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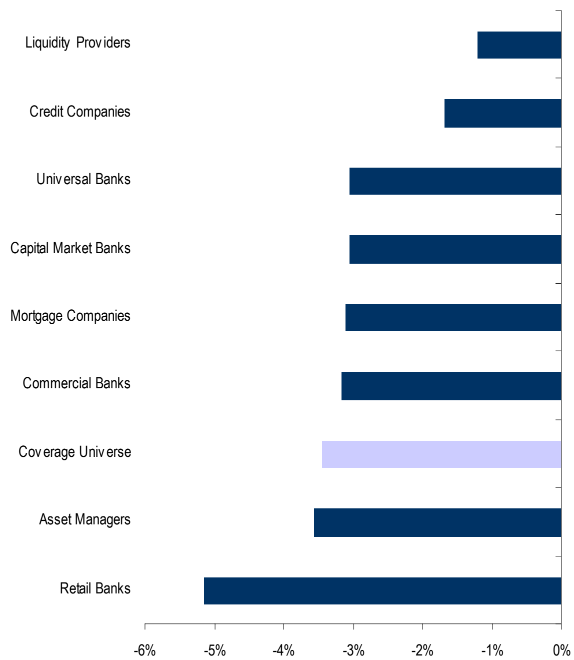
European Banks & Speciality Finance
Weekly Trading Notes

Silvia Benzi
Tony Cummings
Haley Tam
Mamoun Tazi

Sector Stance: Market Weight

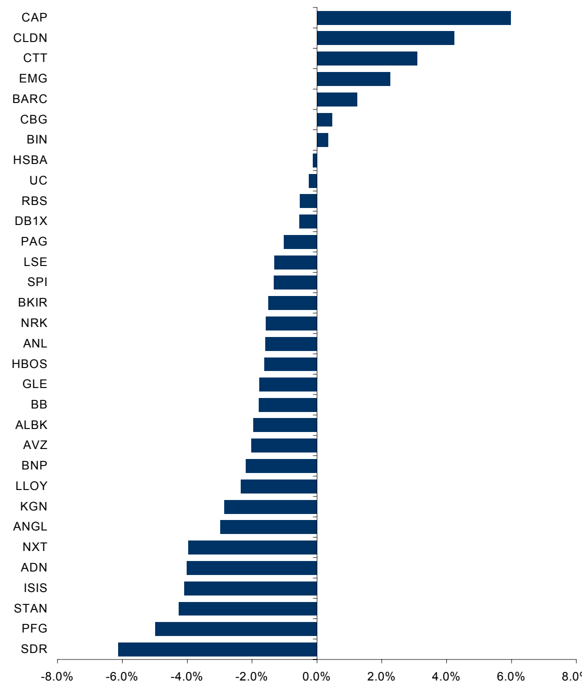
Friday April 16
For the Week Ending April 23, 2004

Weekly Sector Performances



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

Weekly Stock Performances



Source: Telerate

Action Points

- Buy AMVESCAP on (i) increasing clarity on US / UK investigation issues; (ii) discount valuation; (iii) refocused investor attention in the run-up to Q1 results on 27 April.
- We continue to recommend buying the UK Commercial Banks, which are trading at undemanding valuations, in our view. RBS is trading at 9.4x our forecast of 2004 EPS and 8.4x 2005, Barclays at 9.6x 2004 and 8.7x 2005, HBOS at 9.6x 2004 and 8.9x 2005.

Abbey National: Q1 Trading Statement - 22 April

Abbey will release its 2004 Q1 Trading Statement on Thursday, 22nd April at 07:00am (BST). This should provide a fairly detailed look at performance in the first quarter, including comments on year to date mortgage lending, trends in margins and PBT and progress with the disposal of the remaining £12.3bn PBU assets

We expect a lacklustre statement given Abbey's comments at the full year results in February that it only "aims to report the first improvement in PFS revenues during the second half of 2004." We currently forecast full year 2004 Trading PFS EPS of 39.2p (compared to 41.7p in 2003).

There will be a conference call for analysts and investors at 8:30am on 0845 245 3471 (UK) / +44 1452 542 300 (Overseas).

