

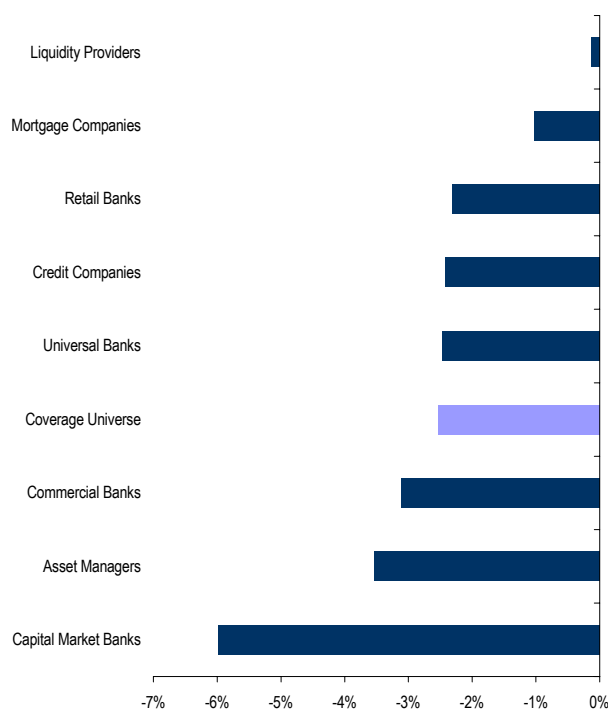
EUROPEAN BANKS & SPECIALITY FINANCE WEEKLY TRADING NOTES

Silvia Benzi
Tony Cummings
Haley Tam
Mamoun Tazi

SECTOR STANCE: MARKET WEIGHT

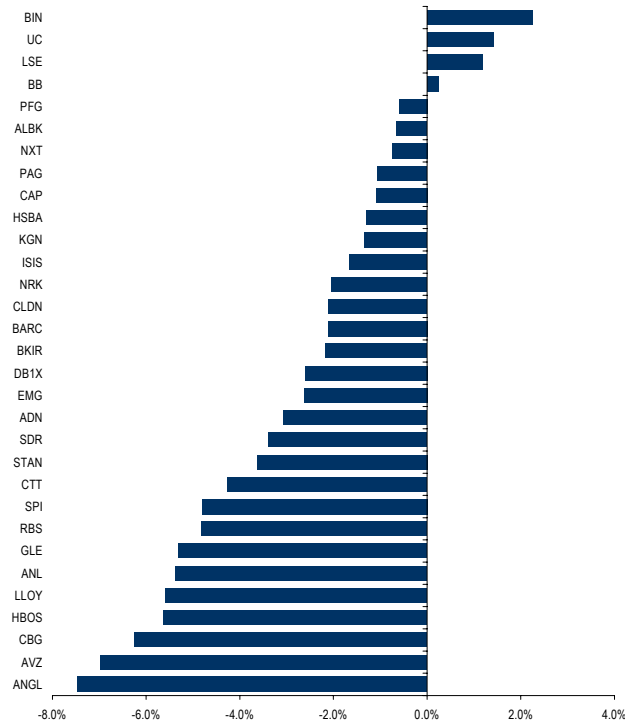
FRIDAY MARCH 12
FOR THE WEEK ENDING MARCH 19, 2004

Weekly Sector Performances



Source: Telerate
For aggregations please refer to "Index Constituents" table below.

Weekly Stock Performances



Source: Telerate

Action Points

- Increased market volatility has historically presaged increased derivative market activity. Buy Deutsche Börse (Eurex volumes) and Euronext (Euronext.LIFFE volumes) for leveraged plays on rising volatility.
- Overweight the sub-10x 2004 PER banks – Barclays, Royal Bank of Scotland and Bank of Ireland – on quality and relative value grounds in nervous markets.
- Switch into Cattles from Provident Financial on relative performance and valuation arguments.

Bear Stearns does and seeks to do business with companies covered in its research reports. As a result investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please read the important disclosure and certification information at the end of this report.

BEAR, STEARNS INTERNATIONAL LIMITED, ONE CANADA SQUARE, LONDON E14 5AD
Regulated by the Financial Services Authority

The Week Ahead / Catalysts

Unicredito: Full year results – Friday 12th Mar

Unicredito will report 4Q03 numbers on Friday 12 March after the market close. The CEO Mr. Profumo will host a presentation in Milan on Monday 15 March at 10.30am CET time and a presentation in London on 16 March at 9.30am.

We expect Unicredito to report a solid set of numbers in 4Q03. We forecast net profit of €1.95bn for the full year 2003 (€367m in 4Q) after adjusting our estimates for the write-off of the €160mn Parmalat exposure, which we forecast at 80% of the total. The consensus range is quite narrow (€1.8-2.0bn for FY03) and we regard this as a sign of limited risk of earnings disappointment.

We expect 2003 DPS to increase by 30% to €0.2 (consensus €0.19) - an attractive 4.6% yield. Management already announced it will increase the payout ratio from the current level of 55% to 65%. We believe such a ratio will be sustainable going forward, as Unicredito boasts a 7.1% Core Tier-1 Ratio and high internal capital generation. This would translate into a 5% yield on 04E and 6% on 05E.

