Structured

Products for Retail & Private Banking

Global Overview: 2004 and beyond

Slower equity markets and a challenging structuring environment for capital protected products resulted in changes in the structured products markets in 2004:

- Structures putting capital at risk made a comeback in many European retail networks and private banks worldwide,
- Investor appetite for other asset classes like commodities, real estate or hedge funds boosted the development of hybrid products,
- Innovation was mostly seen in underlyings, nonetheless coupon-paying and auto-callable pay-offs developed significantly.

Judging by recent market trends, we can expect to see three major developments in the future:

- Greater search for yield across asset classes,
- Structured products for more and more specific needs,
- Partnerships between distributors and product manufacturers for large product issues.

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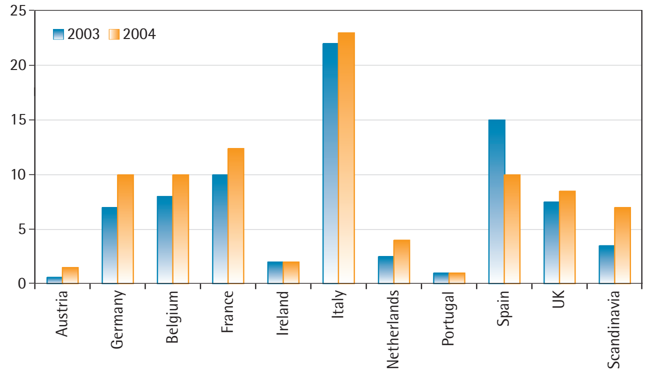
SRPs: Overview & Innovations in 2004

General Overview

Volumes

In 2004, savings invested in European structured products amounted to about the same as in 2003. If we include the 6 main European markets (Belgium, France, Germany, Italy, Spain and the UK), issuance came out slightly above €80bn in 2004.

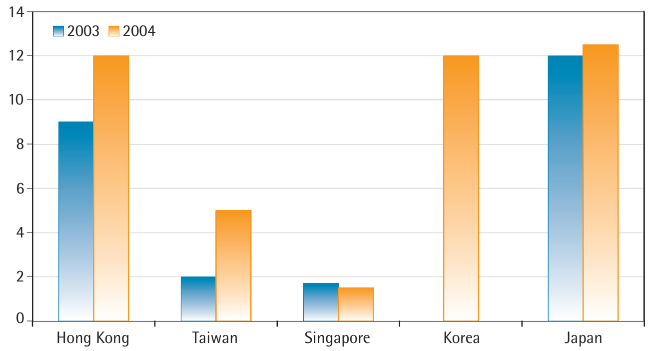
Total Issuance in billion Euros



Source: BNP Paribas

The situation is different in Asia, with significant issuance increases seen in several countries: +30% in Hong Kong, +250% in Taiwan, etc. However, total market size including Japan is less than half that of the European market, amounting to $43bn in 2004

Total Issuance in billion US Dollars



Source: BNP Paribas

After a sharp rise in volume issuances over the period 2001-2003, the North American market has opted for a pause in 2004: issuances actually totalled $12bn versus $15bn the previous year. 2005 should nevertheless reverse the trend as the 1st half of the year proved to be very active.

2004: The Structuring Dilemma

The continued fall in interest rates in Japan, Switzerland and the Euro zone in 2004 made it difficult for dealers to structure capital guaranteed products, in particular in an attempt to meet investor demand for regular/guaranteed coupons and short-term maturities. The fall in volatility levels in the 2nd half of the year made things even more problematic, giving issuers little choice but to expose their clients to dispersion, early redemption or capital risk.

All this explains why options on stock baskets remained popular in 2004, for example Coupon Driver, Cappuccino, Predator, Stellar and Trampoline (notably in Belgium, Germany, Italy, the Netherlands and Spain), along with auto-callable structures such as Athena, Venus and Starlight (mostly encountered in Germany, Ireland, Spain and several Asian countries including Japan). In addition to Athena-type options, other structures putting capital at risk made a comeback in countries where they had completely disappeared, like reverse convertibles (the growth version) and structures providing partial capital protection which were seen in France and Spain.

Despite a more favourable interest rate environment, exposure to dispersion and/or cancellation risk proved popular in Asia (excluding Japan) as customers asked for guaranteed coupons paid in the early years of the product's life. Popular structures included auto-callable Worst-of, Range Accrual and Venus-type vehicles.

Structures in the US retail market were less exotic compared to other regions, with a majority of Stellars and Best-Ofs combined with an Asian Call sold. US private banks apparently were in a fancier mood, showing appetite for hedge funds and commodity-linked products as well as non principal protected short-term notes.

2005: The Search for Higher Returns

With returns well below those recorded for other asset classes, equity markets are increasingly struggling to draw the interest of investors who have turned their attention to commodities, real estate, foreign exchange, emerging market stock indices or specific stocks as underlyings for structured investments. These underlyings are either proposed alone or as a combination ('hybrids'). First introduced in the private banking segment, they now also account for significant volumes on the retail side.

Commodities

Oil (WTI): +34% in 2004
- Energy (oil and natural gas)
- Metals: Base (zinc, lead, nickel, copper) & precious (gold, silver, platinum)
- Composite indices (e.g. GSCI)

Emerging Market Stock Indices

CECE EUR: +56% in 2004
- CECE EUR/USD
- FTSE Xinhua 50
- BRIC (Brazilian, Russian, Indian and Chinese stocks)

Real Estate

EPRA Euro Zone: +30% in 2004
Indices proposed are usually the EPRA for investors in the Euro zone and the HHPI in the UK market.

Other

Dividend stocks
High potential stocks
Div. yield ABN Amro: 5% in 2004
Foreign exchange
EUR/USD = +8% in 2004

The Road Ahead

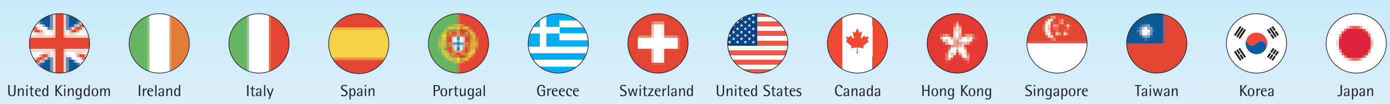
More Exotic Underlyings, More Risk-Appetite

While innovation in the structured products universe has been closely related to pay-off sophistication for years, it now seems that things are changing somewhat. Investors are increasingly showing interest in simpler structures, with the 'exotic' feature being found rather in the underlying: commodities, real estate and emerging market stock indices should remain in demand in the 2nd half of 2005.

Though many investors have shown interest in other asset classes, equity linked pay-offs are still in demand (dispersion risk should actually continue to be used, as it is one means of preserving an attractive return expectancy in a low interest rate environment). However, the stock selection process tends to evolve, with investors asking for a limited number of stocks in the basket along with valuable buying arguments.

Among other things, the auto-callable feature sweetens the bitter pill of longer maturities, one of the consequences of an unfavourable environment for structuring. This, added to its ability to cheapen the option's premium, should keep it popular for a long time (again in regions where interest rates remain low).

Capital at risk structures, notably in regions where interest rates are low (Switzerland, Japan, the Euro zone) are increasingly popular. Depending on the country, they are being marketed in the form of an Athena, Venus or Reverse Convertible (income or growth type) or with capital partially protected (up to 80/90%).



Belgium

VOLUMES & KEY PLAYERS

About 175 equity-linked structured products were recorded on the Belgian retail market in 2004. Notional traded in 2004 was higher than in 2003, with €10bn issued versus €8bn, i.e. an improvement despite renewed interest from investors since the middle of the year for fixed-income products vs. equity products.

The market is still very much dominated by the domestic networks of KBC and Fortis.

PRODUCTS & STRUCTURES

The Belgian market remains highly diversified, with a wide variety of options marketed. There were also a number of Best-Of structures on offer with a Cliquet or Asian option or with an individual cap. Some target-redemption mechanisms incorporated into structures such as Stellar were sold, but the redemption feature was mostly used with fixed-income products. Once again, very few CPPI or ODB structures were issued, mainly for regulatory reasons.

Although income structures seem to be more common than growth structures, investor expectations are the same in both cases: a minimum guaranteed return, even if the price to pay is also a limited maximum return.

Almost no structures put any capital at risk and half of the products offered a guaranteed return at maturity in addition to capital protection.

Maturities tended to shorten to an average of 5.5 years in 2004, with maturities ranging from 1 to 10 years. Lately, investors have shown increasing interest in short maturities (2-3 years) vs. 8-10 year maturities.

Correlation products were predominant in 2004, with many of the underlyings being stock baskets. Investors are exposed to the correlation risk to preserve pay-off attractiveness in a low interest rate environment.

Some single-underlying (index) option structures were issued, but there was no major interest observed in stocks listed on emerging markets and very few hybrid structures actually traded in 2004. However, interest in hybrid structures and emerging market indices has developed significantly in recent months. Some distributors even propose baskets that include exclusively Asian indices. On the other hand, there were ever more structured products on interest rates and exchange rates.

A new directive for marketing alternative investment funds by banks is currently under discussion. It should authorise the creation of collective investment undertakings with guaranteed capital, with a collective investment scheme as the underlying. This could become effective in 2005 and allow for the development of capital guaranteed products on funds in Belgium.

Examples of successful product issues in **Belgium**

Network	Large Belgian retail network	Large Belgian retail network
Product launch	January 2005	June 2004
Size of deal	EUR 50mn	EUR 120mn
Product name	TARN Structure: Target Redemption Structure	Stellar 4* 5
Product type	Swap	Exotic Option
Product maturity	10 years	8 years
Underlyings	Basket of 20 international stocks	Basket of 20 international stocks
Capital protection	100%	100%
Product description	Fixed Coupon: 5% paid on year 1 & 2 variable coupon: Stellar coupon 0% up to 15% paid on year 3 until year 10 (subject to early termination) Early termination: as soon as the sum of coupons (Fixed & Variable) equals 20%. The sum is capped at 20%	Individually capped coupons with fixed coupons Coupon t [t=1...4]: 5% Coupon t [t=5...8]: Stellar coupon 0% up to 8% Redemption at maturity: 100%
Advertising	Yes	Yes
Reason for launching product	Early Redemption	Structure is simple. Good protection with 4 fixed coupons 4 years to leave to the market the time to rebound

Luxembourg

VOLUMES & KEY PLAYERS

The main issuers in the Luxembourg market in 2004 were BIL, BGL, BCEE and Pan-Eurolife.