Abbey National: AGM - 22 April

This will be held at the Barbican Centre, London at 11am.

Resolutions of note:
Approval of a new Executive Share Option Scheme, under which directors will be awarded conditional shares each year. The Chief Executive's award in 2004 will give him the opportunity to earn shares worth up to 175% of his salary, compared to 150% for the other executive directors.

Shares will not be released until the end of a three-year performance period, in proportions dictated by the real growth in PFS EPS above the retail price index (12.5% if >3% above RPI, up to a maximum of 50% if >8%) and growth in total shareholder return compared to 16 other UK financial services companies (12.5% if above the median, up to 50% if in top quartile).

Schroders: AGM - 22 April

This will be held at 31 Gresham Street, London at 12 noon.

Resolutions of note: Re-election of George Mallinckrodt (73) and Bruno Schroder (71) as directors of the company.

Other points to note: (1) Schroder family members hold around 47% of shares. (2) Chief executive Michael Dobson is in the final year of his incentive package (agreed 19 October 2001). He is entitled to receive £1.8m cash bonus and £1.5m equity this year. He is currently in the 3rd year of an incentive plan to receive additional equity depending on the increase in the price of the non-voting ordinary shares from 666p over a five-year period commencing from his date of employment (October 2001), or until any earlier change in control. If the increase is 50%, there will be an award of shares to the value of £2.5m, with increments thereafter to a maximum award to the value of £3.75m if the increase in the share price is 100% or higher. Any award granted under this plan will then be subject to a three-year vesting period.

AMVESCAP: Q1 Results - 27 April, 12 noon BST, 7am EDT

AMVESCAP will announce its Q1 results on Tuesday, April 27, 2004 at 12:00pm (BST) / 7:00am (EDT). We expect the key areas of investor focus to be operating margin and fund flows.

We do not expect significant recovery in fund flows until after the Spitzer/SEC issues have been resolved, and so Q1 04 flows similar to Q4 03 would not be a surprise. Group fund outflows during Q4 were \$1.8bn (£1bn), or 0.5% of opening AUM at the beginning of the quarter, whilst US retail outflows were \$2.1bn (£1.2bn), or 1.5% of the quarter's opening US retail assets (which at the year-end amounted to \$99bn, 27% of total AUM, of which ~\$75bn was in US retail mutual funds, 20% of group AUM).

Q4 operating margin came in at 29.7%, up from 28.7% in Q3, and was suggestive of a 30% "run-rate" at year-end. However, we note that at the time of the full year results in February, management did forewarn that this year's first quarter result would feature higher liability insurance costs and increased marketing spend. We forecast full year EPS of 30.7p, and expect Q1 EPS better than Q4 03 EPS (7.0p).

Conference call briefing is at 2:30pm (BST) / 9:30am (EDT) on 1-888-201-4990 (US & Canada) and 610-769-9391 (international). Passcode: AMVESCAP, Conference Leader: Charles Brady.

Bradford & Bingley: AGM - 27 April

This will be at the Hanover International Hotel, Bradford at 11am.

Resolutions of note:
Proposed rationalisation of the current share option and performance share plans into a single executive incentive plan based on deferred shares (granted only in years following years in which bonuses are paid) and matching shares (subject to 3 year holding period and performance targets). Performance targets are based on compound EPS growth above RPI over the 3-year period: between 3% and 5% p.a. above, 1x match; 5% and 8% pa above, 2x match; and >8% above, 3x match.

Northern Rock: AGM - 27 April

This will be held at the Marriott Gosforth Park Hotel, Newcastle upon Tyne at 11.30am.

Points to note:
Chairman Sir John Riddell and Sir David Chapman will be retiring from the board following the meeting. Dr. Matt Ridley, currently the non-executive deputy chairman, will be appointed Chairman and Nicholas Fenwick will be appointed as a new director.

HBOS: AGM - 27 April

This will be held at the International Convention Centre, Birmingham at 11.30am. Resolutions include the approval of the remuneration report, the renewal of the authorisation to purchase its own shares, and various capital-related amendments to the Articles of Association reflecting a new "junior preference share" class (with non-obligatory dividend payments) and the directors' power to issue bearer share warrants.

