

OFFERING CIRCULAR

BEAR STEARNS

The Bear Stearns Companies Inc.

(Incorporated under the laws of the State of Delaware, United States of America)

Bear Stearns Bank plc

*(Incorporated with limited liability in Ireland under the Companies Acts, 1963 to 2005
with registered number 241404)*

guaranteed unconditionally and irrevocably by The Bear Stearns Companies Inc.

and

Bear Stearns Global Asset Holdings, Ltd.

(Incorporated with limited liability in the Cayman Islands)

guaranteed unconditionally and irrevocably by The Bear Stearns Companies Inc.

U.S.\$30,000,000,000

Euro Medium Term Note Programme

On August 4, 1994 The Bear Stearns Companies Inc. (the "**Parent**") entered into a Euro Medium Term Note Programme, which was subsequently amended on November 30, 1995, November 20, 1996 (whereby, *inter alia*, Bear Stearns Bank plc ("**BS Bank**") was added as an additional issuer), June 20, 1997, November 26, 1997, April 16, 1998, November 25, 1998, November 19, 1999, December 8, 2000, December 6, 2001, December 11, 2002, December 17, 2003, June 9, 2004, June 10, 2005 and August 15, 2005 (the "**Programme**"). On the date hereof, Bear Stearns Global Asset Holdings, Ltd. ("**BSGAH**") has been added as an additional issuer. This Offering Circular supersedes any previous Offering Circular. Any Notes (as defined below) issued under the Programme on or after the date hereof (other than any such Notes to be consolidated and form a single series with any Notes issued prior to the date hereof) are issued subject to the provisions described herein. This does not affect any Notes issued prior to the date hereof.

Under the Programme, each of BS Bank, BSGAH and the Parent (together, the "**Issuers**" and each an "**Issuer**") may from time to time issue notes in bearer and/or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**" and together the "**Notes**") denominated in any currency (including euro) agreed between the Issuer of such Notes (the "**relevant Issuer**") and the relevant Dealer (as defined herein). The payment and delivery of all amounts due in respect of Notes issued by BS Bank and BSGAH will be unconditionally and irrevocably guaranteed by the Parent. The maximum aggregate nominal amount of all Notes from time to time outstanding (including Notes issued prior to the date hereof) will not exceed U.S.\$30,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as provided herein. A description of the restrictions applicable at the date of this Offering Circular relating to the maturity of certain Notes is set out on page 8.

See "Risk Factors" on page 19 for a discussion of certain factors that should be considered by prospective investors.

This Offering Circular dated August 15 constitutes a base prospectus ("Base Prospectus") for the purposes of Directive 2003/71/EC (the "Prospectus Directive").

Programme Dealers

Bear, Stearns International Limited

Bear, Stearns & Co. Inc.

Dated August 15, 2006

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes, to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

References in this Offering Circular to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and have been admitted to the Official List. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the "**Investment Services Directive**").

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the relevant Issuer and the relevant Dealer. Each Issuer may also issue unlisted Notes not admitted to trading on any market.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price, the issue date and maturity date, of the Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined on page 44) of Notes will be set forth in final terms (the "**Final Terms**") which, with respect to Notes to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange.

Copies of each of the Final Terms will be available from FT Business Research Centre, operated by FT Electronic Publishing at Fitzroy House, 13-15 Epworth Street, London EC2A 4DL and (in the case of all the Notes) from the specified office set out below of the Trustee (as defined herein) and (in the case of Bearer Notes) from the specified office set out below of each of the Paying Agents and (in the case of Registered Notes) from the specified office set out below of each of the Transfer Agents (each as defined below).

The Notes will be issued on a continuing basis to one or more of the Programme Dealers or Issue Dealers (each as defined herein) appointed under the Programme from time to time. The Programme Dealers and the Issue Dealers are herein together referred to as the "**Dealers**" and references to a "**Dealer**" are to a Programme Dealer or, as the case may be, an Issue Dealer. References to the "**relevant Dealer**" are references to the Dealer or Dealers with whom the relevant Issuer has agreed or proposes to agree to the terms of an issue of Notes under the Programme.

An investment in Notes issued under the Programme may involve certain risks. For a discussion of these risks see "*Risk Factors*" and, if applicable, the relevant Final Terms.

Certain issues of Notes will entitle the holders thereof (in accordance with relevant terms and conditions) either to receive a cash amount (if any) calculated in accordance with the relevant terms and conditions or to receive certain underlying equities, bonds, other securities or such other assets as may be specified in the applicable Final Terms (the "**Underlying Securities**"), all as set forth herein and in the applicable Final Terms (as defined below).

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Unless otherwise provided with respect to a particular Series of Registered Notes, the Registered Notes of each Tranche of such Series sold outside the United States in reliance on Regulation S under the Securities Act will be represented by a permanent global note in registered form, without interest coupons (a "**Reg. S Global Note**"), deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") for the accounts of Euroclear Bank S.A./N.V ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Prior to expiry of the period that ends 40 days after completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue (the "**Distribution Compliance Period**"), beneficial interests in the Reg. S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear and Clearstream, Luxembourg. The Registered Notes of each Tranche of such Series sold in private transactions to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("**QIBs**") will be represented by a restricted permanent global note in registered form, without interest coupons (a "**Restricted Global Note**" and, together with a Reg. S Global Note, "**Registered Global Notes**"), deposited with a custodian for, and registered in the name of a nominee of, DTC. The Registered Notes of each Tranche sold to "accredited investors" (as defined in Rule 501(a) (1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") will be in definitive form, registered in the name of the holder thereof. Registered Notes in definitive form will, at the request of the holder (save to the extent otherwise indicated

in the applicable Final Terms), be issued in exchange for interests in the Registered Global Notes upon compliance with the relevant procedures for exchange. Each Tranche of Bearer Notes will initially be represented by a temporary bearer global Note (a "**Temporary Bearer Global Note**") which will be deposited on the issue date thereof with a common depositary or, if the Notes are NGNs, a common safekeeper in each case on behalf of Euroclear and Clearstream, Luxembourg and/or any other clearing system. Beneficial interests in a Temporary Bearer Global Note will be exchangeable for beneficial interests in a permanent bearer global Note (a "**Permanent Bearer Global Note**") or, in the case of Temporary Bearer Global Notes issued by the Parent only, definitive Bearer Notes, upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and thereafter any Permanent Bearer Global Note may be exchanged for definitive Bearer Notes, in the case of Permanent Bearer Global Notes issued by BS Bank and BSGAH only, upon the occurrence of an Exchange Event (as defined on page 27) or, in the case of Permanent Bearer Global Notes issued by the Parent only, upon request, in each case in accordance with the relevant procedures. For further details of clearing and settlement of the Notes issued under the Programme see "Book-Entry Clearance Procedures" below.

