the Annual Report for further information.)

ML & Co. also guarantees obligations related to Trust Originated Preferred Securities <sup>SM</sup> ("TOPrS<sup>SM</sup>") issued by subsidiaries (see Note 4 below and Note 11 to the Consolidated Financial Statements in the Annual Report for further information).

**NOTE 4. INVESTMENT SECURITIES**

Investment securities include highly liquid debt securities held for liquidity and collateral purposes. Investment securities reported on the Balance Sheet at December 26, 2003 and December 27, 2002 are as follows:

*(dollars in millions)*

	2003	2002
<b>Investment securities</b>		
Available-for-sale	\$ 15,746	\$ 7,569
Trading	150	—
Non-qualifying <sup>(1)</sup>		
Deferred compensation hedges <sup>(2)</sup>	14	173
Other	293	241
Total	<u>\$ 16,203</u>	<u>\$ 7,983</u>

*(1) Non-qualifying for SFAS No. 115 purposes.*

*(2) Represents investments economically hedging deferred compensation liabilities.*



Investment securities are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements within the Annual Report.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 26, 2003				December 27, 2002			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-Sale</b>								
Mortgage- and asset-backed securities	\$ 12,348	\$ 111	\$ (32)	\$ 12,427	\$ 3,634	\$ 147	\$ (40)	\$ 3,741
U.S. Government and agencies	3,296	85	(62)	3,319	3,720	121	(13)	3,828
Total	\$ 15,644	\$ 196	\$ (94)	\$ 15,746	\$ 7,354	\$ 268	\$ (53)	\$ 7,569

The amortized cost and estimated fair value of debt securities at December 26, 2003 by contractual maturity, for available-for-sale investments follow:

(dollars in millions)

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 243	\$ 243
Due after one year through five years	525	582
Due after five years through ten years	2,414	2,379
Due after ten years	114	115
	3,296	3,319
Mortgage- and asset-backed securities	12,348	12,427
Total <sup>(1)</sup>	\$15,644	\$15,746

*Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.*

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

(dollars in millions)

	2003	2002	2001
Proceeds	\$7,489	\$111	\$5,444
Gross realized gains	53	16	5
Gross realized losses	(60)	(9)	(3)

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 26, 2003.

*(dollars in millions)*

Asset category	More than 1 year	
	Fair Value	Unrealized Losses
Mortgage-and asset-backed securities	\$ 8,382	\$ 32
U.S. Government and agencies	2,293	62
Total temporarily impaired securities	\$10,675	\$ 94

(See Management's Discussion and Analysis (Unaudited) and Note 5 to the Consolidated Financial Statements in the Annual Report for further information.)

#### **NOTE 5. ADVANCES TO AFFILIATES**

Senior advances are provided to regulated and unregulated subsidiaries and have an average maturity of less than one year.

Subordinated loans are provided to regulated subsidiaries and qualify as regulatory capital. As of December 26, 2003, the average maturity of subordinated loans was approximately 2.5 years, with remaining maturities on individual loans ranging from 1 year to 10 years. (See Note 17 to the Consolidated Financial Statements in the Annual Report for further information.)

Preferred securities represent \$1.3 billion in Redeemable Cumulative Preferred Stock issued to ML & Co. by an unregulated consolidated Merrill Lynch subsidiary. ML & Co. and the issuing subsidiary have the right and option to redeem any or all of the preferred stock at any time.

#### **NOTE 6. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES**

Payables to affiliates include \$2.7 billion in proceeds borrowed from the consolidated Merrill Lynch subsidiaries that issued TOPrS<sup>SM</sup>. (See Management's Discussion and Analysis on Capital Adequacy and Funding (Unaudited) and Note 11 to the Consolidated Financial Statements in the Annual Report for further information.)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004, which expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*; such consolidated financial statements and our report are included in your 2003 Annual Report to Stockholders and are included and incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch & Co., Inc., listed in Item 15. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP  
New York, New York  
March 1, 2004

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 9<sup>th</sup> day of March 2004.

**Merrill Lynch & Co.,  
Inc. Registrant**

W. H. CLARK

/s/ W. H. Clark

**W. H. Clark  
Director**

JILL K. CONWAY

/s/ Jill K. Conway

**Jill K. Conway  
Director**

JUDITH A.  
WITTERSCHEIN

/s/ Judith A. Witterschein  
**Judith A. Witterschein  
Secretary**

ALBERTO CRIBIORE

/s/ Alberto Cribiore

**Alberto Cribiore  
Director**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 9<sup>th</sup> day of March 2004.

GEORGE B. HARVEY

/s/ George B. Harvey

**George B. Harvey  
Director**

E. STANLEY  
O'NEAL

/s/ E. Stanley O'Neal  
**E. Stanley O'Neal  
Director, Chairman of the Board  
and Chief Executive Officer  
(Principal Executive Officer)**

HEINZ-JOACHIM  
NEUBÜRGER

/s/ Heinz-Joachim Neubürger

**Heinz-Joachim Neubürger  
Director**

AHMASS L.  
FAKAHANY

/s/ Ahmass L. Fakahany  
**Ahmass L. Fakahany  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)**

DAVID K. NEWBIGGING

/s/ David K. Newbigging

**David K. Newbigging  
Director**

JOHN J. FOSINA

/s/ John J. Fosina  
**John J. Fosina  
Controller  
(Principal Accounting Officer)**

AULANA L. PETERS

/s/ Aulana L. Peters

**Aulana L. Peters  
Director**

JOHN J. PHELAN, JR.

/s/ John J. Phelan, Jr.

**John J. Phelan, Jr.  
Director**

JOSEPH W. PRUEHER

/s/ Joseph W. Prueher

**Joseph W. Prueher  
Director**

**MERRILL LYNCH & CO., INC. DEFERRED STOCK UNIT AND STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS**

**Article I — General**

**Section 1.1 Purposes.**

The purposes of the Merrill Lynch & Co., Inc. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors, as amended (the “Plan”), are (a) to provide an incentive to highly qualified individuals to serve as Directors of Merrill Lynch & Co., Inc. (“ML & Co.”), and (b) to further align the interests of Non-Employee Directors with the stockholders of ML & Co.

**Section 1.2 Definitions.**

For purposes of the Plan, the following terms shall have the meanings indicated.

“Account” means a notional account recording grants of Deferred Units and Deferred Stock Units under the Plan.

“Account Balance” means the balance of a Participant’s Account reflecting Deferred Units and Deferred Stock Units credited to a Participant’s Account, adjusted in accordance with Section 3.1 to reflect the addition of dividend equivalents and any changes in capitalization and adjusted for any payments to the Participant.

“Administrator” means the Head of Human Resources of ML & Co., or his or her functional successor.

“Affiliate” means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

“Annual Meeting” means the Annual Meeting of Stockholders of ML & Co.

“Board of Directors” or “Board” shall mean the Board of Directors of ML & Co.

“Business Day” shall mean any day on which the New York Stock Exchange is open for business.

“Change in Control” means a change in control of ML & Co. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act, whether or not ML & Co. is then subject to such reporting requirement; provided, however, that, without limitation, a Change in Control shall be deemed to have occurred if:

(a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act, other than ML & Co.’s employee stock ownership plan, is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of ML & Co. representing 30% or more of the combined voting power of ML & Co.’s then outstanding securities entitled to vote in the election of directors of ML & Co.;

(b) during any period of two consecutive years (not including any period prior to the adoption of this Plan), individuals who at the beginning of such period constituted the Board of Directors and any new Directors whose election by the Board of Directors or nomination for election by the stockholders of ML & Co. was approved by a vote of at least three quarters of the Directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

(c) all or substantially all of the assets of ML & Co. are liquidated or distributed.

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“Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time.

“Common Stock” means the Common Stock, par value \$1.33 1/3 per share, of ML & Co. and a “share of Common Stock” shall mean one share of Common Stock together with, for so long as Rights are outstanding, one Right (whether trading with the Common Stock or separately).

“Company” means ML & Co. and all of its Affiliates.

“Current Market Value” per share of Common Stock, for any date, means the average of the Daily Market Prices of a share of Common Stock for each Business Day for which such Daily Market Prices are available during a period commencing on a date 21 consecutive Business Days prior to such date and ending on the second Business Day prior to such date.

“Daily Market Price” of shares of Common Stock on any date means: (a) the mean of the high and low sales prices reported on the New York Stock Exchange—Composite Tape (or, if shares of Common Stock are not traded on the New York Stock Exchange, the mean of the high and low sales prices reported on any securities exchange or quotation service on which the shares of Common Stock are listed or traded) of such shares on the date in question, or (b) if shares of Common Stock are not then listed or admitted to trading on any securities exchange for which reported sales prices are available, the mean of reported high bid and low asked prices on such date, as reported by a reputable quotation service, or by The Wall Street Journal, Eastern Edition, or a newspaper of general circulation in the Borough of Manhattan, City and State of New York.

“Deferred Stock Unit” or “Deferred Unit” means a unit representing ML & Co.’s obligation to deliver one share of Common Stock in accordance with the terms of the Plan.

“Director” means a member of the Board.

“Disability” means any physical or mental condition that, in the opinion of the Administrator, renders a Director incapable of continuing to serve on the Board.

“End of Service Date” means the date on which a Participant ceases to serve as a Director for any reason.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Executive Committee” means the Executive Committee of the Board of Directors.

“Holding Period” has the meaning specified in Section 2.4.

“Initial Payment Date” has the meaning specified in Section 2.6(b).

“Junior Preferred Stock” means ML & Co.’s Series A Junior Preferred Stock, par value \$1.00 per share.

“Non-Employee Director” means a member of the Board who is not employed by ML & Co. or any Affiliate of ML & Co.

“Participant” means each Non-Employee Director to whom a grant of Deferred Units, Deferred Stock Units, or Stock Options is made under the Plan.

“Retirement Payments” means the arrangements for post-retirement payments to Non-Employee Directors adopted by ML & Co. for its Non-Employee Directors, as amended February 16, 2001.

"Retirement" means ceasing to serve as a Director of ML & Co. in accordance with ML & Co's retirement policy for Non-Employee Directors.

"Retirement Annual Meeting" means, with respect to any Retiring Non-Employee Director, the Annual Meeting that coincides with such Director's Retirement.

"Retiring Non-Employee Director" means a Non-Employee Director whose Retirement Annual Meeting will occur prior to, or will be the fifth Annual Meeting following, the effective date of any grant of Deferred Units or Deferred Stock Units to such Director.

"Rights" means the Rights to Purchase Units of Series A Junior Preferred Stock, par value \$1.00 per share, of ML & Co. issued pursuant to the Rights Agreement dated as of December 16, 1987 between ML & Co. and Manufacturers Hanover Trust Company, Rights Agent, as amended from time to time.

"Stock Option" means a right, granted to a Non-Employee Director, pursuant to Section 2.4 hereof, to purchase prior to a specified date and at a specified price a specified number of shares of Common Stock.

"Tender Offer" means an offer to purchase all or a portion of the outstanding shares of Common Stock that is subject to Section 14D of the Exchange Act, provided that such offer, if consummated, would result in a Change in Control.

### **Section 1.3 Shares Subject to the Plan.**

The total number of shares of Common Stock that shall be reserved for issuance in payment of Deferred Stock Units under the Plan shall be 800,000, subject to automatic adjustment for changes in capitalization of ML & Co. as provided in Section 3.1 hereof. Shares of Common Stock issued under the Plan shall only be shares previously issued and reacquired by ML & Co. and held in its treasury.

## **Article II — Deferred Units, Deferred Stock Units, and Stock Options; Optional Deferral of Payment**

### **Section 2.1 Deferred Unit Grants.**

(a) **Five-Year Initial Grants.** (i) *Effective February 16, 2001, no further grants will be made under this Section 2.1(a). Grants previously made under this Section 2.1(a) shall be payable in shares of Common Stock of the Company and otherwise remain outstanding and payable in accordance with their terms.* (ii) Each Non-Employee Director who was a member of the Board on August 1, 1996 was granted, as of August 1, 1996, the number of Deferred Units obtained by dividing \$50,000 by the Current Market Value per share of Common Stock on such date (with the result rounded upwards to the nearest whole Deferred Unit).

(b) **Five-Year New Director Grants.** (i) *Effective February 16, 2001, no further grants will be made under this Section 2.1(b). Grants previously made under this Section 2.1(b) shall be payable in shares of Common Stock of the Company and otherwise remain outstanding in accordance with their terms.* (ii) Each person who became a Non-Employee Director between August 1, 1996 until February 16, 2001, as of the date when such person became a Non-Employee Director, was granted the number of Deferred Units obtained by dividing \$50,000 (adjusted downward in the event that such directors Retirement would have been within 5 years of the grant) by the Current Market Value per share of Common Stock on such date (with the result rounded rounding the result upwards to the nearest whole Deferred Unit).

(c) **Annual Grants.** (i) *Effective February 16, 2001 no further grants will be made under this Section 2.1(c). Grants previously made under this Section 2.1(c) shall be payable in shares of Common Stock of the Company and otherwise remain outstanding in accordance with their terms.* (ii) During the period between April 1, 1998 and February 16, 2001 (effective on the close of business on the first Business Day of the month next following the date of each Annual Meeting) any Director then serving as a Non-Employee Director was granted, without any action by the Board of Directors, on such date the number of Deferred Units obtained by dividing \$10,000 by the Current Market Value per share of Common Stock on such date (with the

result rounded upwards to the nearest whole Deferred Unit). (iii) Each person who became a Non-Employee Director during such period on a date other than the date of an Annual Meeting, was granted, on the date when such person became a Non-Employee Director and without any action by the Board of Directors, the number of Deferred Units obtained by dividing \$10,000 by the Current Market Value per share of Common Stock on such date (with the result rounded upwards to the nearest whole Deferred Unit).

## **Section 2.2 Five-Year Deferred Stock Unit Grants.**

*Effective February 16, 2001 no further grants will be made under this Section 2.2. Grants previously made under this Section 2.2 shall be payable in shares of Common Stock of the Company and otherwise remain outstanding in accordance with their terms.* During the period between October 26, 1996 and February 16, 2001, without any action by the Board of Directors:

- (i) each Non-Employee Director who had received a grant under the Merrill Lynch & Co., Inc. Non-Employee Director's Equity Plan, ("Equity Plan") effective on the close of business on the first Business Day of the month next following the date of the Annual Meeting upon which such Director's grant became fully vested and
- (ii) each Non-Employee Director who had not received a grant under the Equity Plan, effective on the date that such Director joined the Board of Directors

was granted the number of Deferred Stock Units obtained by dividing \$50,000 by the Current Market Value per share of Common Stock on such date and rounding the result upwards to the nearest whole Deferred Stock Unit, provided, however, that, in each case, the dollar amount used to determine the grant to any Retiring Non-Employee Director was \$50,000 multiplied by the Retirement Fraction applicable to such Retiring Non-Employee Director.

## **Section 2.3 Annual Deferred Stock Unit Grants.**

(a) **Regular Grants.** Each Non-Employee Director who (i) is a member of the Board on February 26, 2001, and makes an election (in accordance with procedures set forth by the Administrator) to receive no further increases in his or her retirement payments, or (ii) is appointed or elected to the Board following February 26, 2001, shall, without any further action by the Board of Directors, receive as of the date of every subsequent Annual Meeting for which he or she is a Continuing Director, the number of Deferred Stock Units obtained by dividing \$72,500 by the Daily Market Price per share of Common Stock on such date and rounding the result upwards to the nearest whole Deferred Stock Unit.

(b) **Prorated Mid-Year Regular Grants.** A Non-Employee Director who joins the Board after the date of an Annual Meeting, shall without any further action by the Board of Directors receive a pro-rated regular grant. The value of such grant shall be computed by multiplying \$72,500 by a fraction the numerator of which shall be the number of months that remain until the Corporation's Annual Meeting and the denominator of which shall be 12. The number of Deferred Stock Units to be granted shall be determined by dividing the dollar value obtained from the calculation in the previous sentence by the Daily Market Price per share of Common Stock on the date of his or her appointment to the Board.

(c) **Adjusted Grants.** Each Non-Employee Director who is a member of the Board on February 26, 2001, and makes an election (in accordance with procedures determined by the Administrator) to continue to receive increases in his or her retirement payments shall, without any further action by the Board of Directors receive (i) as of April 27, 2001, and (ii) as of the date of every subsequent Annual Meeting, the number of Deferred Stock Units obtained by dividing \$42,500 by the Daily Market Price per share of Common Stock on such date and rounding the result upwards to the nearest whole Deferred Stock Unit.

(d) **Further Adjustment.** The dollar amounts for the Deferred Stock Unit grants specified in subsections (a) and (b) above shall be reduced by \$10,000 each year in which Deferred Stock Units and Deferred Units granted prior to February 16, 2001 under Sections 2.1 or 2.2 of this Plan remain subject to the five-year Holding Period determined for such awards under Section 2.4.



## **Section 2.4 Payment of Awards Upon Expiration of the Holding Period.**

Unless deferred at the option of the Participant in accordance with Section 2.6(a) hereof, the Account Balances will become payable upon the expiration of the holding period with respect to such grants (the "Holding Period"), which shall expire on the earlier of: (i) the date of the fifth Annual Meeting following the date of such grant, and (ii) a Participant's End of Service Date. The Deferred Units and the Deferred Stock Units will be paid in shares of Common Stock. One share of Common Stock will be delivered for each Deferred Unit and Deferred Stock Unit to be paid, after rounding any fractional unit upwards to the nearest whole share.

## **Section 2.5 Stock Options.**

(a) **Regular Annual Stock Option Grants.** Each Non-Employee Director who is a member of the Board on February 26, 2001 or is appointed or elected to the Board following February 26, 2001 shall, without any further action by the Board of Directors receive as of the date of every subsequent Annual Meeting, a grant of the number of Stock Options obtained by dividing \$72,500 by the Daily Market Price of the Company's Common Stock on such date and multiplying the result by three.

(b) **Prorated Mid-Year Regular Grants.** A Non-Employee Director who joins the Board after the date of an Annual Meeting, shall without any further action by the Board of Directors receive a pro-rated regular grant, effective on the date he or she becomes a member of the Board. The value of such grant shall be computed by multiplying \$72,500 by a fraction the numerator of which shall be the number of months that remain until the Corporation's Annual Meeting and the denominator of which shall be 12. The number of Stock Options to be granted shall be determined by dividing the dollar value obtained from the calculation in the previous sentence by the Daily Market Price per share of Common Stock on the date of his or her appointment to the Board and multiplying the result by three.

(c) **Exercise Price.** The exercise price for each such Stock Option shall be the Daily Market Price of a share of Common Stock on the grant date.

### **(d) Exercise of Stock Options.**

- (i) Exercisability: Stock Options shall become exercisable six months following the grant date. A Stock Option may be exercised at any time from such date until the close of business on the expiration date of the Stock Option.
  - (ii) Expiration: Each Stock Option granted shall expire and shall no longer be exercisable after the expiration of 10 years from the date of grant of such Stock Option.
  - (iii) Exercise in the Event of Termination of Service as a Director: If a Non-Employee Director ceases to serve as a Director prior to the exercise or expiration of Stock Options granted to him or her, such Stock Options may be exercised, to the full extent not yet exercised, regardless of whether or not then fully exercisable, and, in the event of death, such Stock Options may be exercised by his or her estate or beneficiaries, as the case may be, but in no event after the expiration date of such Stock Option.
  - (iv) Limitations on Transferability: Stock Options are not transferable by a Non-Employee Director except to immediate family members (or trusts or other entities established for the benefit of immediate family members) or by will or the laws of descent and distribution and are exercisable during his or her lifetime only by him or her.
- (e) **Payment of Purchase Price and Tax Liability Upon Exercise; Net Exercise Method; Delivery of Shares.**
- (i) Payment of Purchase Price: The purchase price of the shares as to which a Stock Option is exercised shall be paid to the Company at the time of exercise (A) in cash, (B) by delivering

freely transferable shares of Common Stock already owned by the person exercising the Stock Option for at least six months having a total Daily Market Price on the date of exercise equal to the purchase price, or (C) a combination of cash and shares of Common Stock equal in value to the exercise price.

- (ii) **Net Exercise Method:** A holder of an outstanding Stock Option may also elect to exercise such Stock Option by submitting a Notice of Exercise to the Company or its representative and receive upon exercise of the Stock Options a number of shares of Common Stock obtained by: (1) multiplying the number of Stock Options to be exercised by the difference between (A) the Daily Market Price on the date of exercise and (B) the exercise price of the Stock Option; (2) dividing the product of these calculations by the Daily Market Price on the date of exercise; and (3) in any country that requires the Corporation to withhold taxes upon such an exercise, deducting a number of shares equal to any minimum federal, state, local or social security withholding requirements that occur as a result of the exercise.
- (iii) **Delivery of Shares:** Upon receipt by the Company of the purchase price or upon exercise in accordance with Section 2.5(e)(ii), stock certificate(s) for the shares of Common Stock as to which a Stock Option is exercised shall be delivered to the person in whose name the Stock Option is outstanding or such person's estate or beneficiaries, as the case may be, or such shares shall be credited to a brokerage account or otherwise delivered, in such manner as such person or such person's estate or beneficiaries, as the case may be, may direct.

## **Section 2.6 Optional Deferral of Payment.**

(a) **Optional Deferral of Payment.** A Participant shall have the option to defer the payment of all or a portion of any Deferred Unit or Deferred Stock Unit grant upon the expiration of the relevant Holding Period for later payment in accordance with this Section 2.6 by submitting to the Administrator or his or her designee such forms as the Administrator shall prescribe by no later than one year prior to the expiration of the relevant Holding Period. With respect to Deferred Units and Deferred Stock Units, a Participant may elect to have all or a portion of his or her Account Balance retained as Deferred Stock Units in his or her Account for payment at a later date. A Participant shall also have the right to defer the gain on exercise of a stock options in accordance with the terms of the Merrill Lynch Stock Option Gain Deferral Program.

(b) **Irrevocability of Deferral Election.** Except as provided in Sections 2.6(c) or (d) or Section 2.9, an election to defer the payment of all or a portion of a Participant's Deferred Units or Deferred Stock Units made pursuant to Section 2.6(a) shall be irrevocable once submitted to the Administrator or his or her designee.

(c) **Rescission of Deferral Election Prior to the Expiration of the Holding Period.** An optional deferral election may be rescinded at the request of the Participant only (i) prior to the expiration of the Holding Period with respect to any grant of Deferred Units or Deferred Stock Units, and (ii) if the Administrator, in his or her sole discretion and upon evidence of such basis that he or she finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between the deferral election and the expiration of the Holding Period), agrees to the rescission of the election. In the event of a rescission under this Section 2.6(c), no deferral will be effected under the Plan and the Participant will be paid the Deferred Units or Deferred Stock Units in accordance with Section 2.7(a).

(d) **Rescission of Deferral Election Caused by an Adverse Tax Determination.** Notwithstanding the provisions of Section 2.6(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his or her sole discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in clause (i) hereof that he or she finds persuasive, to rescind the election. Upon such rescission, the relevant Account Balance will be paid to the Participant as soon as practicable as provided herein.

## **Section 2.7 Payment of Units Optionally Deferred.**

(a) **Regular Payment Elections.** A Participant's Account Balance will be paid by ML & Co., as elected by the Participant at the time of his or her optional deferral election, either in a single payment to be made, or in the number of annual installment payments (not to exceed 15) chosen by the Participant to commence, (i) in the month following the month of the Participant's End of Service Date or death, (ii) in any month and year selected by the Participant after the scheduled expiration of the Holding Period (i.e., without taking into account the possibility of Early Separation, death or Disability), or (iii) in any month in the calendar year following the Participant's End of Service Date, but in no event may the date elected under clause (i), (ii) or (iii) result in the payment (in the case of a single payment) or commencement of payments (in the case of installment payments) later than the month following the Participant's 72nd birthday. The amount of each annual installment payment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made) and rounding the result to the nearest whole Deferred Unit, Deferred Stock Unit or cent, as the case may be.

(b) **Form of Payment.** Deferred Units and Deferred Stock Units payable pursuant to this Section 2.7 will be paid in shares of Common Stock. One share of Common Stock will be delivered for each unit to be paid, after rounding any fractional unit upwards to the nearest whole share.

(c) **Death Prior to Payment.** If the Participant dies prior to payment of any or all amounts optionally deferred, then the Account Balance will be paid to the Participant's beneficiary in accordance with the Participant's election of either installment payments, or a single payment, provided, however, that, in the event that a beneficiary of the Participant's Account Balance is the Participant's estate or is otherwise not a natural person, then (i) if the Participant has elected a regular payment election pursuant to Section 2.7(a), the applicable portion of the Account Balance will be paid in a single payment to such beneficiary, and (ii) if the Participant has elected installment payments, the applicable portion of the Account Balance will continue to be paid as installment payments, but only to a single person consisting of the administrator or executor of the Participant's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

(d) **Discretion to Alter Payment Date.** Notwithstanding the other provisions of this Section 2.7, if the Participant ceases to be a Director for any reason, the Administrator may, in his or her sole discretion, direct that the Account Balance (but not any subsequent optional deferral thereof), be paid at some other time or that it be paid in installments; provided, that no such direction that adversely affects the rights of the Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary. This direction may be revoked by the Administrator at any time in his or her sole discretion.

(e) **Hardship Distributions.** ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance, as the Administrator may, in his or her sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his or her sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from, or foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his or her sole discretion to be immediate and substantial.

## **Section 2.8 Beneficiary.**

(a) **Designation of Beneficiary.** The Participant may designate, in a writing delivered to the Administrator or his or her designee before the Participant's death, a beneficiary (which may be a charity or other entity) to receive payments under the Plan in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments under the Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) **Change in Beneficiary.** The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his or her designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke such prior designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Plan only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) **Default Beneficiary.** In the event a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. pre-retirement death benefit for Non-Employee Directors, unless the rights to such benefit have been assigned, in which case any amounts payable to the Participant's beneficiary under the Plan will be paid to the Participant's estate.

(d) **If the Beneficiary Dies During Payment.** If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in a single payment to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated; provided, however, that if the beneficiary was receiving installment payments, the applicable portion of the Account Balance will continue to be paid as installment payments but only to a single person consisting of the administrator or executor of the beneficiary's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

#### **Section 2.9 Domestic Relations Orders.**

Notwithstanding the Participant's elections hereunder, ML & Co. will pay to, or to the Participant for the benefit of, the Participant's spouse or former spouse the portion of the Participant's Account Balance specified in a valid court order entered in a domestic relations proceeding involving the Participant's divorce or legal separation. Any such payment will be made net of any amounts the Company may be required to withhold under applicable federal, state or local law.

#### **Section 2.10 Withholding of Taxes.**

ML & Co. will deduct from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

### **Article III — Adjustment of Accounts**

#### **Section 3.1 Adjustment of Accounts.**

(a) **Dividend Equivalents.** Whenever a cash dividend is paid on a share of Common Stock, a Participant's Deferred Units and Deferred Stock Units will be adjusted by adding to the Deferred Units or Deferred Stock Units, as applicable, the number of Deferred Units or Deferred Stock Units determined by multiplying the per share amount of the cash dividend by the Deferred Units or Deferred Stock Units, as

applicable, on the record date for the cash dividend, dividing the result by the price per share of Common Stock used for purposes of the reinvestment of such cash dividend in the Merrill Lynch & Co., Inc. Dividend Reinvestment Program currently administered by Business Information Services (or their functional successor), or if at any time there is no Dividend Reinvestment Program, the Daily Market Price of a share of Common Stock on the date the cash dividend is paid, and rounding the result to the nearest 1/100th of a Deferred Unit or Deferred Stock Unit as the case may be (with .005 being rounded upwards); provided that, if the number of a Participant's Deferred Units or Deferred Stock Units is reduced to zero in accordance with the Plan between the record date and the payment date for such cash dividend, then, in lieu of such adjustment to the Participant's Account, the dividend equivalent amount with respect to such record date will be determined by multiplying the per share amount of the cash dividend by the Deferred Units or Deferred Stock Units in the Account on the record date for the cash dividend and rounding the result to the nearest whole cent. This amount shall be paid to the Participant in cash at the same time as such cash dividend is paid to the holders of the Common Stock.

(b) **Changes in Capitalization.** Any other provision of the Plan to the contrary notwithstanding, if any change shall occur in or affect shares of Common Stock (or the Rights or Junior Preferred Stock) on account of a merger, consolidation, reorganization, stock dividend, stock split or combination, reclassification, recapitalization, or distribution to holders of shares of Common Stock (other than cash dividends), including, without limitation, a merger or other reorganization event in which the shares of Common Stock cease to exist, then appropriate adjustments shall be made, without any action by the Board of Directors, to the Deferred Units, Deferred Stock Units and Stock Options, as shall be necessary to maintain the proportionate interest of the Participants and to preserve, without increasing, the value of Stock Options or the Account Balance. In the event of a change in the presently authorized shares of Common Stock that is limited to a change in the designation thereof or a change of authorized shares with par value into the same number of shares with a different par value or into the same number of shares without par value, the shares resulting from any such change shall be deemed to be shares of Common Stock within the meaning of the Plan.

#### **Article IV — Status of Accounts**

##### **Section 4.1 No Trust or Fund Created: General Creditor Status.**

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

##### **Section 4.2 Non-Assignability.**

Except as provided in Section 2.5(d)(iv), a Participant's right or the right of any other person to his or her Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Plan, by written will, or by the laws of descent and distribution.

##### **Section 4.3 Effect on Benefits Under Pension and Welfare Benefit Plans.**

The effect of the grants, deferrals and payments under the Plan on pension and welfare benefit plans in which the Participant may be a participant will depend upon the provisions of each such plan, as amended from time to time.

#### **Article V — Change in Control**

##### **Section 5.1 Payment of Account Balance upon Change in Control.**

(a) **Payment of Account Balance.** Notwithstanding any other provision of this Plan, in the event that (i) ML & Co. receives a Tender Offer Statement on Schedule 14D-1 under the Securities Exchange Act of 1934 relating to a Tender Offer, or (ii) a Change in Control shall occur, the Participant's Account Balance, will be paid to the Participant in a lump sum promptly after the receipt of such Tender Offer Statement or the occurrence of such Change in Control, and in any event, not later than 30 days thereafter.

(b) **Manner of Payment.** Payment of Account Balances pursuant to Section 5.1(a) shall be made in the following manner:

(i) With respect to Deferred Units and Deferred Stock Units, payment shall be made in cash and shall be calculated as if any applicable Holding Period had expired. The amount of the cash payment shall be determined by multiplying the number of Deferred Units and Deferred Stock Units in the Participant's Account by the Daily Market Price per share of Common Stock on the date of the event specified in Section 5.1(a)(i) or (ii), as the case may be, or, if higher, the highest Daily Market Price per share of Common Stock on any day during the 90-day period ending on such date.

(ii) With respect to Stock Options, for each underlying share of Common Stock, the excess of the Daily Market Price of a share of Common Stock on the date of the event specified in Section 5.1(a)(i) or (ii), as the case may be, or, if higher, the highest Daily Market Price per share of Common Stock on any day during the 90-day period ending on such date, over the per share exercise price for such Stock Option;

## **Article VI — Administration of the Plan**

### **Section 6.1 Powers of the Administrator.**

The Administrator has full power and authority to interpret, construe, and administer this Plan. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his or her willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

### **Section 6.2 Payments on Behalf of an Incompetent.**

If the Administrator finds that any person who is presently entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balances may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

### **Section 6.3 Corporate Books and Records Controlling.**

The books and records of the Company will be controlling in the event a question arises hereunder concerning Account Balances, deferral elections, beneficiary designations, or any other matters.

## **Article VII — Miscellaneous Provisions**

### **Section 7.1 Litigation.**

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Plan and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

**Section 7.2    Headings Are Not Controlling.**

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

**Section 7.3    Governing Law.**

To the extent not preempted by applicable U.S. Federal law, this Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

**Section 7.4    Amendment and Termination.**

The Board of Directors, or, if permitted pursuant to Rule 16b-3 under the Exchange Act, the Executive Committee may amend or terminate this Plan at any time, provided that no amendment or termination may be made that would adversely affect the right of a Participant to his or her Account Balance as of the date of such amendment or termination.

**Article VIII — Effective Date**

The initial plan was effective on August 1, 1996, the amended Plan shall be effective as of February 16, 2001.

**MERRILL LYNCH & CO., INC. AND SUBSIDIARIES**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND**  
**COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**  
(dollars in millions)

	Year Ended Last Friday in December				
	2003	2002	2001	2000	1999
	(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)	(53 weeks)
Pre-tax earnings (a)	\$ 5,469	\$ 3,788	\$ 1,390	\$ 5,721	\$ 4,203
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	7,762	9,818	17,097	18,306	13,234
Pre-tax earnings before fixed charges	<u>13,231</u>	<u>13,606</u>	<u>18,487</u>	<u>24,027</u>	<u>17,437</u>
Fixed charges:					
Interest	7,569	9,613	16,843	18,052	12,987
Other (b)	384	396	451	465	451
Total fixed charges	<u>7,953</u>	<u>10,009</u>	<u>17,294</u>	<u>18,517</u>	<u>13,438</u>
Preferred stock dividend requirements	52	53	55	55	56
Total combined fixed charges and preferred stock dividends	<u>\$ 8,005</u>	<u>\$ 10,062</u>	<u>\$ 17,349</u>	<u>\$ 18,572</u>	<u>\$ 13,494</u>
<b>Ratio of earnings to fixed charges</b>	<b>1.66</b>	<b>1.36</b>	<b>1.07</b>	<b>1.30</b>	<b>1.30</b>
<b>Ratio of earnings to combined fixed charges and preferred stock dividends</b>	<b>1.65</b>	<b>1.35</b>	<b>1.07</b>	<b>1.29</b>	<b>1.29</b>

(a) Excludes undistributed earnings (loss) from equity investees.

(b) Other fixed charges consists of the interest factor in rentals, amortization of debt issuance costs, preferred security dividend requirements of subsidiaries, and capitalized interest.



*Financial Management*





## 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 our 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 growth initiatives 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 performance across market cycles. Investment in fee-based and recurring sources of revenue also affords more consistent financial performance across economic and market cycles.

### >> Operating Discipline

Growth in revenues drives expansion in net earnings through focused 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 or growth opportunities. To achieve superior performance in cyclical, market-driven businesses, an ongoing expense and capital management discipline 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 and Planning

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 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 specific risks of that business, both on and off the balance sheet. We evaluate profit margins and risk-adjusted equity returns against internal and external benchmarks. 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.

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, management is predisposed to returning equity capital to shareholders through stock repurchases rather than substantially increasing dividends.

### >> Liquidity and Funding

Merrill Lynch assures sufficient liquidity at all times, across market cycles and through periods of financial stress, as part of its core funding policy. Our primary liquidity objective is to maintain alternative sources of funding so that all debt obligations maturing within one year can be repaid without raising new debt or requiring the liquidation of 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 the break-even point by carefully managing fixed costs. Other risk management objectives include focusing our trading activities on client-driven business, limiting proprietary risk-taking, and closely monitoring our long-term exposure to illiquid assets. We continuously 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

Profitability objectives and shareholder interests are firmly embedded in our compensation structure. We tie incentive compensation to earnings and returns on equity for senior management, and we may use additional role-specific measures such as revenue generation or profit margins for other employees. To further align the financial interests of key managers and revenue producers with those of shareholders, a significant portion of incentive compensation is paid in stock, in lieu of cash. We determine the mix of stock-based and cash compensation, as well as the type of stock-based compensation, by considering the impact on our financial results, the need to retain key talent, and the potential dilution to existing shareholders. We also believe that it is important that our stock-based programs vest over time to further reinforce the alignment of employees with other shareholders.

# Financial Table of Contents



16	<a href="#"><u>Selected Financial Data</u></a>	51	<a href="#"><u>Consolidated Statements of Comprehensive Income</u></a>
17	<a href="#"><u>Management's Discussion and Analysis</u></a>	52	<a href="#"><u>Consolidated Statements of Cash Flows</u></a>
18	<a href="#"><u>Business Environment</u></a>	53	<a href="#"><u>Notes to Consolidated Financial Statements</u></a>
18	<a href="#"><u>Executive Summary</u></a>	53	<a href="#"><u>Note 1. Summary of Significant Accounting Policies</u></a>
19	<a href="#"><u>Results of Operations</u></a>	64	<a href="#"><u>Note 2. Other Significant Events</u></a>
19	<a href="#"><u>Consolidated Results of Operations</u></a>	65	<a href="#"><u>Note 3. Segment and Geographic Information</u></a>
21	<a href="#"><u>Income Taxes</u></a>	67	<a href="#"><u>Note 4. Securities Financing Transactions</u></a>
21	<a href="#"><u>Business Segments</u></a>	67	<a href="#"><u>Note 5. Investment Securities</u></a>
27	<a href="#"><u>Global Operations</u></a>	69	<a href="#"><u>Note 6. Trading Assets and Liabilities</u></a>
30	<a href="#"><u>Consolidated Balance Sheets</u></a>	71	<a href="#"><u>Note 7. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)</u></a>
32	<a href="#"><u>Off Balance Sheet Arrangements</u></a>	74	<a href="#"><u>Note 8. Loans, Notes, and Mortgages and Related Commitments to Extend Credit</u></a>
33	<a href="#"><u>Contractual Obligations</u></a>	75	<a href="#"><u>Note 9. Commercial Paper and Short- and Long-Term Borrowings</u></a>
33	<a href="#"><u>Capital Adequacy and Funding</u></a>	76	<a href="#"><u>Note 10. Deposits</u></a>
36	<a href="#"><u>Risk Management</u></a>	77	<a href="#"><u>Note 11. Preferred Securities Issued by Subsidiaries</u></a>
40	<a href="#"><u>Non-Investment Grade Holdings and Highly Leveraged Transactions</u></a>	77	<a href="#"><u>Note 12. Stockholders' Equity and Earnings Per Share</u></a>
41	<a href="#"><u>Litigation</u></a>	78	<a href="#"><u>Note 13. Commitments, Contingencies and Guarantees</u></a>
41	<a href="#"><u>Critical Accounting Policies and Estimates</u></a>	82	<a href="#"><u>Note 14. Employee Benefit Plans</u></a>
43	<a href="#"><u>Recent Developments</u></a>	85	<a href="#"><u>Note 15. Employee Incentive Plans</u></a>
45	<a href="#"><u>Management's Discussion of Financial Responsibility</u></a>	88	<a href="#"><u>Note 16. Income Taxes</u></a>
46	<a href="#"><u>Independent Auditors' Report</u></a>	89	<a href="#"><u>Note 17. Regulatory Requirements and Dividend Restrictions</u></a>
47	<a href="#"><u>Consolidated Financial Statements</u></a>	90	<a href="#"><u>Supplemental Financial Information</u></a>
47	<a href="#"><u>Consolidated Statements of Earnings</u></a>	90	<a href="#"><u>Quarterly Information</u></a>
48	<a href="#"><u>Consolidated Balance Sheets</u></a>	90	<a href="#"><u>Dividends Per Common Share</u></a>
50	<a href="#"><u>Consolidated Statements of Changes in Stockholders' Equity</u></a>	90	<a href="#"><u>Stockholder Information</u></a>

## Selected Financial Data

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December				
	2003	2002	2001	2000	1999
<b>Results of Operations</b>					
Total Revenues	\$ 27,745	\$ 28,272	\$ 38,756	\$ 44,852	\$ 35,332
Less Interest Expense	7,591	9,645	16,877	18,086	13,019
Net Revenues	20,154	18,627	21,879	26,766	22,313
Non-Interest Expenses	14,505	14,870	20,502	21,049	18,107
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	5,649	3,757	1,377	5,717	4,206
Income Tax Expense	1,470	1,053	609	1,738	1,319
Dividends on Preferred Securities Issued by Subsidiaries	191	191	195	195	194
Net Earnings	\$ 3,988	\$ 2,513	\$ 573	\$ 3,784	\$ 2,693
Net Earnings Applicable to Common Stockholders(a)	\$ 3,950	\$ 2,475	\$ 535	\$ 3,745	\$ 2,654
<b>Financial Position</b>					
Total Assets	\$ 494,518	\$ 449,601	\$ 435,692	\$ 423,831	\$ 327,292
Short-Term Borrowings(b)	\$ 191,676	\$ 180,213	\$ 178,155	\$ 187,176	\$ 115,707
Long-Term Borrowings	\$ 83,299	\$ 78,524	\$ 76,572	\$ 70,223	\$ 54,043
Preferred Securities Issued by Subsidiaries	\$ 2,670	\$ 2,658	\$ 2,695	\$ 2,714	\$ 2,725
Total Stockholders' Equity	\$ 27,651	\$ 22,875	\$ 20,008	\$ 18,304	\$ 13,004
<b>Common Share Data(c)</b>					
(in thousands, except per share amounts)					
Earnings Per Share:					
Basic	\$ 4.39	\$ 2.87	\$ 0.64	\$ 4.69	\$ 3.52
Diluted	\$ 4.05	\$ 2.63	\$ 0.57	\$ 4.11	\$ 3.11
Weighted-Average Shares Outstanding:					
Basic	900,711	862,318	838,683	798,273	754,672
Diluted	975,524	942,222	938,555	911,416	853,499
Shares Outstanding at Year-End(d)	945,911	867,291	843,474	807,955	752,501
Book Value Per Share	\$ 28.66	\$ 25.69	\$ 23.03	\$ 21.95	\$ 16.49
Dividends Paid Per Share	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.61	\$ 0.53
<b>Financial Ratios</b>					
Pre-tax Profit Margin(e)	28.0%	20.2%	6.3%	21.4%	18.8%
Common Dividend Payout Ratio	14.6%	22.3%	100.0%	13.0%	15.1%
Return on Average Assets	0.8%	0.5%	0.1%	1.0%	0.8%
Return on Average Common Stockholders' Equity	16.1%	11.7%	2.7%	24.2%	23.8%
<b>Other Statistics</b>					
Full-Time Employees:					
U.S.	38,200	40,000	43,400	51,700	49,700
Non-U.S.	9,900	10,900	13,700	19,900	18,200
Total(f)	48,100	50,900	57,100	71,600	67,900
Private Client Financial Advisors	13,500	14,000	16,400	20,200	18,600
Client Assets (dollars in billions)	\$ 1,484	\$ 1,311	\$ 1,556	\$ 1,681	\$ 1,696

(a) Net earnings less preferred stock dividends.