Structured products sold in Luxembourg were mostly for the private banking segment. We would nevertheless point out that some retail issues had nominals eight to ten times bigger. Besides, it remains difficult to distinguish between private and retail products, as both markets are tending to develop in similar ways.

PRODUCTS & STRUCTURES

On the retail side, the most popular pay-offs in 2004 were the Rainbow, Starlight, Certificate Plus and Stellar. Capital protected products delivering guaranteed coupons in the early years benefited from keen investor interest.

Hybrids and pure commodity underlyings are starting to gain wider acceptance. Some structures like Athena on Oil have been seen since 2004. However, hedge funds were barely used.

Maturities tended to lengthen throughout the year to preserve capital protection within a deteriorating pricing environment.

Recently marketed equity linked pay-offs tend to be similar to those seen in 2004. However, the Coupon Driver has replaced the Stellar and there is increasing interest in emerging market (Asia and Eastern Europe).

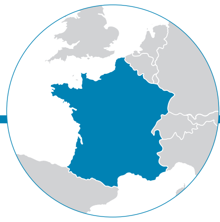
PRIVATE BANKING MARKET

There are no major changes as regards the pay-offs marketed, with the exception of the Athena and Airbag structures. Athena pleased investors for the same reasons that have made it popular in many other countries: a coupon product embedding the possibility of early redemption combined with a positive return. Underlyings used are mostly equity-linked stocks, stock baskets, and indices (including emerging market indices). Commodities are being increasingly traded.

Maturities remain shorter than in the retail segment.

Examples of successful product issues in **Luxembourg**

Network	Luxembourg Private Bank
Product launch	March 2005
Size of deal	EUR 30mn
Product name	Coupon Driver
Product type	Swap
Product maturity	6 years
Underlyings	Basket of 15 international stocks
Capital protection	100%
Product description	2 fixed coupons + 4 variable coupons for year 3 to 6 calculated as follows: the 10 best performers are fixed at 7.5%, the 5 others at their effective performance
Reason for launching product	2 attractive coupons guaranteed, easily achievable target and structure easy to understand for final investor



France

VOLUMES & KEY PLAYERS

Issuance in 2004 came to about €12.4bn, similar to the amount marketed the previous year. Around 100 products were issued over the year, which represents a significant reduction from the 150 launches made in 2003.

The biggest issuers were Ecureuil Gestion, Crédit Agricole Asset Management and BNP Paribas Asset Management.

PRODUCTS & STRUCTURES

France remains an innovative market, with many new options in 2004. Lots of original yield profiles were sold, among which Cappuccino, Predator, Climber, and Dragster. 'Growth' reverse convertibles based on a Down-and-In-Put via a high rate of participation in the underlying performance were on offer at the year's end. Of all the European countries, growth structures are the most predominant in France, although many offer limited upside due to historically low interest rate levels in 2004.

CPPI development in France was unique, with most of these products being of the lookback type and offering full capital protection. The popularity of CPPIs is mainly due to the absence of optionality, which enables fund managers to manage the product themselves.

With the exception of some Starlights, French investors were not particularly taken with options including target redemption clauses, although there seems to have been growing interest in target redemption features in recent months.

Most structures offered full capital protection along with a guaranteed return at maturity in many cases, although this became rarer towards the last few months of the year. Non-capital guaranteed products, with yield profiles typical of structures often traded in the UK, reappeared in France in 2004. Two types are emerging:

- those offering a capital guarantee below 100% at maturity via a high rate of participation in the underlying asset's performance.
- those based on a Down-and-In-Put where the premium allows the investor to finance the acquisition of an option with a high yield expectation.

Average maturity was 5.7 years, with maturities ranging from 1.5 to 15 years (most products had maturities of between 4 and 8 years). Overall, maturities have been on the rise this year.

As far as underlyings are concerned, fund baskets were on the rise as well as single indices or baskets of indices. Baskets of stocks were less popular, as investors seemed to be more wary of the correlation risk.

For single underlying options, the best-selling index remained the Eurostoxx 50, well ahead of the CAC 40.

PRIVATE BANKING MARKET

Products can be split into 2 categories depending on their maturities:

- In the 2-4 year spectrum, most options embed the target redemption feature with capital being totally (Athena type) or partially (e.g. 90% capital protected and high gearing) at risk.
- In the 6-10 year spectrum, options providing full capital protection that secure accumulated gains during the investment's life clearly dominate.

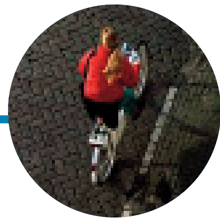
More generally, mutual funds used as underlyings are in greater demand, whereas interest in correlation is weakening. Oddly, emerging market indices and commodities failed to attract French investors. Very few hybrids were seen on the market.

France

Examples of successful product issues in **France**

Network	BNP Paribas	Crédit Agricole
Product launch	N/A	N/A
Size of deal	EUR 400mn	EUR 455mn
Product name	Paso Doble	Protein
Product type	Fund	Fund
Product maturity	42 months with redemption after 21 months depending on the share basket performance	6 years
Underlyings	Basket of 20 global blue chips	3 indices: Eurofirst 80, S&P500, N225
Capital protection	100%	Yes
Product description	Redeemable Driver: If Driver pay-off is +10% in 02/07, then redemption with a +10% payoff, or final pay-off of the Driver In both cases, the 12 best shares are set at +18% and the other ones at their actual performance	Pay-off is 75% of a floored (12 points) semestrial performance plus a 10% bonus if an index doubles its value in six years
Advertising	Posters in branches	Yes – website
Comments	Early redemption feature with target performance of 10% in 21 months	There is an 8-year version (Protein'Vie) with a campaign currently taking place

Network	Caisse d'Epargne
Product launch	N/A
Size of deal	EUR 700mn
Product name	Organdi 3
Product type	Fund
Product maturity	5 years
Underlyings	5 indices: Eurofirst 80, SMI, FTSE 100, S&P500, Hang Seng
Capital protection	Yes
Product description	Best performance is locked at each anniversary date (floored at 0) In fine: 60 % of the best basket performance at an anniversary date
Advertising	Yes – website
Comments	4th campaign in April 2005 Global turnover: EUR 1.75bn



Netherlands

VOLUMES & KEY PLAYERS

Volumes traded in the Netherlands amounted to €4bn in 2004. The most active issuers were ABN Amro, ING and Rabobank.

PRODUCTS & STRUCTURES

Investors started to show strong interest in fixed income products and more generally in high coupon-paying structures. Stellar, Sherpa, Predator and Cappuccino were the best-selling equity-linked structures. Generally, coupon products and simple themed index-linked products sold best, as investors had no directional view on the stock markets. The Stellar was popular because of the high coupon it pays in the first few years of the product's life. Few CPPIs were launched as the product is still considered complex. Despite being appreciated in the past, Ladder options were on the decline as the low interest rate environment has led to unattractive participation levels.

Interest in fixed income products continued to strengthen in the first few months of 2005, and they are now benefiting from an estimated market share of 70% of the structured retail products universe. In this category, Steepener (designed to play the interest rate spread between 2 maturities) and Range Accrual were the most popular pay-offs. The Steepener is currently losing ground as the interest rate curve flattens.

The Dow Jones Global Titans has been very popular for coupon products but stock baskets have been used as well. Index-linked structures generally use a single index (e.g. AEX, Eurostoxx 50, Nikkei 225, Xinhua) or a basket of indices (typically: Eurostoxx 50, S&P 500 and Nikkei 225).

Some emerging markets underlyings (China and Eastern Europe) have also been issued. Exposure to emerging markets tends to be gained by awarding an active mandate to an external manager, as most Dutch investors believe it is a realistic way to capture alpha.

As far as hybrids are concerned, we have seen no structures combining equity with other asset classes. All hybrid deals have combined fixed income and inflation or fixed income and credit (CDOs remain popular). Lately, there has been increasing interest in hybrids, but it would be going too far to say they are popular. Interest comes mainly from certain structured retail issuers and pension funds, which usually consider buying options on baskets of equity, bond and commodity indices. It is also worth emphasising the development of pure commodity products (mainly energy and base metals), which allow investors to benefit from backwardation.

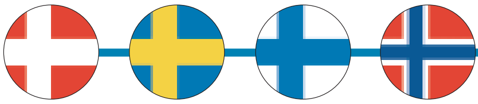
The average maturity was about 7 years, ranging from 5 to 10 years.

PRIVATE BANKING MARKET

Products on the private banking side are very similar to those marketed on the retail market. Fixed income products tend to be even more present. Most deals are Euro-denominated. Exposure to the Dollar is taken through commodity or pure FX plays.

Examples of successful product issues in the **Netherlands**

Network	Major domestic banks	Private banks
Product launch	Various issues	Various issues
Size of deal	Over EUR 1bn	EUR 100mn
Product name	N/A	N/A
Product type	Notes	Deposits
Product maturity	8-10 years	8-10 years
Underlyings	Stock baskets	Asian index baskets
Capital protection	100%	Some guaranteed structures, others conditional.
Product description	Fixed and variable coupons (Stellar, Cappuccino, Predator)	Exposure to Asian and emerging markets
Advertising	Yes - website	Yes - website
Reason for launching product	Strong demand for yield	Diversification



Scandinavia

VOLUMES & KEY PLAYERS

Volumes were higher than the previous year's, with total issuance in 2004 estimated at €7bn: people actually increased personal investments after the invasion of Iraq. The main issuers were still Handelsbanken, Swedbank, Nordea, SEB and DNB.

PRODUCTS & STRUCTURES

The most successful options were the Twister and the Capti Bonus, owing to their short maturity and potentially high coupon payout. Most structures were capital guaranteed, with a global or European focus on the underlying.

Alternative investments such as CPPI, ODB and hybrids had a small role in retail products in 2004. Investors looking for original features were more interested in forex, raw materials or share indices in emerging markets where potential returns were seen higher. As current hedge fund performance disappoints, the focus is now mainly on mutual funds. Lately, investors have shown more and more interest for high potential stock baskets from developed economies rather than emerging markets.