In our view, the outlook for 2004 and management guidance on future earnings growth will be key for the stock price performance. We fear that the company will find it hard to grow more than in single-digits: the tough economic environment will challenge top-line growth and the company cannot significantly leverage on cost control given its organic growth strategy (which requires major investments).

Unicredito: Share repurchase?

On Thursday, Reuters carried an unsubstantiated report that UCI could announce a share buy-back together with its 4Q results on Friday after the market close.

According to our numbers, UCI had a Tier-1 ratio of 7.7% at end-2003 (Core Tier-1 of 7.1%), in line with the other European banks (7.5% to 9%). According to Reuters, UCI might buy back up to EUR 1.5bn of shares, equal to 5.5% of the shares outstanding; this would bring the group's Tier-1 ratio to 6.7% and the Core Tier-1 ratio to 6% on our calculations. In our opinion, these ratios would be low for a bank with aggressive RWA growth plans and 10% of total assets invested in the CEE region.

Nevertheless, a share buy-back might be positive for the stock near-term. If shares bought back were to be cancelled, this could support EPS; improving Unicredito's relative PE valuation.

Medium term, a share buy-back would be less comforting, since Unicredito's 2003-06E business plan is based on organic growth largely driven by market share gains. As the bank does not seem to have obvious excess capital, we believe that in the medium term a share buy-back could signal an absence of strong future growth opportunities, and raise doubts on the feasibility of its targets.

Euronext: Q4 / Full year results – Friday 19th Mar

Euronext is to release final 2003 results on Friday March 19, 2004. We forecast a full year 03 EBIT of €275m, Adj. EPS of €1.48 and dividend of €0.50. Euronext has already disclosed revenues of €991m, therefore the focus will be on costs (est. €716m versus €759 in 2002), and more importantly, on 2004 guidance, which we believe could be upgraded (previous guidance: revenue of €880m, EBIT margin of 27% implying an EBIT of €238m).

We recommend buying ahead of these results, based on the potential for: (1) increased 2004 guidance and, 2) the return of some of the company's cash (c€300m) to shareholders via a tax efficient method.

Trading Ideas

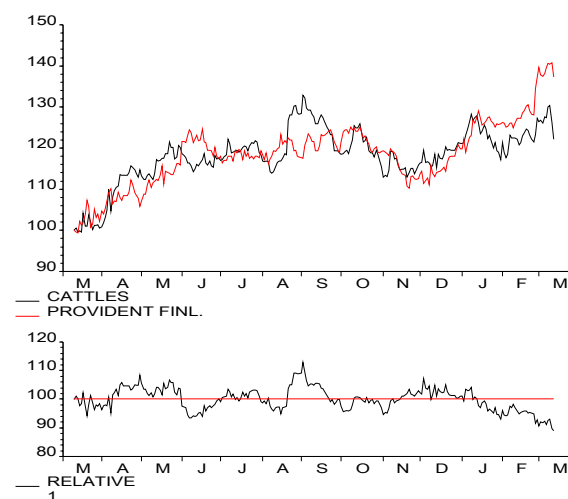
Cattles: Relative Performance Trade

Whilst reiterating our view that Cattles and Provident Financial are now very different sub-prime consumer credit businesses, the market continues to view the two as "twin stocks". In addition to our fundamental preference for Cattles (Outperform rating) over Provident (Underperform rating), we highlight (i) the decoupling of price performance since the beginning of the year (below), and (ii) the emergence of a rating differential – Cattles now trades on a 6% PER discount based on our 2004 estimates and a 14% discount on 2005 estimates.

Aberdeen Asset Management: Take Profit on API Sale

Trade press (Property Week) has speculated that Arlington Securities is currently negotiating the purchase of the UK and European segment of Aberdeen Property Investors from Aberdeen Asset Management (AAM). Essentially, the businesses to be sold are Barclays Property Investors, which AAM purchased for £23.3m in October 1999, and RREEF, purchased for £7.8m in April 2001.

Whilst the sale of these businesses will provide additional relief to AAM's balance sheet, allowing the retirement of some of the group's debt, it further reduces the earnings base of the company. The shares have gained 36% over the past 6 months alongside other asset managers in recovering markets. We would recommend taking profit on strength following confirmation of the sale.

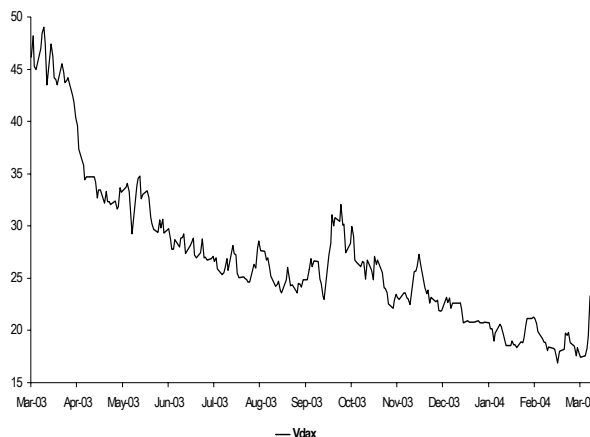


Trading Ideas cont.

Euronext / Deutsche Börse: Leveraged to Rising Volatility

We would look to overweight those exchanges exposed to derivatives trading in the current choppy market environment.