(b) Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Deposits.

(c) All share and per share data have been restated for the two-for-one common stock split paid in August 2000 (see Note 12 to the Consolidated Financial Statements).

(d) Does not include 2,900; 3,911; 4,195; 4,654; and 8,019 shares exchangeable into common stock (see Note 12 to the Consolidated Financial Statements) at year-end 2003, 2002, 2001, 2000, and 1999, respectively.

(e) Earnings before income taxes and dividends on Preferred securities issued by subsidiaries to Net revenues.

(f) Excludes 200; 1,500; and 3,500 full-time employees on salary continuation severance at year-end 2003, 2002 and 2001, respectively.



# Management's Discussion and Analysis

## Management's Discussion and Analysis Table of Contents

18	<a href="#">Business Environment</a>	30	<a href="#">Consolidated Balance Sheets</a>	40	<a href="#">Non-Investment Grade Holdings and Highly Leveraged Transactions</a>
18	<a href="#">Executive Summary</a>	32	<a href="#">Off Balance Sheet Arrangements</a>	41	<a href="#">Litigation</a>
19	<a href="#">Results of Operations</a>	33	<a href="#">Contractual Obligations</a>	41	<a href="#">Critical Accounting Policies and Estimates</a>
19	<a href="#">Consolidated Results of Operations</a>	33	<a href="#">Capital Adequacy and Funding</a>	43	<a href="#">Recent Developments</a>
21	<a href="#">Income Taxes</a>	36	<a href="#">Risk Management</a>	45	<a href="#">Management's Discussion of Financial Responsibility</a>
21	<a href="#">Business Segments</a>				
27	<a href="#">Global Operations</a>				

Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") is a holding company that, through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a global basis. In addition, Merrill Lynch engages in market-making activities on behalf of its clients and for its own account, as well as in private equity and other principal investment activities. The financial services industry, in which Merrill Lynch is a leading participant, is extremely competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment, and investor sentiment. In addition to these factors, Merrill Lynch and other financial services companies may be affected by regulatory and legislative initiatives that may affect the conduct of their business, including increased regulation, and by the outcome of legal and regulatory investigations and proceedings. These conditions or events can significantly affect the volatility of the financial markets as well as the volumes and revenues in businesses such as brokerage, trading, investment banking, wealth management and asset management. Revenues and net earnings may vary significantly from period to period due to the unpredictability of these factors and the resulting market volatility and trading volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers, competition from new and established competitors, and diminishing margins in many mature products and services. Commercial and investment bank consolidations have also increased the competition for investment banking and capital markets business, due in part to the extension of credit in conjunction with investment banking and capital raising activities.

The financial services industry is also impacted by the regulatory and legislative environment. In 2003, additional aspects of the Sarbanes-Oxley Act of 2002 were implemented

as rules relating to corporate governance (including Board member and Board Committee independence), auditor independence and disclosure became effective and/or were adopted in their final form. Various federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange and the National Association of Securities Dealers) and industry participants also continued to review and, in many cases, adopt changes to their established rules and policies in areas such as corporate governance, research analyst conflicts of interest and certifications, practices related to the initial public offering of equity securities, mutual fund trading, disclosure practices and auditor independence. Changing requirements for research may continue to affect the cost structure for such services. Regulatory actions affecting the trading practices and pricing structure of mutual funds could change the manner in which business is conducted by the asset management industry. Both inside and outside the United States, there is continued focus by regulators and legislators on supervision of both commercial and investment banks as an industry and on an individual basis, especially in the areas of capital and risk management.

## Forward Looking Statements

Certain statements contained in this report may be considered forward-looking, including those about management expectations, strategic objectives, business prospects, anticipated expense levels and financial results, the impact of off balance sheet arrangements, significant contractual obligations, the expensing of stock options, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Management's beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, the factors listed in the previous paragraphs, as well as actions and initiatives taken by both current and potential

competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in Merrill Lynch's Form 10-K and in the following sections. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult any further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

## >> *Business Environment*

The global market environment improved in 2003. Despite continued geopolitical concerns and additional accounting and corporate governance scandals, the United States-led economic recovery, combined with low interest rates and a steep yield curve, created a favorable climate for fixed income products and stimulated an equity markets recovery.

The yield on the 10-year U.S. Treasury bond, used as a benchmark for long-term interest rates, started 2003 at 3.82% and declined to a 45-year low of 3.10% in early June. During the second half of the year, as U.S. economic data came in stronger than expected, the yield on the 10-year U.S. Treasury bond moved as high as 4.60% and finished the year at 4.25%. The U.S. Federal Reserve Bank cut its target for the federal funds rate by a quarter-percentage point during the second quarter of 2003, to 1.00%.

Even with a declining dollar, the conflict in Iraq, rising oil prices and concerns about the sustainability of the economic recovery, U.S. equity indices increased in value for the first year since 1999. Technology stocks were by far the biggest gainers in 2003. As a result, the Nasdaq Composite Index, dominated by large-capitalization technology stocks, rose 50% for the year after declining 31.5% in 2002. The Dow Jones Industrial Average and the S&P 500 finished the year with gains of 25.3% and 26.4%, respectively.

Non-U.S. stock markets also posted their first broad-based rally in four years. The Dow Jones World Index, excluding the United States, rose 38.6% during the year. Due in part to the weakening of the U.S. dollar, which declined versus the Euro and the Pound Sterling in 2003, European stock markets contributed significantly to the global rally. This was evidenced by the 37% gain during the year, in U.S. dollars, in the value of the Dow Jones Stock Index of 600 European blue chips. The major stock markets in Asia also increased strongly. In Japan, the Nikkei 225 index rose 24% during the year, as Japan's economy showed signs of recovery and corporate restructuring efforts continued. In Hong Kong, the Hang Seng index rose 35%. Benefiting from low interest rates and a global economic recovery, emerging markets, led by Thailand and Indonesia, outperformed those of the developed world. Latin American markets, led by Argentina and Brazil, had their strongest year since 1991.

Global debt and equity underwriting volumes increased 25% in 2003 to a record \$5.3 trillion, according to Thomson Financial Securities Data. Debt issuances, which peaked in June when the Federal Reserve last lowered short-term interest rates, rose by \$1 trillion to \$4.9 trillion in 2003. Issuance of equity and equity-related securities rose 22% in 2003. Disclosed underwriting fees declined 2.1% from 2002 to \$14.5 billion, as lower-fee debt issuances increased their share of capital market origination activity, and underwriting fees associated with Initial Public Offerings ("IPOs"), the most lucrative stock issues, declined 39%. According to Thomson Financial Securities Data, the value of global IPOs fell 14% in 2003 driven by a 39% decline in the United States, where just 84 offerings were completed.

Merger and acquisition activity increased in 2003, from 2002 levels, and in particular gained momentum in the second half of the year. The worldwide value of announced transactions rose 10% to \$1.33 trillion from \$1.21 trillion in 2002, according to Thomson Financial Securities Data. In the United States, the value of announced deals increased 19% from 2002, to \$524 billion, but remained well below the \$757 billion announced in 2001.

Merrill Lynch continually evaluates the profitability and growth prospects of each of its businesses under varying market conditions and, in light of changes in its competitive environment, against its long-term strategic objectives. Broadening and deepening client relationships, diversifying revenue sources, growing fee-based and recurring revenues, closely managing costs, and carefully monitoring business and trading risks are all essential elements of mitigating the effects of a volatile and changing market environment on Merrill Lynch's earnings stability and growth prospects.

## >> *Executive Summary*

The market environment for financial services companies, including Merrill Lynch, has been challenging following the strong bull market that peaked in 2000. The marked decline in the equity markets in 2001 and 2002, as well as increased regulatory scrutiny of public companies, and the securities industry in particular, resulted in reduced activity in the capital markets and lower demand for certain products and services. These factors have resulted in lower net revenues for the industry and Merrill Lynch compared with 1999 and 2000. At the same time, increased financial reporting and governance requirements have required additional resources at additional expense. To address these issues, in 2001 Merrill Lynch developed an ongoing business review process. The goal of the business review process is to continually look at businesses with a focus on current and future profitability by identifying opportunities for diversification and growth, promoting operating efficiency and actively managing capacity in each business in light of market opportunities.

As a result of these business reviews and the actions that resulted from them, Merrill Lynch's cost structure has been streamlined and, despite a 25% decline in net revenues since 2000, net earnings and the pre-tax margin were at record

levels in 2003. Merrill Lynch's performance was defined by several elements:

- continued focus on diversification of revenues across and within asset classes, and across geographies;
- continued focus on operating discipline through rigorous expense management and efficiency initiatives;
- strong balance sheet and liquidity; and
- improvement in client alignment and coverage, with emphasis on providing superior execution and service.

In Global Markets and Investment Banking ("GMI"), there has been a continued emphasis on diversifying revenue sources and a shift in focus in investment banking towards higher margin activities balanced with aggregate market share goals. GMI's 2003 net revenues and pre-tax earnings were up 20% and 65%, respectively. These results reflect increased client activity and proprietary trading of interest rate and credit products, increased asset-based lending and principal investment activities, and continued expense management. In 2004, if market conditions remain favorable, GMI may increase its risk profile in certain lending areas, proprietary trading activities and principal investments. Due to these activities, net revenues may vary significantly from period to period.

In Global Private Client ("GPC"), the client segmentation strategy and increasing the diversification of revenue sources is ongoing. Additionally, the non-U.S. business has been reengineered and is now contributing improved results. GPC's net earnings rose 22% in 2003, on net revenues that were up only 1%. Increases in mortgage origination and disposition helped offset the impact of a slower retail brokerage environment. Future revenue from mortgage activities is in part dependent upon the interest rate environment.

In Merrill Lynch Investment Managers ("MLIM"), the focus is on investment performance, enhancing distribution and efficiency. Approximately 70% of MLIM's global assets under management were above benchmark or median for the 1-, 3-, and 5-year periods ended December 2003. MLIM's net revenues and pre-tax earnings declined 10% and 11%, respectively, in 2003.

Over the past five years, Merrill Lynch has increased the size of its balance sheet, while strengthening liquidity and growing equity capital. The primary drivers of the increase in the balance sheet are the growth of investment activities and secured lending. This growth was partially funded through deposits in Merrill Lynch's U.S. banks and issuance of long-term debt by ML & Co. Total equity capital more than doubled from the end of 1999, as net earnings were reinvested in the businesses and used to strengthen the equity capital base. Management monitors the size, composition and growth of the balance sheet, diversifies funding sources, and assesses equity capital requirements based on business needs, growth opportunities and overall shareholder value.

## >> Results of Operations

(dollars in millions, except per share amounts)

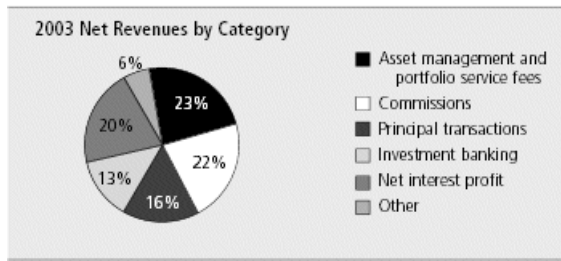
	2003	2002	2001
Net revenues			
Asset management and portfolio service fees	\$ 4,696	\$ 4,914	\$ 5,351
Commissions	4,396	4,657	5,266
Principal transactions	3,236	2,331	3,930
Investment banking	2,628	2,413	3,539
Other	1,111	751	528
Subtotal	16,067	15,066	18,614
Interest and dividend revenues	11,678	13,206	20,142
Less interest expense	7,591	9,645	16,877
Net interest profit	4,087	3,561	3,265
Total net revenues	20,154	18,627	21,879
Non-interest expenses:			
Compensation and benefits	9,570	9,426	11,269
Communications and technology	1,457	1,741	2,232
Occupancy and related depreciation	889	909	1,077
Brokerage, clearing, and exchange fees	722	727	895
Advertising and market development	429	540	703
Professional fees	581	552	545
Office supplies and postage	197	258	349
Goodwill amortization	—	—	207
Other	787	630	901
Net (recoveries)/expenses related to Sept.11	(147)	(212)	131
Net restructuring and other charges	20	8	2,193
Research and other settlement- related expenses	—	291	—
Total non-interest expenses	14,505	14,870	20,502
Earnings before income taxes and dividends on preferred securities issued by subsidiaries	\$ 5,649	\$ 3,757	\$ 1,377
Net earnings	\$ 3,988	\$ 2,513	\$ 573
Earnings per common share:			
Basic	\$ 4.39	\$ 2.87	\$ 0.64
Diluted	4.05	2.63	0.57
Annualized return on average common stockholders' equity	16.1%	11.7%	2.7%
Pre-tax profit margin	28.0	20.2	6.3

## Consolidated Results of Operations

Merrill Lynch's net earnings were \$4.0 billion in 2003, up 59% from \$2.5 billion in 2002. Earnings per diluted share were \$4.05, compared with \$2.63 in 2002. Full-year 2003 results included \$91 million of after-tax September 11- related net insurance recoveries (\$147 million pre-tax) and after-tax net benefits from restructuring and other charges of \$3 million (\$20 million of pre-tax expense). Net earnings in 2002 included \$126 million of September 11-related net insurance recoveries (\$212 million pre-tax), research and other settlement-related expenses of \$207 million (\$291 million pre-tax), and \$42 million of after-tax net benefits from restructuring and other charges (\$8 million of pre-tax expense). Net earnings in 2001 were \$573 million, or \$0.57 per diluted share, and included \$83 million of after-tax September 11-related expenses (\$131 million pre-tax) and after-tax restructuring and other charges of \$1.7 billion (\$2.2 billion pre-tax).

In 2003, the return on average common stockholders equity was 16.1% and the pre-tax profit margin was 28.0%. The 2002 return on average common stockholders equity was 11.7% and the pre-tax profit margin was 20.2%. Return on average common stockholders equity for 2001 was 2.7% and the pre-tax profit margin was 6.3%.

The following chart illustrates the composition of net revenues by category in 2003:



Net revenues in 2003 were \$20.2 billion, 8% higher than in 2002. Asset management and portfolio service fees in 2003 were \$4.7 billion, down 4% due primarily to lower portfolio servicing fees arising from lower average equity market values in 2003. The majority of these fees are calculated on beginning-of-period asset values and lag market movements by three to six months. Commission revenues in 2003 were \$4.4 billion, down 6% due primarily to a global decline in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2003 increased 39%, to \$3.2 billion, due to increased debt and debt derivatives trading revenues resulting from a favorable interest rate and credit environment for most of the year. Net interest profit in 2003 was \$4.1 billion, up 15% due primarily to a more favorable yield curve environment. Investment banking revenues were \$2.6 billion in 2003, an increase of 9% from 2002 due to higher debt underwriting revenues, partially offset by lower equity underwriting and strategic advisory revenues. Underwriting revenues were \$2.1 billion in 2003, a 21% increase from 2002; strategic advisory revenues were \$551 million in 2003, 22% lower than the prior year as the volume of global completed mergers and acquisitions declined. Other revenues in 2003 increased 48%, to \$1.1 billion, due primarily to increased revenue from equity method investments and increased realized gains on sales of mortgages. These increases were partially offset by write-downs of certain available-for-sale securities that were considered impaired on an other-than-temporary basis.

Net revenues in 2002 were \$18.6 billion, 15% lower than in 2001. Asset management and portfolio service fees in 2002 were \$4.9 billion, down 8% due principally to the market-driven decline in equity assets under management. Commission revenues in 2002 were \$4.7 billion, down 12% due primarily to a global decline in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2002 decreased 41%, to \$2.3 billion, due to lower revenues from equities and equity derivatives trading, reduced client transaction flows, and the conversion of Nasdaq market-making to a commission-based structure, partially offset by higher debt-trading revenues. Net interest profit in 2002 was \$3.6 billion, up 9% due primarily to a steeper yield curve environment and wider credit spreads. Investment banking revenues were \$2.4 billion in 2002, 32% lower than 2001 due to declines in debt and equity underwriting and strategic serv-

ices revenues. Underwriting revenues in 2002 decreased 30% to \$1.7 billion and strategic advisory revenues in 2002 declined 36% to \$703 million, as the volume of global completed mergers and acquisitions declined. Other revenues in 2002 increased 42%, to \$751 million, due in part to increased realized gains related to sales of mortgages, as well as investment losses incurred in 2001.

Compensation and benefits expenses of \$9.6 billion in 2003 increased 2% from 2002 as higher incentive compensation expenses, a function of increased net revenues, were partially offset by reductions resulting from lower staffing levels. The compensation ratio depends on the absolute level of net revenues, the business mix underlying those revenues and industry compensation trends. Compensation and benefits expenses were 47.5% of net revenues in 2003, compared to 50.6% in 2002. In 2004, Merrill Lynch will begin expensing employee stock options granted as compensation and expects that the compensation ratio may be higher than the 2003 ratio. Non-compensation expenses were \$4.9 billion in 2003, compared to \$5.4 billion in 2002. Excluding the impact of net recoveries/expenses related to September 11, research and other settlement-related expenses, and net restructuring and other charges, non-compensation expenses were \$5.1 billion in 2003, a reduction of \$295 million, or 6% from the 2002 level. In 2004, Merrill Lynch expects recurring full year non-compensation expenses to approximate 2003 levels.

Communications and technology costs were \$1.5 billion in 2003, down 16% from 2002 due to reduced technology equipment depreciation, telephone expenses, maintenance costs, and system consulting costs. Advertising and market development expenses were \$429 million, down 21% from 2002 due primarily to reduced spending on advertising and sales promotion. Professional fees were \$581 million in 2003, up 5% from 2002, due primarily to higher legal fees related to increased regulatory investigations and litigation. Office supplies and postage decreased 24% from 2002, to \$197 million, due to efficiency initiatives and lower staffing levels. Other expenses were \$787 million in 2003, up 25% from 2002 due to higher litigation provisions and increased expenses from the consolidation of certain private equity investments.

Net (recoveries) expenses related to September 11 were (\$147) million in 2003, (\$212) million in 2002, and \$131 million in 2001. Merrill Lynch concluded its insurance recovery efforts in 2003, after collecting a total of \$725 million since 2001. Net restructuring and other charges were \$20 million in 2003, \$8 million in 2002, and \$2.2 billion in 2001. Also included in 2002 non-interest expenses were \$291 million of research and other settlement-related expenses. See Note 2 to the Consolidated Financial Statements for additional information regarding these items.

Compensation and benefits expenses were \$9.4 billion in 2002, a decrease of 16% from 2001, due primarily to lower incentive compensation expenses, lower Financial Advisor compensation and reduced staffing levels. Compensation and benefits expenses were 50.6% of net revenues in 2002, compared to 51.5% in 2001. Non-compensation expenses were \$5.4 billion in 2002, compared to \$9.2 billion in 2001. Excluding the impact of net recoveries/expenses related to September



11, research and other settlement-related expenses, and net restructuring and other charges, non-compensation expenses were \$5.4 billion in 2002, a reduction of \$1.6 billion, or 22% from the 2001 level.

Communications and technology costs were \$1.7 billion in 2002, down 22% from 2001 due to lower technology equipment depreciation, communications costs, and systems consulting costs. Occupancy and related depreciation was \$909 million, a decline of 16% from 2001 due primarily to lower rent expense resulting from the fourth quarter 2001 restructuring initiatives. Brokerage, clearing, and exchange fees were \$727 million, down 19% from 2001. Advertising and market development expenses were \$540 million, down 23% from 2001 due primarily to reduced spending on travel and advertising. Professional fees remained essentially unchanged at \$552 million. Office supplies and postage decreased 26% from 2001, to \$258 million, due to lower levels of business activity and to efficiency initiatives. Other expenses were \$630 million in 2002, down 30% due to lower provisions for losses, including reduced provisions for litigation.

## Income Taxes

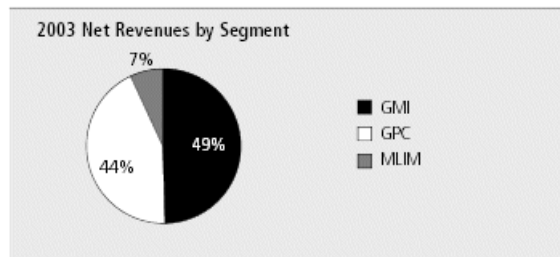
Merrill Lynch's 2003 income tax provision was \$1.5 billion, representing a 26.0% effective tax rate compared with 28.0% in 2002 and 44.2% in 2001. The 2003 effective tax rate declined from the prior year, reflecting a net benefit related to changes in estimates for prior years and settlements with various tax authorities of \$220 million, as well as a higher proportion of earnings from lower-taxed operations. The 2002 effective tax rate declined from the prior year as the 2001 tax provision included non-deductible losses associated with the refocusing of the Japan Private Client business, that were included in the fourth-quarter 2001 charge, including a write-off of previously recognized deferred tax assets of approximately \$135 million. In addition, 2002 net earnings reflected the tax benefits associated with the wind-down of the Merrill Lynch HSBC joint venture, as well as the lower tax rate associated with certain European, Asian and other non-U.S. operations and a net benefit of \$77 million related to prior years and settlements with various tax authorities. Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements. Merrill Lynch assesses its ability to realize deferred tax assets within each jurisdiction, primarily based on a strong earnings history and other factors as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. During the last 10 years, average annual pre-tax earnings were \$3.2 billion. Accordingly, management believes that it is more likely than not that remaining deferred tax assets, net of the related valuation allowance, will be realized. See Note 16 to the Consolidated Financial Statements for further information.

## Business Segments

The following discussion provides details of the operating performance for each Merrill Lynch business segment, as well as details of products and services offered. The discussion also

includes details of net revenues by segment. Certain prior year amounts have been restated to conform with the current year presentation.

Merrill Lynch reports its results in three business segments: GMI, GPC, and MLIM. GMI provides capital markets and investment banking products and services to corporate, institutional, and government clients around the world. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients.



Certain MLIM and GMI products are distributed through GPC, and, to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these inter-segment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for joint activities between segments are in place, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported in the Corporate segment. Business segment results are restated to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and organizational structure. Results for GMI and GPC include September 11-related business interruption insurance recoveries for forgone pre-tax profits of \$155 million and \$30 million, respectively for 2003 and \$90 million and \$25 million, respectively, for 2002. September 11-related expenses were recorded in GPC and the Corporate segment. Restructuring and other charges were recorded in each of the business segments. Research and other settlement-related expenses were recorded in the Corporate segment. See Note 2 to the Consolidated Financial Statements for further information.

## Global Markets and Investment Banking

GMI provides equity and debt trading, capital markets services, investment banking and strategic merger and acquisition advisory services to issuer and investor clients around the world. GMI raises capital for its clients through securities underwritings, private placements, and loan syndications. GMI also makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demand for these instruments, and for proprietary trading activities. Merrill Lynch has one of the largest equity trading and underwriting opera-

tions in the world and is a leader in the origination and distribution of equity products. GMI is also a leader in the global origination and distribution of fixed income products. GMI's client-focused strategy provides investors with opportunities to diversify their portfolios, manage risk, and enhance returns. GMI also provides clients with financing, securities clearing, settlement, and custody services.

The 2003 market environment was characterized by uncertainty about the pace of global economic recovery and geopolitical concerns driven by the conflict in Iraq. Global equity indices declined in the 2003 first quarter and staged a dramatic reversal in the latter three quarters of the year. Announced merger and acquisition volumes improved after two consecutive years of declines. The fixed income market was robust as interest rates declined further, the yield curve remained steep, and credit spreads narrowed throughout most of the year. GMI capitalized on this trend by positioning itself to take advantage of low interest rates and the tightening credit spread environment experienced during most of the year.

GMI implemented a new operating structure for its businesses in 2003, improving the alignment of its capabilities to meet the increasingly integrated needs of its issuer and investor clients. The Global Markets division combines the debt and equity sales and trading activities for investor clients, while the Investment Banking division provides integrated investment banking and origination services for issuer clients.

In 2003, GMI continued to maintain its expense discipline, invest in profitable growth opportunities and improve client alignment and product capabilities, while becoming more focused on providing superior execution and service. GMI's strategic growth opportunities include equity derivatives, portfolio trading, prime brokerage, secured financing, municipal bond trading, and foreign exchange, which are anticipated to be continued focus areas in 2004.

As part of its efforts to further develop business in Japan and deepen client relationships in the region, in March of 2003 GMI entered into a joint venture with UFJ Holdings. UFJ Holdings is Japan's fourth-largest financial group. The joint venture focuses on managing problem loans to small and medium-size companies in Japan. Merrill Lynch accounts for this investment using the equity method of accounting and judgment is required in determining the valuation of loans held by the joint venture.

During 2002, Merrill Lynch formed the Merrill Lynch Global Bank Group, which provides the management platform for Merrill Lynch's retail and capital markets banking products and services worldwide. GMI personnel in the Merrill Lynch U.S. banks are responsible for managing the investment portfolio, the residential mortgage loan portfolio and the interest rate risk of the Merrill Lynch U.S. banks, and GMI earns a spread on these activities which is recorded in principal transactions and net interest profit.

## GMI's Results of Operations

(dollars in millions)

	2003	2002	2001
Commissions	\$ 1,914	\$ 2,063	\$ 2,133
Principal transactions and net interest profit	5,264	3,718	4,514
Investment banking	2,169	2,154	3,136
Other revenues	729	493	485
Total net revenues	10,076	8,428	10,268
Non-interest expenses before recoveries related to September 11 and net restructuring and other charges	6,279	6,078	7,443
Recoveries related to September 11	(155)	(90)	—
Net restructuring and other charges	18	51	833
Pre-tax earnings	\$ 3,934	\$ 2,389	\$ 1,992
Pre-tax profit margin	39.0%	28.3%	19.4%
Total full-time employees	10,300	10,900	11,900

In 2003, GMI's pre-tax earnings were \$3.9 billion, 65% higher than in 2002 and the pre-tax profit margin was a record 39.0%. During 2003 and 2002, respectively, GMI recognized \$155 million and \$90 million in September 11-related business interruption insurance recoveries for forgone pre-tax profits. These insurance reimbursements were recorded as reductions of non-interest expenses. GMI also recognized net restructuring and other charges of \$18 million in 2003, due primarily to a change in estimate associated with the 2001 facilities-related restructuring charges and expenses in 2003 related to additional real estate rationalization. Net restructuring and other charges in 2002 and 2001 were \$51 million and \$833 million, respectively. Refer to Note 2 to the Consolidated Financial Statements for further information. Excluding the September 11-related recoveries and net restructuring and other charges, GMI's 2003 pre-tax earnings increased 62% from 2002, to \$3.8 billion. GMI's net revenues increased 20% in 2003, to \$10.1 billion. This strong growth in net revenues and pre-tax earnings was due principally to improved debt trading results, driven by strong growth in credit products, principal investments and secured financing and foreign exchange, as well as a solid increase in interest rate trading. Increased profitability in investment banking was also a factor in the pre-tax earnings improvement. Geographically, Europe and Japan contributed strongly to the net revenues and pre-tax earnings increases. Included in GMI's results are net revenues related to equity investments, including dividend income and realized and unrealized gains and losses.

Excluding the recoveries related to September 11 and net restructuring and other charges, GMI's 2002 net revenues and pre-tax earnings decreased 18% and 17%, respectively, from 2001, driven primarily by reduced equity trading and investment banking revenues, partially offset by a strong increase in debt markets revenues.

A detailed discussion of GMI's revenues follows:

## Commissions

Commissions revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities, money market instruments, and options.

In 2003, commissions revenues declined 7% from 2002, to \$1.9 billion, due primarily to lower transaction volumes and commission rate pressures. In 2002, commissions revenues declined 3% from 2001, to \$2.1 billion, as a result of lower transaction volumes. These decreases were somewhat mitigated by commissions generated by large-size Nasdaq orders.

### Principal transactions and net interest profit

(dollars in millions)

	2003	2002	2001
Debt and debt derivatives	\$ 4,420	\$ 3,041	\$ 2,683
Equities and equity derivatives	844	677	1,831
<b>Total</b>	<b>\$ 5,264</b>	<b>\$ 3,718</b>	<b>\$ 4,514</b>

Principal transactions revenues include realized gains and losses from the purchase and sale of securities in which Merrill Lynch acts as principal, and unrealized gains and losses on trading assets and liabilities. In addition, principal transactions revenues include unrealized gains related to equity investments held by Merrill Lynch's broker-dealers, which amounted to \$71 million, \$117 million and \$213 million in 2003, 2002, and 2001, respectively. As a result of the transfer of certain of these equity investments to non-broker dealer entities during 2003, principal transactions revenues will no longer include unrealized gains or losses related to such equity investments.

Net interest profit is a function of the level and mix of total assets and liabilities, including trading assets owned, financing and lending transactions, trading strategies associated with GMI's institutional securities business, and the prevailing level, term structure, and volatility of interest rates. Net interest profit is an integral component of trading revenues.

In assessing the profitability of its client facilitation and trading activities, Merrill Lynch views principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate. Net trading revenues were \$5.3 billion in 2003, up 42% from 2002. Debt and debt derivatives net trading revenues were \$4.4 billion, up 45% from 2002, reflecting increased trading of credit, interest rate and other products due to a favorable yield curve environment, increased revenues from principal investing and secured financing activities and proprietary positioning. Equity and equity derivatives net trading revenues increased 25% from 2002 to \$844 million, driven by the improved equity markets conditions as well as increased demand for derivatives.

In 2002, net trading revenues declined 18% from 2001, to \$3.7 billion. Debt and debt derivatives net trading revenues were \$3.0 billion in 2002, up 13% from 2001, reflecting increased trading of interest rate and other products due to a more favorable yield curve environment and proprietary positioning. Equities and equity derivatives net trading rev-

enues decreased 63% from 2001, to \$677 million, primarily due to reduced customer flows, lower volatility during much of the year and the conversion of Nasdaq trading to a commission-based structure.

## Investment banking

(dollars in millions)

	2003	2002	2001
Debt underwriting	\$ 853	\$ 632	\$ 693
Equity underwriting	762	820	1,343
Total underwriting	1,615	1,452	2,036
Strategic advisory services	554	702	1,100
<b>Total</b>	<b>\$ 2,169</b>	<b>\$ 2,154</b>	<b>\$ 3,136</b>

## Underwriting

Underwriting revenues represent fees earned from the underwriting of debt and equity and equity-linked securities as well as loan syndication and commitment fees.

Total underwriting revenues were \$1.6 billion in 2003, up 11% from 2002. Debt underwriting revenues increased 35% from 2002 due to a favorable interest rate environment and a narrowing of credit spreads through much of the year. This increase was partially offset by a 7% year-on-year decline in equity and equity-linked underwriting revenues. In 2002, total underwriting revenues were \$1.5 billion, down 29% from 2001 as equity and equity-linked underwriting revenues declined 39% and debt underwriting revenues declined 9%. These decreases resulted from a reduced volume of transactions as well as lower market share. Merrill Lynch's debt underwriting focus has shifted towards longer-duration, higher margin business; however, debt underwriting remains highly competitive and not all transactions are profitable.

Merrill Lynch's underwriting market shares based on transaction value are as follows:

	2003		2002		2001	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
<b>Global proceeds</b>						
Equity and equity-linked	8.0%	5	10.6%	3	14.1%	2
Debt	7.1	3	7.8	2	9.7	2
Debt and equity	7.1	3	8.0	2	10.1	2
<b>U.S. proceeds</b>						
Equity and equity-linked	9.9%	5	15.2%	3	17.1%	2
Debt	8.9	3	9.8	2	11.9	2
Debt and equity	9.0	3	10.1	2	12.4	2

Source: Thomson Financial Securities Data statistics based on full credit to book managers.

## Strategic Advisory Services

Strategic advisory services revenues, which include merger and acquisition and other advisory fees, decreased 21% in 2003, to \$554 million, as completed mergers and acquisition volume continued to decline globally and Merrill Lynch's market share of completed transactions globally declined.

Merrill Lynch's merger and acquisition market share information based on transaction values is as follows:

	2003		2002		2001	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
<b>Announced transactions</b>						
Global	16.0%	4	13.9%	6	25.3%	3
U.S.	16.9	7	13.2	8	31.7	3
<b>Completed transactions</b>						
Global	17.1%	3	24.1%	3	27.6%	3
U.S.	18.1	5	32.7	4	33.4	3

Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.

#### Other Revenues

Other revenues, which include realized investment gains and losses, write-downs of certain available-for-sale securities, equity income from unconsolidated subsidiaries and distributions on equity investments, increased 48% to \$729 million in 2003. Other revenues in 2003 included increased revenues from equity method and other investments, including the consolidation of certain private equity investments, partially offset by a write-down of \$114 million related to certain available-for-sale securities that were considered to be impaired on an other-than-temporary basis. In 2003, revenues from equity method investments included \$216 million from an investment in a Japanese entity that invests in problem loans. Other revenues in 2002 were \$493 million, essentially unchanged from 2001. Other revenues in 2003 and 2002 reflected realized gains on the investment portfolios of Merrill Lynch's U.S. banks, and in 2002 included a \$45 million pre-tax gain on the sale of the Securities Pricing Services business.

#### Global Private Client

GPC provides a full range of advice-based wealth management products and services to assist clients in managing all aspects of their financial profile through the Total Merrill<sup>SM</sup> platform. GPC's offerings include commission and fee-based investment accounts, credit products, banking services, cash management and credit cards, trust and generational planning, consumer and small business lending, retirement services and insurance products. GPC serves individual investors, and small and middle market corporations and institutions through approximately 13,500 Financial Advisors ("FAs") in approximately 640 offices around the world as of year-end 2003.

To align asset account structure with each client's specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services, and self-directed online accounts. Assets in GPC accounts totaled \$1.3 trillion at December 26, 2003, a 14% increase from \$1.1 trillion at December 27, 2002 due primarily to market appreciation.

The integration of the U.S. and non-U.S. private client businesses as well as a continued emphasis on segmentation, revenue diversification and operating leverage enabled GPC globally to achieve a record pre-tax margin in 2003, even as market conditions and investor sentiment were mixed. Outside

the United States, GPC restored profitability and posted pre-tax margins comparable to its U.S. business by the end of 2003.

GPC also continued to make progress in diversifying revenues by increasing fee-based and recurring revenue sources. GPC originated \$23 billion of mortgages in 2003 and significantly increased revenues from small business services, including lending.

The Wealth Management Technology Platform, which will be deployed in 2004, will provide a new standard of desktop technology to more than 23,000 users, including Financial Advisors, Client Associates, the Financial Advisory Center and call centers by providing a fully integrated desktop that incorporates market data and financial planning tools. This deployment will result in higher depreciation expense in future periods.

#### GPC's Results of Operations

(dollars in millions)

	2003	2002	2001
Asset management and portfolio service fees	\$ 3,379	\$ 3,534	\$ 3,667
Commissions	2,386	2,485	2,993
Principal transactions and new issue revenues	1,294	1,153	1,621
Net interest profit	1,358	1,333	1,518
Other revenues	446	275	98
Total net revenues	8,863	8,780	9,897
Non-interest expenses before recoveries related to September 11 and net restructuring and other charges	7,298	7,574	8,986
Net recoveries related to September 11	(15)	(25)	—
Net restructuring and other charges	(2)	(66)	1,077
Pre-tax earnings (loss)	\$ 1,582	\$ 1,297	\$ (166)
Pre-tax profit margin	17.8%	14.8%	N/M
Total full-time employees	30,200	31,900	36,400
Total Financial Advisors	13,500	14,000	16,400

N/M-not meaningful.

GPC's 2003 pre-tax earnings were \$1.6 billion, up 22% compared to 2002, on net revenues that increased 1% to \$8.9 billion. During 2003, GPC recognized \$30 million in September 11-related business interruption insurance recoveries for forgone pre-tax profits, which was partially offset by \$15 million of related expenses. During 2002, GPC recognized \$25 million of September 11-related business interruption recoveries. These insurance reimbursements were recorded as reductions of non-interest expenses. Net restructuring and other charges (credits) in 2002 and 2001 were \$(66) million and \$1.1 billion, respectively. Refer to Note 2 to the Consolidated Financial Statements for further information. Excluding the net September 11-related recoveries and net restructuring and other charges, GPC's pre-tax earnings increased 30% from 2002 to \$1.6 billion. On the same basis, the pre-tax operating margin was 17.7%, up four percentage points from 13.7% in 2002, reflecting substantially improved performance both inside and outside the United States and a 9% decline in non-compensation expenses, reflecting continued operating discipline.

Excluding September 11-related recoveries and restructuring and other charges in 2002, GPC's pre-tax earnings increased 32% from 2001 to \$1.2 billion as a 16% decline in non-interest expenses more than offset an 11% reduction in net revenues. On the same basis, the pre-tax profit margin increased to 13.7% in 2002, up more than four percentage points from 9.2% in 2001. The growing percentage of fee-based and recurring revenues helped stabilize overall revenues in 2002 as transaction volumes fell. During 2002, GPC's costs related to the 2001 restructuring were adjusted to reflect a change in estimate related to facilities, severance and other costs resulting in a net pre-tax credit of \$83 million, primarily related to Japan. This credit was partially offset by a \$17 million real estate-related other charge in 2002.

#### Asset management and portfolio service fees

Asset management and portfolio service fees include asset management fees from taxable and tax-exempt money market funds as well as portfolio fees from fee-based accounts such as Unlimited Advantage<sup>SM</sup> and Merrill Lynch Consults.<sup>®</sup> Also included are servicing fees related to these accounts, as well as certain other account-related fees.

In 2003, asset management and portfolio service fees totaled \$3.4 billion, 4% lower than in 2002, due primarily to lower portfolio servicing fees resulting from market-driven declines in asset levels. The majority of these fees are calculated on beginning of period asset values and generally lag market movements by three to six months. In 2002, asset management and portfolio service fees totaled \$3.5 billion, down from \$3.7 billion in 2001, due primarily to market-driven declines in asset levels.

The value of assets in GPC accounts at year-end 2003, 2002, and 2001 is as follows:

(dollars in billions)

	2003	2002	2001
Assets in GPC accounts			
U.S.	\$ 1,165	\$ 1,021	\$ 1,185
Non-U.S.	97	89	101
Total	<u>\$ 1,262</u>	<u>\$ 1,110</u>	<u>\$ 1,286</u>
Assets in asset-priced accounts	\$ 226	\$ 182	\$ 199
As a percentage of total assets in GPC accounts	18%	16%	15%

The changes in assets in GPC accounts from year-end 2002 to year-end 2003 are detailed below:

(dollars in billions)

	Year-end 2002	Net Changes Due To			Year-end 2003
		New Money	Asset Appreciation	Other(1)	
Assets in GPC accounts					
U.S.	\$ 1,021	\$ 3	\$ 141	\$ —	\$ 1,165
Non-U.S.	89	2	8	(2)	97
Total	\$ 1,110	\$ 5	\$ 149	\$ (2)	\$ 1,262

(1) Represents accounts sold as part of the sale of GPC's call center in Japan.

#### Commissions

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities, debt securities, and sales of mutual funds, insurance products, and options.

Commissions revenues decreased 4% to \$2.4 billion in 2003 as a result of a global decline in client transaction volumes, particularly in equity securities and mutual funds. Commissions revenues declined 17% in 2002 to \$2.5 billion, due to lower global transaction volumes. Commissions revenues have also been negatively affected by the ongoing transition of GPC assets to asset-priced accounts.

#### Principal transactions and new issue revenues

GPC's principal transactions and new issue revenues primarily represent bid-offer revenues in OTC equity securities, government bonds and municipal securities as well as selling concessions on underwriting of debt and equity products.

Principal transactions and new issue revenues totaled \$1.3 billion, up 12% from 2002 as trading and new issue volume increased in a more favorable market environment. In 2002, principal transactions and new issue revenues declined 29% from 2001, to \$1.2 billion in a less favorable trading and new issue environment.