Application has been made to permit Notes issued under the Programme to be designated for trading in the Private Offering Resales and Trading through Automatic Linkage System ("**PORTAL**") of the National Association of Securities Dealers, Inc.

The Programme is rated A1 by Moody's Investors Service Limited, A by Standard & Poor's Ratings Services and A+ by Fitch Ratings Ltd in respect of Notes with a maturity of more than 365 days and P-1 by Moody's Investors Service Limited, A-1 by Standard & Poor's Ratings Services and F-1+ by Fitch Ratings Ltd in respect of Notes with a maturity of 365 days or less. Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The relevant Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes set out herein, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe such Notes.

Each Issuer (each a "Responsible Person") accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of each Issuer (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The applicable Final Terms will (if applicable) specify the extent and nature of the responsibility (if any) taken or accepted by the relevant Issuer, or the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH), for the information (if any) relating to any underlying equities, bonds, securities, indices or other item(s) to which Linked Notes (as defined below) or payments or deliveries under Notes relate which is contained in such Final Terms.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Deemed to be Incorporated by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Neither the Trustee nor any Dealer has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any Dealer or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuers. Neither the Trustee nor any Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuers in connection with the Programme.

No person has been authorised to give any information or to make any representation not contained in or consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, any Dealer or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by either Issuer, any Dealer or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme should purchase any Notes. Each investor

contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH). By purchasing any Note, each investor will be deemed to have represented that it has sufficient knowledge and experience and has taken such professional advice as it thinks necessary to make its own evaluation of the merits and risks involved in purchasing the Note and in making an investment of this type. Neither this Offering Circular nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of either Issuer or any Dealer to any person to subscribe for or to purchase any Notes.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing such information. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any such information coming to their attention. Investors should review, amongst other things, the most recent financial statements, if any, of the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) when deciding whether or not to purchase any Notes.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Dealers and the Trustee do not represent that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Dealers or the Trustee which would permit a public offering of the Notes outside the UK or distribution of this Offering Circular or any other offering material relating to the Programme or the Notes issued thereunder in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material relating to the Programme or the Notes issued thereunder may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with all applicable laws and regulations. Each Dealer has represented or, as the case may be, will be required to represent that all offers and sales by it will be made on the terms indicated above. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any applicable restrictions on the distribution of this Offering Circular and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (as defined below, including the United Kingdom and Ireland), Japan, the Cayman Islands and Singapore (see "Subscription and Sale and Transfer Restrictions" below).

The Notes may not be acquired or held by, or acquired with the assets of, any employee benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any individual retirement account ("IRA") or plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), unless the purchase and holding of the Notes does not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which a statutory or administrative prohibited transaction exemption is not available. Purchasers of Notes on behalf of such plans or IRAs have exclusive responsibility for ensuring that their purchase and holding of the Notes does not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available, and by the purchase of Notes they will be deemed to have represented that the foregoing condition has been and will be met. The Final Terms relating to a particular Tranche of Notes may contain more information and reflect more particular limitations respecting Section 406 of ERISA or Section 4975 of the Code.

Congress has passed legislation making significant changes to the ERISA and Code rules relating to prohibited transactions and plan assets, among other areas, called the Pension Protection Act of 2006 (the "PPA of 2006"). It is anticipated that President Bush soon will sign the PPA of 2006, and many of its provisions will be effective immediately upon such signing. Enactment of the PPA of 2006 could favorably affect the ability of a plan fiduciary or IRA to conclude it can make the deemed representation described in the immediately preceding paragraph with respect to prohibited transactions. If the PPA of 2006 is enacted potential investors should consult with their legal advisors regarding the consequences of these changes.

IRS CIRCULAR 230 NOTICE. THIS OFFERING CIRCULAR WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE, OR LOCAL TAX PENALTIES. THIS OFFERING CIRCULAR WAS WRITTEN AND PROVIDED BY THE ISSUERS IN CONNECTION WITH THE PROMOTION OR MARKETING BY

THE ISSUERS AND PROGRAMME DEALERS OF THE NOTES. EACH NOTEHOLDER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

All references in this Offering Circular to (i) "U.S. dollars", "U.S.\$", "\$" and "U.S. cents" refer to United States dollars, (ii) "Sterling" and "£" refer to pounds sterling, (iii) "Japanese Yen", "Yen" and "¥" refer to the currency of Japan and (iv) "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references in this Offering Circular to the "United States" refer, unless the context otherwise requires, to the "United States of America, its territories and possessions."

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER NEW HAMPSHIRE REVISED STATUTES ANNOTATED, CHAPTER 421-B ("RSA 421-B"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO FLORIDA RESIDENTS

WHERE SALES ARE MADE TO FIVE OR MORE PERSONS IN FLORIDA (EXCLUDING "QUALIFIED INSTITUTIONAL BUYERS" WITHIN THE MEANING OF SEC RULE 144A AND CERTAIN OTHER INSTITUTIONAL PURCHASERS DESCRIBED IN SECTION 517.061(7) OF THE FLORIDA SECURITIES AND INVESTOR PROTECTION ACT (THE "FLORIDA ACT")), ANY SUCH SALE MADE PURSUANT TO SECTION 517.061(11) OF THE FLORIDA ACT SHALL BE VOIDABLE BY THE PURCHASER WITHIN THREE DAYS AFTER (A) RECEIPT OF THIS OFFERING CIRCULAR, OR (B) THE FIRST PAYMENT OF MONEY OR OTHER CONSIDERATION TO THE ISSUER, AN AGENT OF THE ISSUER, OR AN ESCROW AGENT, WHICHEVER OCCURS LATER.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the member states of the European Union, Iceland, Norway and Liechtenstein (together, the "European Economic Area"), the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