The VDAX volatility index shot up by 33% from 05/03 to 11/03 to 23.29. We believe that this increase in volatility could lead to an increase in both cash and more importantly derivatives trading volumes. NXT and DB1 have large equity derivatives businesses that could see a pick up in equity and index options trading volumes. In addition, these two exchanges have relatively low betas (NXT:0.74, DB1:0.58; source: Bloomberg), which means that they are defensive stocks in a volatile/bear market.



The Week in Review – Highlights

Cattles: Full year results – 11th Mar

Pre-tax, pre-goodwill profit of £122.7m beat our expectation of £118.4m and was 28% up on 2002. EPS of 26.4p was ahead of our 26.0p expectation and up 17% yoy. EPS growth lagged PBT growth due to the dilutive effects of shares issued in October 2002 and the increase in the tax rate from 28.8% to 30.6%. Excluding the effect of the acquisitions made in October 2002 (Associates and Dial4aLoan), pre-tax, pre-goodwill profit increased by 22.6%.

Cattles appears on track to achieve its 5-year (2002-2007) strategic goals, which we believe imply earnings growth of around 17% pa over the period. Concerns over rising interest rates are overdone, in our view. Fully 80% of Cattles' £982m funding is at fixed or hedged rates, and we believe Cattles' customers are more sensitive to rising unemployment than to rising interest rates. The fundamentals underlying the business remain sound, and the decline in returns on receivables seen from 2000 to 2002 (as management shifted the mix away from home collected credit towards direct-repayment) has been arrested and the outlook is for marginal improvement from here, in our view. Volume growth remains strong, with the number of key (active) introducers increasing by 14% in 2003, and the full benefits of Welcome Car Finance expected to come through this year and in 2005.

The shares are trading on 11.9x 2004 EPS and 10.1x 2005 EPS; this is inexpensive on a PEG basis, in our view, given our forecast EPS growth of 15% in 2004 and 18% in 2005.

Banca Intesa: Full year results – Monday 8th Mar

Intesa reported an uneventful set of results. With operating profit bang in line with our (and consensus) expectations, the bottom line 16% below management's targets and a weaker-than-expected top-line growth, we do not see these results as a potential catalyst for a re-rating of the stock. We confirm our Peer Perform rating.

We have cut our EPS estimates by an average 4% for 2004 and 2005 to €0.24 and €0.28 respectively to reflect a tougher outlook for revenues growth and a slightly increasing credit cost. As a result of our earnings revision, we have also reduced our 2004E SOP price target to €3.35, which gives 15% potential upside to yesterday's closing price, in line with the upside offered by our banking universe.

We were disappointed by 4Q top-line, 3% below expectations. With decelerating cross-selling momentum and the bulk of re-pricing almost over, the outlook for 2004 top-line growth remains tough.

Overall, these results did not provide enough comfort on the group's revenue growth, the key driver of EPS growth in 2004-05; the revenue line is the key driver of our EPS revision.

On the more positive side, Intesa's 2003 total dividend to ordinary shareholders increased from €0.063 to €0.204 - €0.049 in cash and €0.155 through a distribution of its 319mn treasury shares (2 shares every 41 ordinary/saving shares held), which brings the yield close to 7%. Going forward we see a 40% cash pay-out ratio as sustainable, a 3.0% yield on 2004E.

Intesa trades at 12.1x and 10.1x adjusted PEs for 2004-05, respectively, broadly in line with its European peers. We see better value in Sanpaolo, which enjoys stronger revenues growth (5% in 2003-05E versus 3% for Intesa); alternatively, we would prefer Unicredito (Peer Perform) over Intesa, given its more diversified revenue mix and better risk-reward trade-off.

Lloyds TSB: Full year results – 8th Mar

The full year results were broadly in line with expectations. Pre-tax profit excluding changes in economic assumptions, investment variance and profit on sale was £3,380m (BS est. £3,401m), down 4% from 2002. EPS on the same basis were 41.5p, down 6%. The final dividend was 23.5p, giving a maintained 34.2p full year dividend. Ex div date is 17 March.

Despite minor adjustments to our forecasts, we maintain our Underperform rating and 420p price target. At the time of the NBNZ disposal, Lloyds flagged a possible share buy back programme. It has decided not to undertake one, but is keeping all options for the utilisation of capital under review. It has also said it is maintaining flexibility to make value enhancing in-market acquisitions, and cites recent credit card and asset finance acquisitions as examples.

Lack of buy backs means no offset to earnings dilutive disposals in 2003, i.e. a maintained £m dividend commitment in 2004 despite a lower earnings base. As a result, the dividend burden on internal capital generation and hence RWA growth remains.

Lloyds continues to be challenged at the income growth level in our view, and management must deliver conclusive signs of turnaround this year (leading to earnings upgrades by analysts) in order for the stock not to look expensive in a year's time. At 431p the shares are trading at 10.9x 2004E EPS; we continue to prefer stocks that offer better forecast earnings growth, such as RBS and Barclays

The Week in Review – Highlights cont.