#### Net interest profit

Net interest profit for GPC includes the interest spread earned in Merrill Lynch's banks for deposits as well as interest earned on margin and other loans including mortgages and small business loans.

In 2003, net interest profit was \$1.4 billion, up slightly from \$1.3 billion in 2002. In 2002, net interest profit declined 12% from 2001, due primarily to lower margin balances and a reduction in the related interest rates.

#### Other revenues

Other revenues totaled \$446 million in 2003, up 62% from 2002. Other revenues in 2003 included increased realized gains related to the sales of residential mortgages, reflecting a favorable mortgage origination environment. Due primarily to lower refinancing activity, mortgage origination volumes declined in the 2003 fourth quarter and future revenue from the sale of mortgages is dependent upon origination volumes and the interest rate environment. In 2002, other revenues increased \$177 million from 2001, to \$275 million and also included increased realized gains related to the sales of residential mortgages. Other revenues in 2002 also included a pre-tax gain of \$39 million related to the release of provisions subsequent to the conclusion of the sale of the Canadian GPC business, which was partially offset by losses related to the MLHSBC joint venture of \$34 million.

## Merrill Lynch Investment Managers

MLIM is among the world's largest asset managers with \$500 billion of assets under management at the end of 2003. MLIM offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele. MLIM also offers a wide assortment of index-based equity and alternative investment products. MLIM's clients include institutions, high-net-worth individuals, and retail investors. MLIM-branded mutual fund products are available through third-party distribution networks and the GPC distribution channel. MLIM also distributes certain of its products through GMI. MLIM maintains a significant sales and marketing presence in both the United States and outside the United States that is focused on acquiring and maintaining institutional investment management relationships, marketing its services to institutional investors both directly and through pension consultants.

The equity market downturn in recent years has had a significant effect in the marketplace for investment management products. There has been a broad shift away from higher fee-yielding equity products and toward lower fee-yielding short-duration fixed-income products for both retail and institutional clients. Furthermore, the operating environment both inside and outside the United States has been further constrained by media attention on a number of corporate accounting, disclosure, governance, litigation and other mutual fund industry issues.

In early 2003, the equity markets were declining, which had a negative impact on revenue for MLIM. To mitigate this impact, MLIM continued its disciplined control over expenses. The overall result was a less than one percentage point decline in MLIM's pre-tax profit margin in 2003 on net revenues that declined 10%. Sales were solid in retail channels and mixed in institutional channels. MLIM had positive net sales of retail mutual funds through GPC for the first time in five years. MLIM has also been successful in distributing its retail mutual funds through third parties in Europe and Asia although it experienced a decline in European institutional assets under management in 2003.

During 2002, MLIM eliminated overlap of investment management activities between its U.S. and U.K. offices. Also during 2002, MLIM merged its three separate international mutual fund families into a single mutual fund family, Merrill Lynch International Investment Funds ("MLIIF"). This merger resulted in the elimination of nine funds separately marketed under the Mercury and MLAM brands. The MLIIF merger also permitted MLIM to rationalize its various fee structures and introduce a wider range of share classes aligned to investor requirements.

## MLIM's Results of Operations

(dollars in millions)

	2003	2002	2001
Asset management fees	\$ 1,272	\$ 1,355	\$ 1,638
Commissions	135	182	244
Other revenues	(6)	13	41
Total net revenues	1,401	1,550	1,923
Non-interest expenses before net restructuring and other charges	1,113	1,209	1,625
Net restructuring and other charges	4	23	283
Pre-tax earnings	\$ 284	\$ 318	\$ 15
Pre-tax profit margin	20.3%	20.5%	0.8%
Total full-time employees	2,600	2,800	3,100

Pre-tax earnings for MLIM were \$284 million in 2003, down 11% from 2002 as net revenues decreased 10% to \$1.4 billion. MLIM recognized restructuring and other charges of \$4 million in 2003, \$23 million in 2002 and \$283 million in 2001. Refer to Note 2 to the Consolidated Financial Statements for further information. Excluding restructuring and other charges, pre-tax earnings were \$288 million in 2003, down 16% from \$341 million in 2002. On this basis, MLIM's pre-tax operating margin was 20.6%, down from 22.0% in 2002. The net revenues decrease was partially offset by a reduction in non-interest expenses, as continued expense discipline led to a decline of 8% from 2002 to \$1.1 billion. MLIM continued to demonstrate strong relative investment performance with approximately 70% of global assets under management above benchmark or median for the 1-, 3-, and 5-year periods ended December 2003.

In 2002, net revenues decreased 19%, to \$1.6 billion from \$1.9 billion in 2001 but pre-tax earnings, excluding restructuring and other charges, increased 14% to \$341 million from \$298 million in 2001. The integration of MLIM's global investment platform and realignment of resources resulted in reduced expenses and improved productivity, which more than offset the decline in net revenues and higher litigation costs.

### Asset management fees

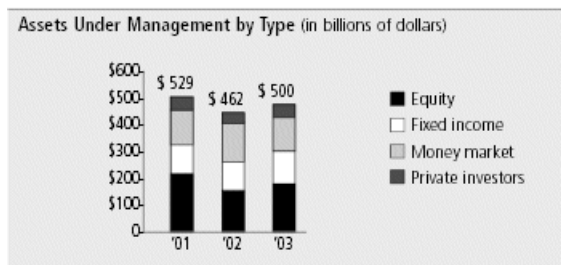
Asset management fees primarily consist of fees earned from the management and administration of funds as well as performance fees earned by MLIM on separately managed accounts. Asset management fees declined 6% to \$1.3 billion from \$1.4 billion in 2002. These fees were \$1.6 billion in 2001. These reductions are due to market-driven declines in the value of equity assets under management as well as the shift of assets by clients from higher yielding equity funds to lower yielding fixed income and money market products.

MLIM's assets under management for each of the last three years were comprised of the following:

(dollars in billions)

	2003	2002	2001
Assets Under Management			
Retail	\$ 207	\$ 189	\$ 220
Institutional	253	235	266
Private investors (1)	40	38	43
Total	\$ 500	\$ 462	\$ 529

(1) Represents segregated portfolios for individuals, small corporations, and institutions.



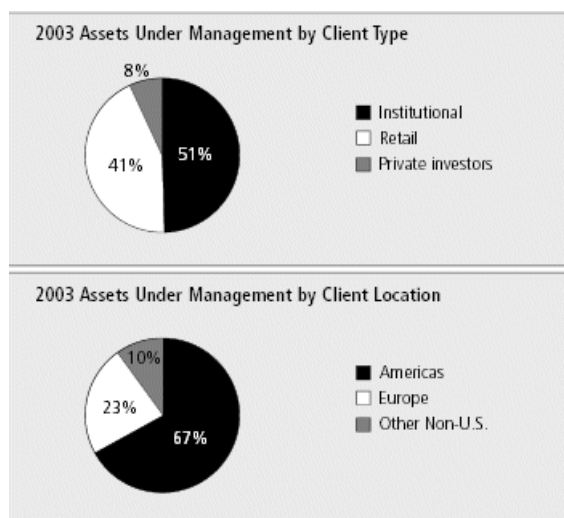
At year-end 2003, assets under management totaled \$500 billion, up 8% from 2002. This increase is primarily due to market-driven appreciation and the positive impact of foreign exchange.

An analysis of changes in assets under management from year-end 2002 to year-end 2003 is as follows:

(dollars in billions)

Year-end 2002	Net Changes Due To				Year-end 2003
	New Money	Asset Appreciation	Other <sup>(1)</sup>		
Assets under management	\$ 462	\$ (11)	\$ 36	\$ 13	\$ 500

(1) Includes reinvested dividends, the impact of foreign exchange movements, net out-flows of retail money market funds, and other changes.



## Commissions

Commissions revenues for MLIM principally consist of distribution fees and redemption fees related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds ("12b-1 fees"). In 2003, commissions revenues decreased 26% from a year ago to \$135 million. Commissions revenues in 2002 similarly declined 25% from 2001 to \$182 million. These declines were due primarily to lower transaction volumes and the impact of lower average market values.

## Other Revenues

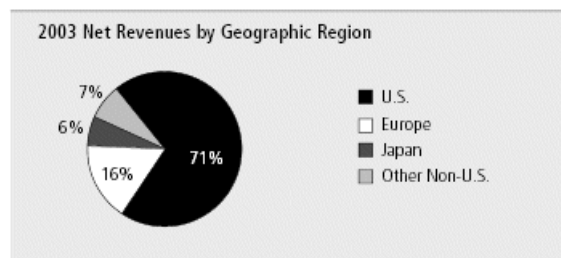
Other revenues, which primarily include net interest profit and investment gains and losses, declined from \$13 million in 2002 to \$(6) million in 2003. Other revenues in 2003 included investment losses. The 2002 other revenues were \$13 million, down 68% from 2001, and reflect a \$17 million pre-tax gain on the sale of the Canadian retail asset management business, partially offset by investment losses.

## Global Operations

Merrill Lynch's operations outside the United States are organized into five geographic regions:

- Europe, Middle East, and Africa
- Japan
- Asia Pacific
- Canada, and
- Latin America

The methods for allocating overhead to the regions were refined in 2003; all prior period results have been restated to conform to the 2003 presentation. The following chart illustrates the 2003 regional operating results, excluding all items included in the corporate segment. For further geographic information, see Note 3 to the Consolidated Financial Statements.



## Europe, Middle East, and Africa

(dollars in millions)

	2003	2002	2001
Net revenues	\$ 3,295	\$ 2,579	\$ 3,435
Pre-tax earnings (loss)(1)	862	55	(51)
Total full-time employees	5,700	6,400	7,200

(1) Includes \$6 million, \$24 million and \$293 million of pre-tax restructuring and other charges in 2003, 2002 and 2001, respectively.

Merrill Lynch conducts business in Europe, the Middle East, and Africa as a broker-dealer in a wide array of equity and debt products, and also provides investment banking, asset management and private banking services. Additionally, Merrill Lynch offers its clients a broad range of equity, fixed income and economic research. Merrill Lynch has a presence across the region, with 30 offices in 16 countries.

All GMI businesses in the region performed well in 2003. A diverse and balanced portfolio of businesses drove record earnings from debt markets and provided innovative and solution based products to clients. MLIM had several large mandates across the region. The GPC revenue environment continued to improve throughout the year, while GPC remained focused on asset gathering and increasing the breadth and depth of client relationships.

In 2003, Merrill Lynch continued to adjust its resource capacity in the region to be more closely aligned with market conditions and achieved significant efficiencies. In 2003, net revenues for the region increased 28% from 2002 to \$3.3 billion, primarily reflecting a strong performance across all GMI businesses. Pre-tax earnings before restructuring and other charges were up \$789 million from 2002 to \$868 million, resulting from a combination of revenue growth and expense reductions. In 2002, net revenues for the region decreased 25% from 2001. Pre-tax earnings before restructuring and other charges decreased 67% from 2001, due primarily to lower equity trading and origination revenues.

## Japan

(dollars in millions)

	2003	2002	2001
Net revenues	\$ 1,252	\$ 778	\$ 1,007
Pre-tax earnings (loss) (1)	656	236	(389)
Total full-time employees	1,200	1,400	2,900

(1) Includes \$(42) million, \$(120) million and \$380 million of pre-tax restructuring and other charges (credits) in 2003, 2002 and 2001, respectively.

In Japan, through GMI, GPC and MLIM, Merrill Lynch provides an integrated range of financial management and advisory services to individual, corporate, institutional and governmental clients.

In 2003, Japan's GMI business continued to focus on high value-added, high-margin activities and adding new businesses, especially in the areas of balance sheet restructuring and capital reinforcement. In addition, Merrill Lynch initiated principal investments in joint ventures with UFJ Holdings, Mizuho Financial Group and Nishi-Nippon Bank, lead-managed landmark collateralized loan obligation deals for three of the big four Japanese banks and advised Resona on the Yen 1.96 trillion capital injection from the Japanese government, which was the year's largest advisory deal in Japan.

GPC in Japan became profitable in 2003 through a client segmentation strategy, targeting high-net-worth individuals and middle-market corporations. As part of the client segmentation strategy, Merrill Lynch Japan Securities divested its call center services to UFJ Tsubasa in September. GPC continued to focus on delivering value-added investment advice and products to its clients.

In 2003, net revenues in the region were \$1.3 billion, up 61% from 2002, due primarily to the strong performance of GMI's businesses. Net revenues in 2003 included \$216 million from an equity-method investment in an entity that invests in problem loans. Pre-tax earnings before restructuring and other charges (credits) were up \$498 million from 2002 to \$614 million, reflecting higher net revenues and continued expense management. Net revenues in the Japan region in 2002 decreased 23% from 2001 to \$778 million, primarily reflecting weak market conditions that impacted the region's GMI businesses, as well as the restructuring of the GPC business. Pre-tax earnings before restructuring and other charges (credits) were \$116 million compared to a loss of \$9 million in 2001, reflecting continued disciplined cost management and the impact of the restructuring actions taken.

## Asia Pacific

(dollars in millions)

	2003	2002	2001
Net revenues	\$ 736	\$ 669	\$ 792
Pre-tax earnings (loss)(1)	160	58	(42)
Total full-time employees	1,900	1,900	2,100

(1) Includes \$(3) million, \$(7) million and \$89 million of pre-tax restructuring and other charges (credits) in 2003, 2002 and 2001, respectively.

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific region, offering a full range of GMI, GPC and MLIM products. Merrill Lynch has an established trading presence and exchange memberships in all major financial markets in the region. The GPC business operates 11 offices serving the region, including four on the west coast of the United States, offering asset management services and wealth management products to its clients. MLIM operates four offices offering a diverse mix of investment management products and services to institutional, retail and private clients in the region.



In December of 2003, MLIM was granted a preparatory license from the China Securities Regulatory Commission to establish a joint venture fund management company with BOC International China Limited and BOC International Holdings Limited ("BOCIH"). BOCIH is a wholly owned subsidiary of the Bank of China Group.

In addition, Merrill Lynch sold its joint venture securities company in Thailand to local management. Merrill Lynch will remain active in the Thai financial markets and will continue to work in partnership with this local securities company on capital markets transactions and securities sales and trading, under a new services agreement. For 2004, Merrill Lynch has identified China, Korea and India as strategic growth areas.

Net revenues in the Asia Pacific region in 2003 increased 10% from 2002 to \$736 million, reflecting improved results from GMI and GPC. Pre-tax earnings before restructuring and other charges (credits) were up \$106 million to \$157 million from 2002, due to the increase in net revenues and continuing reductions in expenses. In 2002, the economic slowdown led to a 16% decline in net revenues in the region from 2001. Pre-tax earnings before restructuring and other charges (credits) were \$51 million, up 9% from 2001 due to strong expense management.

## Canada

(dollars in millions)

	2003	2002	2001
Net revenues	\$ 218	\$ 245	\$ 880
Pre-tax earnings (1)	67	104	239
Total full-time employees	300	300	500

(1) Includes \$(1) million, \$1 million and \$30 million of pre-tax restructuring and other charges (credits) in 2003, 2002 and 2001, respectively.

During 2003, Merrill Lynch operated as a broker-dealer in Canada, providing an integrated range of GMI products and services.

All GMI businesses maintained competitive margins in 2003. The fixed income markets continued to perform strongly, benefiting from Merrill Lynch's expanded focus on derivatives, foreign exchange and lending businesses. Merrill Lynch continued to make significant progress in expanding its strategic advisory business and has built a premier investment banking organization in this market.

Net revenues in Canada in 2003 decreased 11% from 2002, to \$218 million. Pre-tax earnings declined 36% from the year-ago level as a result of lower net revenues due primarily to the inclusion in 2002 of a pre-tax gain of \$39 million related to the conclusion of the sale of the GPC business in 2001, and a pre-tax gain of \$17 million related to the sale of the MLIM retail asset management business in 2002. In 2002, net revenues decreased 72% to \$245 million reflecting the sales of the GPC and MLIM businesses and lower net revenues from GMI. Pre-tax earnings before restructuring and other charges were \$105 million, down 61% from 2001, primarily due to the 2001 pre-tax gain of \$158 million on the sale of GPC and securities clearing businesses.

## Latin America

(dollars in millions)

	2003	2002	2001
Net revenues	\$ 553	\$ 491	\$ 538
Pre-tax earnings (1)	193	115	21
Total full-time employees	800	900	1,000

(1) Includes \$14 million of pre-tax restructuring and other charges in 2001.

Merrill Lynch provides various brokerage and investment services, including financial planning, investment banking, research, and asset management to Latin American clients.

The Latin America equity markets surged in 2003, as the primary equity indices in Argentina, Brazil and Mexico rose 135%, 134% and 30%, respectively, due to renewed investor confidence and the rebounding economies of Argentina and Brazil. The fixed income markets continued to perform strongly, resulting in strong trading revenues. In Brazil, the political uncertainty that existed in 2002 dissipated and investor confidence was renewed.

During 2003, GPC's Latin American business was concentrated on revenue growth, client retention and cost management, through different marketing and cost containment strategies in the Advisory Offices and the Financial Advisory Center.

In 2003, net revenues for the region increased 13% to \$553 million, reflecting an improved performance in GPC and in the GMI debt businesses. Pre-tax earnings were \$193 million, up 68% from 2002, due primarily to the revenue growth and cost reductions. Net revenues for the region in 2002 were \$491 million, down 9% from 2001. Pre-tax earnings before restructuring and other charges were up \$80 million in 2002, due primarily to GMI's strong performance.

## >> Consolidated Balance Sheets

### Overview

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheet. The following table summarizes the year-end and average balance sheets for 2003 and 2002:

(dollars in billions)

	Dec. 26, 2003	2003 Average <sup>(1)</sup>	Dec. 27, 2002	2002 Average <sup>(1)</sup>
<b>Assets</b>				
<b>Trading-Related</b>				
Securities financing assets	\$ 126.4	\$ 145.0	\$ 120.6	\$ 138.4
Trading assets	134.3	135.9	111.6	113.0
Other trading-related receivables	46.5	50.5	46.0	48.6
	<u>307.2</u>	<u>331.4</u>	<u>278.2</u>	<u>300.0</u>
<b>Non-Trading-Related</b>				
Cash	25.3	24.6	17.6	18.4
Investment securities	74.3	78.0	81.8	81.7
Loans, notes and mortgages	51.0	44.8	38.8	32.6
Other non-trading assets	36.7	40.1	33.2	36.9
	<u>187.3</u>	<u>187.5</u>	<u>171.4</u>	<u>169.6</u>
<b>Total assets</b>	<u>\$ 494.5</u>	<u>\$ 518.9</u>	<u>\$ 449.6</u>	<u>\$ 469.6</u>
<b>Liabilities</b>				
<b>Trading-Related</b>				
Securities financing liabilities	\$ 116.4	\$ 137.7	\$ 96.7	\$ 115.4
Trading liabilities	89.3	93.7	79.2	78.3
Other trading-related payables	49.2	55.5	46.3	46.1
	<u>254.9</u>	<u>286.9</u>	<u>222.2</u>	<u>239.8</u>
<b>Non-Trading-Related</b>				
Commercial paper and other short-term borrowings	5.0	4.9	5.4	6.0
Deposits	79.5	81.2	81.8	83.8
Long-term borrowings	83.3	80.3	78.5	75.7
Other non-trading liabilities	41.4	38.0	36.1	40.1
	<u>209.2</u>	<u>204.4</u>	<u>201.8</u>	<u>205.6</u>
<b>Total liabilities</b>	<u>464.1</u>	<u>491.3</u>	<u>424.0</u>	<u>445.4</u>
<b>Preferred securities issued by subsidiaries</b>	2.7	2.7	2.7	2.7
<b>Total stockholders' equity</b>	<u>27.7</u>	<u>24.9</u>	<u>22.9</u>	<u>21.5</u>
<b>Total liabilities, preferred securities issued by subsidiaries, and stockholders' equity</b>	<u>\$ 494.5</u>	<u>\$ 518.9</u>	<u>\$ 449.6</u>	<u>\$ 469.6</u>

(1) Averages represent management's daily balance sheet estimates which may not fully reflect netting and other adjustments included in period-end balances. Balances for certain assets and liabilities are not revised on a daily basis.

The discussion that follows analyzes the changes in year-end financial statement balances and yearly average balances of the major asset and liability categories.

### Trading-Related Assets and Liabilities

Trading-related balances primarily consist of securities financing transactions, trading assets and liabilities, and certain interest receivable/payable balances that result from trading activities. At December 26, 2003, total trading-related assets and liabilities were \$307.2 billion and \$254.9 billion, respectively. Average trading-related assets for 2003 were \$331.4 billion and average trading-related liabilities were \$286.9 billion.

Although trading-related balances comprise a significant portion of the Consolidated Balance Sheet, the magnitude of

these balances does not necessarily correlate with the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following section. See Note 6 to the Consolidated Financial Statements for descriptions of market and credit risks.

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related assets by requiring counter-parties to post cash or securities as collateral in accordance with collateral maintenance policies. Conversely, Merrill Lynch may be required to post cash or securities to counterparties in accordance with similar policies.

### Securities Financing Transactions

Securities financing transactions include resale and repurchase agreements, securities borrowed and loaned transactions, securities received as collateral, and obligation to return securities received as collateral. Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a significant portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. These transactions are typically short-term in nature, with a significant portion entered into on an overnight or open basis.

Merrill Lynch also enters into these transactions to meet clients' needs. These matched-book repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different clients using the same underlying securities, generating a spread between the interest revenue on the resale agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Exposures on these transactions are limited by the typically short-term nature of the transactions and collateral maintenance policies.

Securities financing assets at 2003 year-end were \$126.4 billion, up approximately 5% from 2002 year-end, and securities financing liabilities were \$116.4 billion at 2003 year-end, up 20% from year-end 2002. Average securities financing assets in 2003 were \$145.0 billion, up 5% from the 2002 average. Average securities financing liabilities in 2003 were \$137.7 billion, up 19% from the 2002 average.

### Trading Assets and Liabilities

Trading inventory principally represents securities purchased ("long positions"), securities sold but not yet purchased ("short positions"), and the fair value of derivative contracts. See Note 1 to the Consolidated Financial Statements for related accounting policies. These positions are primarily the result of market-making, hedging, and proprietary activities.

Merrill Lynch acts as a market-maker in a wide range of securities, resulting in a significant amount of trading inventory that is required to facilitate client transaction flow. Merrill Lynch also maintains proprietary trading inventory in seeking to profit from existing or projected market opportunities.

Merrill Lynch uses both "cash instruments" (e.g., securities) and derivatives to manage trading inventory market risks. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trad-

ing positions. Long positions in U.S. Government securities, for example, may be used to hedge short positions in interest rate futures contracts. These hedging techniques, which are generally initiated at the trading unit level, are supplemented by corporate risk management policies and procedures (see the Risk Management section for a description of risk management policies and procedures).

Trading assets at 2003 year-end were \$134.3 billion, up 20% from 2002 year-end, and trading liabilities at 2003 year-end were \$89.3 billion, up 13% from 2002 year-end. Average trading assets in 2003 were \$135.9 billion, up 20% from the 2002 average. Average trading liabilities in 2003 were \$93.7 billion, up 20% from the 2002 average.

#### ***Other Trading-Related Receivables and Payables***

Securities trading may lead to various customer or broker-dealer receivable and payable balances. Broker-dealer receivable and payable balances may also result from recording trading inventory on a trade date basis. Certain receivable and payable balances also arise when customers or broker-dealers fail to pay for securities purchased or fail to deliver securities sold, respectively. These receivables are generally fully collateralized by the securities that the customer or broker-dealer purchased but did not receive. Customer receivables also include margin loans collateralized by customer-owned securities held by Merrill Lynch. Collateral policies significantly limit Merrill Lynch's credit exposure to customers and broker-dealers. Merrill Lynch, in accordance with regulatory requirements, will sell securities that have not been paid for, or purchase securities sold but not delivered, after a relatively short period of time, or will require additional margin collateral, as necessary. These measures reduce market risk exposure related to these balances.

Interest receivable and payable balances related to trading inventory are principally short-term in nature. Interest balances for resale and repurchase agreements, securities borrowed and loaned transactions, and customer margin loans are generally considered when determining the collateral requirements related to these transactions.

Other trading-related receivables at 2003 year-end were \$46.5 billion, up 1% from 2002 year-end, and other trading-related payables were \$49.2 billion at 2003 year-end, up 6% from 2002 year-end. Average other trading-related receivables in 2003 were \$50.5 billion, up 4% from the 2002 average. Average other trading-related payables were \$55.5 billion in 2003, up 20% from the 2002 average.

#### ***Non-Trading-Related Assets and Liabilities***

Non-trading-related balances primarily consist of cash, investment securities, loans, notes, and mortgages, short and long-term borrowings, and other non-trading assets and liabilities. At December 26, 2003, total non-trading-related assets and liabilities were \$187.3 billion and \$209.2 billion, respectively. Average non-trading-related assets for 2003 were \$187.5 billion and average non-trading-related liabilities were \$204.4 billion.

#### ***Cash***

Cash includes cash, cash equivalents and securities segregated for regulatory purposes or deposited with clearing organizations. Cash at 2003 year-end was \$25.3 billion, up 44% from 2002 year-end. Average cash in 2003 was \$24.6 billion, up 34% from the 2002 average. These increases result from higher levels of cash and securities segregated for regulatory purposes.

#### ***Investment Securities***

Investment securities consist of debt securities, including those held for liquidity and collateral management purposes, and equity securities. Investments of insurance subsidiaries, primarily debt securities, are funded by policyholder liabilities. Other investments include securities acquired in connection with private equity investments, including investments that economically hedge employee deferred compensation liabilities. Investment securities were \$74.3 billion in 2003, down 9% from 2002 year-end. Average investment securities were \$78.0 billion in 2003, down 5% from the 2002 average. See Note 5 to the Consolidated Financial Statements for further information.

#### ***Loans, Notes, and Mortgages***

Merrill Lynch's portfolio of loans, notes, and mortgages consists of residential mortgages, syndicated loans, asset-based loans, small business loans and other loans to individuals, corporations, or other businesses. Merrill Lynch maintains collateral to mitigate risk of loss in the event of default on some of these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower or other loan parties, and guarantees. Loans, notes, and mortgages were \$51.0 billion at 2003 year-end, up 31% from 2002 year-end. Average loans, notes, and mortgages in 2003 were \$44.8 billion, up 37% from the 2002 average. These increases result from growth in commercial and consumer and small- and middle-market lending activities. Merrill Lynch periodically sells residential mortgage loans originated by GPC into the secondary market. See Note 8 to the Consolidated Financial Statements for additional information.

#### ***Short- and Long-term Borrowings***

Portions of trading and non-trading assets are funded through deposits, long-term borrowings, and commercial paper (see the Capital Adequacy and Funding section for further information on funding sources).

Commercial paper and other short-term borrowings were \$5.0 billion at 2003 year-end, down 7% from 2002 year-end. The average commercial paper and other short-term borrowings balance in 2003 was \$4.9 billion, down 18% from the 2002 average. Deposits were \$79.5 billion at 2003 year-end, down 3% from 2002 year-end. Average deposits in 2003 were \$81.2 billion, down 3% from the 2002 average. Long-term borrowings were \$83.3 billion at year-end 2003, up 6% from 2002 year-end. Average long-term borrowings in 2003 were \$80.3 billion, up 6% from the 2002 average.

Major components of the changes in long-term borrowings for 2003 and 2002 are as follows:

(dollars in billions)

	2003	2002
Beginning of year	\$ 78.5	\$ 76.6
Issuances	29.1	25.5
Maturities	(26.5)	(27.2)
Other (1)	2.2	3.6
End of year (2)	\$ 83.3	\$ 78.5

(1) Primarily foreign exchange movements.

(2) See Note 9 to the Consolidated Financial Statements for the long-term borrowings maturity schedule.

Total borrowings outstanding at year-end 2003 and 2002 were issued in the following currencies:

(USD equivalent in millions)

	2003	2002
USD	\$ 62,227 70%	\$ 62,132 74%
EUR	12,072 14	10,049 12
JPY	8,780 10	7,668 9
GBP	1,781 2	1,513 2
CAD	1,288 2	1,315 1
AUD	1,235 1	681 1
Other	916 1	519 1
Total	\$ 88,299 100%	\$ 83,877 100%

### Other Non-Trading Assets and Liabilities

Other non-trading assets, which include separate accounts assets, equipment and facilities, goodwill, other non-interest receivables (\$7.7 billion in 2003 and \$8.2 billion in 2002) and other assets were \$36.7 million at 2003 year-end, up 11% from 2002 year-end. Average other non-trading assets in 2003 were \$40.1 billion, up 9% from the 2002 average. Separate account assets are related to Merrill Lynch's insurance businesses and represent segregated funds that are invested for certain policy-holders and other customers. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of Merrill Lynch.

Other non-trading liabilities, which include liabilities of insurance subsidiaries, separate accounts liabilities, and other non-interest payables (\$21.1 billion in 2003 and \$19.6 billion in 2002) were \$41.4 billion at 2003 year-end, up 15% from 2002 year-end. Average other non-trading liabilities were \$38.0 billion in 2003, down 5% from the 2002 average. Separate accounts liabilities represent Merrill Lynch's obligations to its customers related to separate accounts assets.

### Preferred Securities Issued by Subsidiaries

Preferred securities issued by subsidiaries consist primarily of Trust Originated Preferred Securities SM ("TOPrS SM") (see Note 11 to the Consolidated Financial Statements for further information). TOPrSSM proceeds are utilized as part of general balance sheet funding (see Capital Adequacy and Funding section for more information).

### Stockholders' Equity

Stockholders' equity at December 26, 2003 was \$27.7 billion, up 21% from 2002 year-end. This increase primarily resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

At December 26, 2003, total common shares outstanding, excluding shares exchangeable into common stock, were 945.9 million, 9% higher than the 867.3 million shares outstanding at December 27, 2002. The increase was attributable principally to employee stock grants and option exercises. There were no common stock repurchases during 2003 or 2002.

Total shares exchangeable into common stock at 2003 year-end issued in connection with the 1998 merger with Midland Walwyn Inc., were 2.9 million, compared with 3.9 million at 2002 year-end. For additional information, see Note 12 to the Consolidated Financial Statements.

## >> Off Balance Sheet Arrangements

As a part of its normal operations, Merrill Lynch enters into various off balance sheet arrangements that may require future payments. The table below outlines the significant off balance sheet arrangements, as well as the future expiration as of December 26, 2003:

(dollars in millions)

	Total	Expiration			
		Less than 1 Year	1-3 Years	3 +5 Years	Over 5 Years
Liquidity facilities with SPEs (1)	\$ 13,865	\$ 12,233	\$ 1,632	\$ —	\$ —
Liquidity and default facilities with SPEs (1)	3,120	2,024	797	1	298
Residual value guarantees (2)(3)	1,768	57	78	344	1,289
Standby letters of credit and other performance guarantees	770	397	62	43	268
Contractual agreements (4)	43,353	9,491	11,084	7,106	15,672
Commitments to extend credit	36,871	18,197	7,415	7,166	4,093
Resale agreements	10,215	10,215	—	—	—

(1) Amounts relate primarily to facilities provided to municipal bond securitization SPEs.

(2) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$325 million.

(3) Includes \$892 million of reimbursement agreements with the Mortgage 100 SM program.

(4) Represents the liability balance of contractual agreements at December 26, 2003.

Merrill Lynch provides guarantees to Special Purpose Entities ("SPEs") in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities. The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch also acts as liquidity provider to municipal bond securitization SPEs. To protect against declines in value of the assets held by the SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss of these guarantees. The residual value guarantees are related to leasing SPEs where either Merrill Lynch or a third party is the lessee and reimbursement agreements issued in conjunction with sales of loans originated under its Mortgage 100 SM program. Merrill Lynch also makes guarantees to counterparties in the form of standby let-

ters of credit and, at December 26, 2003, held \$277 million of marketable securities as collateral to secure these guarantees. In conjunction with certain principal-protected mutual funds and managed mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. In the ordinary course of trading activities, Merrill Lynch enters into derivative contracts. Contracts are recorded on a net-by-counterparty basis on the Consolidated Balance Sheet where management believes that a legal right of setoff exists under an enforceable netting agreement. Contracts with counterparties that are in a net mark-to-market loss position at December 26, 2003 are recorded as liabilities.

The amounts in the preceding table do not necessarily represent expected future cash flow requirements. Refer to Note 8 and Note 13 to the Consolidated Financial Statements for a further discussion of these arrangements.

## >> Contractual Obligations

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch's contractual obligations by remaining maturity at December 26, 2003. Excluded from this table are obligations recorded on the Consolidated Balance Sheet that are generally short-term in nature, including securities financing transactions, trading liabilities, deposits, commercial paper and other short-term borrowings and other payables. Also excluded are obligations that are related to our insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability and separate accounts liabilities, which fund separate accounts assets.

(dollars in millions)

	Expiration				
	Total	Less than 1 Year	1-3 Years	3 + -5 Years	Over 5 Years
Long-term borrowings	\$ 83,299	\$ 17,397	\$ 25,266	\$ 18,228	\$ 22,408
Operating lease commitments	3,885	524	1,006	853	1,502
Purchasing and other commitments	8,348	7,211	715	186	236

Merrill Lynch issues U.S. and non-U.S. dollar-denominated long-term borrowings with both variable and fixed interest rates as part of its overall funding strategy. For further information on funding and long-term borrowings, see the Capital Adequacy and Funding section and Note 9 to the Consolidated Financial Statements. In the normal course of business, Merrill Lynch enters into various noncancellable long-term operating lease agreements, various purchasing commitments, commitments to extend credit and other commitments. For detailed information regarding these commitments, see Note 13 to the Consolidated Financial Statements.

In January 2004, Merrill Lynch entered into a commitment to extend a four billion Euro loan to a large French pharmaceutical company in connection with its bid to acquire another large European pharmaceutical company. The loan

commitment is contingent upon acceptance of the offer. Merrill Lynch intends to syndicate out a significant portion of this commitment prior to funding.

## >> Capital Adequacy and Funding

The primary objectives of Merrill Lynch's capital structure and funding policies are to support the successful execution of Merrill Lynch's business strategies while ensuring:

- sufficient equity capital to absorb losses and
- liquidity at all times, across market cycles, and through periods of financial stress.

### Capital Adequacy

At December 26, 2003, Merrill Lynch's equity capital was comprised of \$27.2 billion of common equity, \$425 million of preferred stock, and \$2.7 billion of TOPrSM. Merrill Lynch continually reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, as well as the regulatory and legal capital requirements of its subsidiaries. Merrill Lynch determines the appropriateness of its equity capital composition, taking into account that its preferred stock and TOPrSM are perpetual.

To determine equity capital needs to cover potential losses arising from market and credit risks, Merrill Lynch uses statistically-based risk models, developed in conjunction with its risk management practices. Models and other tools used to estimate risks are continually modified as risk analytics are refined. The assumptions used in analytical models are reviewed regularly to ensure that they provide a reasonable and conservative assessment of risks to Merrill Lynch across a stress market cycle.

Merrill Lynch also assesses the need for equity capital to support business risks that may not be adequately measured through these risk models, such as legal and operational risks. When deemed prudent or when required by regulations, Merrill Lynch also purchases insurance to protect against some risks. When assessing capital adequacy, Merrill Lynch does not view insurance as a complete substitute for capital because of the uncertainty and timing of insurance recovery proceeds and the need to periodically renew coverage.

Merrill Lynch also considers equity capital that may be required to support normal business growth and strategic initiatives. Merrill Lynch continued to grow its equity capital base in 2003 primarily through net earnings and the net effect of employee stock transactions. Equity capital of \$30.3 billion at December 26, 2003 (including common equity, preferred equity and TOPrSM) was 19% higher than at the beginning of the year.

Merrill Lynch's capital adequacy planning also takes into account the regulatory environment in which the company operates. Many regulated businesses require various minimum levels of capital. See Note 17 to the Consolidated Financial Statements for further information. Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that

may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making affiliated investments.

Asset-to-equity leverage ratios are commonly used to assess a company's capital adequacy. Merrill Lynch believes that a leverage ratio adjusted to exclude certain assets considered to have a low risk profile provides a more meaningful measure of balance sheet leverage in the securities industry than an unadjusted ratio. Merrill Lynch's unadjusted and adjusted leverage ratios are shown below. When assessing its capital adequacy, Merrill Lynch considers the risk profile of assets, the impact of hedging, off balance sheet exposures, operational risk and other considerations, and does not emphasize leverage ratios which are not risk sensitive.

The following table provides calculations of Merrill Lynch's leverage ratios:

(dollars in millions)

	December 26, 2003	December 27, 2002
Total assets	\$ 494,518	\$ 449,601
Less:		
Receivables under resale agreements	71,756	71,338
Receivables under securities borrowed transactions	45,472	45,543
Securities received as collateral	9,156	3,693
Adjusted assets	\$ 368,134	\$ 329,027
Stockholders' equity	\$ 27,651	\$ 22,875
Preferred securities issued by subsidiaries	2,670	2,658
Equity capital	\$ 30,321	\$ 25,533
Leverage ratio (1)	16.3x	17.6x
Adjusted leverage ratio (2)	12.1x	12.9x

(1) Total assets divided by equity capital.

(2) Adjusted assets divided by equity capital.

As part of Merrill Lynch's capital management, the board of directors authorized the repurchase of up to \$2 billion of outstanding common shares under a program announced on February 10, 2004. Based on the risks and equity needs of its businesses, Merrill Lynch believes that its equity capital base is sufficient to meet business and growth requirements.

## Funding

### Liquidity Risk Management

Merrill Lynch seeks to assure liquidity at all times, across market cycles and through periods of financial stress. Merrill Lynch's primary liquidity objective is to ensure that all unsecured debt obligations maturing within one year can be repaid without issuing new unsecured debt or requiring liquidation of business assets. In order to accomplish this liquidity objective, Merrill Lynch has established a set of liquidity practices that are outlined below. In addition, Merrill Lynch maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

**Maintain an appropriate mix of short- and long-term capital:** Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital, which includes the non-current portion of long-term borrowings and equity capital at ML & Co. The following items are generally financed with long-term capital:

- The portion of trading and other assets that (1) cannot be self-funded in the secured financing market, considering stress market conditions; or (2) are not financed with certain subsidiary unsecured liabilities such as deposits
- Long-term, illiquid assets such as goodwill and fixed assets
- Subsidiaries' regulatory capital
- Collateral on derivative contracts that may be required in the event of changes in Merrill Lynch's ratings or movements in underlying instruments
- Portions of commitments to extend credit based on the probability of drawdown
- Potential inventory purchases of Merrill Lynch debt related to market making activities

During 2003, adequate long-term capital was maintained in order to finance these items.

In assessing the appropriateness of its financing liabilities, Merrill Lynch seeks to: (1) ensure sufficient matching of its assets based on factors such as holding period, contractual maturity and regulatory restrictions and (2) limit the amount of liabilities maturing in any particular period. Merrill Lynch also considers circumstances that might cause contingent funding obligations, including early repayment of debt.

Most indebtedness at December 26, 2003 is considered senior debt as defined under various indentures (see Note 9 to the Consolidated Financial Statements for further information). Senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

Included in its debt obligations are structured notes issued by Merrill Lynch with returns linked to other debt or equity securities, indices, or currencies. Merrill Lynch could be required to immediately settle a structured note obligation for cash or other securities under some circumstances, which is taken into account for liquidity planning purposes. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying instruments.

Merrill Lynch's bank subsidiaries that take deposits have liquidity policies, guidelines and practices in place aimed at ensuring sufficient liquidity is available at each bank to meet deposit obligations under stress market conditions.

**Maintain sufficient alternative funding sources:** The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, other secured borrowings, which require pledging unencumbered securities held for trading or investment purposes, or collateral and proceeds from maturing loans and other assets. Nonetheless, a key funding assumption is accessibility to a repurchase market for government, agency and other highly rated securities.

Merrill Lynch also maintains a separate liquidity portfolio comprised primarily of U.S. Government agency obligations that is funded with long-term debt with an average maturity greater than one year. The carrying value of the assets in the portfolio, net of related hedges, was \$14.6 billion and \$12.6 billion at December 26, 2003 and December 27, 2002, respectively. These assets may be sold or pledged to provide immediate liquidity to ML & Co. to repay maturing debt obligations. Merrill Lynch regularly tests the access to this portfolio in the repurchase market. On December 26, 2003, approximately \$700 million was sold subject to a repurchase agreement maturing on December 29, 2003. Excluding this repurchase agreement, as of December 26, 2003, the borrowing power of the liquidity portfolio would meet maturing debt obligations for approximately five months. In addition to this portfolio, Merrill Lynch monitors the extent to which other unencumbered assets are available as a source of funds during a liquidity event.

