

REPORTS AND FINANCIAL STATEMENTS
MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2004

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FOR THE YEAR ENDED 31 DECEMBER 2004**

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MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
DIRECTORS AND OTHER INFORMATION

DIRECTORS

Michael J D'Souza – Chairman
Michael G Ryan - Managing Director
Allen G Braithwaite III
Robert G Murphy
Chris Vogelgesang
Gavin Caldwell
Paddy Teahon
Nasser Azam

REGISTERED OFFICE

Treasury Building
Lower Grand Canal Street
Dublin 2

SECRETARY

Debra A Searle

ASSISTANT SECRETARIES

Bernard P Hoey
Bernadette Lewis

AUDITORS

Deloitte & Touche
Chartered Accountants
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
EXTRACT FROM “REPORT OF THE DIRECTORS”

The directors have pleasure in submitting their report along with the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of Merrill Lynch Capital Markets Bank Limited (the “Bank”) is to carry on general capital markets banking business. The Bank has its head office in Ireland and branches in Germany and Italy.

Through its head office in Ireland, the Bank trades debt derivatives and other financial instruments, provides loan facilities on a selective basis to corporate clients and sells global debt products to local institutional clients.

Through its German branch, the Bank sells global debt and equity products to local institutional and corporate clients and provides investment banking and advisory services to corporate clients.

Through its Italian branch, the Bank sells global debt and equity products to local institutional and corporate clients and provides loan facilities to local corporate clients.

The Bank is regulated by the Irish Financial Services Regulatory Authority and by the State of New York Banking Department.

RESULTS AND DIVIDENDS

The Bank’s profit after taxation for the year amounted to US\$342,849,000 as set out in the profit and loss account. The directors have recommended that no dividends be declared.

DIRECTORS

On 10 March 2004, Gavin Caldwell was appointed as a director. On 4 November 2004, John T McGowan resigned from the Board and Paddy Teahon and Nasser Azam were appointed as directors.

The directors and the secretary had no beneficial interest in the shares of the company at any time during the year.

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
EXTRACT FROM “REPORT OF THE DIRECTORS” (CONTINUED)

CORPORATE GOVERNANCE

The Board of Directors governs the Bank, and meets on a quarterly basis to review the Bank’s activities. The Board is responsible for setting the corporate strategy of the Bank, monitoring and reviewing performance and providing oversight of major initiatives. The Board includes directors with significant banking and capital markets experience gained in a broad range of international financial institutions.

The Board has delegated day-to-day control and management of the Bank's activities to Management and various Board approved Management Committees to oversee and review various aspects of the Bank’s business. The Managing Director and other appropriate members of management report quarterly to the Board or sub-committees of the Board on all significant matters affecting the Bank and on all relevant issues arising from the work of the various Committees. The charters and composition of the various Committees are reviewed annually by the Board.

The Board approved Management Committees include the Risk Policy and Oversight Committee, the Audit Committee, the Operating Committee, the Credit Committee, the Asset and Liability Committee, the New Product Committee and the Operational Risk Committee.

SAFETY, HEALTH AND WELFARE AT WORK ACT, 1989

The Bank complies with the requirements of the Safety, Health and Welfare at Work Act, 1989. A safety statement has been prepared and has been made available to all employees.

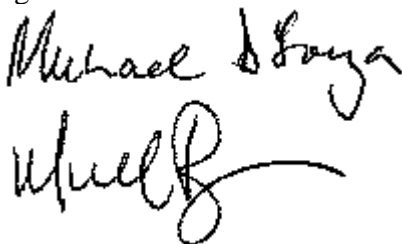
BOOKS OF ACCOUNT

To comply with the requirement that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990 the directors have ensured that appropriately qualified accounting personnel have been employed and that appropriate computerised accounting systems are maintained. The books of account are located at the Bank’s registered office.

AUDITORS

The auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board:



} DIRECTORS

10 March 2005

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF MERRILL LYNCH CAPITAL MARKETS BANK LIMITED**

We have audited the financial statements of Merrill Lynch Capital Markets Bank Limited for the year ended 31 December 2004 which comprise the Statement of Accounting Policies, the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Bank's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as set out in the Statement of Directors' Responsibilities, the preparation of the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Bank; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Bank's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and considered whether it is consistent with the audited financial statements. The other information comprises the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF MERRILL LYNCH CAPITAL MARKETS BANK LIMITED**

Basis of audit opinion

We conducted our audit in accordance with the auditing standards issued by the Auditing Practices Board and generally accepted in Ireland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

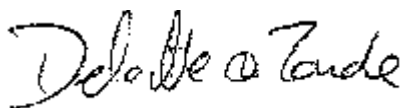
Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Bank as at 31 December 2004 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Bank. The Bank's balance sheet and its profit and loss account are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Bank, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Bank.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
10 March 2005

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank are set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, as modified by the revaluation of trading instruments, and are denominated in US Dollars (US\$).