Close Brothers: Target Raised to 975p – Thursday 11th Mar

Last week's interim results were well ahead of expectations, delivering 44% cash-EPS growth based upon continued solid growth in profits from the group's core banking / specialist lending division, and strong recovery in profits from the market-sensitive investment banking businesses. These results reinforce our view that Close offers one of the best growth profiles within our coverage universe.

We forecast 26% compound annual earnings growth over the three years to July 2006, driven by a more than doubling of profits from market-making between 2003 and 2005, and a trebling of profit from asset management by 2006. Throughout the period, the group's non-market sensitive Banking division should continue to deliver steady, 10%-plus growth in its profit contribution.

Reflecting this steadier earnings growth from the more capital-intensive lending activities, we forecast surplus capital generation totalling more than £160m by end-July 2006 (13% of the group's current market value), allowing Close to self-fund in-fill acquisitions if appropriate.

Despite the superior growth outlook, the shares continue to trade on modest prospective earnings multiples. According to our revised estimates, the shares trade on 14.2x July 2004E earnings and 11.6x July 2005E. Based upon divisional sum-of-the parts and discounted cash flow analysis, we raise our end-2004 price target from 900p to 975p and reiterate our Outperform rating.

Valuation Statistics

	Reuters Ticker	Rating	Price	Shares (m)	Mkt cap (m)	2003E	PER 2004E	2005E	Yield 2003	2004E	2005E
Commercial Banks											
Anglo Irish Bank	ANGL.L	OP	EUR 13.00	327	EUR 4,262	16.3	12.6	11.1	1.4%	1.7%	2.0%
Barclays	BARC.L	OP	£4.86	6,651	£31,842	11.0	9.8	8.8	4.1%	4.5%	5.1%
Close Brothers Group	CBG.L	OP	£8.10	144	£1,164	18.0	13.7	11.4	3.0%	3.1%	3.4%
Royal Bank of Scotland Group	RBS.L	OP	£16.79	2,952	£49,603	11.1	9.8	8.8	2.9%	3.3%	4.0%
Societe Generale	SOGN.PA	PP	EUR 68.70	438	EUR 30,068	13.0	11.3	10.0	3.5%	4.1%	0.0%
Retail Banks											
Abbey National	ANL.L	UP	£4.58	1,462	£6,690	11.4	12.2	11.1	5.2%	5.2%	5.7%
Banca Intesa	BIN.MI	PP	EUR 2.94	6,849	EUR 17,392	18.2	12.1	10.1	2.0%	2.2%	3.2%
Capitalia	BRM.MI	UP	EUR 2.26	2,207	EUR 4,988	32.3	12.6	9.8	0.0%	1.3%	2.2%
HBOS	HBOS.L	PP	£7.21	3,781	£27,771	11.2	10.2	9.4	4.0%	4.2%	4.7%
Lloyds TSB Group	LLOY.L	UP	£4.31	5,589	£24,083	9.8	10.9	10.2	7.6%	7.6%	7.9%
San Paolo IMI	SPI.MI	OP	EUR 10.10	1,837	EUR 14,633	16.7	14.0	11.2	3.3%	4.3%	5.6%
Unicredito Italiano	CRDI.MI	PP	EUR 4.28	6,296	EUR 26,941	12.1	11.0	9.6	4.7%	5.2%	6.0%
Mortgage Companies											
Bradford and Bingley	BB.L	UP	£3.08	648	£1,986	10.8	10.7	10.1	5.3%	5.5%	5.7%
Kensington Group	KGN.L	OP	£4.80	55	£251	10.3	7.4	7.2	2.1%	3.1%	3.3%
Northern Rock	NRK.L	UP	£7.69	421	£3,239	11.8	10.9	10.0	3.0%	3.4%	4.0%
Paragon Group of Companies	PAG.L	PP	£3.73	118	£445	9.9	8.5	7.8	1.9%	2.9%	3.6%
Universal Banks											
Allied Irish Banks	ALBK.L	PP	EUR 12.11	861	EUR 10,244	10.4	10.0	9.2	4.4%	4.8%	5.4%
Bank of Ireland	BKIR.L	PP	EUR 10.39	327	EUR 10,048	10.4	9.8	8.8	3.6%	3.8%	4.3%
HSBC	HSBA.L	OP	£8.41	10,410	£93,298	16.8	14.9	13.7	4.0%	4.4%	4.9%
Standard Chartered	STAN.L	OP	£9.29	1,171	£10,881	19.2	17.8	16.5	3.5%	3.8%	4.0%
Credit Companies											
Cattles	CTT.L	OP	£3.37	327	£1,105	13.9	11.9	10.1	3.3%	3.8%	4.8%
Provident Financial	PFG.L	UP	£7.45	246	£1,918	13.2	12.7	11.8	4.3%	4.5%	4.9%
Asset Managers											
Aberdeen Asset Management	ADN.L	PP	£0.95	235	£168	55.9	20.9	8.2	4.1%	4.1%	4.2%
AMVESCAP	AVZ.L	OP	£4.16	811	£3,336	19.6	14.8	13.2	2.5%	2.7%	3.2%
ISIS Asset Management	ISIS.L	PP	£2.38	150	£357	20.1	17.3	12.7	4.6%	4.6%	4.6%
Man Group	EMG.L	UP	£15.91	307	£4,939	17.2	15.8	15.2	1.7%	2.0%	2.3%
Schroders	SDR.L	UP	£7.00	295	£1,582	32.9	25.3	19.3	2.5%	2.5%	2.6%
Liquidity Providers											
Deutsche Boerse	DB1Gn.DE	OP	EUR 46.26	112	EUR 5,172	16.5	15.7	11.9	1.2%	1.2%	1.3%
Euronext	ENXT.PA	OP	EUR 22.38	122	EUR 2,733	15.6	14.3	12.2	2.2%	2.4%	2.7%
London Stock Exchange	LSE.L	PP	£3.61	297	£1,072	18.2	16.1	13.5	1.2%	1.3%	1.4%

Priced as of close on 11 March 2004.