Merrill Lynch also maintains a committed, multi-currency, unsecured bank credit facility. The facility totaled \$3.0 billion at December 26, 2003 and \$3.5 billion at December 27, 2002. Merrill Lynch elected to reduce the amount of its credit facility in 2003. The facility, which expires in May 2004, is expected to be renewed. At December 26, 2003 and December 27, 2002, there were no borrowings outstanding under this credit facility. Merrill Lynch's credit facility contains covenants, including a minimum net worth requirement, with which Merrill Lynch has maintained compliance at all times. The credit facility does not, however, require Merrill Lynch to maintain specified credit ratings.

**Concentrate unsecured financing at ML & Co.:** ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

While Merrill Lynch concentrates excess funds at ML & Co., Merrill Lynch recognizes that regulatory restrictions may limit the free flow of funds from subsidiaries where assets are held to ML & Co. and also between subsidiaries. For example, a portion of deposits held by Merrill Lynch bank subsidiaries funds securities that can be sold or pledged to provide immediate liquidity for the banks. In addition, a portion of deposits are utilized to fund the long-term capital requirements of the banks. However, there are regulatory restrictions on the use of this liquidity for ML & Co. and non-bank affiliates of Merrill Lynch. Merrill Lynch takes these and other restrictions into consideration when evaluating the liquidity of individual legal entities and ML & Co. See Note 9 to the Consolidated Financial Statements for more information on borrowings.

**Diversify unsecured funding sources:** Merrill Lynch strives to continually expand and globally diversify its funding programs, its markets, and its investor and creditor base to minimize reliance on any one investor base or region. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor. Merrill Lynch benefits by distributing a significant portion of its debt issuances through its own sales force to a large, diversified global client base. Merrill Lynch also makes markets buying and selling its debt instruments.

**Adhere to prudent governance processes:** In order to ensure that both daily and strategic funding activities are appropriate and subject to senior management review and control, liquidity management is reviewed in Asset/Liability Committee meetings with senior Treasury management and is presented to ML & Co. executive management and the Finance Committee of the Board of Directors. Merrill Lynch also manages the growth and composition of its assets and sets limits on the availability of unsecured funding at any time.

### ***Asset and Liability Management***

Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve low cost financing and an appropriate liability maturity profile. The cost and availability of unsecured funding may also be impacted by general market conditions or by matters specific to the financial services industry or Merrill Lynch. In 2003, corporate credit spreads narrowed considerably, which reduced the cost of funding for financial institutions, including Merrill Lynch.

Merrill Lynch uses derivative transactions to more closely match the duration of borrowings to the duration of the assets being funded, thereby enabling interest rate risk to be managed within limits set by the Corporate Risk Management Group ("CRM"). Interest rate swaps also serve to adjust Merrill Lynch's interest expense and effective borrowing rate principally to floating rate. Merrill Lynch also enters into currency swaps to hedge assets that are not financed through debt issuance in the same currency. Investments in subsidiaries in non-U.S. dollar currencies are also hedged in whole or in part to mitigate translation adjustments in the cumulative translation account. See Notes 1 and 6 to the Consolidated Financial Statements for further information.

### ***Credit Ratings***

The cost and availability of unsecured funding are also impacted by credit ratings. In addition, credit ratings are important when competing in certain markets and when seeking to engage in long-term transactions including over-the-counter derivatives. Factors that influence Merrill Lynch's credit ratings include the credit rating agencies' assessment of the general operating environment, relative positions in the markets in which Merrill Lynch competes, reputation, level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries at February 24, 2004 were as follows. Rating agencies express outlooks from time to time on these ratings, which are currently stable.

Rating Agency	Senior Debt Ratings	Preferred Stock Ratings	TOPrS SM Ratings
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated	Not Rated
Fitch Ratings	AA-	A+	A+
Moody's Investors Service, Inc.	Aa3	A2	A1
Rating & Investment Information, Inc. (Japan)	AA	A+	A+
Standard & Poor's Ratings Services	A+	A-	A-

## >> Risk Management

### Risk Management Philosophy

Risk-taking is an integral part of Merrill Lynch's core business activities. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational, and other risks that are material and require comprehensive controls and ongoing management. The responsibility and accountability for these risks remain primarily with the businesses. CRM, along with other control units, works to ensure that these risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, CRM has established a risk management process, which includes:

- a formal risk governance organization that defines the oversight process and its components;
- a regular review of the entire risk management process by the Audit Committee of the Board of Directors ("the Audit Committee");
- clearly defined risk management policies and procedures supported by a rigorous analytical framework;
- communication and coordination among the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight; and
- clearly articulated risk tolerance levels as defined by a group composed of executive management ("the Executive Committee"), which are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management process, combined with CRM's personnel and analytic infrastructure, work to ensure that Merrill Lynch's risk tolerance is well-defined and understood by the firm's businesses as well as by its executive management. Other groups, including Corporate Audit, Finance, Legal and Treasury, work with CRM to establish and maintain this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of CRM is to make certain that risk-related losses occur within acceptable, predefined levels.

### Risk Governance Structure

Merrill Lynch's risk governance structure is comprised of the Audit Committee, the Executive Committee, the Risk Oversight Committee ("ROC"), the business units, CRM, and various corporate governance committees.

The Audit Committee, which is comprised entirely of independent directors, has authorized the ROC to establish Merrill Lynch's risk management policies and approves the ROC charter. The ROC reports to the Executive Committee and provides the Audit Committee with regular credit and market risk updates.

The Executive Committee establishes risk tolerance levels for the firm and authorizes material changes in Merrill Lynch's risk profile. This Committee also ensures that the risks assumed by Merrill Lynch are managed within these tolerance levels and verifies that Merrill Lynch has implemented appropriate policies for the effective management of risks. The Executive Committee must approve all substantive changes to risk policies, including those proposed by the ROC. The Executive Committee pays particular attention to risk concentrations and liquidity concerns.

The ROC, comprised of senior business and control managers and chaired by the Chief Financial Officer, oversees Merrill Lynch's risks and ensures that the business units create and implement processes to identify, measure, and monitor their risks. The ROC also assists the Executive Committee in determining risk tolerance levels for the firm's business units and monitors the activities of Merrill Lynch's corporate governance committees, reporting significant issues and transactions to the Executive Committee and the Audit Committee.

Various other governance committees exist to create policy, review activity, and ensure that new and existing business initiatives remain within established risk tolerance levels. Representatives of the principal independent control functions participate as voting members of these committees.

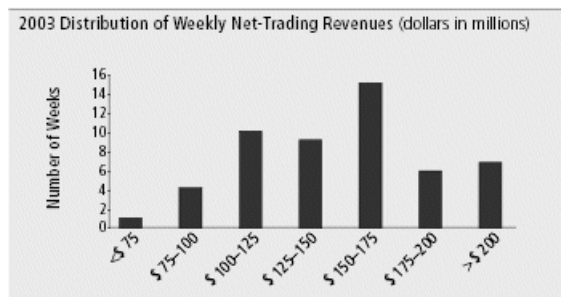
### Corporate Risk Management

CRM is an independent control function responsible for Merrill Lynch's market and credit risk management processes both within and across the firm's business units. The co-heads of CRM report directly to the Chief Financial Officer, who chairs the ROC and is a member of the Executive Committee. Market risk is defined to be the potential change in value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, and/or other risks. Credit risks are defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. CRM also provides Merrill Lynch with an overview of its risk for various aggregate portfolios and develops and maintains the analytics, systems, and policies to conduct all risk management functions.



CRM's chief monitoring and risk measurement tool is Merrill Lynch's Risk Framework. The Risk Framework defines and communicates Merrill Lynch's risk tolerance and establishes aggregate and broad risk limits for the firm. Market risk limits are intended to constrain exposure to specific asset classes, market risk factors, and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and tenor of exposure to individual counterparties and issuers, types of counterparties and issuers, countries, and types of financing collateral. Risk Framework exceptions and violations are reported and investigated at pre-defined and appropriate levels of management. The Risk Framework and its limits have been approved by the Executive Committee and the risk parameters that define the Risk Framework have been reviewed by the Audit Committee. The Executive Committee reviews the Risk Framework annually and approves any material changes. The ROC reports all substantive Risk Framework changes to the Audit Committee.

The overall effectiveness of Merrill Lynch's risk processes and policies can be seen on a broader level when analyzing weekly net trading revenues over time. CRM's policies and procedures of monitoring and controlling risk, combined with the businesses' focus on customer order-flow-driven revenues and selective proprietary positioning, have helped Merrill Lynch to reduce earnings volatility within its trading portfolios. While no guarantee can be given regarding future earnings volatility, Merrill Lynch will continue to pursue policies and procedures that assist the firm in measuring and monitoring its risks. A graph of Merrill Lynch's weekly revenues from trading-related activities for 2003 follows:



## Market Risk

CRM's Market Risk Group is responsible for approving the products and markets in which Merrill Lynch's major business units and functions will transact and take risk. Moreover, it is responsible for identifying the risks to which these business units will be exposed in these approved products and markets. The Market Risk Group uses a variety of quantitative methods to assess the risk of Merrill Lynch's positions and portfolios. In

particular, the Market Risk Group quantifies the sensitivities of Merrill Lynch's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's current portfolios would have incurred throughout the historical period. From these distributions, CRM derives a number of useful risk statistics including VaR. The disclosed VaR is an estimate of the amount that Merrill Lynch's current portfolios could lose with a specified degree of confidence, over a given time interval. The VaR for Merrill Lynch's overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. CRM believes that the tabulated risk measures provide broad guidance as to the amount Merrill Lynch could lose in future periods, and CRM works continually to improve its measurement and the methodology of the firm's VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk.

In the Merrill Lynch VaR system, CRM uses a historical simulation approach to estimate VaR using a 95% confidence level and a one-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products, (e.g., options).

VaR associated with Merrill Lynch's U.S. banks, is included in the trading and non-trading VaR tables below. Virtually all of the U.S. bank VaR is related to non-trading investment portfolio assets and is reflected in the non-trading VaR table, with a small portion included in the trading-related VaR table. The non-trading VaR also includes the interest rate risk associated with Merrill Lynch's \$4.8 billion of outstanding Liquid Yield Option™ notes or LYONs.®

As part of the risk disclosure process, the Market Risk Group continues to refine the alignment of certain asset classes across the trading and non-trading VaR tables while balancing accounting treatments and internal risk management processes.

The table that follows presents Merrill Lynch's average and year-end VaR for trading instruments for 2003 and 2002. Additionally, high and low VaR for 2003 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

(dollars in millions)

	Year-end 2003	Daily Average 2003	High 2003	Low 2003	Year-end 2002	Daily Average 2002
Trading value-at-risk (1)						
Interest rate and credit spread	\$ 68	\$ 56	\$ 87	\$ 38	\$ 42	\$ 45
Equity	34	30	50	9	36	35
Commodity	1	1	4	—	—	—
Currency	2	2	13	—	3	3
Volatility	36	26	39	15	19	18
	141	115			100	101
Diversification benefit	(62)	(54)			(48)	(43)
Overall (2)	\$ 79	\$ 61	\$ 84	\$ 40	\$ 52	\$ 58

(1) Based on a 95% confidence level and a weekly holding period.

(2) Overall VaR using a 95% confidence level and a one-day holding period was \$30 million and \$25 million at year-end 2003 and 2002, respectively.

Merrill Lynch has increased and, if market conditions remain favorable, may continue to increase its risk taking in a number of growth areas, including certain lending areas, proprietary trading activities and principal investments. These activities provide growth opportunities while also increasing the loss potential under certain market conditions. CRM monitors these risk levels on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

Overall trading VaR increased in 2003 due to increases in interest rate and credit spread VaR and volatility-related VaR, in part due to higher proprietary positioning.

The following table presents Merrill Lynch's VaR for non-trading instruments (including Merrill Lynch's U.S. banks and Merrill Lynch's LYONs®):

(dollars in millions)

	Year-end 2003	Quarterly Average 2003	Year-end 2002	Quarterly Average 2002
Non-trading value-at-risk (1) Interest rate and credit spread	\$ 94	\$ 92	\$ 89	\$ 90
Equity	56	34	27	29
Currency	14	7	3	4
Volatility	21	16	13	11
	185	149	132	134
Diversification benefit	(67)	(43)	(42)	(39)
Overall	\$ 118	\$ 106	\$ 90	\$ 95

(1) Based on a 95% confidence level and a weekly holding period.

## Credit Risk

CRM's Credit Risk Group assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firm-wide credit risk levels within the Risk Framework limits. The group reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. The group is also responsible for ongoing monitoring of credit quality and limit compliance and the group actively works with all the business units of Merrill Lynch to manage and mitigate credit risk.

The Credit Risk Group uses a variety of methodologies to set limits on exposure resulting from a counterparty or issuer failing to fulfill its contractual obligations. The group performs analysis in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, product type, and tenor to maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default protection. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view toward early problem identification and protection against unacceptable credit-related losses. In 2003, the Credit Risk Group continued investing additional resources to enhance its methods and policies in order to assist in the management of Merrill Lynch's credit risk.

Credit risk and exposure that originates from Merrill Lynch's Global Private Client business is monitored constantly by CRM. Exposures include credit risks for mortgages, home equity lines of credit, margin accounts, loans to individuals and working capital lines and other loans that Merrill Lynch maintains with certain small business clients. When required, these exposures are collateralized in accordance with regulatory requirements governing such activities. Credit risk in Merrill Lynch's U.S. banks' investment portfolios is monitored within CRM and by credit risk management analysts. In addition, Merrill Lynch's U.S. banks have independent credit approval and monitoring processes in place.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with substantially all of its derivative counterparties as soon as possible. The agreements are negotiated with each counterparty and are complex in nature. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce default risk, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of \$10.4 billion of collateral) of OTC trading derivatives in a gain position by maturity at December 26, 2003. (Please note that the following table is inclusive of credit exposure from OTC derivative transactions only and does not include other material credit exposures).

(dollars in millions)

Credit Rating (1)	Years to Maturity				Cross- Maturity Netting(2)	
	0-3	3+-5	5+-7	Over 7		Total
AAA	\$ 1,543	\$ 1,175	\$ 531	\$ 2,142	\$ (823)	\$ 4,568
AA	3,223	2,204	489	2,294	(2,106)	6,104
A	2,562	869	878	3,344	(1,136)	6,517
BBB	1,371	752	315	1,189	(782)	2,845
Other	1,324	198	152	318	(203)	1,789
Total	\$ 10,023	\$ 5,198	\$ 2,365	\$ 9,287	\$ (5,050)	\$ 21,823

(1) Represents credit rating agency equivalent of internal credit ratings.

(2) Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

In addition to obtaining collateral, Merrill Lynch attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of its derivative contracts.

## Operational Risk

Operational Risk Management is Merrill Lynch's formalized approach to measure, analyze, assess, and manage risks from external events and the firm's people, processes, systems, and clients. Some of these risks cannot be avoided, for example, the exposure of the firm to natural or man-made disasters, but can be mitigated by management actions, recovery plans and insurance. Merrill Lynch manages operational risks in a variety of ways. These include maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring and analyzing risk events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, maintaining fully operational, off-site backup facilities, requiring education and training of employees, and emphasizing the importance of management oversight.

While each business has processes and systems in place to address operational risks within the unit, the Operational Risk Management group has overall responsibilities to provide policies, tools, and the education necessary to ensure widespread effective practices within the firm. The group partners with Audit, Law and Compliance, Technology, Finance, Human Resources, Treasury, and the business and regional areas to evaluate risks, take actions to mitigate risks, and adhere to regulatory requirements.

## Other Risks

Liquidity risk relates to the management of the balance sheet. These risks include both potentially being unable to raise funding with appropriate maturity and interest rate characteristics or being unable to liquidate an asset in a timely manner at a reasonable price. For more information on how Merrill Lynch manages liquidity risk, see the Capital Adequacy and Funding section.

Merrill Lynch encounters a variety of other risks, which could have the ability to impact the viability, profitability, and cost-effectiveness of present or future transactions. Such risks include political, tax, and regulatory risks that may arise due to changes in local laws, regulations, accounting standards, or tax statutes. To assist in the mitigation of such risks, Merrill Lynch rigorously reviews new and pending legislation and regulations. Additionally, Merrill Lynch employs professionals in jurisdictions in which the company operates to actively follow issues of potential concern or impact to the firm and to participate in related interest groups.

Over the previous two years, the research function at integrated broker-dealers has been the subject of substantial regulatory and media attention. As a result of regulatory and legal mandates as well as firm initiatives, Merrill Lynch has enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming a Research Recommendations Committee to review equity analysts' investment recommendations; adopting a new simplified securities rating system; implementing new policies and procedures to comply with all legal requirements, including those limiting communications between equity research analysts and investment banking and other origination personnel; and adding additional disclosures on research reports regarding potential conflicts of interest. Merrill Lynch has also appointed an independent consultant to identify independent third-party research providers that will provide fundamental research on certain companies covered by Merrill Lynch. This research will be made available to Merrill Lynch private clients in the United States and, upon request, to institutional clients in the United States in accordance with legal requirements.

The compensation system for research analysts includes an evaluation of the performance of analysts' recommendations, including the extent to which the analyst's insights and recommendations have benefited investors. The compensation of all analysts responsible for the substance of an equity research report is required to be reviewed and approved by a committee reporting to the Board of Directors of Merrill Lynch Pierce, Fenner & Smith Incorporated. The Management Development and Compensation Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, is also required to review this compensation process for consistency with certain legal requirements. Merrill Lynch's Investment Banking Group has no input into research analyst compensation.

## **>> *Non-Investment Grade Holdings and Highly Leveraged Transactions***

Non-investment grade holdings and highly leveraged transactions involve risks related to the creditworthiness of the issuers or counterparties and the liquidity of the market for such investments. Merrill Lynch recognizes these risks and, whenever possible, employs strategies to mitigate exposures. The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment.

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring activities. Non-investment grade holdings have been defined as debt and preferred equity securities rated lower than BBB or equivalent ratings by recognized credit-rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either replicate ownership of the underlying security (e.g., long total return swaps) or potentially force ownership of the underlying security (e.g., short put options). Derivatives may also subject Merrill Lynch to credit spread or issuer default risk, in that changes in credit spreads or in the credit quality of the underlying securities may adversely affect the derivative's fair values. Merrill Lynch seeks to manage these risks by engaging in various hedging strategies to reduce its exposure associated with non-investment grade positions, such as purchasing an option to sell the related security or entering into other offsetting derivative contracts.

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. On a selected basis, Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing. In addition, Merrill Lynch syndicates loans for non-investment grade companies or in connection with highly leveraged transactions and may retain a portion of these loans.

Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will continue to be made on a select basis.

## Trading Exposures

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
Trading assets:		
Cash instruments	\$ 8,331	\$ 4,825
Derivatives	4,124	5,016
Trading liabilities — cash instruments	(2,024)	(1,352)
Collateral on derivative assets	(2,335)	(2,581)
Net trading asset exposure	\$ 8,096	\$ 5,908

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 26, 2003, the carrying value of such debt and equity securities totaled \$259 million, of which 18% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$140 million at December 27, 2002, of which 29% related to market-making activities. Also included are distressed bank loans totaling \$143 million and \$203 million at year-end 2003 and 2002, respectively.

## Non-Trading Exposures

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
Investment securities	\$ 183	\$ 300
Commercial loans (net of allowance for loan losses):		
Bridge loans (1)	—	131
Other loans (1)(2)	8,344	4,904
Other investments:		
Partnership interests (3)	902	1,749
Other equity investments (4)	716	583

(1) Includes accrued interest.

(2) Includes \$7.7 billion and \$4.2 billion of secured loans at year-end 2003 and 2002, respectively.

(3) Includes \$295 million and \$877 million in investments at year-end 2003 and 2002, respectively, related to deferred compensation plans, for which a portion of the default risk of the investments rests with the participating employees.

(4) Includes investments in 204 and 129 enterprises at year-end 2003 and 2002, respectively.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
Additional commitments to invest in partnerships (1)	\$ 426	\$ 698
Unutilized revolving lines of credit and other lending commitments	4,860	2,225

(1) Includes \$150 million and \$110 million, at year-end 2003 and 2002, respectively, related to deferred compensation plans.

At December 26, 2003, the largest industry exposure was to the financial services sector, which accounted for 20% of total non-investment grade positions and highly leveraged transactions.

Merrill Lynch sponsors deferred compensation plans in which employees who meet certain minimum compensation requirements may participate. Contributions to the plans are made on a tax-deferred basis by the participants. Participants' returns on these contributions may be indexed to various Merrill Lynch mutual funds and other funds, including certain company-sponsored investment vehicles that qualify as employee securities companies.

## >> Litigation

Certain actions have been filed against Merrill Lynch in connection with Merrill Lynch's business activities. Although the ultimate outcome of legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings. Refer to Note 13 to the Consolidated Financial Statements for additional information.

## >> Critical Accounting Policies and Estimates

The following is a summary of Merrill Lynch's critical accounting policies. Of particular importance to Merrill Lynch's financial statements is the valuation of financial instruments. Because valuation may involve significant estimation where observable prices are not available, provided below is a categorization of Merrill Lynch's financial instruments based on liquidity of the instrument and the amount of estimation required in determining its value as recorded in the Consolidated Financial Statements.

### Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding

- certain trading inventory valuations
- the outcome of litigation
- the carrying amount of goodwill
- the allowance for loan losses
- the realization of deferred tax assets
- tax reserves
- insurance reserves and recovery of insurance deferred acquisition costs
- cash flow projections used in determining whether variable interest entities ("VIEs") should be consolidated, 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. A discussion of the areas in which estimates are a significant component of the amounts reported in the Consolidated Financial Statements follows:

### Valuation of Financial Instruments

Fair values for exchange-traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for OTC derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued 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.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs.

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., consent of other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Accordingly, Merrill Lynch estimates the fair value of these securities based on management's best estimate, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar market transactions and/or review of underlying financial conditions and other market factors.

In addition, certain of Merrill Lynch's investments that are accounted for under the equity method of accounting require management to make certain estimates in determining the allocation of its cost basis to the underlying assets. During 2003 Merrill Lynch recorded \$179 million of net revenues related to its share of earnings from equity method investments.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires more than the simple application of the pricing models.

Assets and liabilities recorded on the balance sheet can therefore be broadly categorized, with respect to valuation, as follows:

1. highly liquid cash and derivative instruments for which quoted market prices are readily available (for example, exchange-traded equity securities and derivatives such as listed options)
2. liquid instruments, including
  - a) cash instruments for which quoted prices are available but which may trade less frequently such that there is not complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds);
  - b) derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps);
  - c) instruments that are priced with reference to financial instruments whose parameters can be directly observed; and
  - d) all consumer and small- and middle-market business loans as well as performing commercial loans held for investment purposes (which are carried at their principal amount outstanding)
3. less liquid instruments that are valued using management's best estimate of fair value, and instruments that are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management (for example, private equity investments; long-dated or complex derivatives such as certain foreign exchange options and credit default swaps; distressed debt; and aged inventory positions, including aged commercial loans held for sale (which are reported at the lower of cost or estimated fair value) and non-performing commercial loans held for investment purposes).

Merrill Lynch continually refines the process used to determine the appropriate categorization of its assets and liabilities. At December 26, 2003 and December 27, 2002, assets and liabilities on the Consolidated Balance Sheets can be categorized as follows:

#### December 26, 2003

(dollars in millions)

	Category 1	Category 2	Category 3	Total
<b>Assets</b>				
Trading assets, excluding contractual agreements	\$ 49,072	\$ 46,448	\$ 1,593	\$97,113
Contractual agreements	4,969	28,555	3,672	37,196
Investment securities	10,510	59,029	4,728	74,267
Loans, notes, and mortgages (net)	—	50,009	984	50,993
<b>Liabilities</b>				
Trading liabilities, excluding contractual agreements	\$ 36,290	\$ 8,485	\$ 1,205	\$45,980
Contractual agreements	6,942	32,605	3,806	43,353

#### December 27, 2002

(dollars in millions)

	Category 1	Category 2	Category 3	Total
<b>Assets</b>				
Trading assets, excluding contractual agreements	\$ 42,752	\$ 28,153	\$ 1,927	\$72,832
Contractual agreements	3,845	31,756	3,127	38,728
Investment securities	11,259	67,361	3,167	81,787
Loans, notes, and mortgages (net)	—	37,082	1,751	38,833
<b>Liabilities</b>				
Trading liabilities, excluding contractual agreements	\$ 28,459	\$ 4,799	\$ 736	\$33,994
Contractual agreements	4,361	37,051	3,790	45,202

In addition, other trading-related assets recorded in the Consolidated Balance Sheets at year-end 2003 and 2002, include \$117.2 billion and \$116.9 billion of securities financing transactions (receivables under resale agreements and receivables under securities borrowed transactions), which are recorded at their contractual amounts plus accrued interest and for which little or no estimation is required by management.

#### Variable Interest Entities

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and quantitative analysis of a VIE to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE (taking into account credit risk and expected default rates), timing of cash flows, and other significant factors. It should also be noted that although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required.

## >> Recent Developments

#### New Accounting Pronouncements

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. The SOP addresses accounting for differences between contractual cash flows and expected cash flows in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The SOP limits the yield that may be accreted ("accretable yield") to the expected cash flows at acquisition. The SOP requires that the difference between contractual cash flows and expected cash flows ("non-accretable difference") not be recognized as either an adjustment of yield, loss accrual, or valuation allowance. The SOP prohibits investors from displaying accretable yield and non-accretable difference in the balance sheet. The SOP prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The SOP requires that subsequent increases in expected cash flows be recognized prospectively through adjustment of the yield over the remaining life with decreases in expected cash flows recognized as impairment. The SOP is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004. Merrill Lynch will adopt SOP 03-3 at the beginning of fiscal year 2005 and is currently assessing the potential impact on the Consolidated Financial Statements.

In November of 2003, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, as it relates to disclosures for SFAS No. 115 securities. In addition to the disclosures already required by SFAS No. 115, EITF Issue 03-01 requires both quantitative and qualitative disclosures for marketable equity and debt securities. The new disclosure requirements are required to be applied to financial statements for fiscal years ending after December 15, 2003. See Note 5 to the Consolidated Financial Statements for these disclosures.

On July 7, 2003, the AICPA issued SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The SOP is effective for financial statements for Merrill Lynch beginning in 2004. The SOP requires the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch currently employs. The adoption of SOP 03-1 will result in an additional \$45 million of pre-tax expense at the beginning of fiscal year 2004.

On April 30, 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Beginning in the third quarter of 2003, in accordance with SFAS No. 149, Merrill Lynch modified its classification within the Consolidated Statement of Cash Flows. Certain derivative instruments entered into or modified after June 30, 2003, that have been determined to contain a financing element at inception, where Merrill Lynch is deemed the borrower, are now included as a separate component within cash flows from financing activities. Prior to July 1, 2003, the activity associated with such derivative instruments is included within cash flows from operating activities. The adoption of SFAS No. 149 did not have a material impact on the Consolidated Financial Statements.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate another entity known as a VIE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46 requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46 does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. Merrill Lynch adopted FIN 46 on February 1, 2003 for VIEs with which it became involved after January 31, 2003. On October 8, 2003, the FASB deferred the effective date for pre-existing VIEs, and on December 24, 2003, the FASB issued a revision to FIN 46 ("FIN 46R"). Companies are required to adopt either FIN 46 or FIN 46R for periods ending after December 15, 2003. As a result, Merrill Lynch has adopted FIN 46R as the method used for evaluating whether or not VIEs must be consolidated, with the exception of VIEs that issue TOPrSSM, in which case Merrill Lynch has elected to apply the provisions of FIN 46. See Note 7 to the Consolidated Financial Statements for additional FIN 46 disclosure.

On December 31, 2002 the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, an amendment of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 permits three alternative methods for a voluntary transition to the fair value-based method for those entities that adopt the standard prior to the end of fiscal year-end 2003. Beginning in 2004, SFAS No. 148 eliminates prospective application as a method of adoption for reporting stock-based compensation, but continues to permit modified prospective application, which requires the fair value of all unvested awards to be amortized over the remaining service period, as well as restatement of prior years' expense. The transition guidance and disclosure provisions of SFAS No. 148 were effective for fiscal years ending after December 15, 2002. See Note 15 to the Consolidated Financial Statements for these disclosures. Merrill Lynch intends to adopt the fair value method of accounting for stock-based compensation under SFAS No. 123 in 2004 using the retroactive restatement method permitted under SFAS No. 148.

On November 25, 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an *Interpretation of FASB Statements Nos. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 requires guarantors to disclose their obligations under certain guarantees. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosures were effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 13 to the Consolidated Financial Statements for these disclosures.

See Note 1 to the Consolidated Financial Statements for additional new accounting pronouncements.





## Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries and affiliates, "Merrill Lynch") is responsible for preparing the consolidated financial statements and related notes contained in this Annual Report. The consolidated financial statements and related notes are prepared in accordance with generally accepted accounting principles in the United States of America. Other financial data included in the Annual Report are consistent with those in the financial statements and related notes.

Management recognizes the importance of safeguarding Merrill Lynch's assets and integrity. Therefore, Management devotes considerable attention to understanding the risks of its businesses, promoting the highest standards of ethical conduct, exercising responsible stewardship over Merrill Lynch's assets, and presenting fair financial statements.

Merrill Lynch regularly reviews its framework of internal controls, which includes policies, procedures and organizational structures, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, if any, and other opportunities for improvement are implemented as appropriate.

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. The Finance Division establishes accounting policies and procedures, measures and monitors financial risk, and 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, Corporate Reporting, Corporate Law, Treasury and Risk Management groups and is responsible for implementing and evaluating disclosure controls and procedures on an ongoing basis. Meetings of the Disclosure Committee are held as needed throughout each fiscal quarter to review key events and disclosures impacting the period and prior to the filing of the 10-K and 10-Q reports and proxy statement with the SEC.

Merrill Lynch's *Guidelines for Business Conduct*, as updated in 2002 by the Board of Directors, were designated 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 auditors, Deloitte & Touche LLP, perform annual audits of Merrill Lynch's financial statements in accordance with generally accepted auditing standards. The independent auditors 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 auditors each year. The independent auditors are 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.

Additionally, beginning in December 2004, Section 404 of the Sarbanes-Oxley Act of 2002 will require that management make an assertion as to the effectiveness of Merrill Lynch's internal controls over financial reporting. The independent auditors will be required to attest to management's assertion. In preparation for this requirement, 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, Risk Management, Operations, Technology and Legal functions. This Committee is responsible for reviewing the progress of the Section 404 compliance initiative and directing the efforts of the Project Management Office.

In furtherance 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 five 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 auditors, and evaluates the performance, independence and fees of our independent auditors and the professional services they provide. The Audit Committee also has the sole authority to appoint or replace the independent auditors.

The Finance Committee, which consists of five 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 as well as reviewing procedures for implementing and adhering to such policies.

**E. Stanley O'Neal**  
Chairman  
Chief Executive Officer  
and President

**Ahmass L. Fakahany**  
Executive Vice President and  
Chief Financial Officer



## *Independent Auditors' Report*

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### **To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:**

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 26, 2003. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Merrill Lynch at December 26, 2003 and December 27, 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 26, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2002 Merrill Lynch changed its method of accounting for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

A handwritten signature in cursive script that reads "Deloitte &amp; Touche LLP".

Deloitte & Touche LLP  
New York, New York  
March 1, 2004

## Consolidated Statements of Earnings

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December		
	2003	2002	2001
<b>Net Revenues</b>			
Asset management and portfolio service fees	\$ 4,696	\$ 4,914	\$ 5,351
Commissions	4,396	4,657	5,266
Principal transactions	3,236	2,331	3,930
Investment banking	2,628	2,413	3,539
Other	1,111	751	528
	<u>16,067</u>	<u>15,066</u>	<u>18,614</u>
<b>Interest and dividend revenues</b>	11,678	13,206	20,142
Less interest expense	<u>7,591</u>	<u>9,645</u>	<u>16,877</u>
Net interest profit	<u>4,087</u>	<u>3,561</u>	<u>3,265</u>
Total Net Revenues	<u>20,154</u>	<u>18,627</u>	<u>21,879</u>
<b>Non-Interest Expenses</b>			
Compensation and benefits	9,570	9,426	11,269
Communications and technology	1,457	1,741	2,232
Occupancy and related depreciation	889	909	1,077
Brokerage, clearing, and exchange fees	722	727	895
Advertising and market development	429	540	703
Professional fees	581	552	545
Office supplies and postage	197	258	349
Goodwill amortization	—	—	207
Other	787	630	901
Net (recoveries) expenses related to September 11	(147)	(212)	131
Net restructuring and other charges	20	8	2,193
Research and other settlement-related expenses	<u>—</u>	<u>291</u>	<u>—</u>
Total Non-Interest Expenses	<u>14,505</u>	<u>14,870</u>	<u>20,502</u>
<b>Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries</b>	5,649	3,757	1,377
Income Tax Expense	1,470	1,053	609
Dividends on Preferred Securities Issued by Subsidiaries	<u>191</u>	<u>191</u>	<u>195</u>
<b>Net Earnings</b>	<u>\$ 3,988</u>	<u>\$ 2,513</u>	<u>\$ 573</u>
<b>Net Earnings Applicable to Common Stockholders</b>	<u>\$ 3,950</u>	<u>\$ 2,475</u>	<u>\$ 535</u>
<b>Earnings Per Common Share</b>			
Basic	\$ 4.39	\$ 2.87	\$ 0.64
Diluted	\$ 4.05	\$ 2.63	\$ 0.57

See Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	December 26, 2003	December 27, 2002
<b>Assets</b>		
Cash and cash equivalents	\$ 10,150	\$ 10,211
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	15,171	7,375
Securities financing transactions		
Receivables under resale agreements	71,756	71,338
Receivables under securities borrowed transactions	45,472	45,543
	<u>117,228</u>	<u>116,881</u>
Trading assets, at fair value <i>(includes securities pledged as collateral of \$23,146 in 2003 and \$11,344 in 2002)</i>		
Contractual agreements	37,196	38,728
Equities and convertible debentures	23,170	13,530
Corporate debt and preferred stock	22,459	18,569
Mortgages, mortgage-backed, and asset-backed securities	20,508	14,987
Non-U.S. governments and agencies	15,991	10,095
U.S. Government and agencies	10,408	10,116
Municipals and money markets	4,577	5,535
	<u>134,309</u>	<u>111,560</u>
Investment securities <i>(includes securities pledged as collateral of \$6,608 in 2003 and \$0 in 2002)</i>	74,267	81,787
Securities received as collateral	9,156	3,693
Other receivables		
Customers <i>(net of allowance for doubtful accounts of \$60 in 2003 and \$79 in 2002)</i>	36,955	35,317
Brokers and dealers	7,346	8,485
Interest and other	9,888	10,437
	<u>54,189</u>	<u>54,239</u>
Loans, notes, and mortgages <i>(net of allowance for loan losses of \$318 in 2003 and \$285 in 2002)</i>	50,993	38,833
Separate accounts assets	17,034	13,042
Equipment and facilities <i>(net of accumulated depreciation and amortization of \$5,054 in 2003 and \$4,671 in 2002)</i>	2,612	3,080
Goodwill	4,814	4,446
Other assets	4,595	4,454
<b>Total Assets</b>	<u>\$ 494,518</u>	<u>\$ 449,601</u>

	December 26, 2003	December 27, 2002
<b>Liabilities</b>		
<b>Securities financing transactions</b>		
Payables under repurchase agreements	\$ 96,138	\$ 85,378
Payables under securities loaned transactions	11,081	7,640
	<u>107,219</u>	<u>93,018</u>
<b>Commercial paper and other short-term borrowings</b>	5,000	5,353
<b>Deposits</b>	79,457	81,842
<b>Trading liabilities, at fair value</b>		
Contractual agreements	43,353	45,202
U.S. Government and agencies	15,323	14,678
Non-U.S. governments and agencies	12,066	7,952
Equities and convertible debentures	10,793	4,864
Corporate debt, municipals and preferred stock	<u>7,798</u>	<u>6,500</u>
	<u>89,333</u>	<u>79,196</u>
<b>Obligation to return securities received as collateral</b>	9,156	3,693
<b>Other payables</b>		
Customers	28,859	28,569
Brokers and dealers	19,109	16,541
Interest and other	<u>22,378</u>	<u>20,724</u>
	<u>70,346</u>	<u>65,834</u>
<b>Liabilities of insurance subsidiaries</b>	3,353	3,566
<b>Separate accounts liabilities</b>	17,034	13,042
<b>Long-term borrowings</b>	<u>83,299</u>	<u>78,524</u>
<b>Total Liabilities</b>	<u>464,197</u>	<u>424,068</u>
<b>Preferred Securities Issued by Subsidiaries</b>	<u>2,670</u>	<u>2,658</u>
<b>Stockholders' Equity</b>		
<b>Preferred Stockholders' Equity</b> (42,500 shares issued and outstanding and liquidation preference \$10,000 per share)	<u>425</u>	<u>425</u>
<b>Common Stockholders' Equity</b>		
Shares exchangeable into common stock	43	58
Common stock (par value \$1.33½ per share; authorized: 3,000,000,000 shares; issued: 2003 - 1,063,205,274 shares and 2002 - 983,502,078 shares)	1,417	1,311
Paid-in capital	6,709	5,315
Accumulated other comprehensive loss (net of tax)	(551)	(570)
Retained earnings	<u>21,426</u>	<u>18,072</u>
	<u>29,044</u>	<u>24,186</u>
Less: Treasury stock, at cost (2003 - 117,294,392 shares; 2002 - 116,211,158 shares)	1,195	961
Unamortized employee stock grants	<u>623</u>	<u>775</u>
<b>Total Common Stockholders' Equity</b>	<u>27,226</u>	<u>22,450</u>
<b>Total Stockholders' Equity</b>	<u>27,651</u>	<u>22,875</u>
<b>Total Liabilities, Preferred Securities Issued by Subsidiaries, and Stockholders' Equity</b>	<u>\$ 494,518</u>	<u>\$ 449,601</u>
See Notes to Consolidated Financial Statements.		

## Consolidated Statements of Changes in Stockholders' Equity

(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2003	2002	2001	2003	2002	2001
<b>Preferred Stock, Balance, beginning and end of year</b>	\$ 425	\$ 425	\$ 425	42,500	42,500	42,500
<b>Common Stockholders' Equity</b>						
<b>Shares Exchangeable into Common Stock</b>						
Balance, beginning of year	58	62	68	3,911,041	4,195,407	4,654,378
Exchanges	(15)	(4)	(6)	(1,011,118)	(284,366)	(458,971)
Balance, end of year	43	58	62	2,899,923	3,911,041	4,195,407
<b>Common Stock</b>						
Balance, beginning of year	1,311	1,283	1,283	983,502,078	962,533,498	962,533,498
Shares issued to employees	106	28	—	79,703,196	20,968,580	—
Balance, end of year	1,417	1,311	1,283	1,063,205,274	983,502,078	962,533,498
<b>Paid-in Capital</b>						
Balance, beginning of year	5,315	4,209	2,843			
Shares issued to employees	1,394	1,106	1,366			
Balance, end of year	6,709	5,315	4,209			
<b>Accumulated Other Comprehensive Loss</b>						
Foreign Currency Translation Adjustment (net of tax)						
Balance, beginning of year	(320)	(302)	(309)			
Translation adjustment	19	(18)	7			
Balance, end of year	(301)	(320)	(302)			
Net Unrealized Gains (Losses) on Available-for-Sale Securities (net of tax)						
Balance, beginning of year	(145)	(92)	(36)			
Net unrealized gains (losses) on available-for-sale	27	(58)	(70)			
Other adjustments <sup>(a)</sup>	7	5	14			
Balance, end of year	(111)	(145)	(92)			
Deferred Gains on Cash Flow Hedges (net of tax)						
Balance, beginning of year	20	36	—			
Net deferred gains on cash flow hedges	43	104	41			
Reclassification adjustment to earnings	(52)	(120)	(5)			
Balance, end of year	11	20	36			
Minimum Pension Liability (net of tax)						
Balance, beginning of year	(125)	(10)	—			
Net minimum pension liability adjustment	(25)	(115)	(10)			
Balance, end of year	(150)	(125)	(10)			
Balance, end of year	(551)	(570)	(368)			
<b>Retained Earnings</b>						
Balance, beginning of year	18,072	16,150	16,156			
Net earnings	3,988	2,513	573			
9% Cumulative Preferred stock dividends declared	(38)	(38)	(38)			
Common stock dividends declared	(596)	(553)	(541)			
Balance, end of year	21,426	18,072	16,150			
<b>Treasury Stock, at cost</b>						
Balance, beginning of year	(961)	(977)	(1,273)	(116,211,158)	(119,059,651)	(154,578,945)
Shares issued to (reacquired from) employees <sup>(b)</sup>	(273)	(12)	291	(2,094,352)	2,564,127	35,060,323
Share exchanges	39	28	5	1,011,118	284,366	458,971
Balance, end of year	(1,195)	(961)	(977)	(117,294,392)	(116,211,158)	(119,059,651)
<b>Unamortized Employee Stock Grants</b>						
Balance, beginning of year	(775)	(776)	(853)			
Net issuance of employee stock grants	(440)	(697)	(720)			
Amortization of employee stock grants	592	697	797			
Other	—	1	—			
Balance, end of year	(623)	(775)	(776)			
<b>Total Common Stockholders' Equity</b>	27,226	22,450	19,583			
<b>Total Stockholders' Equity</b>	\$ 27,651	\$ 22,875	\$ 20,008			

(a) Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes.