SUMMARY OF THE PROGRAMME AND TERMS AND CONDITIONS OF THE NOTES

This summary must be read as an introduction to this Offering Circular and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference and the Risk Factors. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuers:	The Bear Stearns Companies Inc. Bear Stearns Bank plc Bear Stearns Global Asset Holdings, Ltd.
Guarantor:	The Bear Stearns Companies Inc. (in relation to issues of Notes by Bear Stearns Bank plc and Bear Stearns Global Asset Holdings, Ltd.).
Risk Factors:	There are certain factors that may affect the relevant Issuer's ability to fulfil its obligations under Notes issued under the Programme. Some of these are set out under " <i>Risk Factors</i> " below. There are also certain factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee. These are also set out under " <i>Risk Factors</i> " below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme (see " <i>Risk Factors</i> ").
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale and Transfer Restrictions" below) including the following restrictions applicable at the date of the Offering Circular: <i>Notes with a maturity of less than 1 year</i> Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in other currencies at the date of issue (see "Subscription and Sale and Transfer Restrictions" below).
Trustee:	Citicorp Trustee Company Limited as successor by acquisition to Morgan Guaranty Trust Company of New York, acting through its London office. Acting for the benefit of the Noteholders and Couponholders in relation to Notes issued under the Programme, the Trustee may retire on giving not less than three months' written notice to the relevant Issuer and (where BS Bank or BSGAH is the relevant Issuer) the Parent. It may also be removed by the Noteholders passing an extraordinary resolution. The retirement or removal of the Trustee will not become effective until a successor trustee is appointed.
Programme Size:	Up to U.S.\$30,000,000,000 (or its equivalent in other currencies calculated as described herein outstanding at any time). The Issuers may increase the amount of the Programme in accordance with the terms of

	the Dealer Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Form of Notes:	Notes will be issued in bearer form or registered form as described in "Form of the Notes" below.
Terms of Notes:	Notes may be issued on a fully-paid or partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par. Notes may be denominated in any agreed currency and with any agreed maturity, subject to any applicable legal or regulatory restrictions and any requirements of the relevant central bank (or equivalent body). The terms of the Notes will be specified in the applicable Final Terms. The following types of Note may be issued: (i) Fixed Rate Notes; (ii) Floating Rate Notes; (iii) Indexed Notes; (iv) Linked Notes; (v) Dual Currency Notes; and (vi) Zero Coupon Notes. Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Notes being issued and such terms will be specified in the applicable Final Terms.
Taxation:	All payments of interest or principal or deliveries in respect of the Notes will be made without deduction for or on account of withholding taxes payable in the country in which the relevant Issuer (or the Parent, where the Parent is making a payment on behalf of BS Bank or BSGAH pursuant to the Guarantee) is organised, subject as provided in Condition 9.
Negative Pledge:	The Notes will contain a negative pledge provision as described in Condition 3.
Events of Default:	As further described in full in Condition 11, the terms of the Notes will contain, amongst others, the following events of default which will cause the Notes to accelerate: (a) default in payment of any principal or interest due in respect of the Notes, continuing for a specified period of time; (b) non-performance or non-observance by the Issuer or Parent (where the relevant Issuer is BS Bank or BSGAH) of any of its other obligations under the Trust Deed, the Agency Agreement or the Notes of that Series continuing for a specified period of time; (c) default in respect of any other indebtedness for borrowed money by the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH) or any Restricted Subsidiary in excess of U.S.\$100,000,000 that has become or has been declared due and payable prior to maturity, which default has continued for a specified period of time after written notice to the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) from the Trustee requiring such default to be remedied; and (d) the making of any order by a competent court or the passing of a resolution for the winding-up or dissolution of the Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) other than for the purposes of a reorganisation or where previously approved.
Status of the Notes:	Unless otherwise specified in the applicable Final Terms, the Notes will

Guarantee (in the case of Notes issued by BS Bank and BSGAH):	constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer from time to time outstanding.
Use of Proceeds:	The payment of principal and interest or, as the case may be, the payment and/or delivery of any Securities Amount(s) (as defined below) in respect of Notes issued by BS Bank and BSGAH will be unconditionally and irrevocably guaranteed by the Parent. The obligations of the Parent under such guarantee will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Parent and will rank <i>pari passu</i> among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Parent from time to time outstanding.
Rating:	The net proceeds from each issue of Notes will be applied by the relevant Issuer for the general corporate purposes of the Group which may include making a profit, additions to working capital, the repayment of short-term indebtedness, the replacement or repayment of long-term debt, investments in, or extensions of credit to, subsidiaries of the Parent, the purchase and maintenance of positions in certain stocks, bonds, other securities or assets or certain options contracts or forward contracts or other derivative or synthetic instruments relating thereto in connection with hedging obligations relating to the Notes and other investment activities. If in respect of any particular issue of Notes which are derivative securities for the purpose of Article 15 of the Commission Regulation No 809/2004 implementing the Prospective Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.
Listing and admission to trading: ...	The Programme is rated A1 by Moody's Investors Service Limited, A by Standard & Poor's Ratings Services and A+ by Fitch Ratings Ltd in respect of Notes with a maturity of more than 365 days and P-1 by Moody's Investors Services Limited, A-1 by Standard & Poor's Ratings Services and F-1+ by Fitch Ratings Ltd in respect of Notes with a maturity of 365 days or less. Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Governing Law:	Application has been made to the UK Listing Authority for certain Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for certain Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The Final Terms relating to each issue will state whether or not the Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) or markets, as the case may be.
Governing Law:	The Trust Deed is, and the Notes will be, governed by, and construed in accordance with, English law.

Selling Restrictions:

There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom and Ireland), Japan, the Cayman Islands and Singapore. In connection with the offering and sale of a particular Tranche of Notes additional restrictions may be imposed which will be set out in the applicable Final Terms. See "Subscription and Sale and Transfer Restrictions" below.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the Summary and the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only, if appropriate, a supplemental Offering Circular will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this summary.

Issuers: The Bear Stearns Companies Inc.
Bear Stearns Bank plc
Bear Stearns Global Asset Holdings, Ltd.

Guarantor: The Bear Stearns Companies Inc. (in relation to issues of Notes by Bear Stearns Bank plc and Bear Stearns Global Asset Holdings, Ltd.).

Business of the Issuers: The Bear Stearns Companies Inc. is a holding company that through its broker dealer and international bank subsidiaries, principally Bear Stearns & Co. Inc., Bear Stearns Securities Corp., Bear Stearns International Limited and BS Bank is an investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide.

BS Bank's activities centre principally around the trading and sales of derivative products and lending. BS Bank contracts with certain Bear Stearns' affiliates to sell BS Bank's products to their customers, based upon BS Bank's pre established approval levels. These levels include, *inter alia*, the types of products sold, types of clients as well as the credit limits for individual clients and market risk levels.

Bear Stearns Global Asset Holdings, Ltd.'s principal business is the issuance to various dealers, as may be determined by the Issuer and the Parent, of medium term notes and other securities denominated in any currency, and having any maturity as agreed between the Issuer and certain other of the Parent's subsidiaries.