HBOS: Insurance & Investment Seminar 28 April

HBOS is holding an Insurance & Investment Seminar at its London offices at 33 Old Broad Street, from 10.30am to 12 noon. The seminar is intended to cover Insurance & Investment earnings, drivers and prospects, and provide the opportunity to meet the senior management team. A live audio-cast of the presentation will be available on the website www.HBOSplc.com.

Man Group: Disposal of operations- 2 April

Man Group has signed an agreement to sell its 25% stake in Sugar Australia and New Zealand Sugar Company to CSR Ltd for £25.2m. This transaction is expected to complete by 31 July 2004, and is expected to generate a small exceptional loss after the write back of goodwill previously written off to reserves.

Sugar Australia has been a negligible contributor to the income statement for some years now, and the sale of Man Group's stake to one of its joint venture partners does not come as a surprise.

London Stock Exchange: Disposal of tower - 2 April

LSE has agreed to sell the Stock Exchange Tower site to Hammerson for £67.0m, with completion expected in July 2004. After costs, the expected profit is a minimum of £5m, based on an estimated book value of £56m.

The price achieved was slightly above market expectations, but this positive is offset by the addition of the proceeds to the LSE's already large cashpile, which we currently estimate at more than 20% of the group's market value. We note that LSE has managed to sub-let 32,000 sq ft of the 80,000 sq ft spare capacity at its new (220,000 sq ft) Paternoster Square offices.

Aberdeen Asset Management: Disposal of operations - 5 April

Aberdeen has conditionally agreed to dispose of its UK and Continental European property investment management businesses to Arlington Securities for cash consideration of up to £50m. If approved, the sale is expected to complete by end May 2004. These businesses managed £4.3bn assets at end Feb 2004.

The cash consideration of up to £50m comprises around £43.0m payable on completion (subject to net asset value adjustments) with a remaining maximum deferred consideration of £7m payable in two tranches on or around 30 June 2005 and 2006, dependent on revenue targets for each of the years to 30 April 2005 and 2006.

Aberdeen intends to use the net proceeds from the disposal to: (a) reduce its bank debt by around £19m, (b) fully repay the £10m June 2006 floating rate (6 month LIBOR + 1%) guaranteed unsecured loan notes issued on 3 June 2001 to LAHC as part-payment for its 10-year management contract, (c) make a loan of £1.3m to the Arlington Securities Employment Benefit Trust for 10 years, (d) provide additional headroom within its bank facilities (around £12m in the first instance).

This sale will clearly have positive impact on corporate liquidity (the company had short term borrowings of £53m (all with HBOS) at 30 September 2003, and we estimate it has c. £125m of long term debt (£10m LAHC + £100m 5.875% convertible bonds + \$27.5m Phoenix 7% convertible subordinated loan notes).

However, Aberdeen expects that, prior to exceptional costs and gain on sale, the disposal will be EPS dilutive in the year to 30 September 2004. In the year to 30 September 2003, these property operations contributed £3.2m EBIT (24.1% of group £13.3m).

We crudely estimate adverse EBIT impact of c. £1.1m this year (based on 4/12 of 2003 £3.2m) and positive interest expense impact of c. £0.7m (based on 1/3 of (8% of £19m + £0.5m LAHC interest)), giving a net adverse impact of £0.4m; equivalent to 5% to 6% of forecast 2004 profit before tax, goodwill and exceptionals.

Man Group: Record fund launch - 6 April

Man Group raised a record US$805m of client money for its latest product, Man RMF Multi-Style Ltd., which closed 29 March 2004. Man RMF Multi-Style will invest in five hedge fund styles - equity hedged, event driven, global macro, managed futures and relative value, and includes a 100% capital guarantee and profit lock-in feature. It will target 12-15% growth pa for volatility of 6-9% pa.

Based on the information available in the product prospectus, we estimate that Man Group will earn annual fees of between 4.3% and 5.05% of NAV on this product (depending on the extent of leverage of client money) and performance fees of 10% of the increase attributable to each hedge fund style. These performance fees are in addition to amounts charged by underlying managers.