(b) Share amounts are net of reacquisitions from employees of 8,355,168; 2,664,083; and 4,756,694 in 2003, 2002 and 2001, respectively.

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

(dollars in millions)

	Year Ended Last Friday in December		
	2003	2002	2001
<b>Net Earnings</b>	\$ 3,988	\$ 2,513	\$ 573
<b>Other Comprehensive Income (Loss)</b>			
Foreign currency translation adjustment:			
Foreign currency translation gains (losses)	(392)	(263)	127
Income tax (expense) benefit	411	245	(120)
Total	19	(18)	7
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	598	213	(51)
Reclassification adjustment for realized gains included in net earnings	(571)	(271)	(19)
Net unrealized gains (losses) on investment securities available-for-sale	27	(58)	(70)
Adjustments for:			
Policyholder liabilities	8	(16)	(10)
Deferred policy acquisition costs	(1)	1	(13)
Income tax (expense) benefit	—	20	37
Total	34	(53)	(56)
Deferred gain (loss) on cash flow hedges			
Deferred gain on cash flow hedges	37	94	65
Income tax (expense) benefit	6	10	(24)
Reclassification adjustment to earnings	(52)	(120)	(5)
Total	(9)	(16)	36
Minimum pension liability			
Minimum pension liability adjustment	(38)	(168)	(10)
Income tax benefit	13	53	—
Total	(25)	(115)	(10)
Total Other Comprehensive Income (Loss)	19	(202)	(23)
<b>Comprehensive Income</b>	<b>\$ 4,007</b>	<b>\$ 2,311</b>	<b>\$ 550</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

(dollars in millions)

	Year Ended Last Friday in December		
	2003	2002	2001
<b>Cash Flows from Operating Activities</b>			
Net Earnings	\$ 3,988	\$ 2,513	\$ 573
Noncash items included in earnings:			
Depreciation and amortization	570	652	888
Amortization of stock-based compensation	592	697	797
Deferred taxes	382	74	(783)
Policyholder reserves	156	168	183
Goodwill amortization	—	—	207
Restructuring and other charges	20	8	491
Undistributed (earnings) loss from equity investments	(179)	31	13
Other	17	125	(38)
<b>Changes in operating assets and liabilities (a):</b>			
Trading assets	(22,890)	(7,280)	(4,378)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(1,217)	(2,908)	1,625
Receivables under resale agreements	(406)	(5,100)	11,672
Receivables under securities borrowed transactions	71	9,387	(19,589)
Customer receivables	(1,619)	4,533	1,741
Brokers and dealers receivables	1,139	(1,617)	19,553
Trading liabilities	9,553	3,279	7,060
Payables under repurchase agreements	10,760	10,474	(15,006)
Payables under securities loaned transactions	3,441	(4,651)	(1,691)
Customer payables	290	(135)	3,942
Brokers and dealers payables	2,568	4,609	2,418
Other, net	2,248	5,088	(1,129)
<b>Cash Provided by Operating Activities</b>	<u>9,484</u>	<u>19,947</u>	<u>8,549</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from (payments for):			
Maturities of available-for-sale securities	31,345	37,891	33,135
Sales of available-for-sale securities	56,448	36,697	14,138
Purchases of available-for-sale securities	(81,639)	(71,183)	(76,201)
Maturities of held-to-maturity securities	1,541	206	811
Purchases of held-to-maturity securities	(1,479)	(303)	(757)
Loans, notes, and mortgages	(12,625)	(15,716)	(4,324)
Proceeds from sale of business	—	—	344
Other investments and other assets	(3,623)	(1,684)	(814)
Equipment and facilities	(102)	(860)	(663)
<b>Cash Used for Investing Activities</b>	<u>(10,134)</u>	<u>(14,952)</u>	<u>(34,331)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(353)	212	(10,042)
Deposits	(2,385)	(3,977)	18,171
Issuance and resale of long-term borrowings	29,139	25,493	38,781
Settlement and repurchase of long-term borrowings	(26,455)	(27,232)	(32,827)
Derivative financing transactions	584	—	—
Issuance of common stock	612	289	—
Issuance of treasury stock	12	6	515
Other common stock transactions	69	(54)	(372)
Dividends	(634)	(591)	(579)
<b>Cash Provided by (used for) Financing Activities</b>	<u>589</u>	<u>(5,854)</u>	<u>13,647</u>
<b>Decrease in Cash and Cash Equivalents</b>	<u>(61)</u>	<u>(859)</u>	<u>(12,135)</u>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>10,211</u>	<u>11,070</u>	<u>23,205</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 10,150</u>	<u>\$ 10,211</u>	<u>\$ 11,070</u>

(a) Net of effects of acquisitions and divestitures.

### Supplemental Disclosures

#### Cash paid for:

Income taxes	\$ 205	\$ 861	\$ 887
Interest	7,464	9,922	18,042

See Notes to Consolidated Financial Statements.





# Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements Table of Contents

53	<a href="#">Note 1.</a>	<a href="#">Summary of Significant Accounting Policies</a>	71	<a href="#">Note 7.</a>	<a href="#">Securitization Transactions and Transactions with Special Purpose Entities (SPEs)</a>	77	<a href="#">Note 11.</a>	<a href="#">Preferred Securities Issued by Subsidiaries</a>
64	<a href="#">Note 2.</a>	<a href="#">Other Significant Events</a>				77	<a href="#">Note 12.</a>	<a href="#">Stockholders' Equity and Earnings Per Share</a>
65	<a href="#">Note 3.</a>	<a href="#">Segment and Geographic Information</a>	74	<a href="#">Note 8.</a>	<a href="#">Loans, Notes, and Mortgages and Related Commitments to Extend Credit</a>	78	<a href="#">Note 13.</a>	<a href="#">Commitments, Contingencies and Guarantees</a>
67	<a href="#">Note 4.</a>	<a href="#">Securities Financing Transactions</a>				82	<a href="#">Note 14.</a>	<a href="#">Employee Benefit Plans</a>
67	<a href="#">Note 5.</a>	<a href="#">Investment Securities</a>	75	<a href="#">Note 9.</a>	<a href="#">Commercial Paper and Short- and Long-Term Borrowings</a>	85	<a href="#">Note 15.</a>	<a href="#">Employee Incentive Plans</a>
69	<a href="#">Note 6.</a>	<a href="#">Trading Assets and Liabilities</a>				88	<a href="#">Note 16.</a>	<a href="#">Income Taxes</a>
			76	<a href="#">Note 10.</a>	<a href="#">Deposits</a>	89	<a href="#">Note 17.</a>	<a href="#">Regulatory Requirements and Dividend Restrictions</a>

## >> Note 1. Summary of Significant Accounting Policies

### Description of Business

Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries ("Merrill Lynch") provides investment, financing, insurance, and related services to individuals and institutions on a global basis through its broker, dealer, banking, insurance, and other financial services subsidiaries. Its principal subsidiaries include:

- Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities and futures commission merchant;
- Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity and credit derivatives;
- Merrill Lynch Government Securities Inc. ("MLGSI"), a U.S.-based dealer in U.S. Government securities;
- Merrill Lynch Capital Services, Inc., a U.S.-based dealer in interest rate, currency, and credit derivatives;
- Merrill Lynch Investment Managers, LP, a U.S.-based asset management company;
- Merrill Lynch Investment Managers Limited, a U.K.-based asset management company;
- Merrill Lynch Bank USA ("MLBUSA"), a U.S.-based FDIC-insured depository;
- Merrill Lynch Bank & Trust Co. ("MLB&T"), a U.S.-based FDIC-insured depository;
- Merrill Lynch International Bank Limited ("MLIB"), a U.K.-based bank;
- Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Ireland-based bank;
- Merrill Lynch Japan Securities Co., Ltd., a Japan-based broker-dealer;
- Merrill Lynch Canada, Inc., a Canada-based broker-dealer; and
- Merrill Lynch Insurance Group, Inc., a U.S.-based provider of life insurance and annuity products.

Services provided to clients by Merrill Lynch include:

- securities brokerage, trading, and underwriting;
- investment banking, strategic advisory services (including mergers and acquisitions), and other corporate finance activities;
- wealth management products and services;
- asset management;
- origination, brokerage, dealer, and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, and foreign exchange products;
- securities clearance, settlement financing services and prime brokerage;
- equity, debt, foreign exchange, and economic research;
- private equity and other principal investing activities;
- banking, trust, and lending services, including deposit-taking, commercial and mortgage lending and related services;
- insurance and annuities sales and annuity underwriting services; and
- investment advisory and related record-keeping services.

### Basis of Presentation

The Consolidated Financial Statements include the accounts of Merrill Lynch, whose subsidiaries are generally controlled through a majority voting interest but may be controlled by means of a significant minority ownership, by contract, lease or otherwise. In certain cases, Merrill Lynch subsidiaries (i.e., Variable Interest Entities ("VIEs")) may also be consolidated based on a risks and rewards approach as required by Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") and the revised Interpretation ("FIN 46R"). See Note 7 to the Consolidated Financial Statements for further discussion regarding the consolidation of VIEs.

The Consolidated Financial Statements are presented in accordance with accounting principles generally accepted in the United States of America, which include industry practices. All material intercompany transactions and balances have been eliminated.

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

The Consolidated Financial Statements are presented in U.S. dollars. Many 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 and related hedging, net of related tax effects, are reported in stockholders' equity as a component of accumulated other comprehensive loss. All other translation adjustments are included in earnings. Merrill Lynch uses derivatives to manage the currency exposure arising from activities in non-U.S. subsidiaries. (See the Derivatives section for additional information on accounting for derivatives.)

### Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding:

- certain trading inventory valuations
- the outcome of litigation
- the carrying amount of goodwill
- the allowance for loan losses
- the realization of deferred tax assets
- tax reserves
- insurance reserves and recovery of insurance deferred acquisition costs
- cash flow projections used in determining whether variable interest entities should be consolidated; 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. A discussion of certain areas in which estimates are a significant component of the amounts reported in the Consolidated Financial Statements follows:

### Trading Assets and Liabilities

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions and other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Estimating the fair value of certain illiquid securities requires significant management judgment. Merrill Lynch values trading security assets at the institutional bid price and recognizes bid-offer revenues when assets are sold. Trading security liabilities are valued at the institutional offer price and bid-offer revenues are recognized when the positions are closed.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued 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. Obtaining the fair value for OTC derivatives contracts requires the use of management judgment and estimates.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the results of operations reported in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than simple application of the pricing models.

### Restricted Investments

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., requires consent of other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Merrill Lynch estimates the fair value of these securities taking into account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors. Such estimation may result in a fair value for a security that is less than its quoted market price.

### Valuation Allowance for Deferred Tax Assets

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assesses its ability to realize deferred tax assets primarily based on the earnings history and future earnings potential of the legal entities to which the deferred tax assets are attributable as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. See Note 16 to the Consolidated Financial Statements for further discussion of income taxes.

## **Valuation of Loans and Allowance for Loan Losses**

The fair value of loans made in connection with commercial lending activity, consisting primarily of senior debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on the individual loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

The provision for loan losses is based on management's estimate of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred 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 fair value of any underlying collateral. The fair value of collateral is generally determined by third-party appraisals in the case of residential mortgages, 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.

## **Insurance Reserves and Deferred Acquisition Costs Relating to Insurance Policies**

Merrill Lynch records reserves related to life insurance, annuity products and other universal life type contracts. Included in these reserves is a mortality reserve that approximates the long-term cost of the associated guaranteed benefits within the contract. The estimate of long-term cost is based on historical experience.

Merrill Lynch records deferred insurance policy acquisition costs that are amortized in proportion to the estimated future gross profits for each group of contracts over the anticipated life of the insurance contracts, utilizing an effective yield methodology. These future gross profit estimates are subject to periodic evaluation by Merrill Lynch, with necessary revisions applied against amortization to date.

## **Legal and Other Reserves**

Merrill Lynch is a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the litigation has

been commenced, in which case no accrual is made until that time. Accruals are subject to significant estimation by management with input from outside counsel.

## **Variable Interest Entities ("VIEs")**

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and quantitative analysis of a VIE to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. It should also be noted that although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required.

## **Fair Value**

At December 26, 2003, \$439 billion, or 89%, of Merrill Lynch's total assets and \$446 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 27, 2002, \$400 billion, or 89%, of Merrill Lynch's total assets and \$407 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate such values. Financial instruments that are carried at fair value include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, securities received as collateral and obligation to return securities received as collateral, available-for-sale and trading securities included in investment securities, certain investments of insurance subsidiaries and certain other investments.

Financial instruments recorded at amounts that approximate fair value include receivables under resale agreements, receivables under securities borrowed transactions, other receivables, payables under repurchase agreements, payables under securities loaned transactions, commercial paper and other short-term borrowings, deposits, and other payables. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

The fair value amounts for financial instruments are disclosed in each respective footnote.

## **Securities Accounting**

Merrill Lynch's non-broker-dealer subsidiaries follow the guidance prescribed by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* when accounting for investments in debt and publicly traded equity securities. Merrill Lynch classifies those debt securities that it has the intent and ability to hold to maturity as held-to-maturity securities, which are carried at cost unless a decline in value is deemed other than temporary, in which case the carrying

value is reduced. Those securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and marked to fair value through earnings. All other qualifying securities are classified as available-for-sale with unrealized gains and losses reported in accumulated other comprehensive loss.

Securities held by a broker-dealer subsidiary are subject to specialized industry guidance as prescribed by the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Brokers and Dealers in Securities*. Merrill Lynch accounts for substantially all securities held by broker-dealer subsidiaries at fair value with realized and unrealized gains and losses reported in earnings.

## **Investment Banking and Advisory Services**

Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition. Investment banking and advisory services revenues are presented net of transaction-related expenses.

## **Balance Sheet Captions**

The following are policies related to specific balance sheet captions. Refer to the related footnotes for additional information.

### ***Cash and Cash Equivalents***

Merrill Lynch defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of 90 days or less, other than those used for trading purposes.

### ***Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations***

Cash and securities segregated for regulatory purposes or deposited with clearing organizations include cash and securities segregated in compliance with federal and other regulations and represent funds deposited by customers and funds accruing to customers as a result of trades or contracts. Also included are funds segregated in a special reserve account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission, as well as funds segregated and held in separate accounts in accordance with Section 4d(2) and Regulation 30.7 of the Commodity Exchange Act.

### ***Securities Financing Transactions***

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers (also referred to as "matched-book transactions"), finance firm inventory positions, obtain securities for settlement and earn residual interest rate spreads. Merrill Lynch also engages in securities financing for customers through margin lending (see customer receivables and payables section).

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. Merrill Lynch's policy is to obtain possession of collateral with a market value

equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Substantially all repurchase and resale activities are transacted under master netting agreements that give Merrill Lynch the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Merrill Lynch offsets certain repurchase and resale agreement balances with the same counterparty on the Consolidated Balance Sheets.

Interest rate swaps may be used to modify the interest rate characteristics of long-term resale and repurchase agreements. (See the Derivatives section for additional information on accounting policy for derivatives.)

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require Merrill Lynch to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. Merrill Lynch receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fees received or paid by Merrill Lynch are recorded as interest revenue or expense. On a daily basis, Merrill Lynch monitors the market value of securities borrowed or loaned against the collateral value. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, such receivables and payables with the same counterparty are not offset on the Consolidated Balance Sheets.

All firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are disclosed parenthetically in trading assets on the Consolidated Balance Sheets.

In transactions where Merrill Lynch acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes on the Consolidated Balance Sheets an asset, representing the securities received (securities received as collateral) and a liability, representing the obligation to return those securities (obligation to return securities received as collateral).

## ***Trading Assets and Liabilities***

Merrill Lynch's trading activities consist primarily of securities brokerage, trading, and underwriting; derivatives dealing and brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or for managing risk exposures in other trading inventory. See the Derivatives section for additional information on accounting policy for derivatives.

Trading securities and other cash instruments (e.g., loans held for trading purposes) are recorded on a trade date basis at fair value. Included in trading liabilities are securities that Merrill Lynch has sold but did not own and will therefore be obligated to purchase at a future date ("short sales"). Changes in fair value (i.e., unrealized gains and losses) are recognized as

principal transactions revenues in the current period. Realized gains and losses and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, depending on the nature of the instrument.

Fair values of trading assets and liabilities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's best estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. As previously noted, estimating the fair value of certain trading assets and liabilities requires significant management judgment.

### **Derivatives**

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).

### **Accounting for Derivatives and Hedging Activities**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. (See section below for additional information regarding the valuation of derivatives). The fair value of all derivatives is recorded on a net-by-counterparty basis on the Consolidated Balance Sheets where management believes a legal right of setoff exists under an enforceable netting agreement.

The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

#### **Derivatives entered into in a dealing capacity**

Merrill Lynch enters into derivatives in a dealing capacity, providing them to clients, and enters into them for proprietary trading and financing strategies and to manage its risk exposures arising from trading assets and liabilities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions. Derivatives entered into in a dealing capacity are recognized at fair value on the Consolidated Balance Sheets as trading assets and liabilities in Contractual agreements and the change in fair value is reported in current period earnings as principal transactions revenues.

#### **Derivatives entered into in a non-dealing capacity**

Merrill Lynch also enters into derivatives in a non-dealing capacity, in order to manage its risk exposures arising from

non-trading assets and liabilities. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to minimize interest rate risk. Merrill Lynch also enters into currency swaps to ensure that non-U.S. dollar-denominated assets are funded with like-currency-denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Derivatives used most frequently include swap agreements that:

- Convert fixed rate interest payments into variable payments
- Change the underlying interest rate basis or reset frequency
- Convert non-U.S. dollar payments into U.S. dollars.

In addition, Merrill Lynch enters into hedges on marketable investment securities to manage the interest rate risk and net duration of its investment portfolio.

Merrill Lynch also uses foreign-exchange forward contracts, foreign-exchange options, currency swaps, and foreign-currency-denominated debt to hedge its net investments in foreign operations. These derivatives and cash instruments are used to mitigate the impact of changes in exchange rates.

Derivatives entered into by Merrill Lynch in a non-dealing capacity used to hedge its funding, marketable investment securities and net investments in foreign subsidiaries are reported at fair value in other assets or interest and other payables in the Consolidated Balance Sheets at December 26, 2003 and December 27, 2002.

Derivatives entered into in a non-dealing capacity are designated, on the date they are entered into, as either:

- 1) A hedge of the fair value of a recognized asset or liability ("fair value" hedge). Changes in the fair value of derivatives that are designated and qualify as fair value hedges, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings as interest revenue or expense
- 2) A hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in accumulated other comprehensive loss until earnings are affected by the variability of cash flows of the hedged asset or liability (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings)
- 3) A hedge of a net investment in a foreign operation. Changes in the fair value of derivatives that are designated and qualify as hedges of a net investment in a foreign operation are recorded in the foreign currency translation adjustment account within accumulated other comprehensive loss

Changes in the fair value of derivatives that are economically used to hedge non-trading assets and liabilities, but that do not meet the criteria in SFAS No. 133 to qualify as an accounting hedge are reported in current period earnings as either Principal transactions revenues, other revenue or expense or interest expense depending on the nature of the transaction.

Merrill Lynch formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Merrill Lynch discontinues hedge accounting. Under the provisions of SFAS No. 133, hedge effectiveness is assumed for those derivatives whose terms match the terms of the asset or liability being hedged and that otherwise meet the conditions of SFAS No. 133.

As noted above, Merrill Lynch enters into interest rate swaps to hedge the interest rate exposure of certain investment securities. Hedge effectiveness testing is required for some of these hedging relationships and the component of each derivative's change in fair value not attributable to the change in interest rates is excluded and reported in earnings. For 2003 and 2002, the amounts excluded from hedge effectiveness not attributed to the change in interest rates was not material. In addition, the amount of hedge ineffectiveness on fair-value hedges was not material in 2003 or 2002.

For the years ended 2003 and 2002, respectively, \$527 million and \$362 million of net losses related to non-U.S. dollar hedges of investments in non-U.S. dollar subsidiaries were included in accumulated other comprehensive loss on the Consolidated Balance Sheets. These amounts were substantially offset by net gains on the hedged investments.

The majority of deferred net gains (losses) on derivative instruments designated as cash flow hedges that were in accumulated other comprehensive loss at December 26, 2003 are expected to be reclassified into earnings over the next four years. The amount of ineffectiveness related to these hedges reported in earnings was not material.

#### **Embedded Derivatives**

Merrill Lynch issues debt and Certificates of Deposit whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. The contingent payment components of these obligations may meet the definition of an "embedded derivative." These debt instruments are assessed to determine if the embedded derivative requires separate reporting and accounting, and if so, the embedded derivative is separated and reported in long-term borrowings or deposits on the Consolidated Balance Sheets along with the debt obligation; changes in the fair value of the embedded derivative and related hedges are reported in interest expense. Separating an embedded derivative from its host contract requires careful analysis, judgment, and an understanding of the terms and conditions of the instrument. The risk exposures in embedded derivatives are economically hedged with cash instruments and/or other non-trading derivatives reported at fair value.

Merrill Lynch may also purchase financial instruments that contain embedded derivatives. These instruments may be part of either trading inventory or trading marketable investment securities. These instruments are generally accounted for at fair value in their entirety; the embedded derivative is not separately accounted for, and all changes in fair value are reported in principal transactions revenues.

#### **Derivatives that contain a significant financing element**

In the ordinary course of trading activities, Merrill Lynch enters into certain transactions that are documented as derivatives where a significant cash investment is made by one party. These transactions can be in the form of simple interest rate swaps where the fixed leg is prepaid or may be in the form of equity-linked or credit-linked transactions where the initial investment equals the notional amount of the derivative. In accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, certain derivative instruments entered into or modified after June 30, 2003 that contain a significant financing element at inception and where Merrill Lynch is deemed the borrower, are now included in financing activities in the Consolidated Statements of Cash Flows. Prior to July 1, 2003, the activity associated with such derivative instruments is included in operating activities in the Consolidated Statements of Cash Flows. In addition, the cash flows from all other derivative transactions that do not contain a significant financing element at inception are included in operating activities.

#### **Valuation of Derivatives**

Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for OTC derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued 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.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for non-exchange-traded derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than the simple application of the pricing models.

## Risk Management of Derivatives

Derivative activity is subject to Merrill Lynch's overall risk management policies and procedures. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks. These risks include market, credit, liquidity, operational, and other risks that are material and require comprehensive controls and management. (See Note 6, Market Risk and Credit Risk sections). The Corporate Risk Management ("CRM") group, along with other control units, ensures that these risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, CRM has established a risk management process that includes:

- A formal risk governance organization that defines the oversight process and its components
- A regular review of the entire risk management process by the Audit Committee of the Board of Directors
- Clearly defined risk management policies and procedures supported by a rigorous analytic framework
- Close communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight
- Clearly articulated risk tolerance levels as defined by a group composed of executive management that are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management process, combined with CRM's personnel and analytic infrastructure, works to ensure that Merrill Lynch's risk tolerance is well-defined and understood by the firm's risk-takers as well as by its executive management. Other groups, including Corporate Audit, Finance, Legal, and Treasury, work with CRM to establish this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of CRM is to make certain that risk-related losses occur within acceptable, predefined levels.

Merrill Lynch documents its risk management objectives and strategies for undertaking various hedge transactions. The risk management objectives and strategies are monitored and managed by CRM in accordance with established risk management policies and procedures that include risk tolerance levels.

## Investment Securities

Investment securities consist of marketable investment securities, investments of Merrill Lynch insurance subsidiaries, and other investments.

### Marketable Investment Securities

Merrill Lynch's non-broker-dealer subsidiaries hold debt and equity investments, which are primarily classified as available-for-sale.

Debt and marketable equity securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of accumulated other comprehensive loss, net of income taxes and other related items. Any unrealized losses deemed other than temporary are included in current period earnings.

Debt securities that Merrill Lynch has the positive intent and ability to hold to maturity are classified as held-to-maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. The amortization of premiums or accretion of discounts and any unrealized losses deemed other than temporary are included in current period earnings.

Debt and marketable equity securities purchased principally for the purpose of resale in the near-term are classified as trading investments and are reported at fair value. Unrealized gains or losses on these investments are included in current period earnings.

Realized gains and losses on all investment securities are included in current period earnings. For purposes of computing realized gains and losses, the cost basis of each investment sold is generally based on the average cost method.

To the extent that Merrill Lynch enters into interest rate swaps to hedge the interest rate exposure of certain investment securities, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the investment security are recorded in current period earnings as interest revenue or expense. Refer to the Derivatives section for additional information.

### Investments of Insurance Subsidiaries and Related Liabilities

Insurance liabilities are future benefits payable under annuity and life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts that have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale. Liabilities for unpaid claims consist of the mortality benefit for reported claims and an estimate of unreported claims based upon prior experience.

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when combined, are equal to the gain or loss that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive loss, net of applicable income taxes.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred, to the extent deemed recoverable, and amortized over the estimated lives of the contracts in proportion to the estimated gross profit for each group of contracts.

### Other Investments

Other investments primarily consist of:

- Investments held by a regulated broker-dealer that are of a longer-term nature than trading inventory and are held for strategic purposes. These investments are carried at fair value

with gains and losses reported in principal transactions revenues. Certain of these investments are subject to restrictions that may limit Merrill Lynch's ability to realize currently the estimated fair value of its investment until such restrictions expire. Accordingly, Merrill Lynch estimates the fair value of these securities, taking into account the restrictions by using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors. In 2003, certain of the investments that had been held by a regulated broker-dealer were sold to a non-broker-dealer subsidiary and are now carried at the lower of cost or net realizable value.

- Private equity investments held by non-broker-dealer subsidiaries which are carried at the lower of cost or net realizable value, or under the equity method depending on Merrill Lynch's ability to exercise significant influence over the investee. Certain of Merrill Lynch's investments that are accounted for under the equity method require management to make certain estimates in determining the allocation of its cost basis to the underlying assets. Gains and losses on these investments are reported in other revenues.
- Investments economically hedging deferred compensation liabilities which are carried at fair value, with gains and losses reported in earnings.

#### ***Other Receivables and Payables***

##### **Customer Receivables and Payables**

Customer securities and commodities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheets.

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Financial Advisors' compensation and benefits expense is accrued in the same period as revenue is recognized.

Mutual fund distribution fee revenues are accrued as earned, and redemption fee revenues are recognized upon redemption. Performance-based incentive fees are recognized prior to the end of the contract measurement period based on performance to date. Certain compensation costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition. Amortization of deferred amounts is accelerated when it is determined that deferred expenses cannot be recovered.

##### **Brokers and Dealers Receivables and Payables**

Receivables from brokers and dealers include amounts receivable for securities not delivered by Merrill Lynch to a purchaser by the settlement date ("fails to deliver"), deposits for securities borrowed, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers and dealers include amounts payable for securities not received by Merrill Lynch from a seller by the settlement date ("fails to

receive"), deposits received for securities loaned, and net payables arising from unsettled trades.

#### **Interest and Other Receivables and Payables**

Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, stock borrowed transactions, receivables from commissions and fees, and income taxes. Interest and other payables include interest payable for stock-loaned transactions, long-term borrowings, and amounts payable for employee compensation and benefits, restructuring reserves, and income taxes.

#### ***Loans, Notes, and Mortgages***

Merrill Lynch's lending and related activities include loan originations, syndications, and securitizations. Loan originations include commercial and residential mortgages, loans to small- and middle-markets businesses, and credit extended to individuals. Merrill Lynch also engages in secondary market loan trading and margin lending (see Trading assets and liabilities and Customer receivables and payables sections, respectively).

Loans held for investment purposes, including some commercial loans that are syndicated and some consumer and small business loans, are carried at their principal amount outstanding. The allowance for loan losses is established through provisions that are based on management's estimate of probable incurred losses. Loans are charged off against the allowance for loan losses when management determines that the loan is uncollectible.

Loans held for sale, which include commercial loans that are syndicated and certain residential mortgage loans, are reported at the lower of cost or estimated fair value. The impact of the loan loss provision for syndicated loans other than those held by Merrill Lynch's U.S. banks is included in principal transactions revenues in the Consolidated Statements of Earnings. The loan loss provision related to all other loans is included in interest revenue in the Consolidated Statements of Earnings. The gain or loss on the sale of mortgages into the secondary market is reflected in other revenues.

Nonrefundable loan origination fees, loan commitment fees, and "draw down" fees received in conjunction with financing arrangements are generally deferred and recognized over the contractual life of the loan as an adjustment to the yield. If, at the outset, or any time during the term of the loan it becomes highly probable that the repayment period will be extended, the amortization is recalculated using the expected remaining life of the loan. When the loan contract does not provide for a specific maturity date, management's best estimate of the repayment period is used. At repayment of the loan, any unrecognized deferred fee is immediately recognized in earnings.

#### ***Separate Accounts Assets and Liabilities***

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. The separate account assets are not subject to general claims of Merrill Lynch. These accounts and the related liabilities are recorded as separate accounts assets and



separate accounts liabilities on the Consolidated Balance Sheets.

### **Equipment and Facilities**

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, 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 \$209 million, \$204 million, and \$245 million in 2003, 2002, and 2001, respectively. Depreciation and amortization recognized in the communications and technology expense category was \$361 million, \$448 million, and \$643 million, for 2003, 2002, and 2001, respectively.

Qualifying costs incurred in the development of internal-use software are capitalized when costs exceed \$5 million and are amortized over the useful life of the developed software, generally not exceeding three years.

### **Goodwill**

In 2002, Merrill Lynch adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, intangible assets with indefinite lives and goodwill are no longer amortized. Instead, these assets are tested annually for impairment.

Merrill Lynch has reviewed its goodwill in accordance with SFAS No. 142 and determined that the fair value of the reporting units to which goodwill relates exceeded the carrying value of such reporting units. Accordingly, no goodwill impairment loss has been recognized. The majority of the goodwill, and related accumulated amortization, is denominated in sterling, and as a result has changed from 2002 due to exchange rate changes. This goodwill is related to the 1997 purchase of the Mercury Asset Management Group and was tested for impairment at the Merrill Lynch Investment Managers ("MLIM") segment level since this business has been fully integrated into MLIM. Accumulated amortization of goodwill amounted to \$1,039 million and \$984 million at year-end 2003 and 2002, respectively.

### **Other Assets**

Other assets consist of unrealized gains on derivatives used to hedge Merrill Lynch's borrowing and investing activities. All of these derivatives are recorded at fair value with changes reflected in earnings and accumulated other comprehensive loss (refer to the Derivatives section for more information). Other assets also include prepaid pension expense related to plan contributions in excess of obligations, other prepaid expenses, and other deferred charges. Refer to Note 14 to the Consolidated Financial Statements for further information.

In addition, real estate purchased for investment purposes is also included in this category. Real estate held in this category may be classified as either held and used or held for sale depending on the facts and circumstances. Real estate held and used is valued at cost, less depreciation, and real estate held for sale is valued at the lower of cost or fair value, less cost to sell.

### **Commercial Paper and Short- and Long-Term Borrowings**

Merrill Lynch's unsecured general-purpose funding is principally obtained from medium-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums, adjusted for the effects of fair-value hedges.

Merrill Lynch is a significant issuer of debt whose coupons or repayment terms are linked to the performance of equity or other indices, or a basket of securities. These debt instruments must be separated into a debt host and an embedded derivative if the derivative is not considered clearly and closely related under the criteria established in SFAS No. 133. Embedded derivatives are recorded at fair value and changes in fair value are reflected in the income statement. See the Embedded Derivatives section above for additional information.

Merrill Lynch uses derivatives to manage the interest rate, currency, equity, and other risk exposures of its borrowings. See the Derivatives section for additional information on accounting policy for derivatives.

### **Deposits**

Savings deposits are interest-bearing accounts that have no maturity or expiration date, whereby the depositor is not required by the deposit contract, but may at any time be required by the depository institution, to give written notice of an intended withdrawal not less than seven days before withdrawal is made. 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.

### **Stock-Based Compensation**

Merrill Lynch accounts for stock-based compensation in accordance with the intrinsic value method in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* rather than the fair value method in SFAS No. 123, *Accounting for Stock-Based Compensation*. For the years 2003, 2002, and 2001, \$756 million, (\$484 million after-tax), \$821 million (\$527 million after-tax), and \$732 million (\$470 million after-tax), respectively, of pre-tax compensation expense related to employee stock compensation awards was recorded in earnings. Compensation expense for stock options is not recognized since Merrill Lynch grants stock options that have no intrinsic value on the date of grant. Had Merrill Lynch adopted the provisions of SFAS No. 123 and accounted for all employee stock awards at fair value, Merrill Lynch would have recognized additional pre-tax compensation expense related

to employee stock awards of \$241 million (\$154 million after-tax), \$1,252 million (\$804 million after-tax), and \$1,419 million (\$910 million after-tax), respectively, for the years 2003, 2002, and 2001. See New Accounting Pronouncements section for further information on accounting for employee stock awards and Note 15 to the Consolidated Financial Statements for pro forma net income and earnings per share, as if Merrill Lynch had accounted for all stock-based awards in accordance with SFAS No. 123.

Employee stock-based awards, excluding stock options, are amortized over the vesting period. The unamortized portion of the grant value for certain of these plans is reflected as a reduction of stockholders' equity in Unamortized employee stock grants on the Consolidated Balance Sheets.

### **Income Taxes**

ML & Co. and certain of its wholly owned subsidiaries file a consolidated U.S. federal income tax return. Certain other Merrill Lynch entities file tax returns in their local jurisdictions.

Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be 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. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. See Note 16 to the Consolidated Financial Statements for further information.

### **New Accounting Pronouncements**

On January 12, 2004, the FASB issued a final FASB Staff Position ("FSP") FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. On December 8, 2003, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("the Act"), which expanded Medicare to include prescription drug coverage. FSP FAS 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a onetime election to defer accounting for the effects of the Act. Merrill Lynch has elected to defer accounting for the effects of the Act, and as a result any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the plan. Furthermore, specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require Merrill Lynch to change previously reported information. Merrill Lynch will assess the impact on the Consolidated Financial Statements when the final guidance is issued. FSP FAS 106-1 is effective for interim or annual financial statements of fiscal years ending after December 7, 2003.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and*

*Other Postretirement Benefits*. The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The new disclosures are effective for financial statements of annual periods ending after December 15, 2003. However, the revised SFAS No. 132 provides that disclosures of information about foreign plans and estimated future benefit payments shall be effective for fiscal years ending after June 15, 2004. See Note 14 to the Consolidated Financial Statements for these disclosures.

In December of 2003, the AICPA issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses accounting for differences between contractual cash flows and expected cash flows in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 limits the yield that may be accreted ("accretable yield") to the expected cash flows at acquisition and requires that the difference between contractual cash flows and expected cash flows ("non-accretable difference") not be recognized as either an adjustment of yield, loss accrual, or valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and non-accretable difference in the balance sheet and prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. In addition, SOP 03-3 requires that subsequent increases in expected cash flows be recognized prospectively through adjustment of the yield over the remaining life with decreases in expected cash flows recognized as impairment. SOP 03-3 is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004. Merrill Lynch will adopt SOP 03-3 at the beginning of fiscal year 2005, and is currently assessing the potential impact on the Consolidated Financial Statements.

In November of 2003, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, as it relates to disclosures for SFAS 115 securities. In addition to the disclosures already required by SFAS 115, EITF Issue 03-01 requires both quantitative and qualitative disclosures for marketable equity and debt securities. The new disclosure requirements are required to be applied to financial statements for fiscal years ending after December 15, 2003. See Note 5 to the Consolidated Financial Statements for these disclosures.

On July 7, 2003, the AICPA issued SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The SOP is effective for financial statements for Merrill Lynch beginning in 2004. The SOP requires the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch currently employs. The adoption of SOP 03-1 will result in an additional \$45 million of pre-tax expense at the beginning of fiscal year 2004.

On May 15, 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics*

of both *Liabilities and Equity*. SFAS No. 150 changes the accounting for certain financial instruments, including mandatorily redeemable preferred stock and certain freestanding equity derivatives, which under previous guidance were accounted for as equity. SFAS No. 150 requires that most mandatorily redeemable preferred shares, written put options and physically settled forward purchase contracts on an issuer's shares, and certain financial instruments that must be settled by issuing a variable number of an issuer's shares, be classified as liabilities in the Consolidated Balance Sheets. SFAS No. 150 became effective for all new instruments issued or modified after May 31, 2003 and to all other pre-existing instruments beginning in the third quarter of this year. The adoption of SFAS No. 150 did not have a material impact on the Consolidated Financial Statements.

On April 30, 2003, the FASB issued SFAS No. 149, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Beginning in the third quarter of 2003, in accordance with SFAS No. 149, Merrill Lynch modified its classification within the Consolidated Statement of Cash Flows. Certain derivative instruments entered into or modified after June 30, 2003, that have been determined to contain a financing element at inception, where Merrill Lynch is deemed the borrower, are now included as a separate component within cash flows from financing activities. Prior to July 1, 2003, the activity associated with such derivative instruments is included within cash flows from operating activities. The adoption of SFAS No. 149 did not have a material impact on the Consolidated Financial Statements.

On January 17, 2003, the FASB issued FIN 46, which clarifies when an entity should consolidate another entity known as a VIE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, and may include many types of SPEs. FIN 46 requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46 does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. Merrill Lynch adopted FIN 46 on February 1, 2003 for VIEs with which it became involved after January 31, 2003. On October 8, 2003, the FASB deferred the effective date for pre-existing VIEs, and on December 24, 2003, the FASB issued a revision to FIN 46. Companies are required to adopt either FIN 46 or FIN 46R on an entity by entity basis for periods ending after December 15, 2003. As a result, Merrill Lynch has adopted FIN 46R as the method used for evaluating whether or not VIEs must be consolidated, with the exception of those VIEs that issue Merrill Lynch Trust Originated Preferred Securities ("TOPRS<sup>SM</sup>"), in which case Merrill Lynch has elected to apply the provisions of FIN 46. See

Note 7 to the Consolidated Financial Statements for additional FIN 46 disclosure.

On December 31, 2002 the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, an amendment of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 permits three alternative methods for a voluntary transition to the fair value-based method for those entities that adopt the standard prior to the end of fiscal year-end 2003. Beginning in 2004, SFAS No. 148 eliminates prospective application as a method of adoption for reporting stock-based compensation, but continues to permit modified prospective application, which requires the fair value of all unvested awards to be amortized over the remaining service period, as well as restatement of prior years' expense. The transition guidance and disclosure provisions of SFAS No. 148 were effective for fiscal years ending after December 15, 2002. See Note 15 to the Consolidated Financial Statements for these disclosures. Merrill Lynch intends to adopt the fair value method of accounting for stock-based compensation under SFAS No. 123 in 2004 using the retroactive restatement method under SFAS No. 148.

On November 25, 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements Nos. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 requires guarantors to disclose their obligations under certain guarantees. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosures were effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 13 to the Consolidated Financial Statements for these disclosures.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces the guidance provided by EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. Merrill Lynch adopted SFAS No. 146 as of the beginning of fiscal year 2003, which had no material impact on the Consolidated Financial Statements.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires companies to recognize legal obligations associated with the future retirement of tangible long-lived assets at their fair value. Asset retirement obligations are then realized through earnings over the economic life of the long-lived asset. Merrill Lynch adopted SFAS No. 143 as of January 1, 2003 and there was no material impact on the Consolidated Financial Statements.

## >> Note 2. Other Significant Events

### September 11-related Recoveries/Expenses

On September 11, 2001, terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North and South Towers of the World Financial Center, and from offices at 222 Broadway to back-up facilities. Merrill Lynch maintains insurance for losses caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. Merrill Lynch recorded September 11-related net insurance recoveries of \$147 million and \$212 million in 2003 and 2002, respectively. In 2001, Merrill Lynch recorded net September 11-related expenses of \$131 million. Expenses related to September 11 were \$38 million, \$113 million and \$346 million in 2003, 2002 and 2001, respectively.

Merrill Lynch has now concluded its insurance recovery efforts related to the events of September 11th. In aggregate, Merrill Lynch was reimbursed \$725 million for repair and replacement of physical damage, recovery expenses, and losses due to business interruption.

### Restructuring and Other Charges

During the fourth quarter of 2001, Merrill Lynch's management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth, which included the resizing of selected businesses and other structural changes. As a result, Merrill Lynch incurred a fourth quarter pre-tax charge to earnings of \$2.2 billion, which included restructuring costs of \$1.8 billion and other charges of \$396 million. These other charges primarily related to asset write-offs, which were recorded in 2001. In addition, a charge of approximately \$135 million of deferred tax expense was recorded related to losses of the Global Private Client ("GPC") operations in Japan that are not expected to be utilized during the carryforward period.