Description: Euro Medium Term Note Programme.

Arranger: Bear, Stearns International Limited.

Dealers: Bear, Stearns International Limited
Bear, Stearns & Co. Inc.

The Issuers may at any time appoint an additional dealer or dealers in relation to the Programme (together with the Dealers named above, each a "**Programme Dealer**") or the relevant Issuer may at any time appoint a dealer or dealers in connection with the issue of a Tranche of Notes issued under the Programme (each an "**Issue Dealer**") and may issue Notes to such Dealers in accordance with the provisions of the Dealer Agreement. Unless the applicable Final Terms states otherwise, Dealers will be assumed to be purchasing Notes as principal for their own account and not as agent.

Certain Restrictions: Each issue of Notes denominated in a currency in respect of which

particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale and Transfer Restrictions" below) including the following restrictions applicable at the date of the Offering Circular:

Notes with a maturity of less than 1 year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in other currencies at the date of issue (see "Subscription and Sale and Transfer Restrictions" below).

Trustee:

Citicorp Trustee Company Limited as successor by acquisition to Morgan Guaranty Trust Company of New York, acting through its London office. Acting for the benefit of the Noteholders and Couponholders in relation to Notes issued under the Programme, the Trustee may retire on giving not less than three months' written notice to the relevant Issuer and (where BS Bank or BSGAH is the relevant Issuer) the Parent. It may also be removed by the Noteholders passing an extraordinary resolution. The retirement or removal of the Trustee will not become effective until a successor trustee is appointed.

Issuing and Principal Paying Agent and Agent Bank:

JPMorgan Chase Bank, N.A. (the "**Agent**").

Programme Size:

Up to U.S.\$30,000,000,000 (or its equivalent in other currencies calculated as described herein outstanding at any time). The Issuers may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.

Distribution:

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:

Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer and the relevant Dealer, including, without limitation, Australian dollars, Canadian dollars, Danish kroner, euro, Hong Kong dollars, New Zealand dollars, Sterling, Swedish kronor, Swiss francs, United States dollars and Japanese Yen (as indicated in the applicable Final Terms).

Redenomination:

The applicable Final Terms may provide that Notes may be redenominated in euro.

The relevant provisions applicable to any such payments and redenomination are contained in Condition 4.

Maturities:

Such maturities as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer and Parent (where the relevant Issuer is BS Bank or BSGAH) or the relevant Specified Currency (as defined in "Form of the Notes" below). At the date of this Offering Circular, the minimum maturity of all Notes is one month.

Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par. The Dealers may sell any of the Notes to subsequent purchasers in individually negotiated transactions at prices other than the initial Issue Price.
Form of Notes:	Notes will be issued in bearer form or registered form as described in "Form of the Notes" below.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption and will be calculated on the basis of such Day Count Fraction (as defined in Condition 5) as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer (in each case as indicated in the applicable Final Terms). <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p> <p>Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on the first day of the next Interest Period and will be calculated on the basis of the actual number of days in the Interest Period concerned divided by 360 (or 365/366, in the case of Notes denominated in euro or Sterling) unless otherwise indicated in the applicable Final Terms.</p>
Interest Periods for Floating Rate Notes:.....	Such period or periods as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Indexed Notes:.....	<p>Payments of principal in respect of Indexed Redemption Amount Notes or of interest in the case of Indexed Interest Notes will be calculated by reference to such index and/or formula as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).</p> <p>Indexed Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Indexed Interest Notes will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms.</p>
Linked Notes:	<p>Payments of principal in respect of Linked Notes will be calculated by reference to changes in the prices of securities or commodities or to such other factor as the Issuer and the relevant Dealer agree.</p>
Zero Coupon Notes:.....	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.</p>
Redemption:	<p>The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes (if Linked Notes) may be settled at maturity or otherwise by receipt by the holder(s) of a cash amount and/or by delivery of the relevant Underlying Securities or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or, as the case may be, the relevant Issuer on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.</p> <p>The applicable Final Terms may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as indicated therein.</p> <p>Notes issued on the terms that they must be redeemed before their first anniversary may be subject to restrictions on their denomination and distribution, see "Certain Restrictions—Notes with a maturity of less than 1 year" and "Certain Restrictions—Notes with a maturity of not more than 183 days" above.</p>
Consolidation and Merger:	<p>Either Issuer may consolidate or merge with or into any other company, and may sell, lease or convey all or substantially all of its assets to any company, organised and existing under the laws of Ireland (in the case of BS Bank) or of the United States or any state thereof (in the case of the Parent), subject to the fulfilment of certain conditions, as more fully set out in Condition 21 and the Trust Deed.</p>
Substitution:.....	<p>The Trustee and the relevant Issuer and (where BS Bank or BSGAH is the relevant Issuer) the Parent are permitted to agree to the substitution of another company, being the successor company (as defined in the Trust Deed): (i) of the relevant Issuer or (where the relevant Issuer is BS Bank or BSGAH) the Parent as principal debtor or guarantor, as the case may be, in place of the relevant Issuer or (where the relevant Issuer is BS Bank or BSGAH) the Parent; or (ii) of any wholly-owned Subsidiary of the relevant Issuer, or any successor company, as the principal debtor in place of the relevant Issuer (or any previous substitute) of any wholly-owned Subsidiary of the relevant Issuer or any successor company, subject to the fulfilment of certain conditions, as more fully set out in</p>

Condition 21 and the Trust Deed.

Denomination of Notes:.....

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Final Terms save that: (i) Bearer Notes with a maturity of not more than 183 days will have a minimum denomination of U.S.\$500,000 as of the date of issue (or its equivalent as of the date of issue in the currency in which the Notes are denominated), (ii) the minimum denomination of each Note issued by BS Bank and BSGAH will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "Certain Restrictions" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be at least €1,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount in such currency), provided always that, if greater, the minimum denomination of each Note issued by BS Bank will, except in the case of Notes listed on a stock exchange which constitute "debts on a security" for Irish tax purposes, or Notes sold to an Irish resident or ordinarily resident person falling within (i) to (vi) of (a) in the definition of "relevant deposit" in Section 256 of the Irish Taxes Consolidation Act 1997 acquiring the Notes beneficially for its own account, or Notes otherwise coming within an exemption from Irish deposit interest retention tax other than that provided for by a concession agreed with the Irish Revenue Commissioners on 1 July, 1997, as modified from time to time, or that provided for by Section 246A of the Irish Taxes Consolidation Act 1997, be (a) €500,000 or its equivalent in other Specified Currencies at the date of issue, or (b) in the case of Notes with an original maturity of two years or less, €500,000 in the case of Notes denominated in euro, U.S.\$500,000 in the case of Notes denominated in U.S. Dollars or, in the case of Notes denominated in a currency other than euro or U.S. Dollars, the equivalent of that other currency of €500,000; (iii) the minimum denomination of each Note issued by the Parent on terms that it must be redeemed before its first anniversary will be £100,000 or its equivalent in other Specified Currencies if the proceeds of the issue are accepted in the United Kingdom; and (iv) the minimum denomination of each Note sold, resold or transferred to an Institutional Accredited Investor will be U.S.\$100,000 or its equivalent in other Specified Currencies.