Besides, short-term capital guaranteed equity linked products had increased competition from pure currency linked pay-offs in the first quarter of the year.

N.B.: A change in guidelines in Norway in 2003 required that issuers disclose commissions made on the products. This has not had an impact on volumes but it has put margins under some pressure. There was no significant tax or regulation change liable to impact business in 2004 otherwise.

Examples of successful product issues in **Scandinavia**

Network	N/A	N/A	N/A
Product launch	April 2004	August 2004	November 2004
Size of deal	N/A	N/A	EUR 60mn
Product name	Twister	Coupon Driver	Galaxy
Product type	Deposit Note	Deposit Note	Deposit Note
Product maturity	2 years	5 years	3 years
Underlyings	OMX or Eurostoxx	Basket of stocks from Asia, Europe, USA and Eastern Europe	Basket of stocks Dow Jones Global Titans
Capital protection	100%	100%	100% + 2% minimum guarantee
Product description	Structure pays a high coupon minus the monthly negative performances	Structure sets the performance of the best shares to a high fixed coupon, thereby locking in a good performance on parts of the basket	Structure pays the absolute value of the least performing share
Advertising	Yes	Yes	Yes
Reason for launching product	Product was popular and easy to sell	Product was innovative in the market	Product was new in the market and got a favourable reception
Comments	Performance on early products was very good, declined a little bit later		


Germany

VOLUMES & KEY PLAYERS

The market for structured products grew to over €10bn in 2004 in Germany, with €7.8 bn in correlation products. This is slightly more than in 2003, although there was a fall in issue sizes during the summer.

The main issuers were Deutsche Bank, DZ Bank, West LB, Bayerische Landensbank, LBBW and HVB.

PRODUCTS & STRUCTURES

German retail investors again were mainly looking for full or partial capital protection and regular income. Consequently, the most popular structures were coupon structures (80% of the market) and options including early redemption features (Galaxy, Ariane, Stellar, Starlight and Athena sold well in 2004), with some even granting a guaranteed yield (generally through fixed early coupons).

The average maturity currently is 6.5 years, which is rather long compared to other European countries. Products in Germany were often (and continue to be) based on share baskets - owing to the success of correlation products. Hybrids remained a niche market in 2004 with only few issuances. Interest in such products has nevertheless increased in recent months. There is also increasing demand for emerging markets and pure commodity exposure.

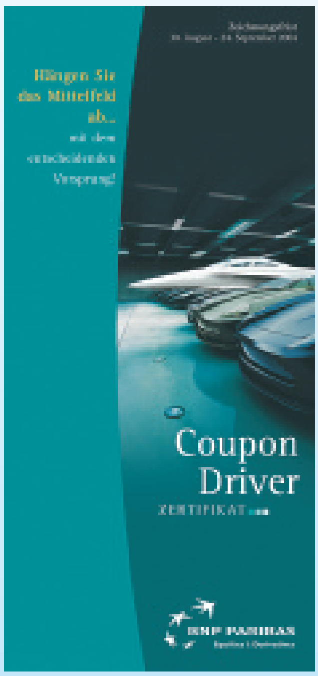
Regarding trends for 2005, it seems that high coupon products will remain popular again. Since correlation products have lost ground due to a series of disappointing returns, German investors are now asking for more information as to the stock selection process before they subscribe. Distributors have thus been searching for added value in the underlying, such as high dividend stock baskets. Very recently, classic growth products have gained momentum again, reflecting a renewed investor confidence in equities.

PRIVATE BANKING MARKET

In 2004, the prevailing types of structures were partially and non-capital protected products, the most popular of which were auto-callables, especially Athenas, and classic bonus certificates. Additionally, pure commodity (e.g. Bonus Certificate on oil) and emerging market (notably Eastern European equity indices) vehicles have made significant inroads in recent months.

Examples of successful product issues in **Germany**

Network	N/A	N/A
Product launch	End of 2004	Throughout 2004
Size of deal	About EUR 150mn	About EUR 600mn in total issuance
Product name	Stellar Reload	Coupon Driver
Product type	Note	Mostly certificates
Product maturity	6 years	5 years typically
Underlyings	World stock basket	Basket of stocks
Capital protection	100%	100%
Product description	Fixed coupon of 6.25% in year 1 Thereafter, variable Stellar coupons achievable: if the average of the worst 5 stocks are above initial, a 6.25% is paid on any anniversary date and all subsequent anniversary dates. Previously missed coupons are also paid (Snowball effect)	The best shares in the basket are set at a certain level and the worst stocks are taken at their actual level of performance. Performance is observed since inception and paid in the form of annual coupons
Advertising	Yes	Many different retail campaigns (flyers, posters, TV spots)
Reason for launching product	Pay-off appealing to retail investors	Trendy product with very good retail audience
Comments	Very high gap risk made it unpopular for trading but a huge retail success	



Austria

VOLUMES & KEY PLAYERS

In 2004, about €1.5bn in structured products were marketed in Austria, with the main issuers being Erste Bank, OEVAG and RCB.

PRODUCTS & STRUCTURES

Since Austrian investors have been pessimistic about the equity markets, income products were predominant in 2004. As in Germany, the most popular structures were coupon structures and options including early redemption features, with most products still offering full capital protection. Sherpa, Cappuccino and Predator were also successful there. In 2005, the most popular pay-off so far was the Lookback, mainly due to low volatility levels.

Investors in Austria showed little interest in partial guarantee structures with target redemption features, mainly for tax reasons. The average maturity is 6.5 years.

As far as new trends are concerned, for 2005 there appears to be increasing demand for fund-linked products as well as pure commodity structures.

Options with single underlyings predominantly are based on the Eurostoxx 50, although there is increasing interest in Central and Eastern European (Hungarian, Polish and Czech) and Asian (ex-Japan) indices. Furthermore, a strong demand from Austrian investors for hedge fund underlyings has been observed recently.

PRIVATE BANKING MARKET

Products sold in the Austrian private banking segment mostly resemble those marketed in Germany. However, correlation products are based on index baskets rather than stock baskets. As in the case of the retail side, auto-callable structures such as Athenas are less popular in Austria.

Examples of successful product issues in **Austria**

Network	N/A	N/A
Product launch	February 2004	February 2004
Size of deal	EUR 10mn	EUR 7mn
Product name	Blue Fox 5 Bond	Garantieanleihe 10% plus
Product type	Deposit Note	Deposit note
Product maturity	8 years	5 years
Underlyings	Basket of 25 international blue chips	Basket of 3 indices equally weighted: SX5E, SPX, TPX
Capital protection	100%	100%
Product description	Annual coupon Year 1: 8% fixed coupon Year 2-8: 10% coupon of notional amount if no stock hits the barrier on any observation date (Barrier 70%); otherwise 0% Snowball feature (year 2-8): Previously missed coupons are paid on the first coupon payment date where the high coupon is paid again	110% of notional + premium Premium= notional * 40% of average out against average in performance Average out = average closing performance of three indices at 13 dates each taken in the last 13 months of the product Average in = average closing performance of three indices at 7 dates each taken in the first 7 months of the product
Reason for launching product	Successful previous products	Trendy product with very good retail audience

Central & Eastern Europe

VOLUMES & KEY PLAYERS

Through their subsidiaries, the main issuer in 2004 is K&H Bank (a subsidiary of KBC – around €190mn issued) in Hungary, followed by OTP Fund, CAIB and CIB Bank. In Poland, the retail market is still very limited, with some issuances by Kredytbank (KBC) and Millenium Bank. In the Czech Republic, Ceska Sporitelna, CSOB and HVB are the biggest issuers. Volumes remained relatively low compared with other European countries but as structured products are to be implemented in all major banking networks, volumes are expected to grow substantially in 2005.

PRODUCTS & STRUCTURES

Investors are interested in increasingly sophisticated yield profiles. Hybrid pay-offs (in Hungary and Poland) as well as structures offering exposure to the currency risk were popular (e.g. Dual Currency Notes). Stellar and hybrid options developed, the latter in a Himalaya or Rainbow structure combining either equities or forex, equities, commodities and Iboxx indices. In Czech republic, Altiplanos have been also very popular.

Yield profiles are rather defensive with capital protection always requested. Structures even offer a non-zero yield at maturity, hence the success of Best -Of options. Maturities tend to be rather short, with an average of about 3 years.

Investors have shown increasing interest in domestic underlyings, indices and stocks alike.

Hybrids continue to grow in Hungary, with some significant nominal issuances, but investors are still not interested in pure commodity-linked products. The new pay-off that emerged on the market is the Profiler. There is still a strong interest for short term products structured as structured deposits, linked to equities or forex.

Equity-linked investments dominate in the Czech Republic, although there have been attempts at diversification such as exposure to real estate, but exposure to commodities or hybrids has not yet developed.

Poland is clearly less active, with private placements dominating for the time being. Some Athenas were seen on the market recently but there is great disparity among products marketed, which makes it difficult to identify trends in the business.

PRIVATE BANKING MARKET

It remains difficult in Eastern Europe to distinguish between private and retail banking: up to now, structured products were mostly considered part of the private banking business. However, in countries such as Hungary, where issuances for the retail market are on the rise, a distinction may soon become relevant.

Examples of successful product issues in **Eastern Europe**

Network	HVB (Hungary)	CIB (Hungary)	OTP (Hungary)
Product launch	May 2005	April 2004	March - April 2005
Size of deal	Approx. EUR 10mn	Approx. EUR 12mn	Approx. EUR 20mn
Product name	Profiler (Triatlon Capital Guaranteed Fund)	Hybrid Rainbow	Stellar
Product type	Guaranteed Fund	Guaranteed Fund	Guaranteed Fund
Product maturity	3 years	3 years	3 years
Underlyings	SX5E, Synthetic Hungarian Bond index, Synthetic Money Market Index (Bubor-linked)	SPX, DJ AIG Commodity index, USD/EUR rate	Basket of global blue chips (16 stocks incl. 4 Hungarian stocks)
Capital protection	100%	100%	100%
Product description	3 risk-profiled baskets are built with the 3 indices balanced in different proportions. At maturity, the product pays the average performance of the best profile (quarterly averaging)	Rainbow pay-off at maturity	Fixed coupon in year 1 2 variable coupons up to 20% in year 2 and at maturity
Advertising	Yes	Yes	Yes
Reason for launching product	Innovative new pay-off	Commodities exposure The forex rate pays USD appreciation vs. EUR	Hungarian stocks Innovative income product

Ireland

• **Ireland** • United Kingdom •

VOLUMES & KEY PLAYERS

Total notional issuance in 2004 is estimated at €1bn. The main issuers are Bank of Ireland, Allied Irish Bank, Ulster Bank & First Active, IIB and Goodbody's.