During 2003, a charge of \$56 million was recorded related to lease write-offs as well as technology and other fixed asset write-offs relating to GMI, GPC and MLIM following a real estate rationalization effort. This charge, in combination with

the \$36 million net reduction in the 2001 restructuring reserve, was recorded as a net \$20 million restructuring and other charge in the Consolidated Statements of Earnings in 2003. During 2002, a charge of \$17 million was recorded related to location closings in GPC from the consolidation of office space arising from workforce reductions in Europe. This charge, in combination with the \$9 million net reduction in the 2001 restructuring reserve, was recorded as a net \$8 million restructuring and other charge in the Consolidated Statements of Earnings in 2002.

### Restructuring Charge

The 2001 restructuring charges related primarily to initial severance costs of \$1.1 billion, facilities costs of \$299 million, technology and fixed asset write-offs of \$187 million, and legal, technology, and other costs of \$178 million. Structural changes included workforce reductions of 6,205 through a combination of involuntary and voluntary separations across all business groups. The initial \$1.1 billion of severance costs included non-cash charges related to accelerated amortization for stock grants associated with employee separations totaling \$135 million. Facilities-related costs included the closure or subletting of excess space, and the consolidation of GPC offices in the United States, Europe, Asia Pacific, and Japan. Office consolidations have been completed as employees have vacated the facilities. However, additional reserves remain at December 26, 2003, as remaining lease payments extend to future periods. Any unused portion of the original restructuring reserve will be reversed. Substantially all of the remaining cash payments related to real estate and severance will be funded by cash from operations. Asset write-offs primarily reflected the write-off of technology assets and furniture and equipment that resulted from management's decision to close Private Client branch offices. Utilization of the restructuring reserve and a rollforward of staff reductions at December 26, 2003 is as follows:

(dollars in millions)

	Balance Dec. 28, 2001	Utilized in 2002	Net Change in Estimate	Balance Dec. 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec. 26, 2003
Category:							
Severance costs	\$ 919	\$ (842)	\$ (32)	\$ 45	\$ (32)	\$ (8)	\$ 5
Facilities costs	299	(66)	51	284	(91)	13	206
Technology and fixed asset write-offs	—	(9)	9	—	—	—	—
Other costs	178	(82)	(37)	59	2	(41)	20
	<u>\$ 1,396</u>	<u>\$ (999)</u>	<u>\$ (9)</u>	<u>\$ 388</u>	<u>\$ (121)</u>	<u>\$ (36)</u>	<u>\$ 231</u>
Staff reductions	5,456	(5,211)	(22)	223	(102)	(121)	—

The changes in estimate during 2003 and 2002 are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates during 2003, severance-related reserves of \$8 million and other reserves of \$41 million were reversed and recorded to the Consolidated Statements of Earnings as Restructuring credits. These amounts resulted from lower than anticipated costs, principally in the Japan GPC business. The estimates for facilities costs were increased by \$13 million in 2003, reflecting increased facilities closure costs for locations in the United States and Europe. The charges and credits above are included in net restructuring and other charges in the Consolidated Statements of Earnings.

As a result of changes in estimates during 2002, severance-related reserves of \$32 million and other reserves of \$37 million, principally related to the Japan GPC business, were reversed and recorded to the Consolidated Statements of Earnings as restructuring credits. The estimates for facilities costs were adjusted in 2002 to reflect increased costs relating primarily to unutilized space in the World Financial Center of \$70 million and certain other location closings in the United States of \$22 million. These changes in estimates were partially offset by lower than anticipated costs in Japan of \$41 million. Technology and fixed assets write-offs was also adjusted in 2002 to reflect increased fixed asset write-offs in various other U.S. corporate locations totaling \$9 million. The charges and credits above are included in net restructuring and other charges in the Consolidated Statements of Earnings.

### **Divestitures**

In the first quarter of 2002, Merrill Lynch sold its Securities Pricing Services business and its Canadian retail asset management business. Merrill Lynch recorded pre-tax gains of \$45 million and \$17 million, respectively, related to these sales, which were included in other revenues on the Consolidated Statements of Earnings.

In 2002, Merrill Lynch and HSBC integrated their joint venture company, Merrill Lynch HSBC ("MLHSBC"), into the HSBC Group. MLHSBC was a 50/50 joint venture formed by Merrill Lynch and HSBC in April 2000 to create a global online investment and banking services company, serving individual self-directed customers outside the United States. Merrill Lynch recognized losses related to MLHSBC of \$34 million and \$150 million in 2002 and 2001, respectively, which have been recorded in other revenues on the Consolidated Statements of Earnings.

### **Research and other settlements**

In May 2002, Merrill Lynch executed an agreement with the New York Attorney General regarding alleged conflicts of interest between Merrill Lynch's Research and Investment Banking groups. As part of the agreement, the Attorney General terminated his investigation and Merrill Lynch agreed to implement changes to further insulate the Research Department from Investment Banking. In addition, in order to reach a resolution and settlement of the matter, Merrill Lynch agreed to make a civil payment of \$48 million to New York State and an additional \$52 million to the other 49 states and to Puerto Rico and the District of Columbia. Merrill Lynch admitted no

wrongdoing or liability as part of this agreement. The majority of these payments were made in the fourth quarter of 2002. In addition, \$11 million of related legal fees were incurred.

In April 2003, the Securities and Exchange Commission, New York Stock Exchange, National Association of Securities Dealers, and state securities regulators announced that the settlements-in-principle that the regulators had disclosed on December 20, 2002 had been reduced to final settlements with regard to ten securities firms, including Merrill Lynch. Merrill Lynch disclosed the settlements-in-principle on December 24, 2002. The final settlements pertaining to Merrill Lynch, which involve both monetary and non-monetary relief set forth in the regulators' announcements, concluded the regulatory actions against Merrill Lynch related to those alleged conflicts of interest affecting research analysts. The settlement became final on October 31, 2003 when the Court entered the order approving the related agreement. Merrill Lynch entered into these settlements without admitting or denying the allegations and findings by the regulators, and the settlements do not establish wrongdoing or liability for purposes of any other proceedings. Pursuant to this settlement, Merrill Lynch, among other things, contributed \$100 million for the funding of independent research and investor education over five years, but did not pay any fines or make any additional civil payments. The full amount of the settlement-in-principle was accrued for in 2002.

In March 2003, Merrill Lynch entered into a final settlement agreement with the Securities and Exchange Commission, in which it neither admitted nor denied any wrongdoing, regarding an investigation into two 1999 transactions between Merrill Lynch and Enron Corporation. This final settlement concluded the Securities and Exchange Commission's investigation of all Enron-related matters with respect to Merrill Lynch. As a result, a pre-tax charge of \$80 million (\$64 million after-tax), which includes disgorgement, penalties and interest, was included in the 2002 Consolidated Statements of Earnings in research and other settlement-related expenses.

In September 2003, the Department of Justice agreed not to prosecute Merrill Lynch for alleged crimes of its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch's continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counterparty financial statements, complex-structured finance transactions and year-end transactions.

## **>> Note 3. Segment and Geographic Information**

### **Segment Information**

In reporting to management during 2003, Merrill Lynch's operating results were categorized into three business segments: Global Markets and Investment Banking ("GMI"), GPC, and MLIM. Prior period amounts have been restated to conform to the 2003 presentation.

The principal methodology used in preparing the segment results in the table that follows is:

- Revenues and expenses are assigned to segments where directly attributable
- Principal transactions, net interest and investment banking revenues and related costs resulting from the client activities of GPC are allocated among GMI and GPC based on production credits, share counts, trade counts, and other measures which estimate relative value
- MLIM receives a net advisory fee from GPC relating to certain MLIM branded products offered through GPC's 401 (k) product offering
- Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if MLIM and GPC were unrelated entities

- Interest (cost of carry) is allocated based on management's assessment of the relative liquidity of segment assets and liabilities
- Acquisition financing costs and other corporate interest, September 11-related expenses, research and other settlement-related expenses and goodwill amortization are not attributed to segments because management excludes these items from segment operating results in evaluating segment performance. The elimination of intersegment revenues and expenses is also included in Corporate items
- Residual expenses (i.e., those related to overhead and support units) are attributed to segments based on specific methodologies (e.g., headcount, square footage, intersegment agreements etc.).

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated net revenues and pre-tax earnings:

(dollars in millions)

	GMI	GPC	MLIM	Corporate Items (including intersegment eliminations)	Total
<b>2003</b>					
Non-interest revenues	\$ 7,223	\$ 7,505	\$ 1,377	\$ (38) <sup>(1)</sup>	\$ 16,067
Net interest profit (2)	2,853	1,358	24	(148) <sup>(3)</sup>	4,087
Net revenues	10,076	8,863	1,401	(186)	20,154
Non-interest expenses	6,142	7,281	1,117	(35) <sup>(4)</sup>	14,505
Pre-tax earnings (loss)	\$ 3,934	\$ 1,582	\$ 284	\$ (151)	\$ 5,649
Year-end total assets	\$ 417,198	\$ 66,228	\$ 6,278	\$ 4,814	\$ 494,518
<b>2002</b>					
Non-interest revenues	\$ 6,167	\$ 7,447	\$ 1,526	\$ (74) <sup>(1)</sup>	\$ 15,066
Net interest profit (2)	2,261	1,333	24	(57) <sup>(3)</sup>	3,561
Net revenues	8,428	8,780	1,550	(131)	18,627
Non-interest expenses	6,039	7,483	1,232	116 <sup>(4)</sup>	14,870
Pre-tax earnings (loss)	\$ 2,389	\$ 1,297	\$ 318	\$ (247)	\$ 3,757
Year-end total assets	\$ 382,131	\$ 57,884	\$ 5,140	\$ 4,446	\$ 449,601
<b>2001</b>					
Non-interest revenues	\$ 8,460	\$ 8,379	\$ 1,902	\$ (127) <sup>(1)</sup>	\$ 18,614
Net interest profit (2)	1,808	1,518	21	(82) <sup>(3)</sup>	3,265
Net revenues	10,268	9,897	1,923	(209)	21,879
Non-interest expenses	8,276	10,063	1,908	255 <sup>(4)</sup>	20,502
Pre-tax earnings (loss)	\$ 1,992	\$ (166)	\$ 15	\$ (464)	\$ 1,377
Year-end total assets	\$ 358,346	\$ 67,477	\$ 5,798	\$ 4,071	\$ 435,692

(1) Primarily represents the elimination of intersegment revenues and expenses.

(2) Management views interest income net of interest expense in evaluating results.

(3) Represents acquisition financing costs and other corporate interest.

(4) Represents elimination of intersegment revenues and expenses and September 11-related net expenses. 2002 also included research and other settlement-related expenses. 2001 also included goodwill amortization.

## Geographic Information

Merrill Lynch operates in both U.S. and non-U.S. markets. Merrill Lynch's non-U.S. business activities are conducted through offices in five regions:

- Europe, Middle East, and Africa
- Japan
- Asia Pacific
- Canada, and
- Latin America

The principal methodology used in preparing the geographic data in the table that follows is:

- Revenue and expenses are generally recorded based on the location of the employee generating the revenue or incurring the expense
- Earnings before income taxes include the allocation of certain shared expenses among regions, and
- Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated net revenues and pre-tax earnings:

(dollars in millions)

	2003	2002	2001
<b>Net revenues</b>			
Europe, Middle East, and Africa	\$ 3,295	\$ 2,579	\$ 3,435
Japan	1,252	778	1,007
Asia Pacific	736	669	792
Canada	218	245	880
Latin America	553	491	538
Total Non-U.S.	6,054	4,762	6,652
United States	14,286	13,996	15,436
Corporate	(186)	(131)	(209)
Total	\$ 20,154	\$ 18,627	\$ 21,879
<b>Earnings (loss) before income taxes</b>			
Europe, Middle East, and Africa	\$ 862	\$ 55	\$ (51)
Japan	656	236	(389)
Asia Pacific	160	58	(42)
Canada	67	104	239
Latin America	193	115	21
Total Non-U.S.	1,938	568	(222)
United States	3,862	3,436	2,063
Corporate	(151)	(247)	(464)
Total	\$ 5,649	\$ 3,757	\$ 1,377

## >> Note 4. Securities Financing Transactions

Merrill Lynch enters into secured borrowing and lending transactions in order to finance trading inventory positions, obtain securities for settlement, meet customers' needs and earn residual interest rate spreads.

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge these securities held as collateral (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At December 26, 2003 and December 27, 2002, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was \$270 billion and \$276 billion, respectively, and the fair value of the portion that has been sold or repledged was \$236 billion and \$229 billion, respectively.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets and investment securities on the Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch

that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at year-end 2003 and 2002 are as follows:

(dollars in millions)

	2003	2002
<b>Asset Category</b>		
<b>Trading assets</b>		
Mortgages, mortgage-backed, and asset-backed securities	\$ 10,855	\$ 11,530
U.S. Government and agencies	9,293	5,112
Corporate debt and preferred stock	6,766	7,843
Equities and convertible debentures	2,215	256
Non-U.S. governments and agencies	910	811
Municipals and money markets	82	337
<b>Loans, notes, and mortgages</b>	4,272	3,078
Total	\$ 34,393	\$ 28,967

## >> Note 5. Investment Securities

Investment securities on the Consolidated Balance Sheets includes highly liquid debt securities including those held for liquidity management purposes, equity securities, the investment portfolio for Merrill Lynch's U.S. banks, and investments of insurance subsidiaries. Investments of insurance subsidiaries are primarily debt securities, which are used to fund policyholder liabilities. Also included in investment securities are non-qualifying investments under SFAS No. 115, which include merchant banking investments, private equity investments, including partnership interests, and insurance policy loans. Investment securities reported on the Consolidated Balance Sheets at December 26, 2003 and December 27, 2002 are as follows:

(dollars in millions)

	2003	2002
<b>Investment securities</b>		
Available-for-sale <sup>(1)</sup>	\$ 66,153	\$ 72,229
Trading	4,798	3,337
Held-to-maturity	636	638
Non-qualifying <sup>(2)</sup>		
Deferred compensation hedges <sup>(3)</sup>	636	1,927
Other <sup>(4)</sup>	8,623	3,656
Total <sup>(1)</sup>	\$ 80,846	\$ 81,787

(1) At December 26, 2003, includes \$6.6 billion of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.

(2) Non-qualifying for SFAS No. 115 purposes.

(3) Represents investments economically hedging deferred compensation liabilities.

(4) Includes insurance policy loans, merchant banking investments, preferred stock and other non-qualifying investments.

The fair value of non-qualifying investment securities approximated the carrying amounts at year-end 2003 and 2002, respectively. Fair value for non-qualifying investments is estimated using a number of methods, including earnings multiples, discounted cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., sale requires consent of other investors to sell) that may limit Merrill Lynch's ability to realize currently the estimated fair value. Accordingly, Merrill Lynch's current estimate of fair value and the ultimate realization for these instruments may differ.

Investment securities are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 26, 2003				December 27, 2002			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-Sale</b>								
Mortgage- and asset-backed securities	\$ 45,950	\$ 636	\$ (155)	\$ 46,431	\$ 49,078	\$ 1,085	\$ (140)	\$ 50,023
U.S. Government and agencies	11,474	210	(77)	11,607	13,642	686	(14)	14,314
Corporate debt	3,490	84	(13)	3,561	4,720	173	(57)	4,836
Other debt securities	2,801	13	(14)	2,800	1,698	1	(18)	1,681
Total debt securities	63,715	943	(259)	64,399	69,138	1,945	(229)	70,854
Equity securities	1,747	11	(4)	1,754	1,418	2	(45)	1,375
Total	\$ 65,462	\$ 954	\$ (263)	\$ 66,153	\$ 70,556	\$ 1,947	\$ (274)	\$ 72,229
<b>Held-to-Maturity</b>								
U.S. Government and agencies	\$ 2	\$ —	\$ —	\$ 2	\$ 254	\$ —	\$ —	\$ 254
Mortgage- and asset-backed securities	20	—	—	20	26	—	—	26
Other debt securities	614	—	—	614	358	—	—	358
Total	\$ 636	\$ —	\$ —	\$ 636	\$ 638	\$ —	\$ —	\$ 638

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 26, 2003.

(dollars in millions)

Asset category	Less than 1 Year		More than 1 Year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage- and asset-backed securities	\$ 6,518	\$ (33)	\$ 16,265	\$ (119)	\$ 22,783	\$ (152)
U.S. Government and agencies	4,321	(25)	2,475	(63)	6,796	(88)
Corporate debt	446	(6)	96	(7)	542	(13)
Other debt securities	730	(20)	—	—	730	(20)
Total debt securities	12,015	(84)	18,836	(189)	30,851	(273)
Equity securities	—	—	24	(4)	24	(4)
Total temporarily impaired securities	\$ 12,015	\$ (84)	\$ 18,860	\$ (193)	\$ 30,875	\$ (277)

The amortized cost and estimated fair value of debt securities at December 26, 2003 by contractual maturity, for available-for-sale and held-to-maturity investments follow:

(dollars in millions)

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 3,115	\$ 3,120	\$ 361	\$ 361
Due after one year through five years	9,990	10,122	1	1
Due after five years through ten years	4,033	4,058	—	—
Due after ten years	627	668	254	254
	17,765	17,968	616	616
Mortgage-and asset- backed securities	45,950	46,431	20	20
Total(1)	\$ 63,715	\$ 64,399	\$ 636	\$ 636

(1) Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

(dollars in millions)

	2003	2002	2001
Proceeds	\$ 56,448	\$ 36,697	\$ 14,138
Gross realized gains	709	331	85
Gross realized losses	(138)	(60)	(66)

Net unrealized gains (losses) from investment securities classified as trading included in the 2003, 2002, and 2001 Consolidated Statements of Earnings were \$(93) million, \$70 million, and \$47 million, respectively.

The majority of the unrealized losses relate to mortgage-backed securities and U.S. Government and agency securities where Merrill Lynch has held these positions greater than one year. The majority of the investments are AAA rated debentures and mortgage-backed securities issued by U.S. agencies.



These investments are not considered other-than-temporarily impaired because Merrill Lynch has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment.

Also during 2003, other revenues include a write-down of \$114 million related to certain available-for-sale securities that were considered to be impaired on an other than temporary basis. Unrealized losses on these securities were previously included in accumulated other comprehensive loss. During 2003, the write-down was charged to earnings and removed from accumulated other comprehensive loss.

## **>> Note 6. Trading Assets and Liabilities**

As part of its trading activities, Merrill Lynch provides its clients with brokerage, dealing, financing, and underwriting services for a broad range of products. While trading activities are primarily generated by client order flow, Merrill Lynch also takes proprietary positions based on expectations of future market movements and conditions. Merrill Lynch's trading strategies rely on the integrated management of its client-driven and proprietary positions, along with related hedging and financing.

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate.

Trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. Refer to Note 1 to the Consolidated Financial Statements for additional information on risk management.

### **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, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

Merrill Lynch seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. Merrill Lynch uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by Merrill Lynch.

#### **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, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Interest rate agreements used by Merrill Lynch include caps, collars, floors, basis swaps, leveraged swaps, and options. Interest rate caps and floors provide the purchaser with protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Basis swaps are a type of interest rate swap agreement where variable rates are received and paid, but are based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month LIBOR (London Interbank Offered Rate). Merrill Lynch's exposure to interest rate risk resulting from these leverage factors is typically hedged with other financial instruments.

#### **Currency Risk**

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than 50 currencies, including the Euro, Japanese Yen, Swiss franc, and British pound. 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 market is not available or where the client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, 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.

#### **Equity Price Risk**

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by Merrill Lynch to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

#### **Credit Spread Risk**

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument)). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the Credit Risk section.

## **Commodity Price and Other Risks**

Merrill Lynch views its commodity contracts as financial instruments since they are generally settled in cash and not by delivery of the underlying commodity. Commodity price risk results from the possibility that the price of the underlying commodity may rise or fall. Cash flows from commodity contracts are based on the difference between an agreed-upon fixed price and a price that varies with changes in a specified commodity price or index. Commodity contracts held by Merrill Lynch principally relate to precious metals and base metals.

Merrill Lynch is also a party to financial instruments that contain risks not correlated to typical financial risks. Merrill Lynch generally mitigates the risk associated with these transactions by entering into offsetting derivative transactions.

## **Credit Risk**

Merrill Lynch is exposed to risk of loss if an issuer or a counter-party fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose Merrill Lynch to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market Risk section.

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, Merrill Lynch executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by Merrill Lynch. These activities may expose Merrill Lynch to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, Merrill Lynch may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. Additional information about these obligations is provided in Note 13 to the Consolidated Financial Statements. In addition, Merrill Lynch seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Merrill Lynch may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

## **Concentrations of Credit Risk**

Merrill Lynch's exposure to credit risk (both default and credit spread) associated with its trading and other 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 26, 2003, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to \$22.1 billion and \$24.8 billion at December 26, 2003 and December 27, 2002, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 26, 2003 and December 27, 2002 totaled \$98.2 billion and \$113.9 billion, respectively.

At December 26, 2003, Merrill Lynch had concentrations of credit risk with other counterparties, the largest of which was a government-sponsored agency rated AAA by recognized credit-rating agencies. Total unsecured exposure to this counterparty was approximately \$3.7 billion, or 0.8% of total assets.

Merrill Lynch's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and investment companies. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, hedging, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Outside the United States, sovereign governments and financial institutions represent the most significant concentrations.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties.

## **Derivatives**

Merrill Lynch's trading derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

Default risk on derivatives can also occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. 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. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of loss is generally limited to a one-day net positive change in market value. Generally such receivables and payables are recorded in Customers

receivables and payables on the Consolidated Balance Sheets. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk. Additional information about derivatives that meet the definition of a guarantee for accounting purposes is included in Note 13 to the Consolidated Financial Statements.

Merrill Lynch generally enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties, as soon as possible. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries, or in certain industries is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

To reduce default risk, Merrill Lynch requires collateral, principally cash and U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 26, 2003, such collateral amounted to \$10.4 billion. In addition to obtaining collateral, Merrill Lynch attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract.

Many of Merrill Lynch's derivative contracts contain provisions that could, upon an adverse change in ML & Co.'s credit rating, trigger a requirement for an early payment or additional collateral support.

## >> **Note 7. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)**

### **Securitizations**

In the normal course of business, Merrill Lynch securitizes: commercial and residential mortgage and home equity loans; municipal, government, and corporate bonds; and other types of financial assets. SPEs are often used when entering into or facilitating securitization transactions. Merrill Lynch's involvement with SPEs used to securitize financial assets includes: establishing SPEs; selling assets to SPEs; structuring SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of \$61.9 billion and \$42.4 billion for the years ended December 26, 2003 and December 27, 2002, respectively. For the years ended December 26, 2003

and December 27, 2002, Merrill Lynch received \$62.7 billion and \$43.4 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of \$111.3 million and \$52.2 million, respectively in Merrill Lynch's Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

In 2003 and 2002, cash inflows from securitizations related to the following asset types:

(dollars in millions)		
	2003	2002
<b>Asset category</b>		
Residential mortgage loans	\$ 43,717	\$ 28,676
Municipal bonds	11,301	7,956
Corporate and government bonds	1,721	2,708
Commercial loans and other	6,002	4,077
	<u>\$ 62,741</u>	<u>\$ 43,417</u>

In certain instances, Merrill Lynch retains interests in the senior tranche, subordinated tranche, and/or residual tranche of securities issued by certain SPEs created to securitize assets. The gain or loss on sale of the assets is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, if any, based on their relative fair value at the date of transfer.

Retained interests are recorded in the Consolidated Financial Statements at fair value. To obtain fair values, observable market prices are used if available. Where observable market prices are unavailable, Merrill Lynch generally estimates fair value initially and on an ongoing basis based on the present value of expected future cash flows using management's best estimates of credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests are either held as trading assets, with changes in fair value recorded in the Consolidated Statements of Earnings, or as securities available-for-sale, with changes in fair value included in accumulated other comprehensive loss. Retained interests held as available-for-sale are reviewed periodically for impairment.

Retained interests in securitized assets were approximately \$2.7 billion and \$3.3 billion at December 26, 2003 and December 27, 2002, respectively, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices. These retained interests include mortgage-backed securities that Merrill Lynch has committed to purchase and expects to sell to investors in the normal course of its underwriting activity. Approximately 64% and 77% at December 26, 2003 and December 27, 2002, respectively, of residential mortgage loan retained interests consist of interests in U.S. Government agency sponsored securitizations, which are guaranteed with respect to principal and interest. In addition, \$740 million and \$851 million at December 26, 2003 and December 27, 2002, respectively, of the retained interest balance relates to municipal bond transactions where observable market prices are available for the underlying assets, which provide the inputs and parameters used to calculate the fair value of the retained interest.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of December 26, 2003 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. As noted above, most retained interests are priced based on observable market values or derive their value directly from the observable value of the underlying securities. Key economic assumptions and parameters shown in the table below represent inputs derived from these observable market values. These assumptions and parameters are as of December 26, 2003. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	\$ 1,822	\$ 740	\$ 122
Weighted average life (in years)	3.2	3.6	N/A
Range	0.0-20.0	0.1-6.9	N/A
Weighted average credit losses (rate per annum)	0.7%	0%	0.4%
Range	0.0-3.5%	0%	0.0-3.1%
Impact on fair value of 10% adverse change	\$ (14)	\$ —	\$ —
Impact on fair value of 20% adverse change	\$ (23)	\$ —	\$ (1)
Weighted average discount rate	6.4%	2.2%	6.6%
Range	0.0-83.9%	1.0-11.3%	1.8-25.0%
Impact on fair value of 10% adverse change	\$ (12)	\$ (52)	\$ (3)
Impact on fair value of 20% adverse change	\$ (23)	\$ (100)	\$ (6)
Weighted average prepayment speed (CPR)	17.6%	15.1%(1)	N/A
Range	0.0-65.0%	7.0-24.0%(1)	N/A
Impact on fair value of 10% adverse change	\$ (12)	\$ (1)	N/A
Impact on fair value of 20% adverse change	\$ (23)	\$ (2)	N/A

N/A=Not Applicable

CPR=Constant Prepayment Rate

(1) Relates to select securitization transactions where assets are prepayable.

The preceding table does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge risks including credit, interest rate, and prepayment risk that are inherent in the retained interests. Merrill Lynch employs hedging strategies that are structured to take into consideration the hypothetical stress scenarios above such that they would be effective in principally offsetting Merrill Lynch's exposure to loss in the event these scenarios occur. In addition, the sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not consider any

hedging activity that Merrill Lynch may take to mitigate the impact of any adverse changes in the key assumptions.

The weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2003 that were still held by Merrill Lynch as of December 26, 2003 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Weighted average life (in years)	5.6	N/A	N/A
Credit losses (rate per annum)	0.3%	0%	0%
Weighted average discount rate	6.0%	3.2%	4.5%
Prepayment speed assumption (CPR)	17.9%	N/A	N/A

N/A=Not Applicable

CPR=Constant Prepayment Rate

For residential mortgage loan and other securitizations, the investors and the securitization trust have no recourse to Merrill Lynch's other assets for failure of mortgage holders to pay when due.

For municipal bond securitization SPEs, in the normal course of dealer market-making activities, Merrill Lynch acts as liquidity provider. Specifically, the holders of beneficial interests issued by municipal bond securitization SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. Beneficial interests that are tendered are then sold by Merrill Lynch to investors through a best efforts remarketing where Merrill Lynch is the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

Merrill Lynch also provides default protection or credit enhancement to investors in securities issued by certain municipal bond securitization SPEs. Interest and principal payments on beneficial interests issued by these SPEs are secured by a guarantee issued by Merrill Lynch. In the event that the issuer of the underlying municipal bond defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch.

The maximum commitment under these liquidity and default guarantees totaled \$17.0 billion and \$13.7 billion at December 26, 2003 and December 27, 2002, respectively. The fair value of the commitments approximate \$126 million and \$69 million at December 26, 2003 and December 27, 2002, respectively, which is reflected in the Consolidated Financial Statements. Of these arrangements, \$2.8 billion and \$2.3 billion at December 26, 2003 and December 27, 2002, respectively, represent agreements where the guarantee is provided to the SPE by a third-party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 13 to the Consolidated Financial Statements.

The following table summarizes principal amounts outstanding, delinquencies, and net credit losses of securitized financial assets as of December 26, 2003 and December 27, 2002:

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
<b>December 26, 2003</b>			
Principal Amount Outstanding	\$ 43,777	\$ 14,890	\$ 4,527
Delinquencies	54	—	—
Net Credit Losses	3	—	8
<b>December 27, 2002</b>			
Principal Amount Outstanding	\$ 23,107	\$ 18,379	\$ 2,476
Delinquencies	90	—	3
Net Credit Losses	5	—	44

#### Variable Interest Entities

In January 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, for enterprises that have interests in entities that meet the definition of a VIE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires that an entity shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses; receive a majority of the VIE's expected residual returns; or both.

The FASB issued FIN 46R on December 24, 2003, which provides most public entities with the ability to defer implementation of the revised FIN 46 to no later than the first fiscal quarter of 2004. However, should a public issuer elect to defer implementation of FIN 46R, the entity is required to adopt FIN 46 for the 2003 fiscal year-end reporting. Merrill Lynch has elected to follow the guidance in FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest at December 26, 2003, with the exception of those VIEs that issue TOPrS SM, in which case Merrill Lynch has elected to apply the provisions of FIN 46. Merrill Lynch has accounted for those VIEs that are consolidated under the new guidance as a cumulative effect of a change in accounting principle, which did not have a material effect on the 2003 year-end financial statements.

In the normal course of business, Merrill Lynch acts as a transferor, derivative counterparty, investor, arranger, structurer, underwriter, market-maker, guarantor, and/or liquidity provider to many VIEs. In addition, Merrill Lynch acts as transferor to certain entities that meet the requirements of qualifying special purpose entities, which are not consolidated in the Merrill Lynch Financial Statements in accordance with SFAS No. 140, but which are disclosed herein where Merrill Lynch typically holds a significant variable interest and/or the transaction type represents a significant Merrill Lynch sponsored program.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the primary beneficiary of VIEs that own convertible bonds purchased from Merrill Lynch, in which Merrill Lynch maintains a call option to repurchase the convertible bonds from the VIE. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option. Assets held by these VIEs are reported in equities and convertible debentures or resale agreements, depending on the nature of the transaction, in the Consolidated Balance Sheet. Holders of the beneficial interests in these VIEs have no recourse to the general credit of Merrill Lynch; rather their investment is paid exclusively from the convertible bonds held by the VIE.
- Merrill Lynch is the primary beneficiary of "maturity shortening transactions," in which the VIE serves to shorten the maturity of a fixed income security, and, at the maturity date of the VIE, Merrill Lynch has the obligation to repurchase some or all of the securities held by the VIE. Assets held by these VIEs are reported in corporate debt and preferred stock. The beneficial interest holders in these VIEs have recourse to Merrill Lynch to the extent that the underlying assets that Merrill Lynch is required to repurchase have declined in value from the initial transaction date.
- Merrill Lynch is the sponsor and guarantor of VIEs that provide a guarantee of principal to beneficial interest holders, thereby limiting investors' losses generated from the assets. Merrill Lynch may also guarantee investors returns in excess of principal depending on the nature of the fund. In certain of these VIEs, Merrill Lynch is the primary beneficiary. Investors in these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the investors' initial investment or guaranteed amount. Where Merrill Lynch is not the primary beneficiary, guarantees related to these funds are discussed and disclosed in Note 13 to the Consolidated Financial Statements.
- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary and consolidate, or a significant variable interest holder. These VIEs are primarily designed to provide temporary on or off balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where ML has provided financing and is the primary beneficiary are recorded in other assets and/or loans, notes and mortgages in the Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as investment securities where Merrill Lynch holds a significant variable interest, and in other assets where Merrill Lynch is the primary beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; rather their investments are paid exclusively from the assets in the VIE.
- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 13 to the Consolidated Financial Statements.

- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide foreign tax planning strategies to investors. Merrill Lynch is a significant variable interest holder in these VIEs.
- Merrill Lynch has a significant variable interest in residential mortgage securitizations entered into by one of its banking subsidiaries. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this entity qualifies as a QSPE, although Merrill Lynch retains a 97% interest in the vehicle.
- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch is a derivative counterparty to a VIE that serves to synthetically expose investors to a specific credit risk. Based on the provisions of FIN 46R, Merrill Lynch does not have a significant variable interest since the derivative it has purchased does not absorb variability. However, because these structures represent a significant Merrill Lynch sponsored program, information related to these structures has been included in the following table.

The following table summarizes Merrill Lynch's involvement with the VIEs listed above as of December 26, 2003. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes, nor does it reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)				
December 26, 2003				
Description	Primary Beneficiary		Significant Variable Interest Holder	
	Asset Size	Recourse to Merrill Lynch (4)	Asset Size	Maximum Exposure
Convertible Bond Stripping	\$ 1,864	None	\$ —	\$ —
Maturity Shortening	379	\$ 1	—	—
Guaranteed Funds	863	863	—	—
Loan and Real Estate VIEs	775	None	636	567
Municipal Bond Securitizations <sup>(1)</sup>	—	—	16,927	16,927
Foreign Tax Planning VIEs <sup>(2)</sup>	—	—	2,811	114
Mortgage Securitizations	—	—	345	334
Synthetic Credit Risk VIEs <sup>(3)</sup>	—	—	6,402	474

- (1) The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's exposure to these VIEs since Merrill Lynch enters into economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.
- (2) The maximum exposure for Foreign Tax Planning VIEs reflects the fair value of derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made to investors in the VIEs.
- (3) The maximum exposure for Synthetic Credit Risk VIEs is the asset carrying value of the derivatives entered into with the VIEs as of December 26, 2003.
- (4) This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.

At December 26, 2003, the Consolidated Balance Sheet included \$1.2 billion of incremental assets related to the consolidation of these entities in which Merrill Lynch is the primary beneficiary.

## >> Note 8. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, notes, and mortgages and related commitments to extend credit at December 26, 2003 and December 27, 2002, are presented below:

(dollars in millions)				
	Loans		Commitments	
	2003	2002	2003 (1)	2002
Consumer and small- and middle-market business:				
Mortgages	\$ 16,688	\$ 16,484	\$ 4,842	\$ 5,168
Small- and middle- market business	6,737	4,982	3,411	2,673
Other	4,045	1,172	603	477
Commercial:				
Secured	21,048	11,972	12,425	9,321
Unsecured investment grade	1,806	3,492	15,028	10,882
Unsecured non-investment grade	669	731	562	300
Total	\$ 50,993	\$ 38,833	\$ 36,871	\$ 28,821

(1) See Note 13 for a maturity profile of these commitments.

The loan amounts are net of an allowance for loan losses of \$318 million and \$285 million as of December 26, 2003 and December 27, 2002, respectively.

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 269,500 individual loans at December 26, 2003, and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at year-end 2003 consisted of approximately 7,500 separate loans, include syndicated loans and other loans to corporations and other businesses. Secured loans and commitments include lending activities made in the normal course of Merrill Lynch's securities and financing businesses. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than BBB. Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled \$4.9 billion and \$3.8 billion at December 26, 2003 and December 27, 2002, respectively. For information on credit risk management see Note 6 to the Consolidated Financial Statements.

The above amounts include \$7.6 billion and \$6.2 billion of loans held for sale at December 26, 2003 and December 27, 2002, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At December 26, 2003, such loans consisted of \$5.2 billion of consumer loans, primarily residential mortgages, and \$2.4 billion of commercial loans, approximately 59% of which are to investment grade counter-parties. At December 27, 2002, such loans consisted of \$3.2 billion of consumer loans, primarily residential mortgages, and \$3.0 billion of commercial loans, approximately 49% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes and mortgages, see Note 1 to the Consolidated Financial Statements.

The fair values of loans, notes, and mortgages were approximately \$51.1 billion and \$38.9 billion at December 26, 2003 and December 27, 2002, respectively. Fair value for loans made in connection with private equity investing activities, consisting primarily of senior debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

Merrill Lynch generally maintains collateral on secured loans in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees.

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance and loan syndication transactions. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. Merrill Lynch considers commitments to be outstanding as of the date the commitment letter is issued. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending on its creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon. For a maturity profile of these and other commitments see Note 13 to the Consolidated Financial Statements.

## >> Note 9. Commercial Paper and Short- and Long-Term Borrowings

ML & Co. is the primary issuer of all debt instruments. For local tax or regulatory reasons, debt is also issued by certain subsidiaries.

Total borrowings at December 26, 2003 and December 27, 2002 consisted of the following:

(dollars in millions)		
	2003	2002
Senior debt issued by ML & Co.	\$ 80,159	\$ 76,822
Senior debt issued by subsidiaries, guaranteed by ML & Co.	5,441	5,833
Other subsidiary financing	2,699	1,222
Total	\$ 88,299	\$ 83,877

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 to the Consolidated Financial Statements, Derivatives section for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments.

Borrowings at December 26, 2003 and December 27, 2002 are presented below:

(dollars in millions)		
	2003	2002
<b>Commercial paper and other short-term borrowings</b>		
Commercial paper	\$ 4,568	\$ 3,966
Other	432	1,387
Total	\$ 5,000	\$ 5,353
<b>Long-term borrowings</b>		
Fixed-rate obligations (1)(3)	\$ 37,210	\$ 34,084
Variable-rate obligations (2)(3)	41,297	39,703
Zero-coupon contingent convertible debt (LYONs ® )	4,792	4,737
Total	\$ 83,299	\$ 78,524

(1) Fixed-rate obligations are generally swapped to floating rates.

(2) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.

(3) Included are various equity-linked or other indexed instruments.

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, at December 26, 2003, mature as follows:

(dollars in millions)		
2004	\$ 17,397	21%
2005	12,174	14
2006	13,092	16
2007	10,023	12
2008	8,205	10
2009 and thereafter	22,408	27
Total	\$ 83,299	100%

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date. A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities, may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying securities. Merrill Lynch also makes markets buying and selling its debt instruments, including such notes.

Senior debt issued by ML & Co. and senior debt issued by subsidiaries guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or ML & Co. stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

The fair values of long-term borrowings and related hedges approximated the carrying amounts at year-end 2003 and 2002.

The effective weighted-average interest rates for borrowings, at December 26, 2003 and December 27, 2002 were:

	2003	2002
Commercial paper and other short-term borrowings	2.10%	2.27%
Long-term borrowings, contractual rate	2.99	3.26
Long-term borrowings, including the impact of hedges	1.38	1.74

In March 2002, Merrill Lynch issued \$2.3 billion aggregate original principal amount of floating rate zero-coupon contingently convertible debt (Liquid Yield Option™ notes or LYONs®) at an issue price of \$1,000 per note, which resulted in gross proceeds of \$2.3 billion. The LYONs® are unsecured and unsubordinated indebtedness of Merrill Lynch with a maturity date of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period commencing June 1, 2007, the average market price of the LYONs® for a certain period exceeds 120% or more of the accreted value of the LYONs®. In the case that payment is required, contingent interest will be equal to the greater of the common stock dividend for that period or \$0.16 multiplied by the initial amount of shares into which the LYONs® are convertible. At maturity on March 13, 2032, holders will receive, for each note, a contingent principal amount equal to \$1,000 increased daily by a yield of 3-month LIBOR minus 2.0% per annum, reset quarterly. Regardless of the level of 3-month LIBOR, however, the yield will never be less than 0% and, after March 13, 2007, the yield will not exceed 5.5%. For the year ended December 26, 2003, the weighted average yield of the notes was 0%. Merrill Lynch is recognizing any contingent principal amount as it is accrued over the term of the LYONs®. Each LYONs® is convertible into 13.8213 shares of common stock if certain conditions are met. Holders may require Merrill Lynch to purchase all or a portion of their LYONs® on March 13, 2005, 2007, 2012, 2017, 2022, and 2027 at the then contingent principal amount. Holders may also require Merrill Lynch to repurchase all or a portion of the LYONs® upon a change in control occurring on or before March 13, 2007 at a price equal to the then contingent principal amount. Merrill Lynch may elect to pay the purchase price in cash, shares of common stock or any combination thereof. Merrill Lynch may redeem all or a portion of the LYONs® at any time after March 13, 2007.

In May 2001, Merrill Lynch issued \$4.6 billion of LYONs® at an issue price of \$511.08 per note, which resulted in gross proceeds of approximately \$2.4 billion. The LYONs® are unsecured and unsubordinated indebtedness of Merrill Lynch with a maturity date of 30 years. Merrill Lynch will pay no

interest prior to maturity unless, during any six-month period commencing June 1, 2006, the average market price of the LYONs® for a certain period exceeds 120% or more of the accreted value of the LYONs®. In the case that payment is required, contingent interest will be equal to the greater of the common stock dividend for that period or \$0.16 multiplied by the initial amount of shares into which the LYONs® are convertible. Each note has a yield to maturity of 2.25% with a maturity value of \$1,000 on May 23, 2031. Merrill Lynch is amortizing the issue discount using the effective interest method over the term of the LYONs®. Each LYONs® is convertible into 5.6787 shares of common stock if certain conditions are met. Holders may require Merrill Lynch to purchase all or a portion of their LYONs® on May 23, 2004, 2005, 2006, 2011, 2016, 2021 and 2026 at the then accreted value. Holders may also require Merrill Lynch to repurchase all or a portion of the LYONs® upon a change in control occurring on or before May 23, 2006 at a price equal to the then accreted value. Merrill Lynch may elect to pay the purchase price in cash, shares of common stock or any combination thereof. Merrill Lynch may redeem all or a portion of the LYONs® at any time after May 23, 2006.