Euronext: Downgrade to Peer Perform - 13 April

We downgraded our recommendation on Euronext because (1) the shares had a good run and on 13 April were up 18% year to date; offering only a limited 5.5% upside to our new share price target of €25.00 (down from €25.50); and (2) there is the potential for additional fee reductions now that the battle between Euronext and the London Stock Exchange (LSE) is raging.

We reduced our 2004 and 2005 EPS estimates by 2% and 3% to €1.57 and €1.84 from €1.61 and €1.89 respectively, following the announcement on 8 April of a reduction in cash trading fees to fend off the LSE in Amsterdam (on the back of lower yield per trade averaging €1.17 in 2004, down by 7% from €1.25 in 2003).

We believe that Euronext and the LSE have entered a cycle of potential share value destruction, now that they both compete in each others' markets. There is a potential for retaliation and further price cuts and for Euronext, price cut contagion in other markets.

Consequently, we see better value in Deutsche Börse, which is trading at a 10% discount to its peers and could be spared from a price war thanks to its vertical structure and ownership of trading, clearing and settlement.

Capitalia: Issue of convertible bond - 7 April

Capitalia announced the issuance of a EUR 1 bn convertible bond into Generali shares due 2009, issued at an exercise price to be set at a premium of 20%-25% over the volume-weighted-average price of Generali shares as determined at the time of pricing.

The convertible bond will have an annual coupon range of 1.375% - 1.875%. Since the average cost of funding for Capitalia at 2003 was 2.9% (excluding the cost of sight deposits), the positive implication of this issuance, in our view, is a potential saving in the cost of funding, that we estimate at EUR 7mn after-tax per year to 2009, or 1.5% of 2004E group earnings.

However, this issuance will benefit Capitalia's capital structure in terms of capital release only if bondholders swap their bonds for shares. Since the bond will be exchangeable only starting from 2006, this has no impact on the bank's current valuation.

All in all, given the limited impact on Capitalia's earnings, we do not see the convertible bond issuance as a catalyst for changing our investment stance on the stock. We retain our Underperform rating.

European Financials Diary

Mon Apr 19
Banca Intesa XD Data
Deutsche Börse Canada and U.S. West Coast roadshow with DrKW (all week).

Tue Apr 20

Wed Apr 21

Thu Apr 22
Abbey National Q1 trading statement.
Abbey National AGM
Schroders AGM

Fri Apr 23

Mon Apr 26

Tue Apr 27
AMVESCAP Q1
Bradford & Bingley AGM
HBOS AGM
Northern Rock AGM

Wed Apr 28
HBOS Insurance & Investments Seminar

Thu Apr 29
AMVESCAP AGM
Barclays AGM
Royal Bank of Scotland AGM

Fri Apr 30
BBVA Q1
Credit Suisse AGM

Mon May 3
May Day

Tue May 4
Alliance & Leicester AGM
UBS Q1

Wed May 5
Aberdeen Asset Management interim (H1) results
Provident Financial Group AGM