INCOME AND EXPENSE RECOGNITION

Dealing profits include net realised and unrealised gains and losses from marking to market all trading instruments on a trade date basis.

Other income and expenses are recognised on an accruals basis.

TRADING INSTRUMENTS

Long and short inventory positions held for trading purposes are recorded on a trade date basis and are valued at market price at the close of business on the balance sheet date. The net changes in fair values are reflected in the profit and loss account for the current year.

These can be classified into derivative and cash instruments.

Cash instruments include loans, debt and equity securities or instruments held for resale or to hedge inventory positions.

A derivative is typically defined as 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.

Derivatives are often referred to as off-balance-sheet instruments since their notional amounts or underlying instruments are not reflected on the balance sheet; however, the market values of trading derivatives are recorded on the balance sheet.

Fair values for cash instruments and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments, principally forwards, options and swaps represent amounts that would be received from or paid to a third party in settlement of the instruments. These amounts are determined using pricing models based on the present value of future cash flows using mid-market valuations with appropriate adjustments. These adjustments are integral components of the mark-to-market process and relate to credit quality, market liquidity and exposure close-out costs associated with unmatched positions.

Derivatives are reported separately as assets and liabilities unless a legal right of set off exists under a master netting agreement enforceable in law.

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

LOANS AND ADVANCES

Loans and advances are stated net of specific and general provisions. Specific provisions are made for advances whose recoveries are recognised as doubtful as a result of continuous appraisal of the loans and advances portfolio.

FOREIGN CURRENCIES

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US Dollar at average monthly market rates of exchange. Monetary assets and liabilities are translated into US Dollar at the market rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account.

The financial statements of branches whose functional currency is not US Dollar are translated into US Dollar at the closing rate for the balance sheet and at the average rate of exchange for the year for the profit and loss account. Translation differences arising on the profit and loss for the current year and on opening net assets of the branches are taken directly as a movement in reserves.

TAXATION

Provision is made for taxation at current enacted rates on the taxable profits taking into account overseas taxation where appropriate. Timing differences arise where gains and losses are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is accounted for in full for all such timing differences. Deferred tax assets are only recognised to the extent that it is regarded that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

PENSIONS

Contributions to the Bank's defined benefit scheme are charged to the profit and loss account in order to spread the expected cost of pensions, calculated in accordance with the advice of qualified actuaries, on a systematic basis over employees' working lives.

The costs of the Bank's defined contribution schemes are charged to the profit and loss account for the year in which they are incurred.

DEPRECIATION

All tangible fixed assets are stated at historical cost, net of accumulated depreciation.

Depreciation is provided in equal annual instalments over the estimated useful lives of the assets as follows:

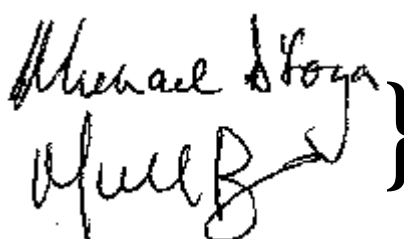
Leasehold improvements	4 to 9 years
Communications equipment	3 to 5 years
Furniture and fittings	4 to 8 years
Computer equipment	3 years

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 US\$'000	2003 US\$'000
Interest receivable:			
- Debt securities and other fixed income securities		-	36
- Other interest receivable and similar income		175,443	109,068
Interest payable and similar charges		(154,411)	(101,450)
Dividend income		-	18
Fees and commissions:			
- receivable		107,139	110,922
- payable		(69,861)	(88,704)
Dealing profits		428,739	398,207
Other operating income		67	412
TOTAL OPERATING INCOME		487,116	428,509
Administrative expenses	1	77,894	76,425
Depreciation		1,692	4,639
Other operating charges		2,246	2,263
Provisions for bad and doubtful debts		2,657	2,040
TOTAL OPERATING EXPENSES		84,489	85,367
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	402,627	343,142
Tax on profit on ordinary activities	3	59,778	43,323
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		342,849	299,819

All gains and losses arise from continuing activities.