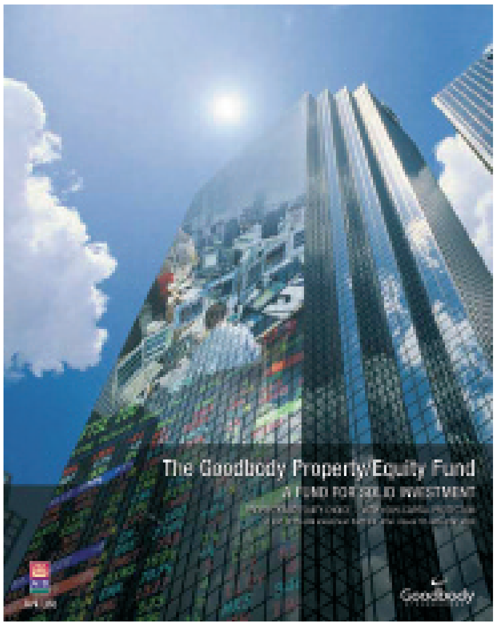
PRODUCTS & STRUCTURES

Exotic products and early redemption opportunities were the prevailing features on the Irish market in 2004 and at the beginning of 2005. The success of standard equity trackers led to no clear dominance of either income or growth equity-linked products. However, fixed income products still dominate the Irish structured products market.

As regards underlyings, property indices (EPRA) and structured hedge fund-linked products were frequently traded. There is also an increasing interest in exotic underlyings including hybrids, multi assets underlyings and commodities. Other fund-linked products included CPPI linked to mutual funds.

PRIVATE BANKING MARKET

The private banking business differentiates itself from the retail segment through more intensive use of hedge funds, dynamically managed stock and fund baskets and hybrid underlyings. Pay-offs are usually more exotic, such as ODBs, and offer exposure to foreign exchange and commodities. Hybrids and cancellable structures should continue to dominate the market this year, as they are currently benefiting from strong demand.



Examples of successful product issues in **Ireland**

Network	Bank of Ireland	Goodbody
Product launch	January 2005	October 2004
Size of deal	N/A	N/A
Product name	Smart Combination Bond series 4	The Goodbody Equity Fund
Product type	Deposit	Life policy
Product maturity	5 years 11 months	5 years 11 months
Underlyings	Weighted basket of Indices (S&P, FTSE 100, Nikkei 225, SMI)	EPRA (property index) and an actively managed stocks portfolio of 20 stocks chosen among 60 blue chips
Capital protection	Yes	Yes
Product description	Combination of a 1-year premium deposit (up to 25%) and a 5-year 11month tracker (at least 75%) in proportions chosen by the investor At maturity, investor gets the best of 50% of the performance of basket and 10.5% guaranteed return	Investor can choose between three property and equity combinations: 50% - 50% 75% EPRA – 25% stock portfolio 100% EPRA
Advertising	Yes	Brochure
Reason for launching product	Flexibility of pay-off Total security on initial capital	Flexibility of pay-off Investment in property and actively managed stock portfolio


United Kingdom

VOLUMES & KEY PLAYERS

Volumes rose by about 9% between 2003 and 2004 but remain modest, reaching £6bn. 2003 was a difficult year, owing to new more restrictive regulations, particularly for reverse convertibles. In 2004, investors proved sceptical as regards equities preferring instead to place their savings in interest rate products or dividends. Lastly, by raising the cost of property loans, the interest rate hikes over the year have tended to keep a lid on the available liquidity of British households. The most active issuers were HBOS, HSBC, Lloyds, NS&I and RBS.

PRODUCTS & STRUCTURES

The UK market remained rather conventional, with a dominance of growth structures and simple pay-offs.

Many Asian and Cliquet options have been popular, often with variations: as part of a best-of equity/fixed income structure, Asian with lock-in to secure potential gains throughout the product's life provided the underlying asset reaches a given level of performance. An environment of high interest rates and low volatility has indeed made such pay-offs affordable. Several Digital options also traded.

Growth structures were predominant and are increasingly taking a lion share of the market. The low volatility levels and risk aversion over the period, which made Reverse Convertible-type structures less appealing. The marketing of such products penalised further by a toughening of legislation on this product category in 2003.

Starlight structures were still in demand, as they offer investors the chance to rapidly reallocate their capital to another investment while benefiting from a capital gain. Exotic options also included a number of Napoleons and capped Ladders, as well as Asian options with out-of-the-money strike prices allowing investors to benefit from higher rates of participation in the underlying's performance.

CPPI products continued to grow but ODB failed to gain any acceptance. More open-ended lookback CPPI funds were launched in the second half of the year as well as some more traditional CPPI products.

Most investors have subscribed to capital-protected structures. Many structures even offered a guarantee to redeem an amount greater than the capital at maturity. Still, there was a continued interest in capital at risk products, mainly Athena and Airbag type products (the latter with high gearing on the upside). However, volatility conditions did not help the terms that could be offered on these products with the consequence that sales fell off in the latter part of the year.

There was little change on underlyings used in 2003, with continued large-scale use of single underlying structures based on the FTSE 100. Several structures were based on index baskets but no emerging country indices could be noticed (except one, the 'China Bonus Plus Fund' based on the FTSE Xinhua index). Later in the year options based purely on gold, oil or the Goldman Sachs Index, usually in the form of Asian calls developed. Still no record of structures combining the equity markets and other asset classes, with the exception of the Halifax House Price Index. There is a rising, though limited, interest for commodities and, to a lower extent, for hybrid underlyings.

There was an increasing number of products based on baskets of hedge funds as this fit in with investors' need to diversify since they do not expect the equity markets to make any real progress in 2005.

PRIVATE BANKING MARKET

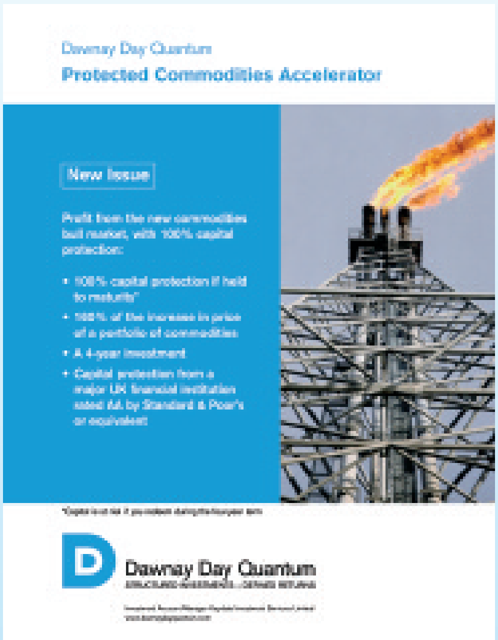
Volumes issued in early 2005 clearly exceed those recorded over the same period in 2004. The average size is €5mn. There is a strong demand for short-term income products (typically Athena and Worst-Of Reverse Convertible) and very vanilla call options. Unlike the retail segment, hybrids tend to gain market shares over pure commodity underlyings and there is a growing interest for emerging markets stock indexes. Stock indexes are preferred to stock baskets for safety reasons, especially as the maturity shortens. Some Certificates on the CSFB Tremont and MSCI have been recorded. A significant proportion of fixed income pay-offs in the form of Range Accrual, Callable Range Accrual (many fixed income products embed the callable feature for pricing reasons) was also seen in this market.

United Kingdom

Examples of successful product issues in the UK

Network	HBOS (Halifax Life)	Matrix
Product launch	Throughout 2004 - 2005	June 2004 and October 2004
Size of deal	N/A	N/A
Product name	Guaranteed Investment Plan	Ascension Plan (I and II)
Product type	UK Life Bond	ISA – Special Purpose Company - Guernsey, Pension
Product maturity	5 years with open end (4 guarantee dates per annum)	7 years
Underlyings	FTSE100	Winton Futures Fund
Capital protection	100% at maturity	100% at maturity
Product description	Minimum capital redemption =100% at maturity Maximum equity allocation at any time is 80%	This product is based on the Winton Futures Fund and offers at maturity a minimum 100% capital return minus 4% initial fees It offers 100% of the growth in the Winton Trading Strategies Fund, net of fees Shares can be sold at any time, although the guarantee will not apply
Advertising	Promoted through Halifax share dealing service	Brochure
Reason for launching product	Continuous issues of CPPIs in 2004. Growing appetite for CPPIs in the retail	Single hedge-fund product invested in commodity futures Winton Futures Fund has delivered annualised returns above 21% since launch; BNP Paribas provided the guarantee

Network	Dawnay Day
Product launch	3 tranches: November 2004, March 2005 and April 2005
Size of deal	N/A
Product name	Protected Commodity Accelerator (I, II, III)
Product type	ISA – Medium Term Note, Pension
Product maturity	4 years (first two tranches); 5 years
Underlyings	An equally-weighted basket of eight commodities (crude oil, heating oil, natural gas, aluminum, lead, copper, nickel and platinum)
Capital protection	100% at maturity
Product description	160% (200% on the 5Y version) of the rise in the commodity basket over the investment period Final basket level is calculated as the average of daily observations over the last week of investment
Advertising	Brochure distributed through IFAs
Reason for launching product	Bullish sentiment on commodities along with development of options on baskets of commodity futures



Italy

VOLUMES & KEY PLAYERS

Owing to the Parmalat scandal and the bad publicity it generated for structured investments, volumes of structured products sold by banks in the form of bonds fell sharply in 2004. Volumes of structured products sold as part of an insurance policy are also down over the period, albeit to a lesser extent.

The main bond distributors are Unicredito, Banca Intesa, Banco Posta and San Paolo IMI. These are also the most active distributors of index-linked insurance policies.