Source: Company data; Bear, Stearns International Limited estimates.

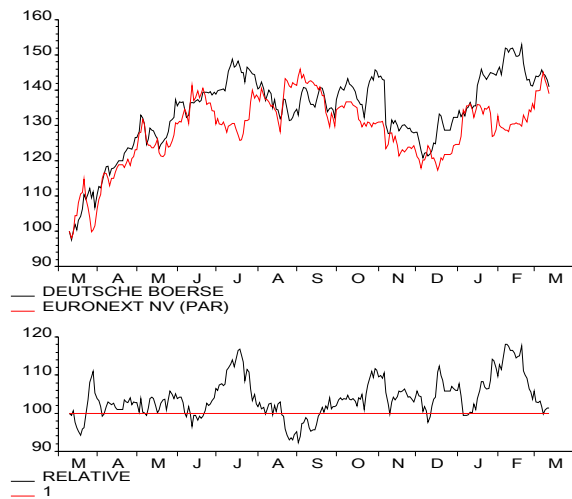
Index Constituents

Stock	MT Code*	Curr	Price	Shares	Mkt cap	Beta	1m%ch	3m%ch	6m%ch
Capital Market Banks									
Credit Suisse Group	ch;csq.n	CHF	46.30	1,190	55,113	1.67	-1%	4%	2%
Deutsche Bank	de;dbkx.n	EUR	69.70	582	40,556	1.12	3%	12%	21%
UBS	ch;ubs.n	CHF	93.35	1,182	110,372	1.19	-3%	11%	22%
Commercial Banks									
Anglo Irish Bank	gb;angl	EUR	13.00	328	4,262	0.54	0%	8%	38%
Barclays	gb;barc	GBP	486	6,552	31,842	1.46	-2%	1%	0%
BNP Paribas	fr;bnp	EUR	48.80	904	44,096	1.32	-5%	0%	9%
Close Brothers Group	gb;cbg	GBP	810	144	1,164	0.61	-3%	17%	6%
Credit Agricole SA	fr;aca	EUR	21.71	1,474	31,990	0.88	6%	18%	29%
Royal Bank of Scotland Group	gb;rbs	GBP	1679	2,954	49,603	1.40	5%	6%	5%
Societe Generale	fr;gle	EUR	68.70	438	30,068	1.42	-5%	0%	13%
Retail Banks									
Abbey National	gb;anl	GBP	458	1,462	6,690	1.34	-19%	-13%	-14%
Alliance and Leicester	gb;al	GBP	872	462	4,028	0.92	-1%	0%	1%
Bankinter	es;bkt	EUR	33.18	77	2,542	0.75	0%	4%	6%
Banca Intesa	it;bin	EUR	2.94	5,916	17,392	1.49	-6%	-7%	7%
Banca Monte dei Paschi di Siena	it;bmps	EUR	2.53	2,448	6,195	0.98	-4%	-8%	3%
Banca Nazionale del Lavoro BNL	it;bnl	EUR	1.99	2,189	4,346	1.35	-7%	-4%	33%
Capitalia	it;cap	EUR	2.26	2,207	4,988	1.30	-2%	-12%	19%
Banco Popular Espanol	es;pop	EUR	48.30	227	10,983	0.52	-2%	9%	15%
HBOS	gb;hbos	GBP	721	3,852	27,771	1.37	1%	3%	0%
Lloyds TSB Group	gb;lloy	GBP	431	5,594	24,083	1.47	-5%	6%	-3%
San Paolo IMI	it;spi	EUR	10.10	1,449	14,633	1.55	-5%	-8%	14%
Unicredito Italiano	it;uc	EUR	4.28	6,295	26,941	0.96	2%	-3%	2%
Mortgage Banks / Companies									
Bradford and Bingley	gb;bb	GBP	308	645	1,986	0.89	-4%	2%	-3%
Kensington Group	gb;kgn	GBP	480	52	251	0.27	11%	46%	40%
Northern Rock	gb;nrk	GBP	769	421	3,239	0.90	0%	14%	15%
Paragon Group of Companies	gb;pag	GBP	373	119	445	0.29	-3%	15%	14%
Universal Banks									
Allied Irish Banks Ltd	gb;albk	EUR	12.11	846	10,244	0.68	-7%	-1%	-5%
Bank of Ireland	gb;bkir	EUR	10.39	967	10,048	0.73	-6%	-1%	1%
BBV Argentaria	es;bbva	EUR	10.84	3,391	36,757	1.49	-1%	6%	9%
Banco Santander Central Hispano	es;san	EUR	8.94	4,768	42,630	1.54	-5%	0%	13%
HSBC Holdings plc	gb;hsba	GBP	841	11,100	93,298	0.83	-1%	-4%	4%
Standard Chartered	gb;stan	GBP	929	1,172	10,881	0.99	3%	2%	10%
Credit Companies									
Cattles	gb;ctt	GBP	337	328	1,105	0.32	0%	3%	-4%
Provident Financial	gb;pfg	GBP	745	257	1,918	0.56	8%	22%	14%
Asset Managers									
Aberdeen Asset Management	gb;adn	GBP	95	177	168	0.60	12%	24%	36%
AMVESCAP	gb;avz	GBP	416	801	3,336	2.19	4%	11%	-21%
ISIS Asset Management	gb;isis	GBP	238	150	357	0.43	6%	7%	1%
Man Group	gb;emg	GBP	1591	310	4,939	0.54	2%	11%	24%
Schroders	gb;sdr	GBP	700	226	1,582	1.59	3%	10%	-3%
Liquidity Providers									
Deutsche Boerse	de;db1x	EUR	46.26	112	5,172	0.32	-7%	15%	3%
Euronext	fr;nxt	EUR	22.38	122	2,733	0.36	7%	13%	-2%
ICAP	gb;iap	GBP	317	583	1,847	0.29	0%	7%	26%
London Stock Exchange	gb;lse	GBP	361	297	1,072	0.64	-1%	7%	1%
Other / Investment Companies									
Caledonia Investments	gb;cldn	GBP	1046.50	73	760	0.30	4%	11%	11%