The financial statements were approved by the Board of Directors on 10 March 2005 and signed on its behalf by:


} DIRECTORS

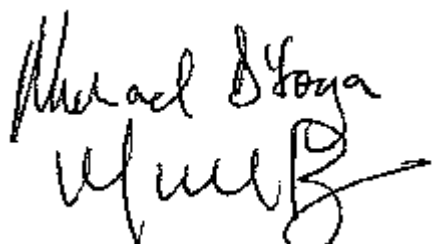
MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
OTHER PRIMARY STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 US\$'000	2003 US\$'000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Profit attributable to ordinary shareholders	342,849	299,819
Exchange differences on translation of foreign branch assets and liabilities	1,196	3,939
	<hr/>	<hr/>
Total recognised gains relating to the year	<u>344,045</u>	<u>303,758</u>

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 US\$'000	2003 US\$'000
ASSETS			
Cash and balances at Central Banks		2,950	799
Loans and advances to banks	4	146,814	76,031
Loans and advances to customers	5	1,913,828	2,431,395
Market and client receivables	6	120,498	22
Debt securities and other fixed income securities	7	374,589	29,192
Over-the-counter derivatives		6,787,468	5,336,934
Equity derivatives		42	8,529
Tangible fixed assets		4,393	5,731
Other assets	8	1,007,856	1,054,326
TOTAL ASSETS		10,358,438	8,942,959
LIABILITIES			
Deposits by banks	9	61,804	1,751
Market and client payables	10	-	4,253
Over-the-counter derivatives		3,279,029	3,336,082
Equity derivatives		127,061	211,047
Other liabilities	11	4,029,873	3,352,655
Accruals		92,106	79,287
Provisions for liabilities and charges	12	141,422	94,786
Subordinated debt	13	580,000	160,000
<u>Equity Shareholder's funds</u>			
Called up share capital	14	9,125	9,125
Reserves	15	2,038,018	1,693,973
		2,047,143	1,703,098
TOTAL LIABILITIES		10,358,438	8,942,959
MEMORANDUM ITEMS			
Guarantees and assets pledged as collateral security		4,843,565	1,858,603

The financial statements were approved by the Board of Directors on 10 March 2005 and signed on its behalf by:


} DIRECTORS

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 US\$'000	2003 US\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	16	(384,731)	(58,810)
TAXATION PAID		(22,034)	(53,094)
CAPITAL EXPENDITURE			
Acquisition of tangible fixed assets		(354)	(1,439)
FINANCING			
Repayment of Subordinated Debt		(100,000)	(200,000)
Drawdown of Subordinated Debt		520,000	160,000
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		420,000	(40,000)
INCREASE/(DECREASE) IN CASH	17	12,881	(153,343)

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1. ADMINISTRATIVE EXPENSES	2004 US\$'000	2003 US\$'000
Wages and salaries	51,495	50,633
Social welfare	6,829	5,606
Pension (Note 18)	1,657	779
Other administrative expenses	17,913	19,407
	77,894	76,425
2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2004 US\$'000	2003 US\$'000
Profit on ordinary activities before taxation is stated after charging:		
Directors' remuneration:		
Fees paid by the bank	131	70
Other emoluments, paid by other group companies (Included in 2004: US\$10,000 (2003: US\$8,000) in respect of pension contributions)	214	169
Operating lease rentals	1,799	4,843
Auditors' remuneration	249	221
	1,799	4,843
	249	221
3. TAX ON PROFIT FROM ORDINARY ACTIVITIES	2004 US\$'000	2003 US\$'000
Taxation on profit from ordinary activities		
Corporation tax charge	41,411	38,633
Deferred tax charge/(credit)	5,144	(1,165)
	46,555	37,468
Adjustments in respect of prior years	13,223	5,855
	59,778	43,323
Split as follows:		
Ireland	39,691	34,280
Overseas	20,087	9,043
	59,778	43,323

The Bank's effective tax rate is 14.85% (2003: 12.63%).