The total amount issued in 2004 is believed to be €33bn.

PRODUCTS & STRUCTURES

Investors in 2004 were mostly interested in structures that deliver coupons or offer high rates of participation in the underlying's performance. Many Napoleon, Coupon Comet Snowball, Worst-Of and Galaxy-type options were marketed in 2004. There was also strong interest in structures that could secure yields obtained during the option's life, as investors remain wary of the equity markets. Early redemption options were almost never offered, likewise hybrid products which are still hardly being sold at all. The most remarkable factor is the decline in CPPI funds, which have become more difficult to market and are actually being increasingly replaced by ODBs. As regards trends in 2005, Italy remains a coupon driven market with most pay-offs similar to 2004. Many issues continued to offer a guaranteed return in addition to full capital protection, often through a Worst-Of profile.

Capital protection is almost always requested, confirming the need for security as observed in 2003. Structures offering a non-zero yield at maturity through a guaranteed coupon payout are also in demand.

Insurance product maturities tend to be long, on average 6 years vs. 5 years for bonds. The vast majority of maturities lie between 4 and 6 years.

As the year went on, share baskets were replaced with index baskets, which predominated considerably towards the last few months of the year. Since the beginning of 2005, there has been a wide use of stock and index baskets, though with a limited number of components. As in many other European markets, commodity-linked options are gathering momentum in Italy, along with forex and inflation-linked products. However, Italian investors still show little interest in emerging market indices.

Isvap, the insurance regulator, asking for more transparency on index and unit linked policies has voted the following changes on March 2005: 1/ a summary of terms and conditions must be sent to the customer along with the prospectus 2/ the information must always be available on the company's website for consultation. For index linked policies, a clear breakdown of the zero coupon present value, option premium and fees is required. For unit linked policies, the summary must embed a comparison of the fund vs. its benchmark.

PRIVATE BANKING MARKET

Pay-offs in this business segment are very similar to those marketed on the retail side. However, some more risky structures (Athena type) could be observed.

Examples of successful product issues in **Italy**

Network	N/A	N/A	N/A
Product launch	N/A	N/A	N/A
Size of deal	N/A	N/A	N/A
Product name	N/A	N/A	N/A
Product type	Insurance Policy	Note or Insurance Policy	Certificates
Product maturity	5-7 years	5-7 years	4-5 years
Underlyings	Basket of stocks	Basket of indices	Basket of indices
Capital protection	Yes	Yes	No
Product description	Ariane (coupon paid at maturity proportional to the number of stocks that has not closed below a barrier usually set around 50%)	Reload, if on the the annual observation dates none of the indices close below the barrier, a snowball coupon is paid and a coupon is locked-in for the remaining years	Athena with annually decreasing knock-out barriers (ex: from 100% to 75%). Contingent put at maturity on the worst stock
Reasons for launching product	High Coupon expected to be paid at maturity Low level of the barrier Cheap option	High annual expected coupon Snowball and lock-in are attractive features Cheap option	Request of cancellable products with high exit rate Low volatility made the standard Athena not attractive

Spain

VOLUMES & KEY PLAYERS

Total issuance in 2004 is estimated at almost €10bn. Santander and BBVA were the main issuers of funds and Banco Popular and La Caixa were the most active on guaranteed deposits. Sabadell and Caja Madrid were also among the main issuers.

PRODUCTS & STRUCTURES

A wide variety of sophisticated options (Himalaya Cumulative, Coupon Comet Snowball, Worst-of and Worst-of Floored Coupon, Pyramid Ladder, Lookback and Starlight) were launched in Spain in 2004, mostly providing full capital protection with an average four year maturity. Variable local caps emerged and several Best-Of structures combined with an Asian option or Cliquet were also on offer. Since the beginning of 2005, Spanish investors have been asking for more simple products with classical pay-offs (e.g. Asians on Ibex).

Growth structures tended to dominate in the second half of 2004, mostly providing capped performances. There was an equal number of correlation and single underlying structures. Correlation structures were based mainly on share baskets, often comprised of 6-8 stocks, while single underlyings usually were either the domestic index Ibex 35 or the Eurostoxx 50, and less frequently the Dow Jones Global Titans.

PRIVATE BANKING MARKET

Risk aversion is obviously lower in this segment, with many structures putting capital at risk (such as Athena and Certificate +) being marketed. Digital pay-offs were also offered. Underlyings are mostly single stocks, while some hybrid products could be found, although remaining less popular than on the retail side. Investors still show no interest in pure commodity and emerging markets underlyings. Life insurance contracts (longer maturity, average: 5 years) tend to develop for tax efficiency reasons.

Examples of successful product issues in **Spain**

Network	BBVA Gestion	Santander Central Hispano
Product launch	1st half of 2004	1st half of 2005
Size of deal	EUR 1.8bn	EUR 3bn
Product name	Triple Optimo	Superseleccion Acciones 3
Product type	Fund	Fund
Product maturity	5 years	5 years
Underlyings	21 funds building up 3 baskets: Aggressive basket: 70% equity/30% bonds. Balanced basket: 50% equity/50% bonds. Conservative: 30% equity/70% bonds.	Dynamic basket of S&P All Star USA & Europa
Guarantee	100%	100%
Product description	Three risk-profiled baskets: aggressive, balanced, conservative Best of profile payoff: for each profile, the best monthly At maturity, 100% of the best profile is paid, on top of initial capital	At maturity, 100% of capital + 70% of the average positive performance of a dynamic basket of indices which replicate a selection done by S&P's equity analysts based upon proprietary models Open-ended (monthly exits without redemption fees)

Portugal

VOLUMES & KEY PLAYERS

Volumes in 2004 were down by about 20% vs. 2003. Total issuance was around €600mn. The main issuers are Santander, BCP, Banco Espirito Santo and Banco BPI. This correction is mainly the result of poor economic activity in the country combined with an already high level of household debt.

PRODUCTS & STRUCTURES

The best-selling options are the Podium, Everest Binary and Vanilla Call on a basket of individually capped assets. The most common underlyings are baskets of stocks.

Yield structures remained popular in 2004, given current investor sentiment. However in 2005, growth products such as Himalaya, CPPI and Cliquet developed, with innovation mostly found in the underlyings (EPRA, Hedge Funds, emerging market indexes). Only two hybrid products were sold in 2004, the first combining stocks and inflation, the second combining equity markets and fixed-income markets. Since the beginning of 2005 several dispersion swaps on stock basket were issued, in addition to hybrid pay-offs making significant in-roads in the Portuguese market.

Capital protection is systematically requested, and many structures offer a guaranteed yield, usually in the form of a Best-Of structure. The average maturity is 3.5 years for 2004, but more close to 5 years for 2005, with all maturities ranging between 3 and 5 years.

PRIVATE BANKING MARKET

Structures for which capital is at risk such as Athena (Combination of a put spread and a call) were mostly marketed. Like in the retail market, dispersion swaps sold in the private banking sector. Indexes from emerging markets and hybrid baskets are increasingly on demand.

Greece

VOLUMES & KEY PLAYERS

EFG Eurobank Ergasias is by far the biggest issuer of equity structured products on the Greek market.

PRODUCTS & STRUCTURES

In Greece, popular pay-offs were extremely exotic ones such as Athenas and other callable structures. These products were popular for similar reasons as in other countries in Europe. Other successful products included reverse convertibles on single stocks and Coupon Drivers and ODBs on Greek mutual fund baskets, as well as Stellars, Cappuccinos and Predators on international and Greek stock baskets. Hedge fund products, which were popular in the first two quarters of 2004 (mostly used within a traditional leveraged structure), fell in popularity as was the tendency across Europe.

In Greece, about half of investors required 100% capital protection. The other half was actually willing to take risks through reverse convertibles, Athenas, ODBs and other leveraged products. Correlation plays remain the preferred strategy at the beginning of 2005, with more callable structures becoming the norm during the second quarter. Nonetheless, single stock underlyings have been in demand in recent months.

Greece showed an appetite for very innovative/exotic products but retail investors did not ask for emerging markets (Eastern Europe, Asia), indices or commodities.

Maturities ranged from 1 to 11 years but most were comprised between 3 and 6 years.

Also as regards regulations, a change in Greece is on the cards: starting June 2005, structured products will have access to wrappers such as pension funds, whereas they have until now had to have government bond status.

Examples of successful product issues in **Greece**

Network	EFG Eurobank Ergasias
Product launch	March 2005
Size of deal	EUR 95mn
Product name	Coupon Driver
Product type	mutual fund wrapper
Product maturity	10.5 years
Underlyings	40 international stocks
Capital protection	100%
Product description	32 top stocks locked at 8.1%, the 8 worst taken at perf. First year has a global floor of 0, then a Sherpa effect subsequently increases the global floor depending on previous level of coupon paid Final perf. is the best-of 128% and the perf. of the basket at maturity
Advertising	Yes
Reason for launching product	Product marketed domestically as a mutual fund
Comments	Popular product playing on correlation and considering the present market environment. Clients liked the growing capital guarantee

Switzerland*

Switzerland

VOLUMES & KEY PLAYERS

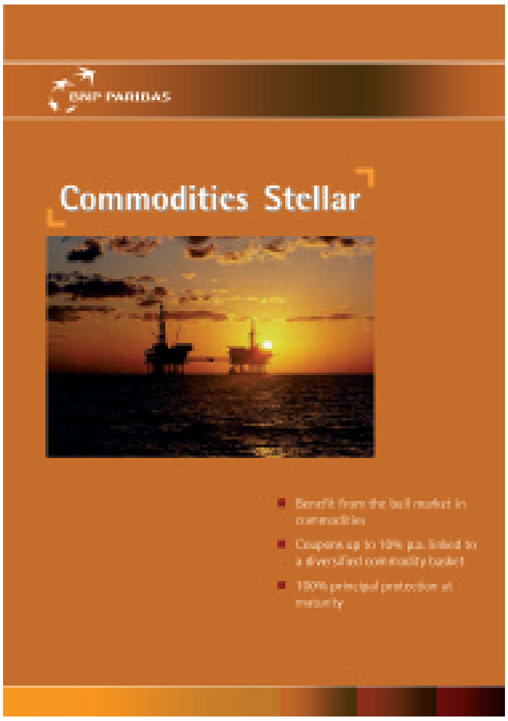
2004 has been quite an active year in the Swiss private banking market. Major issuers were again UBS and Crédit Suisse. In 2005 first quarter, smaller sized competitors succeeded in taking significant market shares though UBS and Credit Suisse remained the biggest issuers. Most deals were Euro or US Dollar denominated.