## Borrowing Facilities

Merrill Lynch has a committed, senior, unsecured bank credit facility aggregating \$3.0 billion under an agreement with a syndicate of banks. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 26, 2003, this credit facility was not drawn upon.

The credit quality, amounts, and terms of this credit facility are continually monitored and modified as warranted by business conditions. Under the existing agreement, the credit facility will mature in May 2004.

## >> Note 10. Deposits

Deposits at December 26, 2003 and December 27, 2002 are presented below:

	(dollars in millions)	
	2003	2002
<b>U.S.</b>		
Savings Deposits	\$ 64,197	\$ 67,528
Time Deposits	1,212	1,022
Total U.S. Deposits	65,409	68,550
<b>Non-U.S.</b>		
Non-interest bearing	359	237
Interest bearing	13,689	13,055
Total Non-U.S. Deposits	14,048	13,292
<b>Total Deposits</b>	<b>\$ 79,457</b>	<b>\$ 81,842</b>

The effective weighted-average interest rates for deposits, which include the impact of hedges, at December 26, 2003 and December 27, 2002 were 0.78% and 1.32%, respectively. The fair values of deposits approximated carrying values at December 26, 2003 and December 27, 2002.



## >> **Note 11. Preferred Securities Issued by Subsidiaries**

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, consist of perpetual trust-issued preferred securities.

TOPRS SM were issued to investors by trusts created by Merrill Lynch and are registered with the Securities and Exchange Commission. Using the issuance proceeds, the trusts purchased Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extended loans to ML & Co. and one or more subsidiaries of ML & Co. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPRS SM to the extent that the trusts have funds legally available. This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co. Merrill Lynch has elected to account for its issuance of TOPRS SM in accordance with the provisions of FIN 46 and, as a result, the Partnerships and Trusts that issue these securities are consolidated in Merrill Lynch's financial statements.

The following table presents data related to the issuance of TOPRS SM by Merrill Lynch Capital Trust I, II, III, IV, and V. All TOPRS SM issued have a liquidation value of \$25 per security, have a perpetual life, and can be redeemed at the option of the trusts, in whole or in part, at the liquidation value on or after their respective optional redemption dates (see following table). The holders of the TOPRS SM do not have the right to redeem the securities. Distributions, which are deductible for U.S. federal tax purposes, are payable from the date of original issuance and are payable quarterly if, and when the trusts have funds available for payment.

(dollars in millions)

TOPRS SM	Annual Distribution Rate	Issue Date	Optional Redemption Date	Liquidation Value
I	7.75%	Dec. 1996	Dec. 2006	\$ 275
II	8.00	Feb. 1997	Mar. 2007	300
III	7.00	Jan. 1998	Mar. 2008	750
IV	7.12	Jun. 1998	Jun. 2008	400
V	7.28	Nov. 1998	Sep. 2008	850
Other (1)	2.70	Jul. 1999	Jun. 2004	95
				\$ 2,670

(1) Represents Yen-denominated TOPRS SM issued by Merrill Lynch Yen TOPRS SM Trust I.

## >> **Note 12. Stockholders' Equity and Earnings Per Share**

### **Preferred Equity**

ML & Co. is authorized to issue 25,000,000 shares of undesignated preferred stock, \$1.00 par value per share. All shares of currently outstanding preferred stock constitute one and the same class that have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

### **9% Cumulative Preferred Stock, Series A**

ML & Co. has issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, liquidation preference value of \$10,000 per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of \$425 million, all of which was outstanding at year-end 2003, 2002, and 2001.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly when declared by the authority of the Board of Directors. The 9% Preferred Stock is perpetual and redeemable on or after December 30, 2004 at the option of ML & Co., in whole or in part, at a redemption price equal to \$10,000 per share, plus accrued and unpaid dividends (whether or not declared) to the date fixed for redemption.

### **Common Stock**

Dividends paid on common stock were \$0.64 per share in 2003, 2002 and 2001.

### **Shares Exchangeable into Common Stock**

In 1998, Merrill Lynch & Co., Canada Ltd. issued 9,662,448 Exchangeable Shares in connection with Merrill Lynch's merger with Midland Walwyn Inc. Holders of Exchangeable Shares have dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares may be exchanged at any time, at the option of the holder, on a one-for-one basis for ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

During 2003 and 2002, 1,011,118 and 284,366 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 2003, 2,899,923 Exchangeable Shares were outstanding, compared with 3,911,041 at year-end 2002.

## Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 26, 2003 and December 27, 2002 are as follows:

(dollars in millions)

	2003	2002
<b>Foreign currency translation adjustment</b>		
Unrealized (losses), net of gains	\$ (758)	\$ (366)
Income taxes	457	46
Total	(301)	(320)
<b>Unrealized gains (losses) on investment securities available-for-sale</b>		
Unrealized (losses), net of gains	(158)	(185)
Adjustments for:		
Policyholder liabilities	(36)	(44)
Deferred policy acquisition costs	2	3
Income taxes	81	81
Total	(111)	(145)
<b>Deferred gains on cash flow hedges</b>	11	20
<b>Minimum pension liability</b>	(150)	(125)
<b>Total accumulated other comprehensive loss</b>	\$ (551)	\$ (570)

## Stockholder Rights Plan

In 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock 10 days following the earlier of: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co., or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase 1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value \$1.00 per share, at an exercise price of \$300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire in 2007, and are redeemable at the option of a majority of the directors of ML & Co. at \$.01 per Right at any time until the 10th day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

## Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(dollars in millions, except per share amounts)

	2003	2002	2001
<b>Net earnings</b>	\$ 3,988	\$ 2,513	\$ 573
<b>Preferred stock dividends</b>	38	38	38
<b>Net earnings applicable to common stockholders</b>	\$ 3,950	\$ 2,475	\$ 535
(shares in thousands)			
<b>Weighted-average basic shares outstanding (1)</b>	900,711	862,318	838,683
<b>Effect of dilutive instruments (2)</b>			
Employee stock options	30,542	30,702	53,336
FACAAP shares	22,995	23,990	27,305
Restricted shares and units	21,215	25,141	19,173
ESPP shares	61	71	58
Dilutive potential common shares	74,813	79,904	99,872
<b>Diluted shares (3)</b>	975,524	942,222	938,555
<b>Basic EPS</b>	\$ 4.39	\$ 2.87	\$ 0.64
<b>Diluted EPS</b>	4.05	2.63	0.57

(1) Includes shares exchangeable into common stock.

(2) See Note 15 to the Consolidated Financial Statements for a description of these instruments and issuances subsequent to December 26, 2003.

(3) At year-end 2003, 2002, and 2001, there were 90,555; 118,070; and 38,174 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. Additionally, shares related to Merrill Lynch's LYONs® issuance are not included in the computation of diluted earnings per share because the threshold trigger price for conversion has not been reached.

## >> Note 13. Commitments, Contingencies and Guarantees

### Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices that began in 2000 has resulted in increased legal actions against many firms, including Merrill Lynch and will likely result in higher professional fees and litigation expenses than those incurred in the past.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these legal actions, investigations and proceedings, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines or other relief. Merrill Lynch believes it has strong defenses to, and, where

appropriate, will vigorously contest these actions. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch often cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch believes, based on information available to it, that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

## Commitments

At December 26, 2003, Merrill Lynch commitments had the following expirations:

(dollars in millions)	Commitment expiration				
	Total	Less than 1 year	1 - 3 years	3+ - 5 years	Over 5 years
Commitments to extend credit <sup>(1)</sup>	\$ 36,871	\$ 18,197	\$ 7,415	\$ 7,166	\$ 4,093
Purchasing and other commitments	8,348	7,211	715	186	236
Operating leases	3,885	524	1,006	853	1,502
Resale agreements	10,215	10,215	—	—	—
Total	\$ 59,319	\$ 36,147	\$ 9,136	\$ 8,205	\$ 5,831

(1) See Note 8 to the Consolidated Financial Statements for additional details.

## Lending Commitments

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking, corporate finance, and loan syndication transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon.

## Purchasing and Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 26, 2003 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch enters into commitments related to resale agreements.

Merrill Lynch also obtains commercial letters of credit from issuing banks to satisfy various counterparty collateral

requirements in lieu of depositing cash or securities collateral. Commercial letters of credit aggregated \$507 million and \$434 million at December 26, 2003 and December 27, 2002, respectively.

In the normal course of business, Merrill Lynch enters into institutional and margin-lending transactions, some of which is on a committed basis, but most of which is not. Margin lending on a committed basis only includes amounts where Merrill Lynch has a binding commitment. These binding margin lending commitments totaled \$459 million at December 26, 2003 and \$1.2 billion at December 27, 2002.

Merrill Lynch has commitments to purchase partnership interests, primarily related to private equity investing activities, of \$426 million and \$698 million at December 26, 2003 and December 27, 2002, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At December 26, 2003 and December 27, 2002 minimum fee commitments over the remaining life of these agreements aggregated \$503 million and \$527 million, respectively. Merrill Lynch has entered into other purchasing commitments totaling \$7.0 billion and \$1.4 billion at December 26, 2003 and December 27, 2002, respectively.

## Leases

Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was \$383 million. These SPEs were not consolidated by Merrill Lynch pursuant to the accounting guidance that was then in effect. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third-parties unrelated to Merrill Lynch.

The leases with the limited partnership mature in 2005 and 2006, and each lease has a renewal term to 2008. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this residual value guarantee is

approximately \$325 million as of December 26, 2003. As of December 26, 2003, the carrying value of the liability on the Consolidated Financial Statements is \$34 million. Merrill Lynch's residual value guarantee does not comprise more than half of the limited partnership's assets. Merrill Lynch had entered into a similar residual value guarantee with the previous SPEs; the maximum exposure under the previous guarantee was approximately \$325 million as of December 27, 2002.

The limited partnership does not meet the definition of a VIE as defined in FIN 46. Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

At December 26, 2003, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year, including lease payments to the limited partnerships discussed above are as follows:

(dollars in millions)

	WFC(1)	Other	Total
2004	\$ 179	\$ 345	\$ 524
2005	179	336	515
2006	179	312	491
2007	179	271	450
2008	179	224	403
2009 and thereafter	848	654	1,502
Total	\$ 1,743	\$ 2,142	\$ 3,885

(1) World Financial Center Headquarters.

The minimum rental commitments shown above have not been reduced by \$812 million of minimum sublease rentals to be received in the future under noncancellable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

Net rent expense for each of the last three years is presented below:

(dollars in millions)

	2003	2002	2001
Rent expense	\$ 531	\$ 538	\$ 651
Sublease revenue	(93)	(92)	(106)
Net rent expense	\$ 438	\$ 446	\$ 545

## Guarantees

Merrill Lynch issues various guarantees to counterparties in connection with certain leasing, securitization and other transactions. In addition, Merrill Lynch enters into certain derivative contracts that meet the accounting definition of a guarantee under FIN 45. FIN 45 defines guarantees to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value of interest rates, security prices, currency rates, commodity prices, indices, etc.), that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the FIN 45 definition of guarantees include certain written options and credit default swaps (contracts that require Merrill Lynch to pay the counterparty the par value of a referenced security if that referenced security

defaults). Merrill Lynch does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, Merrill Lynch has disclosed information about all credit default swaps and certain types of written options that can potentially be used by clients to protect against changes in an underlying, regardless of how the contracts are used by the client.

For certain derivative contracts, such as written interest rate caps and written currency options, the maximum payout could theoretically be unlimited, because, for example, the rise in interest rates or changes in foreign exchange rates could theoretically be unlimited. In addition, Merrill Lynch does not monitor its exposure to derivatives in this manner. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value is not a reliable indicator of Merrill Lynch's exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. As previously noted, Merrill Lynch does not monitor its exposure to derivative contracts in terms of maximum payout. Instead, a risk framework is used to define risk tolerances and establish limits to ensure that certain risk-related losses occur within acceptable, predefined limits. Merrill Lynch economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions. See the *Derivatives* section of Note 1 for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition as of December 26, 2003, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of December 26, 2003, the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was in aggregate \$18.3 billion, which exceeds the maximum payout if the standby facilities are drawn of \$13.9 billion in aggregate. However, it should be noted that the assets to which Merrill Lynch has recourse

are on a deal-by-deal basis and are not part of a cross-collateralized pool.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of December 26, 2003, the value of the assets to which Merrill Lynch has recourse in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due was \$4.1 billion; the maximum payout if an issuer defaults was \$3.1 billion. As described in the preceding paragraph, the assets to which Merrill Lynch has recourse are not part of a cross-collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales beyond 75-90% of the current book value of the asset to which the guarantee pertains. As of December 26, 2003, the maximum payout on these guarantees is \$502 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the acquisition cost of the assets.

Merrill Lynch also enters into reimbursement agreements in conjunction with sales of loans originated under its Mortgage 100 SM program. Under this program, borrowers can pledge marketable securities in lieu of making a cash down payment. Upon sale of these mortgage loans, purchasers may require a surety bond that reimburses for certain shortfalls in the borrowers' securities accounts. Merrill Lynch provides this reimbursement through a financial intermediary. Merrill Lynch requires borrowers to meet daily collateral calls to ensure that the securities pledged as down payment are sufficient at all times. Merrill Lynch believes that its potential for loss under these arrangements is remote. Accordingly, no liability is recorded in the Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of \$277 million as collateral to secure these guarantees. In addition, standby letters of credit include \$89 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market event. At December 26, 2003 Merrill Lynch's maximum potential exposure to loss with respect to these guarantees is \$261 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at December 26, 2003.

These guarantees and their expiration are summarized at December 26, 2003 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 - 3 years	3+5 years	Over 5 years	Carrying Value
Derivative contracts <sup>(1)</sup>	\$ 936,089	\$ 305,555	\$ 290,815	\$ 195,530	\$ 144,189	\$ 20,687
Liquidity facilities with SPEs <sup>(2)</sup>	13,865	12,233	1,632	—	—	63
Liquidity and default facilities with SPEs	3,120	2,024	797	1	298	63
Residual value guarantees <sup>(3)(4)</sup>	1,768	57	78	344	1,289	42
Standby letters of credit and other performance guarantees <sup>(5)</sup>	770	397	62	43	268	10

(1) As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a substitute for maximum payout.

(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes \$2.8 billion of guarantees provided to SPEs by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.

(3) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$325 million.

(4) Includes \$892 million of reimbursement agreements with the Mortgage 100 SM program.

(5) Includes guarantees related to principal-protected mutual funds.

In addition to the guarantees described above, Merrill Lynch also provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other

members would be required to meet shortfalls. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for Merrill Lynch to be required to make payments under these arrangements is remote. Accordingly,

no liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with its prime brokerage business, Merrill Lynch provides to counterparties guarantees of the performance of its prime brokerage clients. Under these arrangements, Merrill Lynch stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, Merrill Lynch must fulfill the customer's obligation with the counterparty. Merrill Lynch is secured by the assets in the customer's account as well as any proceeds received from the securities transaction entered into by Merrill Lynch on behalf of the customer. No contingent liability is carried in the Consolidated Financial Statements for these transactions as the potential for Merrill Lynch to be required to make payments under these arrangements is remote.

In connection with its securities clearing business, Merrill Lynch performs securities execution, clearance and settlement services on behalf of other broker-dealer clients for whom it commits to settle, with the applicable clearinghouse, trades submitted for or by such clients; trades are submitted either individually, in groups or series or, if specific arrangements are made with a particular clearinghouse and client, all transactions with such clearing entity by such client. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed any cash deposit made by a client. However, the potential for Merrill Lynch to be required to make unreimbursed payments under these arrangements is remote due to the contractual capital requirements associated with clients' activity and the regular review of clients' capital. Accordingly, no liability is carried in the Consolidated Financial Statements for these transactions.

In connection with certain European mergers and acquisition transactions, Merrill Lynch, in its capacity as financial adviser, in some cases may be required by law to provide a guarantee that the acquiring entity has or can obtain or issue sufficient funds or securities to complete the transaction. These arrangements are short-term in nature, extending from the commencement of the offer through the termination or closing. Where guarantees are required or implied by law, Merrill Lynch engages in a credit review of the acquirer, obtains indemnification and requests other contractual protections where appropriate. Merrill Lynch's maximum liability equals the required funding for each transaction and varies throughout the year depending upon the size and number of open transactions. Based on the review procedures performed, management believes the likelihood of being required to pay under these arrangements is remote. Accordingly, no liability is recorded in the Consolidated Financial Statements for these transactions.

In the course of its business, Merrill Lynch routinely indemnifies investors for certain taxes, including U.S. and foreign withholding taxes on interest and other payments made on securities, swaps and other derivatives. These additional payments would be required upon a change in law or interpretation thereof. Merrill Lynch's maximum exposure under these indemnifications is not quantifiable. Merrill Lynch believes that the potential for such an adverse change is remote. As such, no liability is recorded in the Consolidated Financial Statements.

In connection with certain asset sales and securitization transactions, Merrill Lynch typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, Merrill Lynch may have an obligation to repurchase the assets or indemnify the purchaser against any loss. To the extent these assets were originated by others and purchased by Merrill Lynch, Merrill Lynch seeks to obtain appropriate representations and warranties in connection with its acquisition of the assets. Merrill Lynch believes that the potential for loss under these arrangements is remote. Accordingly, no liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with divestiture transactions, (for example, the integration of MLHSBC into HSBC and the sale of the GPC business in Canada), Merrill Lynch provides an indemnity to the purchaser, which will fully compensate the purchaser for any unknown liens or liabilities (e.g., tax liabilities) that relate to prior periods but are not discovered until after the transaction is closed. Merrill Lynch's maximum liability under these indemnifications cannot be quantified. However, Merrill Lynch believes that the likelihood of being required to pay is remote given the level of due diligence performed prior to the close of the transactions. Accordingly, no liability is recorded in the Consolidated Financial Statements for these indemnifications.

## **>> Note 14. Employee Benefit Plans**

Merrill Lynch provides retirement and other postemployment benefits to its employees worldwide through defined contribution and defined benefit pension plans and other postretirement benefit plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time.

Merrill Lynch's measurement date for both its defined benefit pension and other postretirement benefit plans is September quarter-end.

### **Defined Contribution Plans**

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("401(k)"). The RAP and ESOP cover substantially all U.S. employees who have met the service requirement. There is no service requirement for employee deferrals in the 401(k). However, there is a service requirement for an employee to receive corporate contributions in the 401(k).

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees with a minimum of one year of service. A notional retirement account is maintained for each participant. The RAP contributions are employer-funded based on compensation and years of service. Under the RAP, employees are given the opportunity to invest their retirement savings in a number of different investment alternatives. Under the ESOP, all retirement savings are in ML & Co. common stock, until employees

have five years of service after which they have the ability to diversify.

On July 17, 2001 Merrill Lynch merged the assets of the Herzog ESOP with the Merrill Lynch ESOP. Merrill Lynch allocates ESOP shares of Merrill Lynch stock to all participants of the ESOP as principal is repaid. Beginning in 2004, these allocations will be made on an annual basis. ESOP shares are considered to be either allocated (contributed to participants' accounts), committed (scheduled to be contributed at a specified future date but not yet released), or unallocated (not committed or allocated). Share information at December 26, 2003 is as follows:

Unallocated shares as of December 27, 2002	928,674
Release of escrow shares	1,300
Shares allocated/committed(1)	(161,863)
Unallocated shares as of December 26, 2003	768,111
(1) Excluding forfeited shares.	

Additional information on ESOP activity follows:

(dollars in millions)

	2003	2002	2001
Compensation costs funded with ESOP shares	\$ 9	\$ 17	\$ 8
Dividends used for debt service	1	1	—

Employees can participate in the 401(k) by contributing, on a tax-deferred basis, a certain percentage of their eligible compensation, up to 25% in 2003, and up to 15% in years prior, but not more than the maximum annual amount allowed by law. Employees are given the opportunity to invest their 401(k) contributions in a number of different investment alternatives including ML & Co. common stock. Merrill Lynch's contributions are made in cash, and are equal to one-half of the first 6% of each participant's eligible compensation contributed to the 401(k), up to a maximum of two thousand dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 15 to the Consolidated Financial Statements). This restriction was removed effective January 1, 2004.

Merrill Lynch also sponsors various non-U.S. defined contribution plans. The costs of benefits under the RAP, 401(k), and non-U.S. plans are expensed during the related service period.

#### Defined Benefit Pension Plans

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 2003 and 2002, a substantial portion of the assets supporting the annuity contract was invested in U.S. Government and agencies securities. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from, actual experience and investment performance of the annuity assets. Merrill Lynch also maintains supplemental defined benefit plans for certain U.S. employees.

Employees of certain 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. Merrill Lynch's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 26, 2003 and September 27, 2002 and the amounts recognized in the Consolidated Balance Sheets at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
<b>Projected benefit obligations</b>		
Balance, beginning of year	\$2,425	\$2,014
Service cost	43	45
Interest cost	143	140
Net actuarial loss	180	282
Benefits paid	(128)	(127)
Foreign exchange and other	87	71
Balance, end of period	2,750	2,425
<b>Fair value of plan assets</b>		
Balance, beginning of year	2,741	2,500
Actual return on plan assets	134	273
Contributions	53	51
Benefits paid	(128)	(127)
Foreign exchange and other	45	44
Balance, end of period	2,845	2,741
<b>Funded status</b>	95	316
Unrecognized net actuarial losses (gains)	136	(77)
Fourth-quarter activity, net	29	16
<b>Net amount recognized</b>	\$ 260	\$ 255
Assets	\$ 313	\$ 290
Liabilities	(269)	(213)
Accumulated other comprehensive loss (\$150 million and \$125 million, net of tax in 2003 and 2002)	216	178
<b>Net amount recognized</b>	\$ 260	\$ 255

The accumulated benefit obligation for all defined benefit pension plans was \$2,646 million and \$2,298 million at September 26, 2003 and September 27, 2002.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$937 million, \$856 million, and \$540 million, respectively, as of September 26, 2003, and \$838 million, \$711 million, and \$488 million, respectively, as of September 27, 2002. These plans primarily represent U.S. supplemental plans not subject to ERISA or non-U.S. plans where funding strategies vary due to legal requirements and local practices.

The increase in accumulated other comprehensive loss in 2003 resulted from the recognition of an additional minimum pension liability in 2003 of \$38 million (\$25 million, net of tax), primarily related to the U.K. pension plan. The unfunded accumulated benefit obligation of this plan increased in value due to a decline in the market value of

assets, combined with a reduction in the interest rate used for discounting the benefit obligation.

The weighted average assumptions used in calculating the projected benefit obligation at September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	5.6%	6.2%
Rate of compensation increase	4.1	4.3

The weighted average assumptions used in calculating the net periodic benefit cost for the years ended September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.2%	6.7%
Rate of compensation increase	4.1	4.3
Expected long-term return on plan assets	5.0	6.0

The expected long-term rate of return on 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 U.S. tax-qualified plan, which represents approximately 78% of Merrill Lynch's total plan assets as of September 26, 2003, is 100% invested in a group annuity contract which is currently 100% invested in fixed income securities. The expected long-term rate of return on plan assets for the U.S. tax-qualified plan is based on the portfolio yield at the beginning of each fiscal year. The U.K. plan, which represents approximately 16% of Merrill Lynch's total plan assets as of September 26, 2003, is currently invested in 79% equity securities, 15% debt securities and 6% real estate. The expected long-term rate of return on plan assets was calculated by the plan actuary and reflects estimates of the expected returns on different asset classes held by the plan in light of prevailing economic conditions at the beginning of the fiscal year.

Pension cost for the years ended 2003, 2002, and 2001 included the following components:

(dollars in millions)

	2003	2002	2001
<b>Defined contribution plan cost</b>	\$ 201	\$ 222	\$ 256
<b>Defined benefit plans</b>			
Service cost for benefits earned during the year	43	45	43
Interest cost on projected benefit obligations	143	140	129
Expected return on plan assets	(137)	(152)	(157)
Amortization of unrecognized items and other	3	6	(9)
Total defined benefit plan cost	52	39	6
<b>Total pension cost</b>	\$ 253	\$ 261	\$ 262

The pension plan weighted-average asset allocations at September 26, 2003 and September 27, 2002, by asset category are as follows:

Asset Category	2003	2002
Debt securities	84%	89%
Equity securities	15	10
Real estate and other	1	1
Total	100%	100%

Assets and liabilities of the U.S. tax-qualified plan are dollar duration matched, such that the assets are expected to mature within one half year of the time when liabilities come due. The asset portfolio's investment objective calls for a concentration in fixed income securities, the majority of which have an investment grade rating.

For the U.K. plan, the target asset allocation is 80% equity securities, 15% debt securities and 5% real estate.

Merrill Lynch currently expects to contribute \$57 million to its pension plans in 2004.

## Postretirement Benefits Other Than Pensions

Merrill Lynch provides health insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care coverage is contributory, with certain retiree contributions adjusted periodically. Non-contributory life insurance was offered to employees prior to February 1, 2000. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays premiums and claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 26, 2003, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 26, 2003 and September 27, 2002, and the amounts recognized in the Consolidated Balance Sheets at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
<b>Accumulated benefit obligations</b>		
Balance, beginning of year	\$ 398	\$ 260
Service cost	15	10
Interest cost	32	23
Net actuarial loss	96	116
Benefits paid	(18)	(17)
Other	2	6
Balance, end of period	525	398
<b>Fair value of plan assets</b>		
Balance, beginning of year	—	—
Contributions	18	17
Benefits paid	(18)	(17)
Balance, end of period	—	—
<b>Funded status</b>	(525)	(398)
Unrecognized net actuarial losses	195	110
Unrecognized prior service cost	2	3
Fourth quarter activity, net	5	4
<b>Accrued benefit liabilities</b>	\$ (323)	\$ (281)



The weighted average assumptions used in calculating the postretirement accumulated benefit obligations at September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.0%	6.5%
Health care cost trend rates (1) Initial	12.9	10.8
Long-term	5.0	5.0

(1) Assumed to decrease gradually through 2015 in 2003 and 2012 in 2002, and remain constant thereafter.

The weighted average assumptions used in calculating the net periodic benefit cost for the years ended September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.5%	7.0%
Health care cost trend rates (1) Initial	12.8	10.8
Long-term	5.0	5.0

(1) Assumed to decrease gradually through 2015 in 2003 and 2012 in 2002, and remain constant thereafter.

Other postretirement benefits cost included the following components:

(dollars in millions)

	2003	2002	2001
Service cost	\$ 15	\$ 10	\$ 8
Interest cost	32	23	16
Other	11	7	8
Total other postretirement benefits cost	\$ 58	\$ 40	\$ 32

The assumed health care cost trend rate has a significant effect on the amounts reported for the postretirement health care plans. A one-percent change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)

	1% Increase		1% Decrease	
	2003	2002	2003	2002
Effect on:				
Other postretirement benefits cost	\$ 8	\$ 6	(7)	(5)
Accumulated benefit obligation	90	68	(70)	(55)

Merrill Lynch currently expects to contribute \$19 million to its postretirement benefit plans in 2004.

## Postemployment Benefits

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by U.S. state and federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized \$285 million, \$358 million, and \$298 million in 2003, 2002, and 2001, respectively, of postemployment benefits expense, which included severance costs for terminated employees of \$253 million, \$323 million, and \$281 million in 2003, 2002, and 2001, respectively. The 2001 severance costs exclude costs related to the restructuring and other charges recorded in the fourth quarter of 2001. See Note 2 to the Consolidated Financial Statements for additional information. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 26, 2003 since future severance costs are not estimable.

## >> Note 15. Employee Incentive Plans

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase stock. The total pre-tax compensation cost recognized in earnings for stock-based compensation plans for 2003, 2002, and 2001 was \$756 million, \$821 million, and \$732 million, respectively. The 2001 costs exclude restructuring-related costs discussed in Note 2 to the Consolidated Financial Statements. Merrill Lynch also sponsors deferred cash compensation plans and award programs for eligible employees.

### Long-Term Incentive Compensation Plans ("LTIC Plans") Employee Stock Compensation Plan ("ESCP") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. ESCP, a broad-based plan approved by shareholders in 2003, had 75 million shares authorized and available for issuance at December 26, 2003. LTIC Plans and ESCP provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ECAP, a shareholder-approved plan, provides for the issuance of Restricted Shares, as well as Performance Shares. All plans under LTIC, ESCP and ECAP may be satisfied using either treasury or newly issued shares. As of December 26, 2003, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, and Performance Options had been granted. Beginning in 2004, Merrill Lynch also granted eligible employees Stock Appreciation Rights.

### Restricted Shares and Units

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments

equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period. Such shares and units are subject to forfeiture during the vesting period, for grants under LTIC Plans, or the restricted period for grants under ECAP. Restricted share and unit grants made prior to 2003 generally cliff vest in three years. Restricted share and unit grants made in 2003 and 2004 will generally cliff vest in four years.

In January 2003, 18,656,866 Restricted Units were converted to Restricted Shares; no change was made to the remaining vesting periods and the restricted periods were removed. Further, in 2003, 16,049,636 Restricted Units were released as a result of the early removal of the restricted period. The activity for Restricted Shares and Units under these plans during 2003 and 2002 follows:

	LTIC Plans		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
<b>Authorized for issuance at:</b>			
December 26, 2003	660,000,000	N/A	104,800,000
December 27, 2002	660,000,000	N/A	104,800,000
<b>Available for issuance at: (1)</b>			
December 26, 2003	81,044,822	N/A	10,843,278
December 27, 2002	109,612,528	N/A	10,827,789
<b>Outstanding, end of 2001</b>	12,457,371	34,947,273	376,078
Granted - 2002	1,805,409	13,518,586	8,065
Paid, forfeited, or released from contingencies	(6,634,632)	(5,664,532)	(254,493)
<b>Outstanding, end of 2002</b>	7,628,148	42,801,327	129,650
Granted - 2003	14,752,807	1,901,446	8,946
Unit to share conversion	18,656,866	(18,656,866)	—
Paid, forfeited, or released from contingencies	(7,209,193)	(18,825,452)	(99,537)
<b>Outstanding, end of 2003(2)</b>	33,828,628	7,220,455	39,059

(1) Includes shares reserved for issuance upon the exercise of stock options.

(2) In January 2004, 10,997,449 and 1,762,532 Restricted Shares and Restricted Units under LTIC plans, respectively, were granted to eligible employees.

The weighted-average fair value per share or unit for 2003, 2002, and 2001 grants follows:

	2003	2002	2001
<b>LTIC Plans</b>			
Restricted Shares	\$ 36.69	\$ 50.31	\$ 75.76
Restricted Units	37.18	52.98	74.52
<b>ECAP Restricted Shares</b>	53.65	48.81	60.51

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares are granted to employees and non-employee directors. At year-end 2003 and 2002, 3,800,000 restricted shares were authorized for issuance under these plans. A total of 88,657 and 127,195 shares were outstanding under these plans at year-end 2003 and 2002, respectively.

### Non-qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1994 and 1995 generally became exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 through 2000 generally are exercisable over five years; options granted in 2001 and 2002 became exercisable after approximately six months. New option grants made in 2003 and 2004 generally become exercisable over four years. The exercise price of these options is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Non-qualified Stock Options expire ten years after their grant date.

The activity for Non-qualified Stock Options under LTIC Plans for 2003, 2002, and 2001 follows:

	Options Outstanding	Weighted-Average Exercise Price
<b>Outstanding, beginning of 2001</b>	187,055,223	\$ 27.48
Granted - 2001	35,136,631	76.49
Exercised	(23,558,452)	17.19
Forfeited	(4,182,983)	38.69
<b>Outstanding, end of 2001</b>	194,450,419	37.36
Granted - 2002	45,373,396	53.76
Exercised	(14,874,865)	14.78
Forfeited	(3,060,806)	49.26
<b>Outstanding, end of 2002</b>	221,888,144	42.07
Granted - 2003	23,188,910	36.15
Exercised	(26,988,687)	20.41
Forfeited	(1,943,844)	36.70
<b>Outstanding, end of 2003(1)</b>	216,144,523	44.20

(1) In January 2004, 9,561,879 Non-qualified Stock Options and Stock Appreciation Rights were granted to eligible employees.

At year-end 2003, 2002, and 2001, options exercisable under LTIC Plans were 176,168,602, 190,264,151, and 126,979,165, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2003:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)(1)	Number Exercisable	Weighted-Average Exercise Price
\$8.00 - \$31.99	43,436,084	\$ 20.54	2.78	43,436,084	\$ 20.54
\$32.00 - \$37.99	60,132,628	36.14	6.57	34,925,910	36.14
\$38.00 - \$50.99	35,485,566	43.70	6.12	21,236,670	43.75
\$51.00 - \$60.99	43,727,866	53.76	8.09	43,418,582	53.75
\$61.00 - \$77.99	33,362,379	77.51	7.08	33,151,356	77.55

(1) Based on original contractual life of ten years.

The weighted-average fair value of options granted in 2003, 2002, and 2001 was \$13.55, \$22.44, and \$31.80 per option, respectively. Fair value is estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted-average assumptions:

	2003	2002	2001
Risk-free interest rate	2.86%	4.61%	5.05%
Expected life	5 yrs.	5 yrs.	5 yrs.
Expected volatility	46.41%	45.88%	42.84%
Dividend yield	1.77%	1.19%	0.84%

See the following Pro Forma Compensation Expense section for additional information.

### Employee Stock Purchase Plans ("ESPP")

The ESPP, which is shareholder approved, allows eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. The maximum annual purchase is \$21,250. The 15% discount has been eliminated effective January 10, 2004. These purchases are made on four quarterly investment dates through payroll deductions. Up to 100,600,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 2003, 2002, and 2001 follows:

	2003	2002	2001
Available, beginning of year	26,918,962	29,425,067	6,518,168
Authorized during year	—	—	25,000,000
Purchased through plan	(1,987,053)	(2,506,105)	(2,093,101)
Available, end of year	24,931,909	26,918,962	29,425,067

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2003, 2002, and 2001 was \$6.69, \$6.35, and \$8.78 per right, respectively.

### Pro Forma Compensation Expense

No compensation expense has been recognized for Merrill Lynch's grants of stock options under LTIC Plans or ESPP purchase rights. See Note 1 to the Consolidated Financial Statements for accounting policy. Pro forma compensation expense associated with option grants is recognized over the vesting period. Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of \$154 million, \$804 million, \$910 million, for 2003, 2002, and 2001, respectively, resulting in

pro forma net earnings (loss) and earnings (loss) per share as follows:

(dollars in millions, except per share amounts)

	2003	2002	2001
Net Earnings, as reported	\$ 3,988	\$ 2,513	\$ 573
Less: stock-based compensation determined under Black-Scholes method, net of taxes	(154)	(804)	(910)
Pro forma net earnings	\$ 3,834	\$ 1,709	\$ (337)
<b>Earnings (loss) per share</b>			
As reported:			
Basic	\$ 4.39	\$ 2.87	\$ 0.64
Diluted	4.05	2.63	0.57
Pro forma:			
Basic	4.21	1.94	(0.45)
Diluted	3.89	1.77	(0.45)

Merrill Lynch changed the vesting period for stock options from six months for 2002 and 2001 grants, to four years for 2003 grants. The decrease in 2003 compensation expense above reflects this change in vesting period.

### Financial Advisor Capital Accumulation Award Plans ("FACAAP")

Under FACAAP, eligible employees in GPC are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. Awards granted in 2003 are generally payable eight years from the date of grant in a fixed number of shares of ML & Co. common stock. For outstanding awards granted prior to 2003, payment is generally made ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value plus interest is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. Only shares of common stock held as treasury stock may be issued under FACAAP. FACAAP, which was approved by the Board of Directors, has not been shareholder approved.

At December 26, 2003, shares subject to outstanding awards totaled 44,668,824 while 22,087,047 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during 2003, 2002, and 2001 was \$38.78, \$52.67, and \$64.70 per award, respectively.

### Other Compensation Arrangements

To give employees flexibility in meeting their future income needs, Merrill Lynch sponsors deferred compensation plans in which employees who meet certain minimum compensation requirements may participate. Contributions to the plans are made on a tax-deferred basis by participants. Participants' returns on these contributions may be indexed to various Merrill Lynch mutual funds and other funds, including certain company-sponsored investment vehicles that qualify as employee securities companies.

Merrill Lynch also sponsors several cash-based employee award programs, under which certain employees are eligible

to receive future cash compensation, generally upon fulfillment of the vesting criteria for the particular program.

When appropriate, Merrill Lynch maintains various assets as an economic hedge of its liabilities to participants under the deferred compensation plans and award programs. These assets and the payables accrued by Merrill Lynch under the various plans and grants are included on the Consolidated Balance Sheets. Such assets totaled \$1.8 billion and \$1.9 billion, at December 26, 2003 and December 27, 2002, respectively. Accrued liabilities at year-end 2003 and 2002 were \$1.3 billion and \$1.2 billion, respectively.

## >> Note 16. Income Taxes

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)				
	2003	2002	2001	
<b>U.S. federal</b>				
Current	\$ 866	\$ 502	\$ 950	
Deferred	300	147	(573)	
<b>U.S. state and local</b>				
Current	11	70	38	
Deferred	50	17	(103)	
<b>Non-U.S.</b>				
Current	211	407	404	
Deferred	32	(90)	(107)	
<b>Total</b>	<b>\$ 1,470</b>	<b>\$ 1,053</b>	<b>\$ 609</b>	

The corporate statutory U.S. federal tax rate was 35% for the three years presented. A reconciliation of statutory U.S. federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

(dollars in millions)				
	2003	2002	2001	
U.S. federal income tax at statutory rate	\$ 1,977	\$ 1,315	\$ 482	
U.S. state and local income taxes, net	39	57	(43)	
Non-U.S. operations	(235)	(9)	8	
Tax-exempt interest	(148)	(127)	(90)	
Dividends received deduction	(17)	(13)	(29)	
Valuation allowance	(66)	(64)	334	
MLHSBC joint venture exit (1)	—	(81)	—	
TOPrS SM	(67)	(67)	(68)	
Other	(13)	42	15	
<b>Income tax expense</b>	<b>\$ 1,470</b>	<b>\$ 1,053</b>	<b>\$ 609</b>	

(1) Refer to Note 2 for information on MLHSBC joint venture.

The 2003 and 2002 effective tax rates reflect net benefits of \$220 million and \$77 million, respectively, related to changes in estimates for prior years, and settlements with various tax authorities.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Balance Sheets. These temporary differences result in taxable or deductible amounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

(dollars in millions)				
	2003	2002	2001	
<b>Deferred tax assets</b>				
Deferred compensation	\$ 1,412	\$ 1,592	\$ 1,268	
Valuation and other reserves	702	595	843	
Employee benefits	139	148	124	
Restructuring related	140	188	616	
Other	973	877	790	
Gross deferred tax assets	3,366	3,400	3,641	
Valuation allowances	(315)	(330)	(394)	
Total deferred tax assets	3,051	3,070	3,247	
<b>Deferred tax liabilities</b>				
Lease transactions	66	93	178	
Employee benefits	(25)	107	90	
Other	520	409	467	
Total deferred tax liabilities	561	609	735	
<b>Net deferred tax assets</b>	<b>\$ 2,490</b>	<b>\$ 2,461</b>	<b>\$ 2,512</b>	

At December 26, 2003, Merrill Lynch had U.S. net operating loss carryforwards of approximately \$1,911 million and non-U.S. net operating loss carryforwards of \$823 million. The U.S. amounts are primarily state carryforwards expiring in various years after 2007. The non-U.S. amounts are primarily Japan carryforwards expiring in various years after 2003. Merrill Lynch also had approximately \$31 million of state tax credit carryforwards expiring in various years after 2005.

The valuation allowance in 2003 decreased primarily due to utilization against earnings in Japan.

Income tax benefits of \$430 million, \$196 million, and \$790 million, were allocated to stockholders' equity related to employee stock compensation transactions for 2003, 2002, and 2001, respectively.

Cumulative undistributed earnings of non-U.S. subsidiaries were approximately \$5.9 billion at December 26, 2003. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested in Merrill Lynch's non-U.S. operations. It is not practical to determine the amount of additional tax that may be payable in the event these earnings are repatriated.

## >> Note 17. Regulatory Requirements and Dividend Restrictions

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch's principal regulated subsidiaries are discussed below.

### Securities Regulation

MLPF&S, a U.S. registered broker-dealer and futures commission merchant, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and capital requirements of the Commodities Futures Trading Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items ("ADI") arising from customer transactions. The CFTC also requires that minimum net capital should not be less than 4% of segregated and secured requirements. At December 26, 2003, MLPF&S's regulatory net capital of \$2,704 million was approximately 19% of ADI, and its regulatory net capital in excess of the minimum required was \$2,419 million at 2% of ADI.