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

3. TAX ON PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

Factors affecting tax charge for the period:

The tax assessed for the period is higher than the standard rate of corporation tax in Ireland for International Financial Services Companies (10%). The differences are explained below:

	2004 US\$'000	2003 US\$'000
Profit on ordinary activities before tax	<u>402,627</u>	<u>343,142</u>
Tax charge at the standard rate of corporation tax	40,263	34,314
Effects of:		
Foreign taxes payable	1,838	1,309
Timing differences regarding the valuation of employee shares and share options	1	2,335
Other	<u>(691)</u>	<u>675</u>
Corporation tax charge	<u>41,411</u>	<u>38,633</u>

4. LOANS AND ADVANCES TO BANKS

	2004 US\$'000	2003 US\$'000
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Analysed by remaining maturity:

3 months or less	<u>146,814</u>	<u>76,031</u>
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There were no loan provisions at the end of either year.

5. LOANS AND ADVANCES TO CUSTOMERS

	2004 US\$'000	2003 US\$'000
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Analysed by remaining maturity:

3 months or less	15,044	154,870
3 months to 1 year	22,190	729,564
1 to 5 years	1,195,594	279,825
Greater than 5 years	<u>681,000</u>	<u>1,267,136</u>
	<u>1,913,828</u>	<u>2,431,395</u>

There were loan provisions of US\$6,486,000 as at 31 December 2004 (2003: US\$3,926,000).

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

6. MARKET AND CLIENT RECEIVABLES	2004 US\$'000	2003 US\$'000
Amounts awaiting settlement		
Analysed by remaining maturity:		
3 months or less	<u>120,498</u>	<u>22</u>
7. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES	2004 US\$'000	2003 US\$'000
Listed securities	<u>374,589</u>	<u>29,192</u>
Listed securities		
Analysed by remaining maturity:		
1 to 5 years	17,763	4,417
Greater than 5 years	<u>356,826</u>	<u>24,775</u>
	<u>374,589</u>	<u>29,192</u>
8. OTHER ASSETS	2004 US\$'000	2003 US\$'000
Amounts due from affiliate companies	941,103	985,261
Deferred taxation	5,254	2,829
Prepayments and accrued income	<u>61,499</u>	<u>66,236</u>
	<u>1,007,856</u>	<u>1,054,326</u>

Deferred taxation relates to short term timing differences.

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

9. DEPOSITS BY BANKS	2004 US\$'000	2003 US\$'000
Analysed by remaining maturity:		
3 months or less	<u>61,804</u>	<u>1,751</u>
10. MARKET AND CLIENT PAYABLES	2004 US\$'000	2003 US\$'000
Amounts awaiting settlement		
Analysed by remaining maturity:		
3 months or less	<u>-</u>	<u>4,253</u>
11. OTHER LIABILITIES	2004 US\$'000	2003 US\$'000
Amounts owed to affiliate companies	3,912,207	2,838,679
Loans and advances from customers	<u>117,666</u>	<u>513,976</u>
	<u>4,029,873</u>	<u>3,352,655</u>

Amounts owed to affiliate companies at 31 December 2004 includes an amount of US\$1,824,000 (2003: US\$2,302,000) due to the Bank's holding company, Merrill Lynch Group Holdings Limited.

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

12. PROVISIONS FOR LIABILITIES AND CHARGES	2004 US\$'000	2003 US\$'000
Provision for pension (Note 18)	10,876	9,007
Corporation taxation payable	118,477	81,525
Provision for deferred taxation	12,069	4,254
	141,422	94,786

Deferred taxation relates to short term timing differences.

13. SUBORDINATED DEBT	2004 US\$'000	2003 US\$'000
US\$ 200m Subordinated Debt repayable 30 September 2011, Libor + 100bps ("Tier 2")	160,000	160,000
US\$ 500m Revolving Subordinated Debt Facility repayable 7 October 2006, Libor + 100bps ("Tier 3")	420,000	-
	580,000	160,000

On 24 September 2004, the Bank drew Tier 3 Subordinated Debt of US\$100m. On 8 October 2004, the Bank repaid and cancelled its Tier 3 Subordinated Debt of US\$100m and entered into a new Tier 3 Subordinated Debt agreement with Merrill Lynch & Co., Inc. for US\$500m. On 8 October 2004 the Bank drew Tier 3 Subordinated Debt of US\$300m. On 23 December 2004 the Bank drew Tier 3 Subordinated Debt of US\$120m.