PRODUCTS & STRUCTURES

2004 showed a clear dominance of coupon products such as Stellar and Predator. The decrease in volatility led to changes in the pay-offs, for instance Athena for which the embedded down-and-in put strike was raised from 80% to 100%. The most popular issue was a fixed income structure called Gap Note. Eventually, Reverse Convertible type structures made a noticeable come back, with a rather high risk profile to preserve attractiveness in a low volatility environment. Investors increasingly ask for shorter maturities than in 2003 in order to reduce the average duration of their products.

Regarding underlyings, pure commodity products developed on the Swiss market throughout 2004 and the beginning of 2005 (in such products as Certificate Plus, Athena and Stellar). Though hybrids were given a smaller piece of the cake, nominal issuances in this category still exceed the 2003 level. Another new trend is the success of emerging market underlyings, whereas hedge fund underlyings are submitted to a more selective approach, as a consequence of a difficult start this year. Sharia compliant investments still benefit from a strong demand.

* Given the non significant size of the retail market, the focus here below is limited to the private banking activity.



Examples of successful product issues in **Switzerland**

Network	Swiss Private Bank	Crédit Suisse	Swiss Private Bank
Product launch	April 2005	February 2005	March 2005
Size of deal	USD 10mn	USD 25mn	EUR 80mn
Product name	Structure on GSCI Agriculture Index	Hybrid Stellar	Ariane Range
Product type	Certificate	Note	Certificate
Product maturity	3 years	6 years	1 year
Underlyings	GSCI Agriculture Index	SMI, SPX, SX5E, NKY, WTI, Gold, Aluminium, Palladium	Basket of 20 international stocks
Capital protection	100%	100%	100%
Product description	At maturity, product repays back 100% of capital + 70% of participation in the upside performance of the index	Hybrid Stellar: indices & commodities	At maturity, product repays back 100% of capital plus a coupon depending on the number of stocks which stayed within a certain range (-25%/+25%, continuous monitoring). Maximum coupon: 11.25 (5 times a reference coupon of 2.25%)
Reason for launching product	Underlying is attractive because it has a lot of upside potential. Structure is simple	Bullish on Metals (spec. Palladium)	1 year maturity: Short-term is very appreciated. Represents an alternative to money-market deposits




North America

VOLUMES & KEY PLAYERS

The largest issuers of structured products in the North American markets in 2004 were US institutions such as Citigroup, Morgan Stanley, Bank of America, Merrill Lynch and Lehman Brothers. Listed structured product issues, designed primarily for retail investors, represented $3.5 billion in 2004, down from $4.3 billion in 2003. Registered products, which include both listed and non-listed products, represented a larger universe of approximately $12 billion. BNP Paribas has been issuing products regularly for both retail investors (on a monthly basis) and high net worth clients and institutional investors.

PRODUCTS & STRUCTURES

In the last two years we have seen a reversal in the ratio of principal protected vs. non-principal protected products. Principal protected products represented 60% of the market two years ago and today represent 40%.

American investors have been reluctant to invest in structures with more exotic pay-offs and instead prefer straightforward and easy-to-understand products with well-defined themes. However, many issuers (often led by BNP Paribas and other European banks) have gradually introduced more exotic products, which have become very popular (Stellar Coupon).

In the Canadian market, which is a retail-only market, new issues have been led by principal protected income products. Typical maturities range from 5 to 9 years and Canadian clients have been seeking exposure to global equity markets.

Lately, the North American structured products market has been growing fast, with increasing demand for new products and new underlyings. This new demand has to a large extent been driven by the growth and diversification of buy-side investors. Regarding market conditions, the uncertainty on the stock exchanges is leading to strong demand from investors to forego unlimited upside potential in exchange for lower risk and easily achievable returns. On the buy-side, broker-dealers, wealth managers, hedge funds, foundations and family offices have joined the traditional players as structured product buyers. In order to fill this new demand for structured products, the range of structured products available in North America has broadened significantly, both in terms of underlyings and pay-offs, while still focusing on transparency and simplicity.

In the US, investors tend to stick primarily with domestic underlying stocks and indices. Single US stock products are predominant among new issues, ahead of other US underlyings such as Dow Jones Industrial Average and S&P500 (which used to be the most popular underlyings two years ago) and well ahead of international indices. On the retail side, we have seen a large amount of growth products with maturities ranging from 1 to 8 years. Most of the long-dated products tend to be 100% principal protected, but contingent protection notes have gained in popularity – in large part due to better tax treatment (capital gains vs. ordinary income). Shorter-dated products tend to be non-principal protected, with reverse convertibles being popular for the 1-year maturity and double and triple appreciation notes popular for the 2-3 year maturities.

Since the US market is becoming more mature, structures marketed should become more exotic. We are beginning to see Galaxy pay-offs offering exposure to volatility and Triathlon products offering investors the opportunity to receive the most profitable asset allocation as well as the full benefit of a look-back option. We have also observed a notable number of global baskets used as underlyings in recent months.

After being mainly structured with equity underlyings, many US products are now linked to other asset classes. Growing demand for hedge fund- and commodity-linked structures can be observed in particular among high net worth individuals. As regards pay-offs, we think the current trend may continue and non-principal protected products will grow at a stronger pace than principal protected ones.

PRIVATE BANKING MARKET

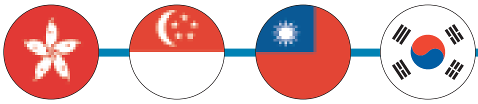
On the private banking side, investors are more willing to put principal at risk (once again to secure better tax treatment) and also to invest more globally, with the main interest being in Asian countries, led by Japan and China.

North America

Examples of successful product issues in **North America**

Network	One of the top five US investment banks	US bank- Retail/Private Banking	US bank- Retail/Private Banking
Product launch	November 2004	March 2004	December 2004
Size of deal	USD 77.3mn	USD 23.4mn	USD 6.5mn
Product name	Triple Appreciation Note	Quarterly Cliquet	Reverse Cliquet
Product type	European Call option	Cliquet	Twister Option
Product maturity	November 2005 (1 year)	March 2009 (5 years)	June 2006 (1.5 years)
Underlyings	S&P500 Index	HSCEI (Hang Seng China Enterprise Index)	S&P500 Index
Capital protection	No	100%	100%
Product description	Pays at maturity 3 times the Index appreciation up to 4.12% (i.e 12.36% in the best case) Clients have full downside exposure (1% loss for 1% decline)	Pays at maturity the sum of the quarterly performances of the Index with a global floor at 8% This appreciation is computed by locking each quarterly performance of the Index, subject to a cap at 7%	Pays, at maturity, a 20.25% coupon reduced by the S&P 500 Index's negative monthly performances
Reason for launching product	Due to low volatility, clients expected small increase in equity levels. Therefore, they were no longer interested in 100% capital protection products and were willing to get leverage		

Network	OpenSky Capital
Product launch	January 2005
Size of deal	N/A
Product name	Lock'n Pay – Series 1
Product type	Principal Protected Notes
Product maturity	8.5 years
Underlyings	Basket of 15 major global companies
Capital protection	100% if held to maturity
Product description	For CAD-denominated Notes: Guaranteed 8% coupon at the end of Y1 Then, one variable semi-annual coupon equal to average perf. of each share and floored at 0 After18 months, semi-annual coupons up to 4% (positive semi-annual perf. set as 4% and locked at this level for all subsequent calculations)
Reason for launching product	Targeting the moderately bullish investors seeking exposure to global markets
Comments	2nd and 3rd series issued in March 2005 and May 2005



Asia (ex Japan)

VOLUMES & KEY PLAYERS

Asia ex Japan saw significant increases in retail volumes in 2004. Total issuance amounted to $30bn in 2004, compared to a mere $22bn in 2003 (36% increase). Main issuers were BNP Paribas, UBS, JP Morgan, Société Générale, CSFB.

PRODUCTS & STRUCTURES

Asian markets have seen structured product investors moving towards more and more non principal-protected structures, increasingly short denominated. Another trend is towards coupon products that offer investors the opportunity to obtain an attractive guaranteed coupon over the first few years of the product's life in addition to an early redemption feature. While investors are willing to invest in non-principal protected structures, the maturities for these products are always shorter than for those offering 100% capital protection at maturity.

Since the beginning of 2005, Asia has remained one of the most innovation-driven markets in the world.

In addition to the trend towards short-term products observed in 2004, early redemption products are expected to sell. For 2005, the main trend should be increasing demand for hedge fund- and mutual fund-linked structures, combined with a best-of profile pay-off. The demand for commodity and hybrid underlyings should be steady compared to 2004, but non-principal protected notes are expected to keep on growing.

After being structured as funds in the last few years, most products are now structured as notes. As regards underlyings, the market is moving away from large baskets of global or Asian stocks in 2004 to baskets of fewer than 10 Asian (mainly Hong Kong) stocks.

Although Asian markets are still being driven by their largest player, Hong Kong, each of the 4 main Asian markets has its own specific features.

In Hong Kong, a large array of non-principal protected products has been launched in the retail market. Maturities typically range from 2 to 3 years, but an easily achievable target redemption feature that enables investors to shorten the length of their investment often accompanies the products. Still on the retail side, principal protected products have also been marketed but with longer maturities (from 5 to 10 years). All of the main retail products were coupon-type products with guaranteed attractive coupons over the first few years, with the Worst-Of pay-off being the most widely used. On the private banking side, products launched in Hong Kong and Singapore have been similar, with even shorter maturity coupon products (1/2 years) and products ranging from Best-Of to Worst-Of.

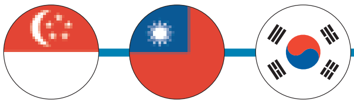
In Taiwan, an exclusively retail market, BNP Paribas' marketers observed increasing demand for principal protected products, with maturities of up to 10 years. In this specific market, long-term principal protected products combined with target redemption features appealed to Taiwanese investors, as well as very short-term (from 6 months to 2 years) non-principal protected products. Even though Worst-Of products are still popular, demand seems to be moving towards Best-Of structures. As far as underlyings are concerned, particular interest has been observed in real estate and mutual fund-linked pay-offs.