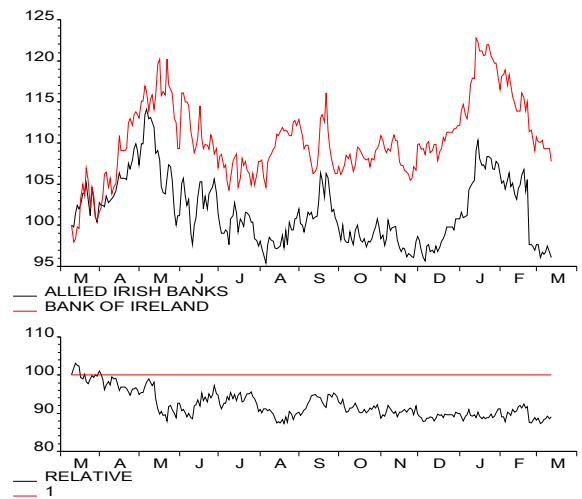
* Moneyline Telerate code.

Switch Charts

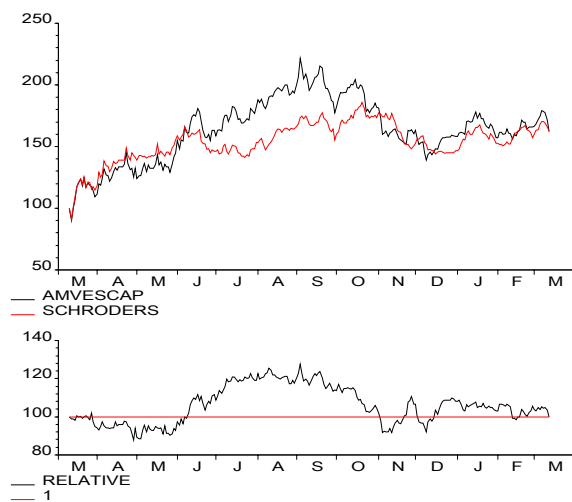
Deutsche Börse vs. Euronext



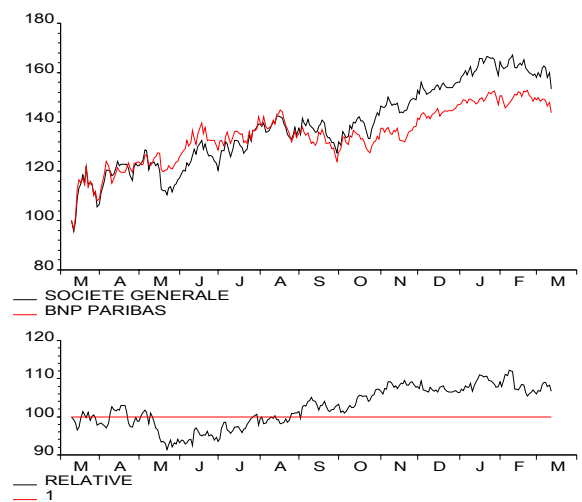
Allied Irish Banks vs. Bank of Ireland



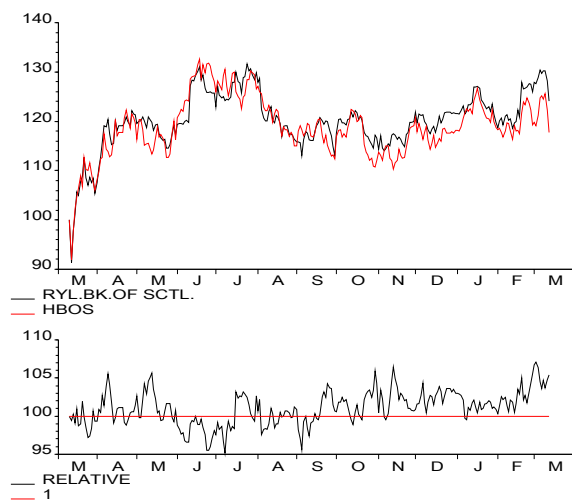
AMVESCAP vs. Schroders



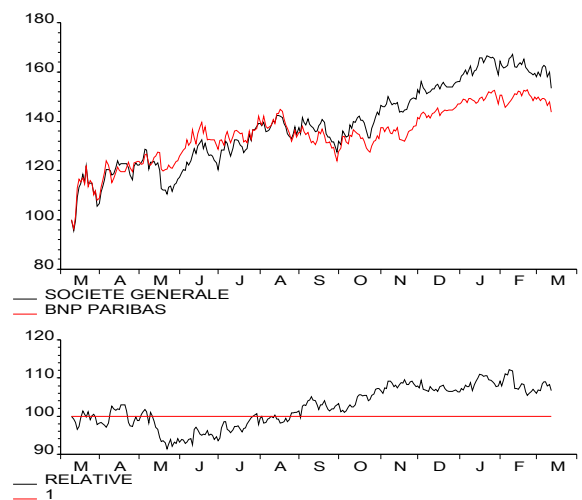
SocGen vs. BNP



Royal Bank of Scotland vs HBOS



San Paolo IMI vs. Banca Intesa



European Financials Diary

Mon Mar 15
London Stock Exchange
US roadshow Mar 15 – Mar 17

Mon Mar 22
HSBC XD date (Paris)

Mon Mar 29
London Stock Exchange pre-close meeting
Bank of Ireland pre-close meeting

Aberdeen Asset Management pre-close statement

Tue Mar 16

Tue Mar 23

Tue Mar 30
HSBC Consumer Finance seminar

Wed Mar 17
Lloyds XD date
ISIS XD date
Abbey National XD date
HSBC XD date (London & NY ADS)

Wed Mar 24
Unicredit Retail Division presentation (London)
Bradford & Bingley XD date
Schroders XD date

Wed Apr 1
AMVESCAP XD date

Thu Mar 18

Thu Mar 25
Bank of Ireland pre-close statement
Monte dei Paschi Q4 results (provisional)

Thu Apr 2

Fri Mar 19
Euronext full year results
Paragon pre-close meeting

Fri Mar 26
Capitalia results presentation

Fri Apr 3

Focus List

	Target	Price	Upside	Weighting	Previous
Outperform					
AMVESCAP	£7.00	£4161	68%	☺☺☺	☺☺☺
Barclays	£6.60	£4.86	36%	☺☺☺	☺☺☺
Deutsche Börse	€60.00	€48.26	30%	☺☺☺	☺☺☺
HSBC Holdings	£10.45	£8.41	24%	☺☺☺	☺☺☺
Cattles	£4.20	£3.37	25%	☺☺☺	-
Royal Bank of Scotland	£20.70	£16.79	23%	☺☺☺	☺☺☺
Close Brothers Group	£9.75	£8.10	20%	☺☺☺	-
Underperform					
Abbey National	£4.50	£4.58	(2%)	☹	☹☹
Northern Rock	£7.30	£7.69	(5%)	☹☹	☹☹
Schroders	£6.60	£7.00	(6%)	☹☹	☹☹
Provident Financial	£6.80	£7.45	(9%)	☹☹	-
Man Group	£12.20	£5.91	(23%)	☹☹☹	☹☹☹

☺ = Outperform. ☹ = Underperform

Priced as of close on 11 March 2004.

Source: Bear, Stearns International Limited estimates.

Valuation Method

All banks are valued on a sum of the parts basis. Speciality Finance companies are valued on separate bases - please refer to table below.

Investment Risks

Risks to our bank stock recommendations include:

Abbey National	Rapid delivery of PFS strategy, greater than expected release from PBU sell-down, acquisition of Abbey National by a third party at significant premium.
Allied Irish Banks	Euro/Sterling strengthening, margin pressure / competition in Ireland, reduced visibility of US operations now under control of M&T
Anglo Irish Banks	Strengthening Euro, reduced corporate credit quality, increased government intervention.
Banca Intesa	Execution re: management targets, stretched valuation.
Bank of Ireland	Euro/Sterling strengthening, Irish mortgage market slow down, increased government intervention, failure to implement UKFS restructuring plan.
Barclays	Sharply rising interest rates, greater than expected reduction in Barclaycard profits due to interchange fee reduction, margin pressure / competition, risk tendency underestimated, acquisition risk.
Bradford & Bingley	Buy to let market grows rapidly, retail investor confidence returns swiftly to equity market, takeover (premium paid), recovery in housing market volumes and prices.
HBOS	Corporate loan book exposure to lumpy failures, margin pressure, customer migration, unable to service increased leverage on balance sheet, sharp decline in mortgage market volumes and/or house price inflation.
HSBC	Weaker than expected economic recovery in Asia, significant US dollar weakness, provisions sensitivity, adverse settlement risk / publicity from Household.
Lloyds TSB	Sooner than expected benefits from Daniels' recovery strategy, rapid growth in mortgages, Scottish Widows business recovers rapidly, acquisition by a third party.
Northern Rock	Continued strong earnings growth momentum, strong housing market volume and price growth.
Royal Bank of Scotland	Margin pressure, slow down in lending, corporate loan book exposure, makes poor / expensive acquisition, greater than expected reduction in credit card interchange fees and/or softening of insurance premiums.
San Paolo IMI	Corporate governance, Execution regarding business plan.
Societe Generale	Fixed Income Exposure, Slowdown in Retail banking Revenues, Absence of cost control.
Unicredit	Lack of catalysts, acquisition risk.