MLI, a U.K. regulated investment firm, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At December 26, 2003, MLI's financial resources were \$5,753 million, exceeding the minimum requirement by \$920 million.

MLGSI, a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 26, 2003, MLGSI's liquid capital of \$2,031 million was 248% of its total market and credit risk, and liquid capital in excess of the minimum required was \$1,046 million.

### Banking Regulation

Two subsidiaries of ML & Co., MLBUSA and MLB&T, are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital

ratio — 10%. The following table presents the actual capital ratios and amounts for MLBUSA and MLB&T at December 26, 2003 and December 27, 2002.

(dollars in millions)

	2003		2002	
	Actual Ratio	Amount	Actual Ratio	Amount
<b>Tier 1 leverage</b>				
(to average assets)				
MLBUSA	6.47%	\$ 4,480	5.35%	\$ 3,740
MLB&T	6.00	857	5.42	848
<b>Tier 1 capital</b>				
(to risk-weighted assets)				
MLBUSA	10.73	4,480	11.48	3,740
MLB&T	19.18	857	20.53	848
<b>Total capital</b>				
(to risk-weighted assets)				
MLBUSA	11.28	4,706	12.04	3,924
MLB&T	19.20	858	20.54	848

MLCMB, an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority. The Bank is required to meet minimum regulatory capital requirements under EU banking law. The minimum capital level is defined as a Risk Asset Ratio of 8%. At December 26, 2003, MLCMB's capital ratio was 11.20% and its financial resources, as defined, were \$1,606 million.

MLIB, a U.K. regulated bank, is subject to the capital requirements of the FSA. MLIB's overall individual consolidated capital ratio, which is above the minimum capital requirements established by the FSA, was 12.61% as of December 26, 2003 and its consolidated capital base was \$1,932 million.

### Insurance Regulation

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 26, 2003, \$730 million, representing 82% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

### Other

Approximately 60 other subsidiaries are subject to regulatory and other requirements of the jurisdictions in which they operate. These regulatory restrictions may impose regulatory capital requirements and limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 26, 2003, restricted net assets of these subsidiaries were \$1.6 billion.

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than ML & Co.'s obligation to make payments on its preferred stock and TOPrSSM, and the governing provisions of the Delaware General Corporation Law.



## Supplemental Financial Information (unaudited)

### >> Quarterly Information

The unaudited quarterly results of operations of Merrill Lynch for 2003 and 2002 are prepared in conformity with U.S. generally accepted accounting principles, which include industry practices, and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

(dollars in millions, except per share amounts)

	For the Quarter Ended							
	Dec. 26, 2003(a)	Sept. 26, 2003(b)	June 27, 2003(c)	Mar. 28, 2003	Dec. 27, 2002(d)	Sept. 27, 2002(e)	June 28, 2002(f)	Mar. 29, 2002
Total Revenues	\$ 6,673	\$ 6,857	\$ 7,292	\$ 6,923	\$ 6,498	\$ 6,883	\$ 7,334	\$ 7,557
Interest Expense	1,750	1,794	1,976	2,071	2,274	2,497	2,400	2,474
Net Revenues	4,923	5,063	5,316	4,852	4,224	4,386	4,934	5,083
Non-Interest Expenses	3,271	3,554	3,850	3,830	3,481	3,332	3,986	4,071
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	1,652	1,509	1,466	1,022	743	1,054	948	1,012
Income Tax Expense	361	422	398	289	157	313	267	316
Dividends on Preferred Securities Issued by Subsidiaries	48	48	47	48	47	48	47	49
Net Earnings	\$ 1,243	\$ 1,039	\$ 1,021	\$ 685	\$ 539	\$ 693	\$ 634	\$ 647
Earnings Per Common Share:								
Basic	\$ 1.35	\$ 1.14	\$ 1.13	\$ 0.76	\$ 0.61	\$ 0.79	\$ 0.72	\$ 0.75
Diluted	\$ 1.23	\$ 1.04	\$ 1.05	\$ 0.72	\$ 0.56	\$ 0.73	\$ 0.66	\$ 0.67

(a) Includes after-tax net recoveries related to September 11 of \$42 million and net benefits from restructuring and other charges of \$3 million.

(b) Includes after-tax net recoveries related to September 11 of \$13 million.

(c) Includes after-tax net recoveries related to September 11 of \$36 million.

(d) Includes after-tax research settlement-related expenses of \$129 million, net recoveries related to September 11 of \$12 million, and net benefits from restructuring and other charges of \$41 million.

(e) Includes after-tax net recoveries related to September 11 of \$114 million and net restructuring benefits of \$1 million.

(f) Includes after-tax research settlement-related expenses of \$78 million.

### >> Dividends Per Common Share

(declared and paid)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
2003	\$	.16	\$	.16	\$	.16	\$	.16
2002		.16		.16		.16		.16

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than ML & Co.'s obligation to make payments on its preferred stock and TOPrSSM, and the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited. See Note 17 to the Consolidated Financial Statements.

### >> Stockholder Information

Consolidated Transaction Reporting System prices for ML & Co. common stock for the specified calendar quarters are noted below.

(at calendar period-end)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
2003	\$ 43.75	\$ 30.75	\$ 49.20	\$ 35.30	\$ 57.50	\$ 45.83	\$ 60.47	\$ 53.85
2002	59.32	44.15	55.20	36.50	40.71	30.99	44.91	28.21

The approximate number of holders of record of ML & Co. common stock as of February 24, 2004 was 19,620. As of February 24, 2004, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was \$60.75.



## >> Executive Offices

Merrill Lynch & Co., Inc.  
4 World Financial Center  
New York, New York 10080

## >> Common Stock

### Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Paris Stock Exchange, London Stock Exchange and Tokyo Stock Exchange.

### Transfer Agent and Registrar

Wells Fargo Bank, N.A. is the recordkeeping transfer agent for Merrill Lynch & Co., Inc. common stock. Questions from registered shareholders on dividends, lost or stolen certificates, the transfer of their physical stock certificates, changes of legal or dividend addresses and other matters relating to registered shareholder status should be directed to:

Wells Fargo Bank, N.A.  
Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075  
1-888-460-7641

## >> Preferred Stock

### Exchange Listing

Depository Shares representing 1/400 of a share of 9% Cumulative Preferred Stock, Series A, are listed on the New York Stock Exchange.

### Transfer Agent and Registrar

Citibank, N.A.  
111 Wall Street, Fifth Floor, New York, NY 10043  
Attn: Corporate Trust Department

## >> Form 10-K Annual Report for 2003

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 2003 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. For a copy of Merrill Lynch's 2003 Annual Report on Form 10-K (including financial statements and financial schedules but excluding other exhibits), visit our Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com) or write to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

## >> Equal Employment Opportunity

Merrill Lynch is fully committed to Equal Employment Opportunity and to attracting, retaining, developing and promoting the most qualified employees regardless of race, national origin, religion, sexual orientation, gender, age, disability or veteran status or any other characteristic prohibited by state or local law. For more information, write to Margot Milberg, Vice President, Compliance Programs and Affirmative Action, 4 World Financial Center, 18th Floor, New York, NY 10080.

## >> Charitable Contributions

A summary of Merrill Lynch's charitable contributions is available on our Global Philanthropy website at [www.ml.com/philanthropy](http://www.ml.com/philanthropy) or upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

## >> Annual Meeting

The 2004 Annual Meeting of Merrill Lynch & Co., Inc. shareholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Friday, April 23, 2004, at 10:00 a.m.

## >> Corporate Governance

Merrill Lynch has long adhered to best practices in corporate governance in fulfillment of its responsibilities to shareholders. Its policies and practices align management and shareholder interests. Highlights of our corporate governance practices include:

- A Board of Directors composed of ten directors-nine of whom are independent-and Board Committees composed solely of independent directors
- Corporate Governance Guidelines that set forth specific criteria for director qualifications, Board and Board Committee composition, director responsibilities, orientation and education requirements and annual Board self-evaluation
- Director Independence Standards adopted by the Board of Directors to form the basis of director independence required by NYSE rules
- Charters for each of our Board Committees reflecting current best corporate governance practices
- Guidelines for Business Conduct adopted by the Board of Directors on the recommendation of management as our code of ethics for our directors, officers and employees in conformity with NYSE rules and applicable law
- Code of Ethics for Financial Professionals adopted by the Board of Directors supplementing the Guidelines for Business Conduct
- Specific procedures for reporting ethical concerns, misconduct or violations in a confidential or anonymous manner without retribution, including those regarding internal accounting controls or questionable accounting or auditing matters
- Procedures for contacting one or more members of the Board of Directors
- Designation of three Audit Committee members as audit committee financial experts in accordance with SEC regulations
- Established policies and procedures governing the provision of audit and non-audit services provided by the Company's independent auditor
- A formal disclosure committee composed of senior officers for the purpose of implementing, monitoring and evaluating our disclosure controls and procedures

Merrill Lynch's Corporate Governance Guidelines, Director Independence Standards, charters for our Board Committees, Guidelines for Business Conduct and Code of Ethics for Financial Professionals are available on our Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com). Shareholders may obtain copies of these materials, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

[www.ml.com](http://www.ml.com)

Designed by DeSola Group, Inc.

Photography: Juliana Thomas; Ken Schles.

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 24, 2004 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a “significant subsidiary” as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	State or Jurisdiction of Entity
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated <sup>1</sup>	Delaware
Merrill Lynch Life Agency Inc. <sup>2</sup>	Washington
Merrill Lynch Professional Clearing Corp. <sup>3</sup>	Delaware
Merrill Lynch Capital Services, Inc.	Delaware
Merrill Lynch Government Securities, Inc.	Delaware
Merrill Lynch Money Markets Inc.	Delaware
Merrill Lynch Group, Inc.	Delaware
Merrill Lynch Investment Managers Group Limited <sup>4</sup>	England
Merrill Lynch Investment Managers Holdings Limited	England
Merrill Lynch Investment Managers Limited	England
Fund Asset Management, L.P. <sup>5</sup>	Delaware
Merrill Lynch Investment Managers, L.P. <sup>5</sup>	Delaware
Merrill Lynch Investment Managers, LLC	Delaware
Merrill Lynch Alternative Investments LLC	Delaware
Merrill Lynch Bank & Trust Co.	New Jersey
Financial Data Services, Inc.	Florida
ML Mortgage Holdings Inc.	Delaware
Merrill Lynch Insurance Group, Inc.	Delaware
Merrill Lynch Life Insurance Company	Arkansas
ML Life Insurance Company of New York	New York
Roszel Advisors, LLC	Delaware
Merrill Lynch International Finance Corporation	New York
Merrill Lynch International Bank Limited	England
Merrill Lynch Bank (Suisse) S.A.	Switzerland
Merrill Lynch Group Holdings Limited	Ireland
Merrill Lynch Capital Markets Bank Limited	Ireland
Merrill Lynch Mortgage Capital Inc. <sup>6</sup>	Delaware
Merrill Lynch Trust Company, FSB	Federal
Merrill Lynch Fiduciary Services, Inc.	New York
MLDP Holdings, Inc.	Delaware
Merrill Lynch Derivatives Products AG	Switzerland

<sup>1</sup> MLPF&S also conducts business as “Merrill Lynch & Co.”

<sup>2</sup> Similarly named affiliates and subsidiaries that engage in the sale of insurance and annuity products are incorporated in various other jurisdictions.

<sup>3</sup> The preferred stock of the corporation is owned by an unaffiliated group of investors.

<sup>4</sup> Held through several intermediate holding companies.

<sup>5</sup> Princeton Services, Inc. is general partner and ML & Co. is limited partner.

<sup>6</sup> Held through several intermediate subsidiaries.



ML IBK Positions, Inc.	Delaware
Merrill Lynch Capital Corporation	Delaware
ML Leasing Equipment Corp. <sup>7</sup>	Delaware
Merrill Lynch Canada Holdings Company	Nova Scotia
Merrill Lynch Canada Finance Company	Nova Scotia
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Canada Inc.	Canada
Merrill Lynch Bank USA	Utah
Merrill Lynch Bank USA Funding Corporation	Delaware
Merrill Lynch Business Financial Services Inc.	Delaware
Merrill Lynch Credit Corporation	Delaware
Merrill Lynch NJ Investment Corporation	New Jersey
Merrill Lynch Utah Investment Corporation	Utah
Merrill Lynch Community Development Company, LLC	New Jersey
Merrill Lynch Commercial Finance Corp.	Delaware
Merrill Lynch International Incorporated	Delaware
Merrill Lynch (Australasia) Pty Limited	New South Wales, Australia
Merrill Lynch Finance (Australia) Pty Limited	Victoria, Australia
Merrill Lynch International (Australia) Limited <sup>8</sup>	New South Wales, Australia
Merrill Lynch International Holdings Inc.	Delaware
Merrill Lynch Bank and Trust Company (Cayman) Limited	Cayman Islands, British West Indies
Merrill Lynch Capital Markets AG	Switzerland
Merrill Lynch Europe PLC	England
Merrill Lynch Holdings Limited <sup>9</sup>	England
Merrill Lynch International <sup>10</sup>	England
Merrill Lynch Capital Markets Espana S.A. S.V.	
	Spain
Merrill Lynch (Singapore) Pte. Ltd. <sup>11</sup>	Singapore
Merrill Lynch South Africa (Pty) Ltd. <sup>12</sup>	South Africa
Merrill Lynch Mexico, S.A. de C.V., Casa de Bolsa	Mexico
Merrill Lynch Argentina S.A.	Argentina
Merrill Lynch Pierce Fenner & Smith de Argentina S.A.F.M. y de M	Argentina
Banco Merrill Lynch de Inverimentos S.A.	Brazil
Merrill Lynch S.A.	Luxembourg
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France S.A.S.	France
Merrill Lynch Capital Markets (France) S.A.S.	France
Merrill Lynch, Pierce, Fenner & Smith SAS	France
Merrill Lynch (Asia Pacific) Limited	Hong Kong
Merrill Lynch Far East Limited	Hong Kong
Merrill Lynch Japan Securities Co., Ltd.	Japan
Merrill Lynch Japan Finance Co., Ltd.	Japan

<sup>7</sup> This corporation has more than 32 direct or indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships.

<sup>8</sup> Held through an intermediate subsidiary.

<sup>9</sup> Held through an intermediate subsidiary.

<sup>10</sup> Partially owned by another indirect subsidiary of ML & Co.

<sup>11</sup> Held through intermediate subsidiaries.

<sup>12</sup> Partially owned by another indirect subsidiary of ML & Co.

**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") of our reports dated March 1, 2004 (which express an unqualified opinion and which report on the consolidated financial statements includes an explanatory paragraph for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*), appearing in and incorporated by reference in this Annual Report on Form 10-K of Merrill Lynch for the year ended December 26, 2003.

Filed on Form S-8:

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors' Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

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Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan For a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-64676 (1986 Employee Stock Purchase Plan)

Registration Statement No. 333-64674 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-68330 (2002 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-99105 (2003 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-108296 (2004 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-109236 (Employee Stock Compensation Plan)

Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depository Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937

Registration Statement No. 333-105098

Registration Statement No. 333-109802

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

/s/ Deloitte & Touche LLP

New York, New York

March 9, 2004

**Certification**

I, E. Stanley O'Neal, certify that:

1. I have reviewed this annual report on Form 10-K of Merrill Lynch & Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ E. Stanley O'Neal

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E. Stanley O'Neal  
Chairman of the Board and  
Chief Executive Officer

Dated: March 9, 2004

**Certification**

I, Ahmass L. Fakahany, certify that:

1. I have reviewed this annual report on Form 10-K of Merrill Lynch & Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ahmass L. Fakahany

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Ahmass L. Fakahany  
Executive Vice President and  
Chief Financial Officer

Dated: March 9, 2004



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the period ended December 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal

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E. Stanley O'Neal  
Chairman of the Board and  
Chief Executive Officer

Dated: March 9, 2004

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the period ended December 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ahmass L. Fakahany, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ahmass L. Fakahany

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Ahmass L. Fakahany  
Executive Vice President and  
Chief Financial Officer

Dated: March 9, 2004

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004, which expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the years ended December 29, 2000 and December 31, 1999 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 26, 2003, included in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York  
March 1, 2004

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004, which expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the years ended December 29, 2000 and December 31, 1999 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in the "Selected Financial Data" table under the captions "Results of Operations," "Financial Position" and "Common Share Data," included in the 2003 Annual Report to Stockholders and included and incorporated by reference in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York  
March 1, 2004

Revised: February 23, 2004

**MERRILL LYNCH & CO., INC.**

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**I. Purpose**

The Audit Committee (the "Committee") shall be appointed by the Board of Directors (the "Board" or "Board of Directors") of Merrill Lynch & Co., Inc. (together with its affiliates, the "Corporation") to:

- Assist the Board in fulfilling its oversight responsibility relating to the:
  - A. Preparation and integrity of the Corporation's financial statements and oversight of related disclosure matters;
  - B. Qualifications, independence and performance of, and the Corporation's relationship with, the independent auditor;
  - C. Performance of the Corporation's internal audit function; and
  - D. Performance of the Corporation's risk management function; and
  - E. The Corporation's compliance with legal and regulatory requirements.
- Provide the report required by the rules of the Securities Exchange Commission (the "Commission") to be included in the Corporation's annual proxy statement.

**II. Membership**

The Committee's membership shall be determined by the Board of Directors on the recommendation of the Nominating and Corporate Governance Committee and shall consist of at least three (3) Board members. The Committee members shall meet the requirements for independence, experience and expertise set forth in the applicable laws and the regulations of the Commission and the New York Stock Exchange. In that regard, the Committee shall endeavor to have at least one member who either meets the Commission's definition of "audit committee financial expert" or who, in the business judgment of the Board, is capable of serving the functions expected of such financial expert. The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, shall appoint the Chair of the Committee.

Service on the Committee requires a significant time commitment from its members. In determining whether a committee member is able to meet the significant time commitment, the Board will take into consideration the other obligations of such member, including full-time employment, service on other boards of directors and audit committees.

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### **III. Meetings and Reports**

The Committee shall meet as frequently as it determines, but not less frequently than six times per year. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. Meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall meet periodically in separate private sessions with management, the internal auditors, the independent auditor and the General Counsel. The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any member of, or advisers to, the Committee.

The Committee shall report regularly to the Board with respect to such matters that are within the Committee's responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or by any other member designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

The Committee shall provide the report of the Committee to be contained in the Corporation's annual proxy statement, as required by the rules of the Commission.

### **IV. Authority**

The Committee shall perform the following functions and may carry out additional functions and adopt additional policies and procedures in furtherance of the purpose of the Committee outlined in Section I of this Charter, as may be appropriate in light of changing business, legislative, regulatory, or other conditions, or as may be delegated to the Committee by the Board of Directors from time to time.

#### **A. Financial Statements and Disclosure Matters**

1. The Committee shall review and discuss with management and the independent auditor the Corporation's annual audited and quarterly consolidated financial statements, including the disclosures contained in the Corporation's Annual Report on Form 10-K ("Form 10-K") and its Quarterly Reports on Form 10-Q ("Form 10-Q"), under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." After review of the annual audited consolidated financial statements and the

reports and discussions required by Sections A. 7. and B. 5. of this Charter, the Committee shall determine whether to recommend to the Board of Directors that such financial statements be included in the Corporation's Form 10-K.

2. The Committee shall be advised of (i) the execution by the Corporation's Chief Executive Officer and Chief Financial Officer of the certifications required to accompany the filing of the Form 10-K and the Forms 10-Q, and (ii) any other information required to be disclosed to it in connection with the filing of such certifications.
3. The Committee shall discuss with management and the independent auditor any significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy and clarity of the Corporation's disclosure procedures and internal controls and any special steps adopted in light of material control deficiencies.
4. The Committee shall review and discuss the quarterly reports from the independent auditor on:
  - (a) All critical accounting policies and practices to be used.
  - (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment recommended by the independent auditor.
  - (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. The Committee shall discuss with management the Corporation's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, and financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be conducted generally (*i.e.*, by discussing the types of information to be disclosed and the types of presentations to be made). The Committee may delegate responsibility for the review of the quarterly earnings press release to a member of the Committee.
6. The Committee shall discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.
7. The Committee shall discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

B. Oversight of the Corporation's Relationship with the Independent Auditor

1. The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purposes of preparing or issuing an audit report or related work (including audit-related review or attest services). The independent auditor shall report directly to the Committee.
2. The Committee shall review and approve in advance the annual plan and scope of work of the independent auditor, including staffing of the audit, and shall review with the independent auditor any audit-related concerns and management's response.
3. The Committee shall pre-approve all auditing services and all permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by the independent auditor, to the extent required by law, according to established procedures. The Committee may delegate to one or more Committee members, the authority to grant pre-approvals for audit and permitted non-audit services to be performed for the Corporation by the independent auditor, provided that decisions of such members to grant pre-approvals shall be presented to the full Committee at its next regularly scheduled meeting.
4. The Committee shall review and evaluate the experience, qualifications and performance of the senior members of the independent auditor team on an annual basis. As part of such evaluation, the Committee shall review with the lead audit partner whether any of the audit team members receive any discretionary compensation from the audit firm with respect to procurement or performance of any services, other than audit, review or attest services, by the independent auditor.
5. The Committee shall obtain and review a report from the independent auditor at least annually addressing (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships between the independent auditor and the Corporation (in order to assess if the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal auditors.)
6. The Committee shall ensure the rotation of members of the audit engagement team, as required by law and will require that the independent auditor provide



a plan for the orderly transition of audit engagement team members. The Committee shall also consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

7. The Committee shall establish the Corporation's policies for the hiring by the Corporation of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.

C. Oversight of the Corporation's Internal Audit Function

1. The Committee shall review and discuss with the independent auditor the annual audit plan of the Corporate Audit Department, including responsibilities, budget and staffing, and, if appropriate, shall recommend changes.
2. The Committee shall review, as appropriate, the results of internal audits and shall discuss related significant internal control matters with the Corporate Audit Department and with the Corporation's management, including significant reports to management prepared by the Corporate Audit Department and management's responses.
3. The Committee shall review the adequacy of the Corporation's internal controls with the Corporate Audit Department and the independent auditor. In that regard, the Committee shall participate in the appointment and performance evaluation of the Corporation's Director of Internal Audit. The Committee shall also review the adequacy of resources to support the internal audit function, and, if appropriate, recommend changes.

D. Oversight of the Corporation's Risk Management Function

1. The Committee shall oversee the Corporation's risk management function and shall discuss with management the major financial, legal and reputational risk exposures of the Corporation and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies.

E. Oversight of the Corporation's Compliance Function

1. The Committee shall monitor the Corporation's compliance function, including compliance with the Corporation's policies, and shall review with the Corporation's General Counsel and Director of Corporate Audit the adequacy and effectiveness of the Corporation's procedures to ensure compliance with legal and regulatory requirements.
2. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and the confidential, anonymous

submissions by employees of concerns regarding questionable accounting or auditing matters.

3. The Committee shall discuss with management, the Corporation's General Counsel and the independent auditor any correspondence with regulators or governmental agencies and any published reports, which raise material issues regarding the Corporation's financial statements or accounting policies.
4. The Committee shall discuss with the Corporation's General Counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies.

#### **V. Clarification of Committee's Role**

The Committee's role is one of oversight. It is the responsibility of the Corporation's management to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles, and it is the responsibility of the Corporation's independent auditor to audit those financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations. The Committee does not provide any expert or other special assurance as to the Corporation's financial statements or any expert or professional certification as to the work of the Corporation's independent auditor.

#### **VI. Access to Management; Retention of Outside Advisers**

##### **A. Access to Management**

The Committee shall have full, free and unrestricted access to the Corporation's senior management and employees, and to the Corporation's internal and independent auditors.

##### **B. Access to Outside Advisers**

The Committee has the authority to retain legal counsel, consultants, or other outside advisers, with respect to any issue or to assist it in fulfilling its responsibilities, without consulting or obtaining the approval of any officer of the Corporation.

The Corporation shall provide for appropriate funding, as determined by the Committee, for payment (i) of compensation to the independent auditor, (ii) to any advisers retained by the Committee, and (iii) of any ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the Committee's duties.

## **VII. Annual Evaluation; Charter Review**

### **A. Annual Self-Evaluation**

The Committee shall perform an annual review and self-evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

### **B. Charter Review**

The Committee shall review and assess the adequacy of this Charter on an annual basis, and, if appropriate, shall recommend changes to the Board of Directors for approval.

Adopted: January 27, 2003

Revised: February 23, 2004

## **MERRILL LYNCH & CO., INC. CORPORATE GOVERNANCE GUIDELINES**

Throughout Merrill Lynch's history, the Board of Directors ("Board" or "Board of Directors") of Merrill Lynch & Co., Inc., (the "Corporation") has adhered to "best practices" in corporate governance in fulfillment of its responsibilities to the shareholders. The Board of Directors has formally adopted these practices as its Corporate Governance Guidelines in furtherance of the Corporation's commitment to good corporate governance.

### **1. Director Qualifications and Board Composition**

A. Independence. The Board of Directors will consist of a majority of non-employee directors who meet the criteria for independence contained in the rules of the New York Stock Exchange ("NYSE") and any other applicable regulations. The Board will monitor its compliance with the regulations related to director independence on an ongoing basis. Each independent director shall notify the Chairman of the Nominating and Corporate Governance Committee, as soon as practicable, in the event that his or her circumstances change in a manner that may affect the Board's evaluation of his or her independence.

B. Director Qualifications. The Nominating and Corporate Governance Committee has established Board Candidate Guidelines that set forth criteria that are considered in evaluating the candidacy of an individual as a member of the Board. The Board Candidate Guidelines are attached to these Corporate Governance Guidelines as Exhibit A. The Nominating and Corporate Governance Committee will periodically review the Board Candidate Guidelines and modify them as appropriate. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending to the Board candidates for membership on the Board of Directors. Final approval of any candidate shall be determined by the full Board of Directors.

C. Board Size. The size of the Board of Directors is determined to achieve an effective working group that may vary in number from time to time depending upon the needs of the Corporation. The Nominating and Corporate Governance Committee will assess the size of the Board of Directors from time to time to determine whether its size continues to be appropriate.

D. Retirement. It is the policy of the Corporation that a non-employee director shall not serve as a director beyond the Annual Meeting of Shareholders held in the calendar year next following such director's seventy-second birthday. Under the Corporation's current policy, directors, who are also employees of the Corporation, retire from the Board at the same time as they retire as an employee of the Corporation or its affiliate.

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E. Term Limits. The Board of Directors does not believe it is advisable to establish term limits for its members as such limits may deprive the Corporation and its shareholders of the contribution of directors who have been able to develop, over time, valuable insights into the Corporation, its operations and future. As part of its responsibilities, the Nominating and Corporate Governance Committee will consider each director's continuation on the Board at the expiration of his or her term and before that director is considered for re-election.

F. Change in Director's Present Job Responsibilities. It is the position of the Board of Directors that a change in a non-employee director's employment or occupation should not automatically lead to such director's resignation from the Board of Directors. In such an event, the Nominating and Corporate Governance Committee will review the appropriateness of such a director's continued service on the Board of Directors in light of his or her changed responsibilities, association or circumstances.

## **2. Director Responsibilities**

A. Board's Role. The business and affairs of the Corporation are managed under the direction of the Board, which represents and is accountable to the shareholders of the Corporation. The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interest of the Corporation and its shareholders. In discharging that obligation, directors, in exercising their business judgment, are entitled to rely on the Corporation's management and outside advisors and auditors. The Corporation has purchased and seeks to maintain reasonable directors' and officers' liability insurance on their behalf. In addition, the directors receive the benefits of indemnification to the fullest extent permitted by Delaware law.

B. Board Meetings. The Board of Directors currently holds regularly scheduled meetings and calls for special meetings as necessary. All meetings of the Board may be held telephonically. Directors are expected to attend all Board meetings and meetings of the Committees of the Board on which they serve and to spend the time needed and meet as frequently as necessary to properly discharge their duties. Directors are also expected to attend the Annual Meeting of Shareholders. It is understood that special circumstances may occasionally prevent a director from attending a meeting.

C. Agendas. The Chairman of the Board will establish the agenda for Board meetings. While the agenda is planned carefully, it is flexible enough so that unexpected developments can be discussed at Board meetings. Any director may request that an item be included on the agenda. Throughout each year, the Board of Directors reviews the Corporation's short-term and long-term

strategic and operating plans and related business plans of each principal business group. The Board of Directors also reviews the annual capital budget for the Corporation.

D. Advance Materials. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting are, to the extent practical, distributed to the directors sufficiently in advance of the meeting and directors should review these materials prior to the meeting. The Board acknowledges that certain materials are of an extremely sensitive nature and that distribution of materials on these matters prior to Board meetings may not be appropriate.

E. Executive Sessions. The non-employee directors will meet without employee directors at regularly scheduled executive sessions at least quarterly and at such other times as the directors deem appropriate. Executive sessions are attended only by non-employee directors and are led by a director who serves as the Chair of a Board Committee that is composed entirely of independent directors, pursuant to a rotating schedule.

F. Stock Ownership By Directors. Members of the Board of Directors are required to own stock, stock units or other equity-linked instruments of the Corporation and a significant part of their compensation for services as a director is payable in these instruments.

G. Confidentiality. Except as required by law, no director shall disclose any material non-public information concerning the Corporation. In the event that a director inadvertently discloses information that may be material and non-public, he or she should immediately so advise the General Counsel.

### **3. Board Committees**

A. Committees. The Board currently has five standing Committees of the Board of Directors: (i) Audit Committee, (ii) Management Development and Compensation Committee, (iii) Nominating and Corporate Governance Committee, (iv) Finance Committee and (v) Public Policy and Responsibility Committee. The Board may also establish other committees or disband existing ones, as it deems appropriate consistent with applicable laws, regulations and the Corporation's By-Laws. Each of the independent Committees of the Board shall have the authority and responsibilities delineated in the Corporation's By-Laws, the resolutions creating them and any applicable charter.

B. Appointment. The Board, upon recommendation of the Nominating and Corporate Governance Committee, appoints committee members. All of the members of the Audit, Management Development and Compensation and Nominating and Corporate Governance Committees will be independent

directors consistent with the criteria set forth in their charters and as required by the NYSE and applicable laws and regulations. While not required by law or regulation, the Finance Committee and Public Policy and Responsibility Committee shall also consist of independent directors.

The Nominating and Corporate Governance Committee may change committee assignments periodically, and considers committee rotation with a view toward balancing the benefits of continuity against the benefits of diverse experiences and viewpoints of different directors.

C. Meeting Schedules. The Committee Chair, in consultation with management, will schedule regular Committee meetings. Special Committee meetings may be called as needed. The length of Committee meetings will depend upon matters under consideration. All meetings of the Board may be held telephonically.

D. Committee Agendas. The Committee Chair, in consultation with appropriate officers of the Corporation, will develop the agenda for Committee meetings. Any Committee member may request that an item be included on the agenda.

E. Charters. The Board has adopted charters setting forth the purposes, authority, and duties of each of the Audit Committee, the Finance Committee, the Nominating and Corporate Governance Committee, the Management Development and Compensation Committee, the Public Policy and Responsibility Committee and any other committee that the Board deems appropriate. The Nominating and Corporate Governance Committee will periodically review the charters of each of these committees and propose modifications to the applicable Committee for consideration as appropriate.

#### **4. Access to Outside Advisors**

The Board and its Committees may retain counsel or consultants with respect to any issue without consulting or obtaining the approval of any officer of the Corporation in advance. Further, as set forth in their respective charters:

- (i) The Nominating and Corporate Governance Committee has sole authority to retain and terminate any search firm to be used to identify director candidates.
- (ii) The Management Development and Compensation Committee has sole authority to retain and terminate compensation consultants used to advise it with respect to executive compensation.

(iii) The Audit Committee has sole authority to retain and terminate independent auditors.

## **5. Access to Management and Employees**

A. Access to Management and Employees. Directors have full and unrestricted access to the management and employees of the Corporation. In addition, at the request of the Chairman, members of senior management may be invited to attend meetings of the Board of Directors from time to time, to present information about the business and operations of the business within their areas of responsibility.

B. Internal Reporting. The Board has established procedures for the submission and confidential treatment of complaints and concerns of employees regarding accounting and auditing matters and alleged violations of the Corporation's "*Guidelines for Business Conduct: The Merrill Lynch Code of Ethics for Directors, Officers and Employees*" (the "Guidelines for Business Conduct").

C. Whistleblower Protection. As set forth in the Corporation's Guidelines for Business Conduct, any employee who, in good faith, reports a violation or possible violation of the Guidelines for Business Conduct or the underlying corporate policy is protected against retaliatory behavior. Merrill Lynch is not permitted to fire, demote, suspend, harass or discriminate against any employee who lawfully provides information to, or otherwise assists or participates in, any investigation or proceeding by a U.S. regulatory or law enforcement agency, any member of the U.S. Congress or a Congressional committee or the employee's manager, relating to what the employee reasonably believes is a violation of the securities laws or an act of fraud. No Merrill Lynch person is permitted to take any such retaliatory action.

## **6. Director Compensation**

The compensation of directors is reviewed periodically by the Nominating and Corporate Governance Committee. In this regard, the Committee may request that management report to the Committee periodically on the status of the Board's compensation in relation to the Corporation's competitors and other similarly situated companies.

Any change to director compensation must be recommended by the Nominating and Corporate Governance Committee for approval by the full Board of Directors.



## **7. Director Orientation and Education**

All new directors must be provided with these Corporate Governance Guidelines and must participate in the Corporation's orientation initiatives as soon as practicable after the meeting at which they are elected. The initiatives will include presentations by senior management and outside advisors as appropriate to familiarize new directors with the Corporation's business, its strategic plans, its significant financial, accounting and risk management issues and its compliance programs, as well as their fiduciary duties and responsibilities as directors. All other directors are also invited to attend any orientation initiatives.

The Board of Directors will periodically receive presentations at Board meetings relating to the Corporation's business and operations, its compliance programs and any significant financial, accounting, litigation and risk management issues as well as any other matters of significance to the Board of Directors. Additionally, directors will be offered the opportunity (but will not be required) to participate in director education programs and director institutes offered by third parties.

## **8. Performance Evaluation and Succession Planning**

A. Performance Evaluation. The Management Development and Compensation Committee and the Board of Directors, with input from the CEO, set annual performance goals for the CEO. Each year the Management Development and Compensation Committee and the independent members of the Board assess the performance of the CEO against these performance goals and set the Chief Executive Officer's compensation based on this evaluation.

B. Succession Planning. The Board of Directors is responsible for the succession planning for the position of CEO, with the assistance of the Management Development and Compensation Committee. The Management Development and Compensation Committee reviews plans for succession with input from the CEO. The Management Development and Compensation Committee is provided with an annual report on succession planning and any development recommendations for key individuals.

C. Chairman and CEO Positions. The offices of Chairman of the Board and Chief Executive have been at times combined and at times separated. The Board of Directors has exercised discretion in combining or separating the positions, as it has deemed appropriate in light of prevailing circumstances. The Board of Directors believes that the combination or separation of these offices should continue to be considered as part of the succession planning process. The Board further believes that it is in the best interests of the Corporation for the

Board of Directors to make a determination as to the combination or separation of the offices of Chairman of the Board and Chief Executive Officer when it elects a new Chief Executive Officer.

## **9. Annual Evaluations**

A. Board Self-Evaluation. The Nominating and Corporate Governance Committee of the Board will lead the Board in an annual self-evaluation process to determine whether the Board and its committees are functioning effectively. The Nominating and Corporate Governance Committee is responsible for receiving comments from the Board, reviewing them and reporting annually to the Board an assessment of the Board's performance. The Board will discuss the evaluation report annually. The assessment will focus on the Board's contribution to the Corporation and emphasize those areas in which the Board believes a better contribution could be made. The Nominating and Corporate Governance Committee will establish the criteria to be used in such evaluations.

B. Review of Board's Core Competencies and Composition. The Nominating and Corporate Governance Committee is also responsible for reviewing with the Board, on an annual basis, the skills and characteristics of the Board of Directors and the composition of the Board as a whole. This assessment should include an analysis of the Board's core competencies, including understanding of the financial industry, financial expertise, integrity, wisdom, judgment, commitment to excellence, business experience and acumen, skills, diverse perspectives and availability. As a result of this assessment, the Nominating and Corporate Governance Committee will determine whether the Board is lacking any of the core competencies deemed essential to its effectiveness and whether consideration should be given to any change in the Board's membership.

C. Committee Self-Evaluation. Each of the Audit Committee, the Management Development and Compensation Committee and the Nominating and Corporate Governance Committee will perform an annual review of such Committee's performance, including a review of the Committee's compliance with its respective Charter. Each such Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

## **10. Guidelines for Business Conduct**

The Board of Directors has updated the Guidelines for Business Conduct and has adopted them as its Code of Ethics for Directors, Officers and Employees, as required by the listing requirements of the NYSE and applicable

laws. The Nominating and Corporate Governance Committee will periodically review the Guidelines for Business Conduct and propose modifications to the Board of Directors for consideration as appropriate.

#### **11. Revisions to these Corporate Governance Guidelines**

The Nominating and Corporate Governance Committee will review these Corporate Governance Guidelines periodically and will recommend to the Board such revisions, as it deems necessary or appropriate for the Board to discharge its responsibilities more effectively.

MERRILL LYNCH & CO., INC.

BOARD OF DIRECTORS

BOARD CANDIDATE GUIDELINES

The Board of Directors should be composed of individuals who have demonstrated notable or significant achievements in business, education, or public service. In addition, the director candidate should possess the requisite intelligence, education and experience to make a significant contribution to the membership of the Board of Directors and bring a range of skills, diverse perspectives and backgrounds to the deliberations of the Board of Directors. Importantly, the director candidate must have the highest ethical standards, strong sense of professionalism and dedication to serving the interests of all the shareholders and be able to make himself or herself available to the Board of Directors in the fulfillment of his or her duties. For those director candidates who are also employees of the Corporation, he or she should be members of the executive management of the Corporation who have or are in the position to have a broad base of information about the Corporation and its business.

The overall ability and experience of the individual should determine his or her suitability. However, the following attributes and qualifications should be considered in evaluating the candidacy of an individual as a director for the Board of Directors:

**Management and Leadership Experience – The Board candidate must have extensive experience in business, education or public service.**

The experience of candidates from the different fields of business, education, or public service should be measured as follows:

Candidates from the Field of Business. The Board candidate is or has been the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer of, or holds or has held a senior managerial position in, a major public corporation, recognized privately held entity or recognized money or investment management firm.

Candidates from the Field of Education. The Board candidate holds or has held either a significant position at a prominent educational institution comparable to the position of university or college president and/or dean of a school within the university or college or a senior faculty position in an area of study important or relevant to the Corporation.

Candidates from the Field of Public Service. The Board candidate has held one or more elected or appointed senior positions in the U.S. federal

government or agency, any U.S. state government or agency or any non-U.S. governmental entity or holds or has held one or more elected or appointed senior positions in a highly visible nonprofit organization.

**Skilled and Diverse Background – The Board candidate must bring a desired range of skills, diverse perspectives and experience to the Board.**

The following attributes should be considered in assessing the contribution that the Board candidate would make as a member of the Board of Directors.

*Financial Literacy.* Board candidates having a sufficient understanding of financial reporting and internal control principles or financial management experience bring desirable knowledge and skills to the Board.

*International Experience.* International experience is a significant positive characteristic in a Board candidate's profile. Having an understanding of the language and culture of non-English speaking countries will also be considered beneficial.

*Knowledge of the Duties of Director.* The Board candidate's aptitude and/or experience to understand fully the legal responsibilities of a director and governance processes of a public company is an essential factor.

*No Interlocking Directorships.* The Board candidate should not have any prohibitive interlocking relationships.

**Integrity and Professionalism – The Board candidate must have the highest ethical standards, a strong sense of professionalism and be prepared to serve the interests of all the stockholders.**

*Personal Experience.* The Board candidate should be of the highest moral and ethical character. The candidate must exhibit independence, objectivity and willingness to serve as a representative of the Corporation's stockholders. He or she should have a personal commitment to the Corporation's Principles of Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity.

*Individual Characteristics.* The Board candidate should have the personal qualities to be able to make a substantial active contribution to Board deliberations. These qualities include intelligence, self-assuredness, high ethical standards, inter-personal skills, independence, courage, a willingness to ask difficult questions, communication skills and commitment. In considering candidates for Board membership, the diversity of the communities in which the Corporation conducts its business should be considered in looking at the composition of the Board.

Availability. The Board candidate must be willing to commit, as well as have, sufficient time available to discharge the duties of Board membership. The Board candidate should satisfy the Board's age election guidelines provided for in the policies of the Corporation and ideally have sufficient years available for service to make a significant contribution over time to the Corporation.

Compatibility. The Board candidate should be able to develop a good working relationship with other Board members and contribute to the Board's working relationship with the senior management of the Corporation.