14. SHARE CAPITAL	2004 Ordinary shares US\$1 each	2003 Ordinary shares US\$1 each
<u>Authorised:</u>		
Value	10,000,000	10,000,000
Number of shares	10,000,000	10,000,000
<u>Allotted, called up and fully paid:</u>		
Value	9,125,000	9,125,000
Number of shares	9,125,000	9,125,000

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

15. RESERVES	Profit and Loss Account US\$'000	Capital Contribution US\$'000	Total US\$'000
At 26 December 2003	1,503,098	190,875	1,693,973
Profit for the year	342,849	-	342,849
Exchange translation	<u>1,196</u>	<u>-</u>	<u>1,196</u>
At 31 December 2004	<u>1,847,143</u>	<u>190,875</u>	<u>2,038,018</u>

**RECONCILIATION OF MOVEMENT IN
SHAREHOLDER'S FUNDS**

	2004 US\$'000	2003 US\$'000
Profit attributable to ordinary shareholders	342,849	299,819
Exchange differences on translation of foreign branch assets and liabilities	<u>1,196</u>	<u>3,939</u>
Net addition to shareholder's funds	344,045	303,758
Opening shareholder's funds	<u>1,703,098</u>	<u>1,399,340</u>
Closing shareholder's funds	<u><u>2,047,143</u></u>	<u><u>1,703,098</u></u>

MERRILL LYNCH CAPITAL MARKETS BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

16. NET CASH OUTFLOW FROM OPERATING ACTIVITIES	2004 US\$'000	2003 US\$'000	
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	402,627	343,142	
Depreciation	1,692	4,639	
NET CASH INFLOW FROM TRADING ACTIVITIES	404,319	347,781	
Decrease/(Increase) in loans and advances to customers and market and client receivables	392,838	(1,015,065)	
(Increase) in debt securities	(345,397)	(27,595)	
(Increase) in over-the-counter derivatives	(1,507,587)	(1,678,213)	
(Increase) in equity derivatives	(75,499)	(68,295)	
Increase in provision for liabilities and charges	1,869	1,659	
Decrease/(Increase) in other assets	9,335	(3,087)	
Increase in amounts owed to affiliate companies	1,073,528	2,685,121	
Decrease/(Increase) in amounts owing from affiliate companies	44,158	(270,760)	
(Decrease) in accruals and other liabilities	(383,491)	(34,295)	
Effect of exchange translation	1,196	3,939	
	(789,050)	(406,591)	
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(384,731)	(58,810)	
 17. CHANGES IN CASH	2004 US\$'000	2003 US\$'000	Change in Year US\$'000
Cash and balances at Central Banks	2,950	799	2,151
Loans and advances to banks	146,814	76,031	70,783
Deposits by banks	(61,804)	(1,751)	(60,053)
	87,960	75,079	12,881

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18. PENSION COMMITMENTS

The Bank operates pension plans in Ireland and Germany. The pension charge for the year is as follows:

	2004 US\$'000	2003 US\$'000
Defined contribution scheme	282	220
Defined benefit scheme	<u>1,375</u>	<u>559</u>
	<u>1,657</u>	<u>779</u>

The assets of the defined contribution scheme are held separately in an independently administered fund. The charge in respect of the scheme is calculated on the basis of contributions due in the financial year.

The defined benefit scheme is operated in Germany and the main economic assumptions employed for determining the costs are as follows:

Date of latest valuation	1 October 2004
Investment return	N/A
Salary growth	5.00%
Pension increases	2.00%
Discount rate	5.25%
Inflation assumption	2.00%

The scheme liabilities as at 31 December 2004 were US\$10,876,000 and are provided in the accounts.

In line with German business practices, the defined benefit pension scheme is not funded. The scheme liabilities represent the net present value of future pension obligations to eligible past and current employees. These pension obligations are partially covered by an independent insurance provider.

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19. SEGMENTAL ANALYSIS

Geographical segmental reporting is disclosed on the basis of the location of the office at which the transaction is recorded.

Geographical segments:	2004 US\$'000	2003 US\$'000
Interest receivable:		
Ireland	134,449	80,499
Rest of Europe	100,535	39,985
Rest of World	4	16
	<u>234,988</u>	<u>120,500</u>
Dividend income:		
Rest of Europe	-	18
	<u>-</u>	<u>18</u>
Fees and commission receivable:		
Ireland	10,448	11,222
Rest of Europe	96,763	100,486
	<u>107,211</u>	<u>111,708</u>
Dealing profits:		
Ireland	428,739	398,207
	<u>428,739</u>	<u>398,207</u>
Other operating income:		
Ireland	-	310
Rest of Europe	67	102
	<u>67</u>	<u>412</u>

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19. SEGMENTAL ANALYSIS (CONTINUED)	2004 US\$'000	2003 US\$'000
Profit before taxation:		
Ireland	386,168	339,017
Rest of Europe	16,455	4,109
Rest of World	4	16
	402,627	343,142
Net assets:		
Ireland	1,846,939	1,517,944
Rest of Europe	200,201	185,002
Rest of World	3	152
	2,047,143	1,703,098
Total assets:		
Ireland	8,347,415	6,956,723
Rest of Europe	2,011,020	1,985,998
Rest of World	3	238
	10,358,438	8,942,959

Business class:

The Bank engages only in capital markets banking and derivative dealing.