Thu May 6
BNP Q1

Fri May 7
Allied Irish Banks investor day
Deutsche Börse Q1
Cattles AGM

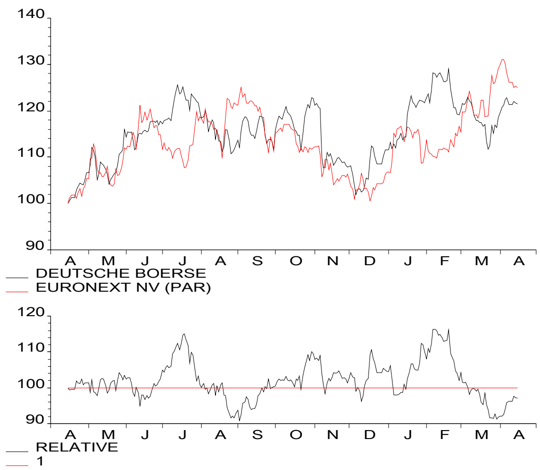
Focus List

	Target	Price	Upside	Weighting	Previous
Outperform					
AMVESCAP	£7.00	£4.12	70%	☺☺☺	☺☺☺
Barclays	£6.60	£4.90	35%	☺☺☺	☺☺☺
HSBC Holdings	£10.45	£8.22	27%	☺☺☺	☺☺☺
Deutsche Börse	€60.00	€47.38	27%	☺☺☺	☺☺☺
Royal Bank of Scotland	£20.70	£16.76	24%	☺☺☺	☺☺☺
Cattles	£4.20	£3.50	20%	☺☺☺	☺☺☺
Close Brothers Group	£9.75	£8.49	15%	☺☺☺	☺☺☺
Underperform					
Abbey National	£4.50	£4.46	1%	☹	☹
Schroders	£6.60	£6.60	0%	☹☹	☹☹
Northern Rock	£7.30	£7.53	(3%)	☹☹	☹☹
Provident Financial	£6.80	£7.27	(6%)	☹☹	☹☹☹
Man Group	£12.20	£18.56	(34%)	☹☹☹	☹☹☹

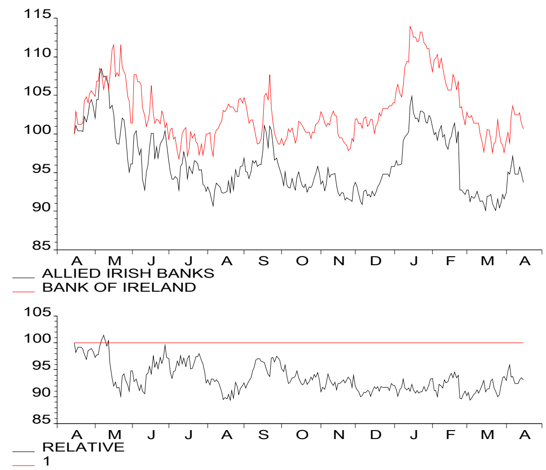
☺ = Outperform. ☹ = Underperform
Priced as of close on 1 April 2004.
Source: Bear, Stearns International Limited estimates.