In the Korean market, which seems to be dominated by short-term investments, there has been strong demand from retail investors for non-principal protected products. The early redemption feature has increasingly been added on to these already short-term investments.

Hong Kong

Examples of successful product issues in **Hong Kong**

Network	Major retail banking network	Major retail banking network	Various
Product launch	November 2004	February 2005	January 2004
Size of deal	USD 50mn	USD 20mn	N/A
Product name	Target Redemption Note	Bull Opportunity Note	Knock-out Forward (Share Accumulator)
Product type	Deposit Note	Deposit Note	Deposit Note
Product maturity	3 years	2 years	1 year
Underlyings	Basket of 8 Hong Kong stocks	Basket of 6 Hong Kong stocks	Single underlying
Capital protection	No	No	
Product description	2 fixed coupons of 9% the first 2 quarters Then monthly coupon equal to 4.8% plus the performance of the worst stock in the basket (since inception) Target redemption when the cumulative coupon (including the 18% fixed coupons) reaches 22.8%	3 fixed coupons of 5% the first 3 quarters Then product is callable at issuer's discretion Early redemption amount equals 100% + bonus coupon to give a yield of 20% p.a. over the period If no early redemption, investor achieves the negative performance of the worst stock in the basket below 88% of initial value	Investor is long an OTC contract for a series of some 252 ITM forwards with UO barrier on the upside (Forward barrier monitoring period ending on a different trading day throughout the 1-Year tenor of contract) Assuming the UO barrier is not yet breached, the investor will lock in his right to purchase, at a discount to the initial spot price, a certain number of shares that correspond to that one series of forward Forwards that are locked in are settled on a monthly basis Early redemption feature
Advertising	Print media	Print media	Print media
Reason for launching product	Early termination	High guaranteed coupon amounts	Accumulation of the stock at a discounted value
Comments	First ever Target Redemption product sold in Hong Kong with monthly coupon payment and therefore possibility to get out as soon as 9 months after launch date	First ever basket linked discretionary call yield enhancement product sold in Hong Kong	Product first traded in the summer of 2003 and since then growing with the strongest growth happening in 2004



Singapore, Taiwan, Korea

Examples of successful product issues in **Singapore, Taiwan and Korea**

Network	Various	Major trust bank	Various licensed securities companies
Product launch	February 2004	December 2004 / January 2004	March 2005
Size of deal	N/A	Over USD 90mn	USD 20mn
Product name	Tandem Bull ELN	Platinum Note Series 1-3	Modified VENUS- daily close-to-close monitoring Trigger event added
Product type	Note	Structured Notes	Equity Linked Securities
Product maturity	2 years	6-10 years	3 years
Underlyings	Basket of 2-3 stocks	A equally-weighted basket of a CTA and a Fund of Funds	Korea Stock Basket (2 stocks)
Capital protection	No	100%+6-10%	
Product description	Quarterly coupons 1 fixed coupon Maximum of 7 coupons (subject to early termination) based on the multistock daily range accrual Early termination at par if all stocks in the basket close at or above 90% of initial at the end of any quarter; otherwise, the perf. of the worst stock is payable at maturity	Guaranteed coupon in year 1 Potential return at maturity based on an ODB on the fund portfolio of Campbell CTA and Olympia Fund of Funds	One more Trigger event is added to the normal Venus structure, which is happened when worst performer has hit its another Trigger level (usually 115%) on daily close-to-close basis Denominated in KRW and settled in USD
Reason for launching product	Fixed coupon	The funds demonstrated double digit returns in the past 10 years	More chance to terminate early compared to Venus
Comments	Huge volume traded in 2004, essentially moving diverting interest from the vanilla ELNs to this type of product especially among the HNW clients	After BNPP launched such a product successfully in the Taiwan market, other competitors started proposing similar products to Taiwan	More demand than supply in Korea for this product due to trading limit of each derivatives house

Japan

VOLUMES & KEY PLAYERS

Today, Nikkei-linked products sold through bank networks represent a market of more than ¥1tn, and we estimate that the bulk of cancellable products sold by security houses (i.e. cancellable reverse convertibles MTNs through private placements) is about ¥500bn. On the other side of the fence, non-yen capital-guaranteed products sold by both banks and security houses on the domestic market in 2004 totalled roughly 200bn ¥-equivalent. We therefore have an overall market of roughly ¥1,700bn (€12.5bn).

Japan's specifics in terms of its market players remain the same: a market dominated by banks and somewhat shared with powerful security houses, leaving little room for an embryonic private banking sector. The largest distributors are mainly the so-called mega-banks: Mizuho Bank, Bank of Tokyo-Mitsubishi - which is to merge with UFJ Bank - SMBC and Resona Bank. On the security houses side, the bigger names are Daiwa Sec., Nikko Cordial Sec., Mitsubishi Sec., Shinko Sec, UFJ Tsubasa, with the biggest security house (Nomura) being much less active in the structured products field than its medium-sized counterparts.

PRODUCTS & STRUCTURES

Low volatility led to a decline in the popularity of Down-and-In-Put products, which were gradually replaced by multi-callable structures with partial capital protection.

Maturities usually range from 3 months to 5 years, although they are generally over 3 years for classic multi-callable structures and can reach up to12 years for complex products (especially fund-linked).

As regards underlyings, most products are still linked to the Nikkei 225 and to a lesser extent to single stocks, while baskets of stocks remain deeply unpopular in Japan. However, the sale of hedge fund-linked products in 2004 reflects growing interest from Japanese investors in innovative underlyings. Commodity-linked products and other kinds of hybrids, as well as Chinese/Indian index-linked products, are also working their way up in the world of Japanese structured products.

Consistently low interest rates continue to be an obstacle for structuring short- or medium-term capital guarantee products, forcing retailers to either curtail returns or switch to longer tenors. Another alternative to the interest rate issue is to use non-yen denominated products (particularly USD and AUD).

PRIVATE BANKING MARKET

In the emerging world of Japanese private banks, some entities are starting to break through, as in the case of the joint-venture between Tokyo-Mitsubishi Bank and Merrill Lynch. Other banks, such as Mizuho Bank, are planning to create their own subsidiaries dedicated to the private banking business. Still, for most Japanese high-net worth individuals, foreign private banks are the name of the game.

Product-wise, Japanese private bankers tend to be more interested in exotic underlyings, such as hedge fund index-linked products which cater to their need for asset diversification, than their retail counterparts.

Japan

Examples of successful product issues in **Japan**

Network	Tokyo Mitsubishi Bank	Resona Bank
Product launch	August 2004	September 2006
Size of deal	JPY 28bn	JPY 2bn
Product name	Double & Berry	Sakura Tsuki sai-no-kuni-hen
Product type	Domestic fund wrapping	Domestic Fund wrapping
Product maturity	3 years (Redeemable quarterly after 1 year)	2 years
Underlyings	Nikkei 225	16 stocks related to Saitama regional area
Capital protection	N/A	90%
Product description	5.5% p.a. dividends payable for initial year, then 1.0% p.a for the rest Redeemable after one year if Nikkei225 is higher than the trigger set at 100% of initial Nikkei level. Quarterly triggers are stepping down to 80% towards maturity. Tracker fund will be delivered at maturity	Modified 'Cappuccino' with no dividend. The fund is redeemed at max.113.6% and min. 90% linked to each underlying performance at maturity
Advertising	No	No
Reason for launching product	Very high dividends compare to interest on term deposit. Reasonable chance for principal back after one year	Targeted to Saitama regional area where the bank's main retail network exists
Comments	One of popular products for bank retail network	The first modified Cappuccino products in Japan. Sales were limited

Network	N/A
Product launch	January 2005
Size of deal	USD 5mn
Product name	Hybrid Rainbow
Product type	MTN Note (private placement)
Product maturity	5 years
Underlyings	Nikkei 225, WTI, JPY 10Y CMS compounding
Capital protection	100%
Product description	Final Redemption Price is linked to the yearly average performance of the portfolio composed of Nikkei 225, WTI and JPY 10Y CMS Compounding The weight of portfolio is fixed on Maturity according to the performance of Underlyings. The best is 50%, the second is 30% and the third is 20%
Advertising	The basket comprising stock, commodity and interest rate appealed to the client
Comments	WTI price has jumped 20% after the closing

Conclusion

One of the main trends in investor demand in recent months has clearly been the **search for yield.** Frustrated by modest showings from the equity markets compared to other asset classes and penalising low interest rate levels, structured product investors have increasingly been looking for new solutions among a variety of assets such as commodities, hedge funds and real estate.

Furthermore, throughout 2004 and into 2005, **investors were keen to take more risk** and opted for products that do not offer full principal protection. Hence the popularity across the board in Europe and Asia, as well as in the up-and-coming North American markets, of reverse convertibles, Athena-type options and structures with partial capital protection.

In addition, an array of **specific needs emerged on the market,** leading to increasingly segmented approaches to investment. A typical example is that of Islamic investors requesting Sharia-compliant structured products. Also, private banks continued differentiating their needs from those of retail investors, with more of a focus on sophisticated payoffs, short-term products, auto-callables, hybrids and capital-at-risk structures.

New Areas for Innovation

Product developers certainly reacted to these trends and also adapted their offerings to a challenging low interest rate/low volatility market environment that was unfavourable for creating high-yielding payoffs.

Pure **non-equity linked structures** sold well, with a strong emphasis on **commodity products** linked to booming energy (especially oil) and base metals markets. Although ever-more present on the private banking front and on some retail markets like the UK, commodities are still lagging as underlyings for structured products in some countries such as France which maintain a very traditional equity/fixed-income bias. **Real estate and hybrids** took their share of this trend, reflecting the stronger investor appetite for these asset classes. Hedge funds, though, have lost ground owing to disappointing performance.

Innovation was therefore more evident in the underlyings than in the payoffs. In addition to alternative asset classes, emerging market stock indices such as BRIC, CECE EUR became more popular over the months. Even as far as more traditional stock basket underlyings are concerned, **stock selection** became more careful, focusing on fundamental criteria such as dividend yields, valuations and analyst recommendations.