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20. FINANCIAL INSTRUMENTS EXPOSURE

Financial instruments are dealt with in both the trading book and non-trading book of the Bank. Trading book activities are described in Note 21 and non-trading book activities are described in Note 22. Both trading book and non-trading book activities may expose the Bank to various categories of risk. These risks are continually monitored through a comprehensive risk management process. The proper execution of this process leads to effective management of these risks, helping to reduce the likelihood of earnings volatility over time.

The Bank approves and monitors risk tolerance levels (i.e. credit, market and operational risks) through the Risk Policy and Oversight Committee, chaired by a non-executive director. This Committee reviews reports from the Bank's existing Credit, Asset & Liability, New Product and Operational Risk Committees. These Committees identify and monitor risk limits based on recommendations and analysis provided by independent risk management groups who work with the business units in establishing suitable risk profiles for each of the business units.

The initial responsibility in the risk management process rests with the individual business units in managing the risks that arise on individual transactions or portfolios of similar transactions. Business units manage these risks by adhering to established risk policies and procedures.

In addition to risk management at the business unit level, the Bank has developed corporate governance policies and procedures that require corporate personnel, who are independent of business units, to participate in the risk management process. The primary independent groups responsible for the maintenance of risk policies and procedures and for establishing, controlling and monitoring risk are Market Risk Management and Credit Risk Management. To ensure a proper system of checks and balances, these units are independent of business units and report to senior management in the Bank.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity prices, credit spreads or other risks. The level of market risk is influenced by the volatility and liquidity in the markets in which financial instruments are traded. The Bank seeks to mitigate market risk by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities using a combination of cash instruments and derivatives.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse changes in interest rates. Interest rate swap agreements, futures and securities are common interest rate risk management tools.

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20. FINANCIAL INSTRUMENTS EXPOSURE (CONTINUED)

Currency Risk

Currency risk is the potential for loss due to fluctuations in foreign exchange rates. Trading assets and liabilities include both cash instruments in and derivatives linked to over 30 currencies, including Japanese Yen, the Euro, Swiss Franc and British Pound. Currency forwards, swaps and options are commonly used to manage currency risk associated with these instruments.

Equity Risk

Equity risk is the potential for loss due to adverse changes in equity security prices. Instruments typically used by the Bank to manage equity price risk include equity options, warrants and equity securities.

Credit Spread Risk

Credit spread risk is the potential for loss due to changes in credit spreads. Credit spreads represent the credit risk premiums required by market participants for a given credit quality. The Bank's trading book activities and related hedging strategies do not largely expose the Bank to credit spread risk.

Credit Risk

Credit risk is the potential loss that may be incurred if a counterparty fails to perform its obligations under contractual terms. The Bank 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 respect of derivative transactions, the Bank enters into Master Agreements with counterparties which permit the netting of all transactional exposures on a multi-currency, multi-location basis and, in certain circumstances, across product types.

Liquidity Risk

Liquidity risk is the risk that an entity may encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Bank has established liquidity procedures for measuring funding requirements and identifying liquidity mismatches. The Bank's funds are sourced from its own business activities and from Merrill Lynch affiliate companies.

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21. TRADING BOOK ACTIVITIES

The trading book comprises all the assets and liabilities held or issued as part of the Bank's trading in financial assets or financial liabilities. The assets or liabilities that are not held in the trading book are non-trading book assets and liabilities.

The trading book activities of the Bank include:

- Providing financial instruments to clients through brokerage, facilitation and intermediation activities;
- Providing financing and underwriting services; and
- Taking proprietary positions in financial instruments.

Trading Book Risk

The Bank maintains trading positions in a variety of financial instruments, including derivatives and cash instruments. The financial instruments include bonds, corporate debt, futures, forwards, options and swaps including swap options, caps, collars and floors. These positions result from business activity with sovereign, corporate and institutional clients.