Speciality Finance companies:

Company	Rating	Valuation Methodology	Investment Risks
AMVESCAP	Peer Perform	DCF (7% medium-term asset growth, 9% discount rate and 0% terminal growth).	Regulatory risk. Capital market performance. Relative investment performance, fund flows.
Cattles	Outperform	Discounted ROE/COE valuation using 9.4% cost of capital and 2% sustainable growth rate.	Lower growth in lending going forwards, rising interest rate environment, increased competition. Increasing bad debts, corporate credit losses.
Close Brothers Group	Outperform	Sum of the parts (ROE/COE and DCF valuations)	Credit quality, capital market recovery, market making spreads/margins
Deutsche Börse	Outperform	DCF, WACC 9.7%, Growth to Perpetuity 2.35%	A drop in revenue from deteriorating market conditions and economic growth. Decline in Eurex number of traded contracts. Not delivering the expected cost synergies from Clearstream. Continued pressure on entory and Systems Division revenue
Euronext	Outperform	DCF (WACC: 10.5%, growth rate to perpetuity: 2.25%)	Not delivering the expected synergies from the integration of the derivatives markets. A drop in revenue from deteriorating markets and economic growth. Cost reduction is passed on to customers more than to shareholders
Kensington Group	Outperform	Appraisal value of managed mortgage assets.	Slow down in specialist lending market, competition from larger banks, rise in unemployment, securitisation failure, sharp fall in housing prices.
London Stock Exchange	Underperform	DCF, WACC 9.3%, Growth to Perpetuity 2.25%	Deteriorating market conditions and economic growth, continued decline in the number of professional information terminals, costs overruns from the move to the new headquarters, lower proceeds from the sale of the Exchange tower, widening losses at EDX London.
Man Group	Underperform	Sum of the parts P/E, DCF, Appraisal value	Acquisition of extra, high performing capacity, Recovery in fund performance, Acquisition of Man by a 3rd party.
Provident Financial Group	Underperform	Sum of the parts (ROE/COE and DCF valuations)	Better than expected growth in international division, car finance or weekly home collected credit, significant upturn in motor insurance cycle.
Schroders	Peer Perform	DCF (7% medium-term asset growth, 10% discount rate and 0% terminal growth).	Less cost savings than expected, declining markets, poor utilisation of surplus capital, reducing fee margins.

Source: Bear Stearns International Limited estimates

DISCLAIMER

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, "Bear Stearns"), as indicated on the cover page hereof. This report has been adopted and approved for distribution in the United States by Bear, Stearns & Co. Inc. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is regulated by the United Kingdom Financial Services Authority. Private Customers in the U.K. should contact their Bear, Stearns International Limited representatives about the investments concerned. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request.

Bear Stearns and its employees, officers, and directors deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including transactions contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained in the subject report has been obtained from sources we believe to be reliable, its accuracy and completeness cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information contained herein.

This publication is being furnished to you for informational purposes only and on the condition that it will not form a primary basis for any investment decision. Each investor must make its own determination of the appropriateness of an investment in any securities referred to herein based on the legal, tax, and accounting considerations applicable to such investor and its own investment strategy. By virtue of this publication, none of Bear Stearns or any of its employees shall be responsible for any investment decision. This report may not be reproduced, distributed, or published without the prior consent of Bear Stearns. © 2004. All rights reserved by Bear Stearns.

This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states.

NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX, or Nasdaq National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.

FOR INDIVIDUAL COVERAGE INDUSTRY DATA, PLEASE CONTACT YOUR ACCOUNT EXECUTIVE OR VISIT www.BEARSTEARNS.com

DISCLOSURES

Bear, Stearns & Co. Equity Research Rating System:

Ratings for Stocks (vs. analyst coverage universe):

Outperform (O) – Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) – Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) – Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) – Expect the industry to perform better than the primary market index for the region over the next 12 months.

Market Weight (MW) – Expect the industry to perform approximately in line with the primary market index for the region over the next 12 months.

Market Underweight (MU) – Expect the industry to underperform the primary market index for the region over the next 12 months.

Bear, Stearns & Co. ratings distribution as of December 31, 2003

(% rated companies/% banking client in the last 12 months):

Outperform (Buy): 34.3%/17.6%

Peer Perform (Neutral): 49.6%/10.4%

Underperform (Sell): 16.0%/5.7%

FOR INDIVIDUAL COVERAGE INDUSTRY DATA, PLEASE CONTACT YOUR ACCOUNT EXECUTIVE OR VISIT WWW.BEARSTEARNS.COM

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

For important disclosure information regarding the companies in this report, please contact your registered representative at 1-888-473-3819, or write to Lyndsay Marano, Equity Research Compliance, Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, NY 10179.

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.