Taxation:.....

All payments of interest or principal or deliveries in respect of the Notes will be made without deduction for or on account of withholding taxes payable in the country in which the relevant Issuer (or the Parent, where the Parent is making payment on behalf of BS Bank or BSGAH pursuant to the Guarantee) is organised, subject as provided in Condition 9.

Negative Pledge:.....

The Notes will contain a negative pledge provision as described in Condition 3.

Cross Default:.....

The Notes will contain a cross-default provision relating to indebtedness for borrowed money as described in Condition 11.

Status of the Notes:.....

Unless otherwise specified in the applicable Final Terms, the Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer from time to time outstanding.

Guarantee (in the case of Notes issued by BS Bank and BSGAH):	The payment of principal and interest or, as the case may be, the payment and/or delivery of any Securities Amount(s) (as defined below) in respect of Notes issued by BS Bank and BSGAH will be unconditionally and irrevocably guaranteed by the Parent. The obligations of the Parent under such guarantee will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Parent and will rank <i>pari passu</i> among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Parent from time to time outstanding.
Rating:	The Programme is rated A1 by Moody's Investors Service Limited, A by Standard & Poor's Ratings Services and A+ by Fitch Ratings Ltd in respect of Notes with a maturity of more than 365 days and P-1 by Moody's Investors Services Limited, A-1 by Standard & Poor's Ratings Services and F-1+ by Fitch Ratings Ltd in respect of Notes with a maturity of 365 days or less. Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and admission to trading: ...	<p>Application has been made to the UK Listing Authority for certain Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for certain Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.</p> <p>Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The Final Terms relating to each issue will state whether or not the Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) or markets, as the case may be.</p>
Governing Law:	The Trust Deed is, and the Notes will be, governed by, and construed in accordance with, English law.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom and Ireland), Japan, the Cayman Islands and Singapore. In connection with the offering and sale of a particular Tranche of Notes additional restrictions may be imposed which will be set out in the applicable Final Terms. See "Subscription and Sale and Transfer Restrictions" below.

DOCUMENTS DEEMED TO BE INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the UK's Financial Services Authority shall be incorporated in, and form part of, this Offering Circular:

- (a) the published quarterly reports of the Parent on Forms 10-Q for (i) the quarter ended February 28, 2006 and (ii) the quarter and six months ended May 31, 2006;
- (b) the current reports of the Parent on Form 8-K which contain consolidated financial information of Parent and its subsidiaries (the "**Group**") dated December 9, 2005, December 15, 2005, December 27, 2005, January 20, 2006, January 25, 2006, March 16, 2006, March 16, 2006, June 15, 2006 and June 21, 2006;
- (c) the Parent's Annual Report on Form 10-K as amended by Form 10-K/A (including the portions of the Company's Annual Report to Stockholders and Proxy Statement incorporated by reference therein) for the fiscal year ended November 30, 2005 filed with the SEC on February 13, 2006, as amended on Form 10-K/A filed with the SEC on February 22, 2006; and
- (d) the annual audited financial statements of BS Bank in respect of the financial years ended November 30, 2004 and November 30, 2005.

Following the publication of this Offering Circular a supplement may be prepared by the Issuers and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular. In addition, any information or document referenced in any of the documents incorporated by reference into this Offering Circular, as set out above, does not constitute part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the respective Issuer and from the specified office of the Paying Agent for the time being in London.

BS Bank, BSGAH and the Parent will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

RISK FACTORS

Each Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuers are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the relevant Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuers based on the information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision together with any other risk factors that may be highlighted or referenced in an applicable Final Terms.

Factors that may affect the relevant Issuer's ability to fulfil its obligations under Notes issued under the Programme

The Group is mainly exposed to credit risk and market risk (for example fluctuations in interest rates and currency values). These risk factors are addressed by the Group's own risk management procedures and exposures are constantly measured and monitored.

Risks related to the creditworthiness of the Issuers and the Guarantor (where the relevant Issuer is BS Bank or BSGAH)

The Notes constitute general and unsecured contractual obligations of the relevant Issuer and of no other person, and, where the relevant Issuer is BS Bank or BSGAH, the Guarantee constitutes general and unsecured contractual obligations of the Guarantor and of no other person, which will rank equally with all other unsecured contractual obligations of the relevant Issuer and the Guarantor (as applicable), respectively, and behind preferred liabilities, including those mandatorily preferred by law. If you purchase the Notes, you are relying upon the creditworthiness of the relevant Issuer and the Guarantor and no other person or entity and where the Notes relate to securities, you have no rights against the company that has issued such securities, and where the Notes relate to an index, you have no rights against the sponsor of such index or any of the companies comprising such index.

Risks associated with the lack of independence of the Issuers and the Guarantor (where the relevant Issuer is BS Bank or BSGAH)

The Bear Stearns Companies Inc. will act as guarantor of any Notes issued by BS Bank and BSGAH and it or other members of the Group may in some cases act as provider of hedging instruments to the Issuer. As a result, investors will be exposed not only to the credit risk of the Guarantor but also operational risks arising from the lack of independence of the Guarantor in assuming its duties and obligations as the Guarantor and provider of the hedging instruments. The possibility of such conflict of interest cannot be eliminated but it is in part controlled by the fact that Guarantor has different divisions which are run as separate operational units and by different management teams. Whilst compliance procedures require effective segregation of duties and responsibilities between the relevant divisions within the Guarantor, the possibility of conflicts of interest arising cannot be wholly eliminated.

Risks related to other conflicts of interest

The Issuers and any of their subsidiaries and affiliates, in connection with their other business activities, may possess or acquire material information about any underlying securities. Such activities and information may cause consequences adverse to investors in the Notes. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Issuers and any of their subsidiaries and affiliates have no obligation to disclose such information about any underlying securities or the companies to which they relate. The Issuers and any of their subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the Notes or the effect that such activities may directly or indirectly have on any Note.