For much of its trading book activity in debt derivatives, the Bank hedges its exposure to market risk with third parties and Merrill Lynch affiliate companies. The Bank seeks to limit market risk exposure associated with potentially unfavourable changes in underlying interest rates, currency exchange rates and other market rates. This is evident from the modest value-at-risk exposures disclosed below. The Bank manages its market risk exposures on other derivative transactions by use of a combination of securities and derivative financial instruments including forwards, futures, swaps and options.

The Bank is exposed to the credit risk associated with the above transactions, which is managed through the use of master swap agreements incorporating appropriate collateral provisions.

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21. TRADING BOOK ACTIVITIES (CONTINUED)

Risk Models

The Bank uses mathematical risk models, including value-at-risk and sensitivity analysis, to help estimate its exposure to market risk. The Bank is satisfied that the various analytical tools utilised to manage market risk are an effective means of monitoring and thus controlling that risk. The information based on risk models is supplemented with the judgement and experience of the Bank's risk management professionals.

Value at risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. For these disclosures, the Bank uses a historical simulation approach to estimate value at risk using a 99% confidence level and a two-week holding period. The value-at-risk is calculated on a daily basis and sensitivities to market risk factors are aggregated and combined with a database of fortnightly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level value-at-risk.

Assuming a 99% confidence level and a two-week holding period, the value-at-risk for the Bank's trading book at 31 December 2004 was US\$5.5 million (2003: US\$9.0 million). The average, highest and lowest value-at-risk for the trading book during 2004 were US\$5.2 million (2003: US\$8.4 million), US\$21.6 million (2003: US\$23.5 million) and US\$1.4 million (2003: US\$1.6 million) respectively.

Trading Profit and Loss

The net trading book results include debt derivative trading profits of US\$373 million (2003: US\$397 million).

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NOTES TO THE FINANCIAL STATEMENTS
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21. TRADING BOOK ACTIVITIES (CONTINUED)

Fair Value of Trading Book Assets and Liabilities

All trading book financial instruments are reported in the balance sheet and in the notes to the financial statements at fair value. Fair value disclosures in respect of trading book activities are set out below. Fair value disclosures in respect of non-trading book activities are reported in note 22.

The Bank maintains trading positions in a variety of financial instruments including derivatives and cash instruments. The financial instruments include bonds, corporate debt, futures, forwards, options and swaps, swap options, caps, collars and floors. These positions are a result of business activity with sovereign, corporate and institutional clients.

The Bank enters into a large number of derivative contracts with third parties through its intermediation business. The market risk on these third party contracts is hedged with affiliated companies. The disclosures below do not include details of these affiliate hedge transactions. Derivative contracts from other businesses are included in the disclosure below whether contracted with affiliated companies or not.

	2004		2003	
	Notional Amount US\$ M	Fair Value US\$ M	Notional Amount US\$ M	Fair Value US\$ M
Interest Rate Contracts				
Swaps and Swap Options:				
In a favourable position	2,361,206	77,893	1,225,959	49,918
In an unfavourable position	2,382,231	75,342	1,158,527	47,178
OTC & Exchange Traded Options & Warrants:				
In a favourable position	88,492	1,094	37,320	827
In an unfavourable position	88,771	1,336	87,230	1,402

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21. TRADING BOOK ACTIVITIES (CONTINUED)

	2004		2003	
	Notional Amount US\$ M	Fair Value US\$ M	Notional Amount US\$ M	Fair Value US\$ M
Foreign Exchange Contracts				
Swaps and Swap Options:				
In a favourable position	119,594	10,242	75,873	6,361
In an unfavourable position	110,683	9,561	70,585	5,188
Forwards:				
In a favourable position	8,005	485	5,025	189
In an unfavourable position	7,808	739	7,895	541
OTC & Exchange Traded Options & Warrants:				
In a favourable position	41,231	1,197	12,563	533
In an unfavourable position	62,049	2,267	22,526	1,092
Equities				
OTC & Exchange Traded Options & Warrants:				
In a favourable position	216	17	133	9
In an unfavourable position	685	420	440	436

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21. TRADING BOOK ACTIVITIES (CONTINUED)

The net replacement cost of derivative asset transactions is as follows:

	2004		2003	
	Financial Institutions US\$ M	Non Financial Institutions US\$ M	Financial Institutions US\$ M	Non Financial Institutions US\$ M
Interest Rate Contracts				
Swaps and Swap Options	76,657	1,237	48,014	1,903
OTC & Exchange Traded Options & Warrants	989	105	748	79
Foreign Exchange Contracts				
Swaps and Swap Options	7,215	3,027	3,846	2,515
Forwards	452	33	189	-
OTC & Exchange Traded Options & Warrants	1,165	32	380	153
Equities				
OTC & Exchange Traded Options & Warrants	17	-	9	-

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21. TRADING BOOK ACTIVITIES (CONTINUED)

The residual maturities of derivative asset transactions are as follows:

	2004		2003	
	Notional Amount US\$ M	Net Replacement Cost US\$ M	Notional Amount US\$ M	Net Replacement Cost US\$ M
Interest Rate Contracts				
0 to 1 year	719,899	4,566	272,998	3,574
1 to 5 years	990,826	26,419	575,205	20,246
Over 5 years	738,973	48,003	415,076	26,925
Foreign Exchange Contracts				
0 to 1 year	53,961	2,191	24,723	1,820
1 to 5 years	58,556	4,781	33,049	2,600
Over 5 years	56,313	4,952	35,688	2,662
Equities				
0 to 1 year	140	7	125	8
1 to 5 years	42	2	-	-
Over 5 years	34	8	8	-

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22. NON TRADING BOOK ACTIVITIES

The non-trading book activities of the Bank include lending and investment activity.

Interest rate sensitivity gap analysis

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Bank's non-trading book as at 31 December 2004. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	US\$ M	US\$ M	US\$ M	US\$ M	US\$ M	US\$ M	US\$ M
<u>Assets</u>							
Loans and advances to banks	150	-	-	-	-	-	150
Loans and advances to customers	1,832	68	14	-	-	-	1,914
Other assets	(44)	-	-	-	-	77	33
Total assets	1,938	68	14	-	-	77	2,097
<u>Liabilities</u>							
Loans and advances from customers	118	-	-	-	-	-	118
Other liabilities	1,924	-	-	-	-	259	2,183
Shareholder's funds	-	-	-	-	-	2,038	2,038
Total liabilities	2,042	-	-	-	-	2,297	4,339
Off balance sheet items	-	-	-	-	-	-	-
Interest rate sensitivity gap	(104)	68	14	-	-	(2,220)	(2,242)
Cumulative gap	(104)	(36)	(22)	(22)	(22)	(2,242)	-

The above amounts represent the fair value of non-trading book financial instruments as at 31 December 2004.

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22. NON TRADING BOOK ACTIVITIES (CONTINUED)

Currency risk disclosures

The Bank's overseas operations are in the European Union, although many of its transactions are executed in US Dollars. The head office's operating (or "functional") currency is the US Dollar and the branch's functional currencies are determined by the jurisdiction in which they operate. As the currency in which the Bank prepares its financial statements is US Dollars, it follows that the Bank's balance sheet is affected by movements in the exchange rates between branch functional currencies and the US Dollar. These currency exposures are referred to as structural currency exposures. Translation gains and losses arising from these exposures are recognised in reserves.

The Bank mitigates the effect of these exposures by financing a significant proportion of its net investment in its overseas operations with borrowings in the same currencies as the functional currencies involved. Currency swaps are also used to mitigate these exposures.

There are short term timing differences between the date that structural exposures arise and the date that they are hedged. As at 31 December 2004 the exposure amounted to US\$8 million (2003: US\$3 million) and this was hedged subsequent to the year-end.

Branches which have functional currencies other than US Dollars have no significant net exposure in currencies other than their functional currencies.

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23. EMPLOYEE INFORMATION 2004 2003

Average number of persons employed:

Sales and trading	111	121
Finance, operations, risk, research and systems	65	57
Management and administration	6	6
	<u>182</u>	<u>184</u>

24. PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The immediate parent company is Merrill Lynch Group Holdings Limited, a company incorporated in Ireland. The financial statements are available at the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

The ultimate parent company is Merrill Lynch & Co., Inc., a company incorporated in the State of Delaware, USA. Copies of the group financial statements of Merrill Lynch & Co., Inc. are available from the Investor Relations website at www.ir.ml.com or by contacting the Corporate Secretary by mail at 222 Broadway, 17th Floor, New York, NY 10038, USA or by email at corporate_secretary@ml.com.

The Bank has availed of an exemption, contained in Financial Reporting Standard No. 8 on related party transactions, from detailing transactions and balances with group companies.

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