Switch Charts

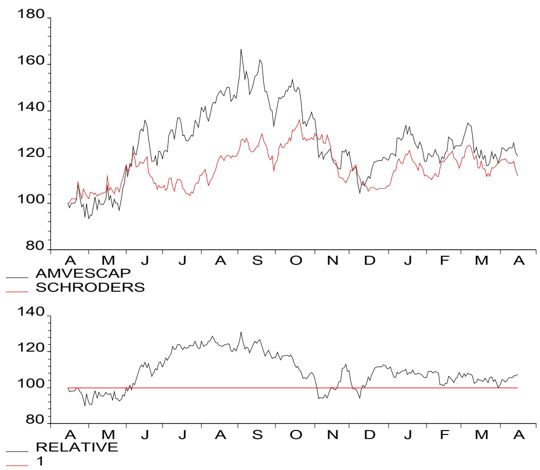
Deutsche Börse vs. Euronext



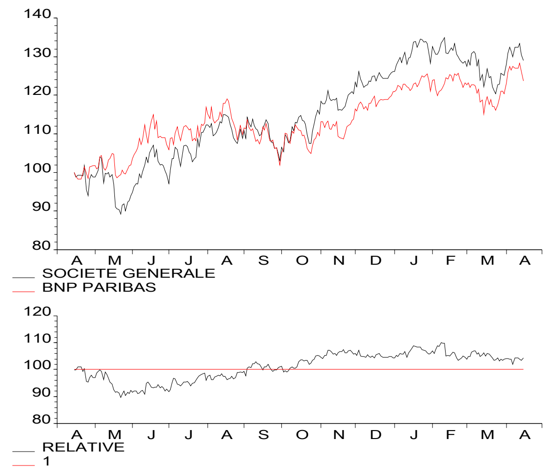
Allied Irish Banks vs. Bank of Ireland



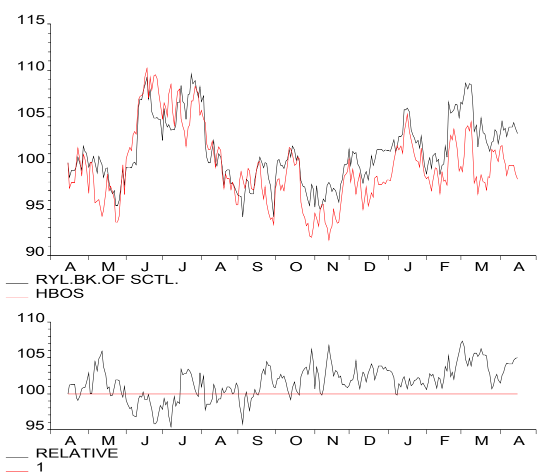
AMVESCAP vs. Schroders



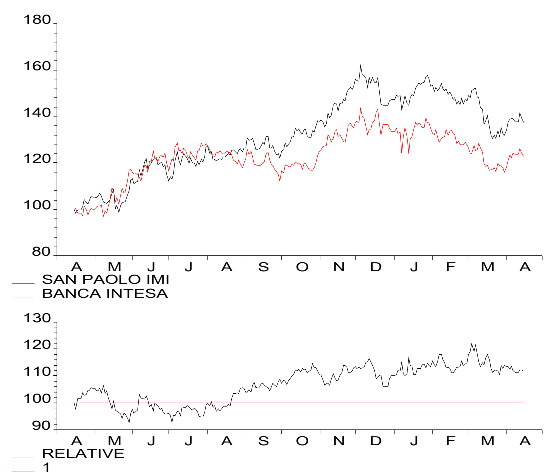
SocGen vs. BNP



Royal Bank of Scotland vs HBOS



San Paolo IMI vs. Banca Intesa



Source: Thomson Datastream

Valuation Statistics

	Reuters					PER			Yield		
	Ticker	Rating	Price	Shares (m)	Mkt cap (m)	2003E	2004E	2005E	2003	2004E	2005E
Commercial Banks											
Anglo Irish Bank	ANGL.L	OP	EUR 13.00	327	EUR 4,333	15.3	11.8	10.4	1.5%	1.8%	2.0%
Barclays	BARC.L	OP	£4.90	6,482	£31,883	10.8	9.6	8.7	4.2%	4.6%	5.1%
BNP Paribas	BNPP.PA	OP	EUR 51.10	904	EUR 46,175	12.5	11.0	9.9	2.8%	3.2%	3.6%
Close Brothers Group	CBG.L	OP	£8.50	144	£1,222	17.6	13.5	11.2	3.1%	3.1%	3.2%
Royal Bank of Scotland Group	RBS.L	OP	£16.76	2,952	£49,760	10.6	9.4	8.4	3.0%	3.4%	4.0%
Societe Generale	SOGN.PA	PP	EUR 71.60	438	EUR 31,392	13.1	11.4	10.1	3.5%	4.1%	0.0%
Retail Banks											
Abbey National	ANL.L	UP	£4.46	1,462	£6,525	10.8	11.5	10.6	5.5%	5.5%	5.9%
Banca Intesa	BIN.MI	PP	EUR 2.85	6,849	EUR 16,860	14.7	12.1	10.1	1.7%	2.3%	3.3%
Capitalia	BRM.MI	UP	EUR 2.30	2,207	EUR 5,076	29.8	12.7	10.0	0.9%	1.2%	2.3%
HBOS	HBOS.L	PP	£7.24	3,781	£27,888	10.6	9.6	8.9	4.2%	4.5%	4.7%
Lloyds TSB Group	LLOY.L	UP	£4.14	5,589	£23,134	9.1	10.1	9.4	8.3%	8.3%	8.3%
San Paolo IMI	SPI.MI	OP	EUR 9.64	1,837	EUR 13,967	16.0	12.0	9.7	4.0%	5.4%	6.6%