The above situations may result in consequences which may be adverse to your investment. The Issuers assume no responsibility whatsoever for such consequences and their impact on your investment.

Economic Activity

The Group's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing and other financial activities in each of the primary markets in which the Group does business depend on customer confidence, employment trends, market interest rates, currency fluctuations and other factors that affect the economies of such countries. The Group's performance is influenced by the level and cyclical nature of business activity which is impacted by both domestic and international economic and political events. There can be no assurance that a weakening in the economies of the Group's primary markets will not have a material effect on the Group's future results. The fact that there is an increasing connectivity and interdependence between financial markets and industry sectors in general could, in the event of a downturn in one such market or sector, have a greater impact on the Group's financial results than may have otherwise been anticipated.

Risks associated with the Group's risk management strategies and techniques

The Group faces risk in the conduct of its business, such as credit risk, operational risk and market risk (including liquidity risk). In order to minimize these risks, the Group has implemented risk management strategies, including the extensive use of derivatives. Although the Group invests substantial time and effort in risk management strategies and techniques, such risk management may nonetheless fail under some circumstances, particularly when confronted with risks that are not identified or anticipated or which may occur with such speed or degree that the risk management systems are not able to withstand the impact thereof. Some of the Group's methods for managing risk are based upon observations of historical market behavior. If the Group's measures to assess and mitigate risk prove insufficient, the Group may experience material unexpected losses. Many of the Group's more sophisticated trading and investment transactions are designed to profit from price movements and differences between prices. If prices move in a way that the Group's risk modeling has not anticipated, the Group may experience significant losses.

Risks associated with loss by any third party

The Notes will be solely the Issuers' obligations, and no other entity will have any obligations, contingent or otherwise, to make payments in respect of the Notes save for the Parent as guarantor of the Notes issued by BS Bank. The Issuers' income depends on numerous factors beyond its control, such as the general market environment, overall trading activity, interest rate levels, fluctuations in exchange rates and general market volatility. The wide variability of trading income can have a material effect on the Issuers' overall net income.

In addition, because the Parent is a holding company whose primary assets consist of shares of stock or other equity interests in the Parent's subsidiaries, almost all of its income is derived from those subsidiaries. The Parent's subsidiaries will have no obligation to pay any amount in respect of the Notes or to make any funds available for payment of the Notes. Accordingly, the Parent will be dependent on dividends and other distributions or loans from the Parent's subsidiaries to generate the funds necessary to meet its obligations with respect to the Notes, including the payment of principal and interest. The Notes will also be effectively subordinated to the claims of creditors of the Parent's subsidiaries with respect to their assets.

If funds from dividends, other distributions or loans from the Parent's subsidiaries are not adequate, the Parent may be unable to make payments of principal or interest in respect of the Notes and you could lose all or a part of your investment.

Impact of Regulatory Changes

The Group is subject to financial services laws, regulations, administrative actions and policies in each location that the Group operates. Changes in supervision and regulation, in particular in the Group's primary markets, could materially affect the Group's business, the products and services offered or the value of its assets. Although the Group works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Group.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable Final Terms;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

No reliance

A prospective purchaser may not rely on the Issuers, the Dealers, the Agent or any of their affiliates in connection with its determination as to the legality of an acquisition of the Notes by such prospective purchaser or as to the other matters referred to above except to the extent otherwise imposed by law, regulations, guidelines or codes issued by regulatory authority.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuers

An optional redemption feature is likely to limit the market value of the relevant Notes. During any period when the Issuers may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuers may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest

rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Indexed Notes, Linked Notes and Foreign Currency Notes

The Issuers may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuers may issue Notes with principal or interest payable in, or linked to, one or more currencies which may be different from the currency in which you conduct your business or activities, or reside. Potential investors should be aware that:

- (i) the possibility of significant changes in the foreign currency exchange rates which may adversely affect the market price of such Notes, possibly resulting in increases in the volatility of the trading value of the Notes;
- (ii) they may receive little or no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Indexed Notes. Accordingly, you should consult your own financial and legal advisors about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of your particular circumstances.

In accordance with Condition 6(a), following the occurrence of any Potential Adjustment Event or Extraordinary Event in relation to Linked Notes, the Calculation Agent shall, in its sole and absolute discretion, determine the appropriate adjustment, if any, to be made to any of the Conditions in relation to such Linked Notes to account for the effect of such Potential Adjustment Event or Extraordinary Event. Any such adjustment made by the Calculation Agent may substantially reduce or eliminate the value of a conversion right or other privilege associated with the relevant Notes.

Linked Notes with a credit component

The Issuers may issue Notes where the principal is determined by reference to the creditworthiness of a reference entity or entities and/or a reference obligation or obligations. Potential investors should be aware that upon the occurrence of a credit event in relation to such entit(y)/(ies) and/or obligations(s), the Notes may be subject to early redemption and, depending upon the settlement provisions of the particular Notes, the investor may receive physical delivery of securities (which at such time may have no value) or a cash sum which is less than its original investment in the Notes, and depending upon the terms of a specific issuance, may lose its entire investment.

Partly-paid Notes

The Issuers may issue Notes where the issue price is payable in more than one installment. Failure to pay any installment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. The variable interest rate may vary from time to time such that, due to the fluctuation of the applicable interest rate, it is possible in the future you will receive a lesser

amount of interest. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuers' have the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuers may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuers convert from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuers convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

Condition 20 provides for the calling of meetings of Noteholders to consider matters affecting their interests generally. These provisions permit specified majorities of Noteholders to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Condition 20 also provides that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the relevant Issuer or Guarantor, in the circumstances described in Condition 20.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuers nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuers will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Calculation Agent

The Calculation Agent may be one of the Issuers or one of their affiliates, and therefore, potential conflicts of interest may exist between the Calculation Agent and the Noteholders, including with respect to certain determinations and judgments that the Calculation Agent may make pursuant to the Conditions, which may influence the amount receivable upon redemption of the Notes.

Hedging

The Issuers or any of their affiliates may engage in trading or hedging transactions involving the Notes, shares (including any underlying securities) or other derivative products that may affect the value of the Notes. In the ordinary course of their business, including without limitation in connection with their market making activities, the Issuers and/or any of their affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the applicable reference obligation or related derivatives. In addition, in connection with the offering of the Notes, the Issuers and/or any of their affiliates may enter into one or more hedging transactions with respect to the applicable reference obligation or related derivative. In connection with such hedging or market making activities or with respect to proprietary or other trading activities by the Issuers and/or any of their affiliates, the Issuers and/or any of their affiliates may enter into transactions with respect to the applicable reference obligation or related derivatives which may affect the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the relevant Noteholders.