Manufacturers also worked their way out of mainstream products into specific, segmented issues; hence the recent industrialisation to some extent of Sharia products. Tailored baskets and risk-profiled investments were also part of this trend. In addition, part of the basket optimisation process often involved active management of the underlyings.

Finally, with investor sentiment leaning towards greater risk appetite, products offering **partial protection** made their way to the top of the charts.

Cross-Border Distribution with a more Client-Driven Approach

Distributors are increasingly going global, or at least regional. For example, European distributors have been launching more and more cross-border product issues. Often using third -party distributors, many structured product institutions are making significant inroads outside of their domestic markets and into wider Europe. This can even be a means of penetrating new regions such as Eastern Europe, where major Western networks are massively passporting products.

Meanwhile, European banks are increasingly adopting open architectures whereby they sell a variety of externally manufactured products in addition to their own funds to clients who cannot be fully serviced in-house. Distributors have taken advantage of this model to increase the quality of distribution through partnerships with the product dealers. Cost-sharing and joint marketing efforts have often resulted in better profitability and scale effects in distribution.

The new landscape for retail and private banking markets will present opportunities both for the mass distribution of products for all investors and for more segmented issues targeted at narrow investor segments. Some distributors have already implemented successful large (global) issues that adapt to local jurisdictions, currencies and investor styles, and are looking to do so with an even more client-driven focus.

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Glossary

We summarise below the most common structured products currently marketed to retail customers.

Capital-protected products

Altiplano Works like a Comet

Ariane On maturity this product pays a coupon linked to the number of basket assets crossing a lower barrier during a given period. The higher the number of assets that touch the lower barrier, the lower the coupon. The underlying is typically a basket of diversified equities.

Ariane Range The coupon's value is a function of the number of basket assets crossing either a lower or a higher barrier.

Arlequin Pays at maturity the performance of an out of the money vanilla call.

Best of On maturity this product delivers the maximum return of either a fixed coupon or the performance of an option. There is no standard underlying for this type of option.

Best of Profile Delivers on maturity the best return among several underlyings. These underlyings are usually stock indexes or funds.

Asian Best Of Asian Call for which only the better of the two most recent performances is taken into account at each observation date to calculate the average.

Asian Call On maturity pays out the performance of the underlying, calculated as the arithmetic mean of the performance recorded at different dates in the option's life.

Cappucino Works like a cliquet call where the periodic performance is a digital pay-off provided that the underlying asset shows a positive return. If not the case, it is the real periodic performance that is taken into account.

Captibasket On maturity pays out the performance of a basket of assets. An upper barrier is applied to each of these assets individually over the life of the option. The final quoted price applicable to the assets exceeding the upper barrier is the same as the upper barrier threshold. The underlying is typically a basket of diversified stocks.

Captibonus Works like a Captibasket, the difference being that each asset is the underlying of an up-and-out call with a rebate. The underlying is typically a basket of stocks.

Climber Ladder with barriers applied to the underlying basket's components individually. The option's performance is generally capped at the level of the highest barrier.

Cliquet Call On maturity delivers the aggregate plain vanilla performances in each period of an underlying. There are two variants.

Comet On maturity this product pays a coupon or the performance of an underlying basket, depending on whether or not one or more of the basket assets crosses a lower barrier. The underlying is typically a basket of diversified stocks.

Coupon Comet Snowball Pays a coupon in each period provided none of the basket assets crosses a lower barrier during the period. However, a low-value coupon can nevertheless be paid if the barrier is breached. The underlying is typically a basket of diversified equities. The Snowball feature means that the unpaid coupons at the end of each period are retained, aggregated, and paid once payment conditions are fulfilled.

Digital Call On maturity this product pays a coupon provided that during the life of the option the underlying crosses a barrier determined at the start of the operation.

Dragster Capped cliquet for which the performance retained at maturity corresponds to the highest accumulation of the periodic performances. There is no typical underlying for this option.

Driver At maturity, pays out the performance of a cliquet option, where the X best performances recorded of all the underlyings are arbitrarily capped. The underlying is typically a stock basket.

Coupon Driver Driver that pays regular coupons.

Everest On maturity, pays a coupon augmented by the worst performance of the basket's various assets. The underlying is typically a basket of diversified equities.

Everest Binary Everest that pays a coupon at maturity provided all the basket's assets trade higher than a price limit set before the transaction.

Galaxy On maturity pays out the lowest absolute performance of a basket of assets over the life of the product. The underlying is typically a basket of diversified stocks.

Himalaya Pays out the performance of a basket on maturity. The performance is the arithmetic mean of the single best or several best performances of the basket's component assets at the end of each period. The selected best-performing asset or assets are permanently removed from the basket at the end of each period. The underlying is usually a basket of sector indices or diversified shares.

Himalaya Cumulative Himalaya with Asian as opposed to plain vanilla performances used for calculation purposes.

Ladder On maturity delivers the higher of the two returns between an underlying's performance at the maturity date and the value of the highest barrier exceeded by the underlying during the option's life.

Pyramid Ladder The underlying asset(s) performance(s) is averaged similarly to an Asian pay-off.

Lookback On maturity pays out the best performance of the underlying during the life of the option. The option is usually based on a single underlying.

Napoleon Pays a coupon in each period augmented by the worst performance of the underlying in different sub-periods. The underlying is typically a single index. Coupons can be paid at each period-end or aggregated and paid at maturity.

Podium Pays a coupon in each period, provided a sufficient number of basket assets are trading above their initial prices at the end of the period. The number of assets that must trade above their initial value increases from one period to the next, as does the coupon value. Coupons payable at different periods are paid together on maturity.

Predator Cappuccino for which the underlying's periodic performance is definitively set as soon as it becomes positive.

Profiler Works like a Best Of Profile.

Rainbow On maturity pays out the performance of a basket whose best-performing assets at maturity are overweighted. The underlying is typically a basket of sector or regional indices.

Range Accrual On maturity pays a coupon proportional to the number of days that the underlying remains in a predetermined zone. The underlying is typically a single asset.

Samurai On maturity pays out the performance of a basket, with any assets having fallen below a predetermined level at any time during the option's life locked in at that level. Otherwise, each asset's performance is registered at its actual value, which is nonetheless floored and capped.

Sherpa Works like a Worst Of Floored Coupon.

Starlight The option is eliminated if an upper barrier is exceeded at the end of each period, with the investor receiving a coupon equivalent in value to the barrier. Otherwise, the investor receives the performance of a plain vanilla call option at maturity. The underlying is typically a basket of indices.

Stellar At the end of each period it pays the yield to date of a vanilla option on a basket of assets capped individually. The underlying is typically a basket of stocks.

Stretch Pays out a periodic fixed coupon less the underlying's best absolute performance during the different sub-periods. The underlying is typically an index.

Super Asian Asian call for which the performance of the underlying at each observation date is retained only if positive.

Triathlon Pays the best Asian performance among 3 portfolios. Each portfolio is divided into units, the number of which corresponds to the number of observation dates. At each observation date, the best-performing unit for each portfolio is permanently removed and its performance since inception retained to compute the average performance of the portfolio. At maturity Triathlon pays the best performance among the 3 portfolios. Portfolios are usually a combination of distinct asset classes, with each asset class to be found in each portfolio but in varying proportions.

Twister On maturity pays a coupon minus the sum of the negative performances of the underlying assets over the different periods of the option's life. The underlying can either be an index or a single stock.

Two Chances Ariane Range with 1 additional range, wider, but that gives right to a smaller coupon.

Variable Local Cap Locally capped and floored cliquet with any negative periodic performances retained used to raise the level of the cap for the following period. There is no typical underlying for this option.

Wedding Cake Ariane Range with X additional wider ranges. The wider the range, the lower the coupon value.

Worst Of Works like an Everest.

Worst Of Floored Coupon Worst Of that pays a coupon at the end of each period ranging from, at least, the value of the prior period's coupon and, at most, a share in the worse performing of the basket's assets. The first coupon's value is set arbitrarily.

Non-capital-guaranteed products

Airbag Like an Athena structure to which is added a Call Spread structured so that at maturity the investor earns money even if the underlying records a loss over the investment period. The initial capital is only at risk if the underlying falls below a certain minimum under its initial value.

Athena Like a Reverse Convertible but has one additional characteristic: the contract expires prematurely if the underlying produces a positive performance between the start of the contract and the end of any period. In these cases, the owner of the structure is paid a compensatory coupon proportional to the number of expired periods.

Bonus Certificate Reverse Convertible based on a down-and-in put that at maturity pays the maximum between a predetermined coupon and the performance of the underlying provided the put barrier has never been breached. Otherwise, the investor is paid the stock performance.

Certificate+ Works like a Bonus Certificate.

Reverse Convertible
1. **Income Type** The investor sells a plain vanilla put option and therefore receives a premium in the form of a coupon. The coupon can be paid in several installments or in full at maturity.
2. **Growth Type** The premium resulting from the put sale is used to finance a high participation rate in a call option.

Venus Similar to the Athena Option but based on a basket of stocks.

Miscellaneous

Gap Note Pays, in addition to guaranteed coupons, a high coupon provided the underlying falls by 20% within 1 day. The underlying is usually an equity index.

Hybrids Derivatives based on distinct asset classes, such as interest rates, currencies, gold or commodity prices and inflation, along with equities.

Callable The option seller has the right to cancel the option during its lifetime subject to paying the holder compensation. The cancellation dates and compensation are predetermined. This feature can be applied to any type of option.

CPPI CPPI stands for Constant Proportion Portfolio Insurance. It is a fund that gathers risky assets (called 'underlying') and risk-free assets (called 'reserve account'). The principle consists of increasing the proportion of risky assets in the portfolio when the portfolio value moves away from the floor (floor = minimum NAV allowed) and, conversely, reducing this proportion when the portfolio value moves toward the floor.

Many variants exist, among which **CPPI Lookback:** the floor value grows as the fund's NAV increases.

ODB ODB stands for Option on Dynamic Basket. The underlying dynamic basket works as a CPPI, the difference being that the basket is never fully invested in risk free assets, whatever its NAV.

Steepener Fixed-income structure that plays the yield differences between two maturities of the underlying interest rate curve.

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