Unicredito Italiano	CRDI.MI	PP	EUR 4.01	6,296	EUR 25,241	11.8	10.3	8.8	5.1%	5.6%	6.8%
Mortgage Companies											
Bradford and Bingley	BB.L	UP	£2.87	648	£1,852	10.2	10.0	9.5	5.7%	5.9%	6.1%
Kensington Group	KGN.L	OP	£4.59	55	£240	9.5	7.3	6.7	2.2%	3.3%	3.5%
Northern Rock	NRK.L	UP	£7.53	421	£3,170	11.4	10.5	9.7	3.1%	3.5%	4.1%
Paragon Group of Companies	PAG.L	PP	£3.63	118	£433	9.6	8.2	7.5	2.0%	3.0%	3.7%
Universal Banks											
Allied Irish Banks	ALBK.L	PP	EUR 12.43	861	EUR 10,515	10.6	10.3	9.4	4.3%	4.7%	5.3%
Bank of Ireland	BKIR.L	PP	EUR 10.47	327	EUR 10,111	10.1	9.1	8.2	3.7%	4.1%	4.5%
HSBC	HSBA.L	OP	£8.23	10,410	£91,300	15.2	14.3	13.2	4.1%	4.5%	5.0%
Standard Chartered	STAN.L	OP	£8.86	1,171	£10,383	19.2	17.8	16.5	3.5%	3.8%	4.0%
Credit Companies											
Cattles	CTT.L	OP	£3.50	327	£1,148	13.5	11.5	9.8	3.4%	3.9%	4.7%
Provident Financial	PFG.L	UP	£7.25	246	£1,865	12.8	12.3	11.4	4.5%	4.6%	5.1%
Asset Managers											
Aberdeen Asset Management	ADN.L	PP	£0.96	235	£169	56.4	21.1	8.3	4.1%	4.1%	4.2%
AMVESCAP	AVZ.L	OP	£4.11	811	£3,319	18.0	13.6	12.1	2.8%	3.0%	3.3%
ISIS Asset Management	ISIS.L	PP	£1.99	150	£299	16.8	14.4	10.6	5.5%	5.5%	5.5%
Man Group	EMG.L	UP	£18.56	307	£5,761	17.0	15.7	15.1	1.5%	1.8%	2.0%
Schroders	SDR.L	UP	£6.59	296	£1,488	30.4	23.4	17.8	2.7%	2.7%	2.8%
Liquidity Providers											
Deutsche Boerse	DB1Gn.DE	OP	EUR 47.38	112	EUR 5,297	16.5	15.7	11.9	1.2%	1.2%	1.3%
Euronext	ENXT.PA	PP	EUR 23.50	122	EUR 2,870	18.9	15.0	12.8	2.1%	2.3%	2.6%
London Stock Exchange	LSE.L	PP	£3.55	297	£1,054	17.7	15.7	13.2	1.2%	1.3%	1.4%