Certain Considerations Regarding Hedging

Prospective purchasers intending to purchase securities to hedge against the market risk associated with investing in a reference security, index, currency, commodity or other basis of reference which may be specified in the applicable Final Terms, should recognise the complexities of utilising securities in this manner. For example, the value of the securities may not exactly correlate with the value of the reference security, index, currency, commodity or other basis which may be specified in the applicable Final Terms. Due to fluctuating supply and demand for the securities, there is no assurance that their value will correlate with movements of the reference security, index, currency, commodity or other basis which may be specified in the applicable Final Terms. For these reasons, among others, it may not be possible to purchase or liquidate securities in a portfolio at the prices used to calculate the value of any relevant index or basket.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Market value of Notes

The market value of an issue of Notes will, and in some instances the amount of interest due and/or the amount due upon redemption of an issue of Notes may, be affected by a number of factors independent of the creditworthiness of the Issuers including, but not limited to:

- (i) the value and volatility of any applicable reference obligation or related derivatives;
- (ii) in the case of credit linked Notes, the creditworthiness of the specified entity or entities;
- (iii) where any applicable reference obligation or related derivative is/are equity securities, the dividend rate on the security and the financial results and prospects of the issuer of each security;
- (iv) market interest and yield rates; and
- (v) the time remaining to any redemption date or the maturity date.

In addition, the value of any applicable reference obligation or related derivatives may depend on a number of interrelated factors, such as economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the stock exchange(s) on which any applicable reference obligation or related derivatives may be traded. The price at which a Noteholder will be able to sell any Notes prior to maturity may be at a discount, which could be substantial, to the market value of such Notes on the issue date, if, at such time, the market price of the applicable reference obligation or related derivatives is below, equal to or not sufficiently above the market price of the applicable currency, commodity, security or related derivatives on the issue date. The historical market prices of any applicable reference obligation or related derivatives should not be taken as an

indication of such applicable reference obligation or related derivative's future performance during the term of any Note.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. There may not be a secondary market in the Notes, which may affect the price that you receive for your Notes upon any sale prior to maturity. If a trading market does develop, there can be no assurance that there will be liquidity in the trading market. If the trading market for the Notes is limited, there may be a limited number of buyers for your Notes if you do not wish to hold your investment until maturity. This may affect the price you receive upon any sale of the Notes prior to maturity. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments in respect of Notes issued by BS Bank, under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to certain Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of such Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Actual or anticipated changes to the Issuers' credit ratings, financial condition and results of operations may adversely affect the trading value of the Notes

Actual or anticipated changes in the Issuers' current credit ratings, as well as their financial condition or results of operations may significantly affect the trading value of the Notes. However, because the return on the Notes is dependent upon factors in addition to the Issuers' ability to pay its obligations under the Notes, an improvement in our credit ratings, financial condition or results of operations will not reduce the other risks related to the Notes.

Notes may be rated or unrated

Although the Programme is rated A1 by Moody's Investors Service Limited, A by Standard & Poor's Ratings Services and A+ by Fitch Ratings Ltd in respect of Notes with a maturity of more than 365 days and P-1 by Moody's Investors Service Limited, A-1 by Standard & Poor's Ratings Services and F-1+ by Fitch Ratings Ltd in respect of Notes with a maturity of 365 days or less, Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the

Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

FORM OF THE NOTES

The Notes of each Series will be in bearer and/or registered form.

Unless otherwise provided with respect to a particular Series of Registered Notes, the Registered Notes of each Tranche of such Series offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a Reg. S Global Note which will be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg. Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Notes, beneficial interests in a Reg. S. Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 13 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Reg. S Global Note will bear a legend regarding such restrictions on transfer.

Registered Notes of each Tranche of such Series may only be offered and sold in the United States or to U.S. persons in private transactions: (i) to QIBs; or (ii) to Institutional Accredited Investors who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a Restricted Global Note which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof. The Restricted Global Note and the Registered Notes in definitive form issued to Institutional Accredited Investors will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of the principal of, and interest (if any) on, or the payment and/or delivery of any Securities Amount (as defined in Condition 7(a)(iii)) in respect of, the Registered Global Notes will be made to the nominee of DTC as the registered holder of the Registered Global Notes. None of the Issuers, the Trustee, the Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal of, or the payment and/or delivery of any Securities Amount in respect of, the Registered Notes will be made to the persons shown on the Register at the close of business on the business day immediately prior to the relevant payment or delivery date. Payments of interest on the Registered Notes will be made on the relevant payment date to the person in whose name such Notes are registered on the Record Date (as defined in Condition 7(b)) immediately preceding such payment date.

Each Tranche of Bearer Notes will be initially represented by a Temporary Bearer Global Note (without receipts, interest coupons or talons) which will (A) if the Bearer Notes are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear and Clearstream, Luxembourg; and (B) if the Bearer Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal and interest (if any) or the payment and/or delivery of any Securities Amount due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owner of such Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg, as applicable, and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the "**Exchange Date**") which is 40 days after the date on which a Temporary Bearer Global Note is issued, interests in the Temporary Bearer Global Note will be exchangeable (free of charge) upon a request by Euroclear and/or Clearstream, Luxembourg acting on the instruction of the holders of interests in the Temporary Bearer Global Note for interests in a Permanent Bearer Global Note (without receipts, interest coupons or talons) or, in the case of Temporary Bearer Global Notes issued by the Parent only, for security printed definitive Bearer Notes (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period

as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described above and in accordance with the terms of the Temporary Bearer Global Note unless such certification has already been given. Unless exchange for an interest in a Permanent Global Note or, in the case of Temporary Bearer Global Notes issued by the Parent only, for definitive Notes is improperly withheld or refused, the holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest or principal, or to the payment and/or delivery of any Securities Amount, due on or after the Exchange Date.

Payments of principal and interest (if any) on, or the payment and/or delivery of any Securities Amount in respect of, a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or (as the case may be) surrender of the Permanent Bearer Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification. A Permanent Bearer Global Note issued by the Parent will be exchangeable (free of charge), in whole but not in part, for definitive Notes (with, where applicable, receipts, interest coupons and talons attached) upon not less than 60 days' written notice to the Agent from Euroclear or Clearstream, Luxembourg (as the case may be) acting on the instructions of the holders of beneficial interests in the Permanent Bearer Global Note.