Priced as of close on 15 April 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;csg.n	CHF	42.90	1,190	51,066	1.62	-8%	-10%	-7%
Deutsche Bank	de;dbkx.n	EUR	70.64	582	41,102	1.11	2%	9%	24%
UBS	ch;ubs.n	CHF	94.50	1,182	111,732	1.20	0%	5%	18%
Commercial Banks									
Anglo Irish Bank	gb;angl	EUR	13.00	333	4,333	0.56	0%	-4%	29%
Barclays	gb;barc	GBP	490	6,507	31,883	1.46	1%	-9%	-5%
BNP Paribas	fr;bnp	EUR	51.10	904	46,175	1.31	5%	1%	12%
Close Brothers Group	gb;cbg	GBP	850	144	1,222	0.62	2%	6%	10%
Credit Agricole SA	fr;aca	EUR	20.69	1,474	30,487	0.88	-1%	6%	16%
Royal Bank of Scotland Group	gb;rbs	GBP	1676	2,969	49,760	1.40	0%	-3%	2%
Societe Generale	fr;gle	EUR	71.60	438	31,392	1.41	4%	-4%	12%
Retail Banks									
Abbey National	gb;anl	GBP	446	1,462	6,525	1.33	-2%	-23%	-24%
Alliance and Leicester	gb;al	GBP	833	463	3,859	0.92	-4%	-8%	-7%
Bankinter	es;bkt	EUR	32.90	77	2,521	0.76	5%	-2%	4%
Banca Intesa	it;bin	EUR	2.85	5,916	16,860	1.49	4%	-9%	3%
Banca Monte dei Paschi di Siena	it;bmps	EUR	2.53	2,448	6,195	0.99	4%	-1%	1%
Banca Nazionale del Lavoro BNL	it;bnl	EUR	1.94	2,189	4,247	1.35	-1%	-2%	-1%
Capitalia	it;cap	EUR	2.30	2,207	5,076	1.31	3%	6%	-4%
Banco Popular Espanol	es;pop	EUR	47.95	227	10,903	0.53	2%	-2%	9%
HBOS	gb;hbos	GBP	724	3,852	27,888	1.36	0%	-7%	-1%
Lloyds TSB Group	gb;lloy	GBP	414	5,595	23,134	1.46	-5%	-13%	-2%
San Paolo IMI	it;spi	EUR	9.64	1,449	13,967	1.56	-1%	-8%	3%
Unicredito Italiano	it;uc	EUR	4.01	6,295	25,241	0.95	-1%	-6%	-2%
Mortgage Banks / Companies									
Bradford and Bingley	gb;bb	GBP	287	645	1,852	0.89	-5%	-11%	-11%
Kensington Group	gb;kgn	GBP	459	52	240	0.28	-3%	28%	27%
Northern Rock	gb;nrk	GBP	753	421	3,170	0.89	-1%	1%	0%
Paragon Group of Companies	gb;pag	GBP	363	119	433	0.30	-2%	-3%	0%
Universal Banks									
Allied Irish Banks Ld	gb;albk	EUR	12.43	846	10,515	0.68	4%	-9%	0%
Bank of Ireland	gb;bkir	EUR	10.47	966	10,111	0.74	2%	-11%	-1%
BBV Argentaria	es;bbva	EUR	11.09	3,391	37,605	1.47	7%	0%	19%
Banco Santander Central Hispano	es;san	EUR	9.22	4,768	43,965	1.54	7%	-3%	20%
HSBC Holdings plc	gb;hsba	GBP	823	11,100	91,300	0.83	-3%	-5%	-4%
Standard Chartered	gb;stan	GBP	886	1,172	10,383	0.98	-5%	-4%	-8%
Credit Companies									
Cattles	gb;ctt	GBP	350	328	1,148	0.33	0%	2%	3%
Provident Financial	gb;pfg	GBP	725	257	1,865	0.57	-4%	6%	8%
Asset Managers									
Aberdeen Asset Management	gb;adn	GBP	96	177	169	0.58	2%	14%	7%
AMVESCAP	gb;avz	GBP	411	808	3,319	2.19	1%	-7%	-19%
ISIS Asset Management	gb;isis	GBP	199	150	299	0.43	-14%	-14%	-16%
Man Group	gb;emg	GBP	1856	310	5,761	0.55	13%	19%	32%
Schroders	gb;sdr	GBP	659	226	1,488	1.60	-3%	-8%	-15%
Liquidity Providers									
Deutsche Boerse	de;db1x	EUR	47.38	112	5,297	0.33	3%	2%	2%
Euronext	fr;nxt	EUR	23.50	122	2,870	0.36	4%	7%	8%
ICAP	gb;iap	GBP	279	583	1,626	0.31	-13%	-14%	5%
London Stock Exchange	gb;lse	GBP	355	297	1,054	0.65	-3%	0%	-1%
Other / Investment Companies									
Caledonia Investments	gb;cldn	GBP	1060.00	73	770	0.31	1%	7%	17%

* Moneyline Telerate code.

Banks:

Valuation Method

All banks are valued on a sum of the parts basis.

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.
BNP	Fixed income exposure, 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.
Unicredito	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 unemployment, 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	Peer Perform	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, 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

ADDENDUM

IMPORTANT DISCLOSURES

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.

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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.

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(% rated companies/% banking client in the last 12 months):
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Peer Perform (Neutral): 48.0%/4.6%
Underperform (Sell): 15.5%/1.3%

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Tony Cummings

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