In relation to Permanent Bearer Global Notes issued by BS Bank or BSGAH only, such a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) BS Bank or BSGAH has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) BS Bank or BSGAH has or will become subject to adverse tax consequences as a result of legislative changes in the domicile of the relevant Issuer which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 16 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes" below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned (where applicable) a CUSIP number, and, in the case of Bearer Notes and Reg. S Notes (as defined in the Conditions), CINS number, common code and ISIN which are different from the CUSIP number, CINS number, common code and ISIN assigned to Notes of any other Tranche of the same Series until at least expiry of the Distribution Compliance Period applicable to such Tranche. The end of such period and, as the case may be, the CUSIP number, CINS number, common code and ISIN thereafter applicable to the Notes of the relevant Series will be notified by the Agent to the relevant Dealer.

All global Notes and definitive Notes will be issued pursuant to the Trust Deed (as defined under "Terms and Conditions of the Notes" below) and the Agency Agreement.

For so long as any of the Notes is represented by a Global Note in bearer form deposited with (i) a common depository, or (ii) if the Notes are NGNs, a common safekeeper in each case for Euroclear and Clearstream, Luxembourg or so long as DTC or its nominee is the registered holder of a Registered Global Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or, as the case may be, DTC as entitled to a particular nominal amount of Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or DTC or its nominee as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on, or the payment and/or delivery of any Securities Amount (as defined below) in respect of, the Notes, for which purpose such common depository or common safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the Trust Deed (and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly).

No beneficial owner of an interest in a Registered Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case, to the extent applicable.

The following legend will appear on all bearer global Notes and, definitive Bearer Notes which have an original maturity of more than 183 days and on all receipts, interest coupons and talons relating to such Notes:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections of the Internal Revenue Code of 1986, as amended (the "Code") referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts, interest coupons or talons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal, or the payment and/or delivery of any Securities Amount, in respect of Bearer Notes, receipts, interest coupons or talons.

In addition, the following legend will appear on all bearer global Notes, definitive Bearer Notes that have a maturity of not more than 183 days and all receipts, interest coupons and talons relating to such Notes:

"This Note relates to Notes with a maturity of not more than 183 days from the date of issue. By accepting this obligation the holder represents and warrants that it is not a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and Regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and Regulations thereunder)."

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[THESE FINAL TERMS CONSTITUTE FINAL TERMS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE.]

[THIS [●] [CONSTITUTES/INCLUDES] FINAL TERMS FOR THE PURPOSES OF THE OFFERING CIRCULAR.]

[Insert risk warning]¹

[Date]

**[THE BEAR STEARNS COMPANIES INC.]/[BEAR STEARNS BANK PLC]
[BEAR STEARNS GLOBAL ASSET HOLDINGS, LTD.]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by [THE BEAR STEARNS COMPANIES INC.]]
under the U.S.\$30,000,000,000
Euro Medium Term Note Programme

¹ The risk warning should be structured substantially as follows, with the relevant paragraphs to be amended as appropriate for each issuance:

For Notes linked to an Index, include the following paragraph as first paragraph:

[[THE NOTES ARE NOT PRINCIPAL PROTECTED [OR INTEREST PROTECTED]]. NOTEHOLDERS SHOULD UNDERSTAND THAT PAYMENTS OF [PRINCIPAL] [AND] [INTEREST] UNDER THE NOTES WILL BE LINKED TO THE PERFORMANCE OF THE INDEX, WHICH ITSELF CONTAINS SUBSTANTIAL CREDIT AND MARKET VALUE RISKS. [THE NOTES ARE LEVERAGED SUCH THAT CHANGES IN THE LEVEL OF THE INDEX WILL HAVE A [●]-TO-[●] EFFECT ON RELEVANT [REDEMPTION] AMOUNTS.]

For Notes linked to Underlying Securities, include the following paragraph as first paragraph:

[[THE NOTES ARE NOT PRINCIPAL PROTECTED [OR INTEREST PROTECTED]]. NOTEHOLDERS SHOULD UNDERSTAND THAT PAYMENTS OF [PRINCIPAL] [AND] [INTEREST] UNDER THE NOTES WILL BE LINKED TO [THE PERFORMANCE OF THE UNDERLYING SECURITIES / SOLELY TO PAYMENTS (IF ANY) RECEIVED UNDER THE UNDERLYING SECURITIES], WHICH THEMSELVES CONTAIN SUBSTANTIAL CREDIT AND MARKET VALUE RISKS.

For Notes linked to an Index or Underlying Securities, include the following paragraph as second paragraph:

[A NOTEHOLDER MAY NOT RECEIVE FULL PAYMENT OF ITS INITIAL INVESTMENT [, MAY RECEIVE PHYSICAL DELIVERY OF THE UNDERLYING SECURITIES WHOSE MARKET VALUE MAY BE LESS THAN ITS INITIAL INVESTMENT] [AND] [MAY SUFFER A TOTAL LOSS OF ITS INVESTMENT WITHOUT RECEIVING ANY INTEREST THEREON AND SHOULD BE ABLE TO BEAR SUCH LOSS].

For all Notes, include the following paragraphs (after the first and second paragraphs as described above, if any):

[A NOTEHOLDER MAY RECEIVE LESS THAN THE PRINCIPAL AMOUNT IN RESPECT OF ANY NOTE IN THE EVENT THAT (1) SUCH NOTEHOLDER SELLS SUCH NOTE PRIOR TO MATURITY OR (2) THE NOTES ARE REDEEMED EARLY PURSUANT TO CONDITION 8(b) OR CONDITION 11.]

THE ISSUER MAKES NO REPRESENTATION AS TO THE EXISTENCE OF A MARKET FOR THE NOTES. AS SUCH THE NOTES SHOULD BE VIEWED AS ILLIQUID.

NOTEHOLDERS AND PROSPECTIVE PURCHASERS SHOULD CAREFULLY READ PARAGRAPH [●] OF PART B OF THESE FINAL TERMS.

[This Prospectus comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to [NAME OF ISSUER](the "**Issuer**") which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see below).]

PART A – CONTRACTUAL TERMS

[The provisions of the Offering Circular dated August 15, 2006 which constitutes a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive shall be deemed to be incorporated into and form part of this Prospectus in their entirety [with the exception of the summary section on pages 8 to 11 and the overview section on pages 12 to 17 of the Base Prospectus,] save that any statement contained in the Base Prospectus shall be deemed to be modified or superseded for the purpose of these Final Terms/ this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of these Final Terms/ this Prospectus. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus. These Final Terms/ this Prospectus must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of provisions set out within this document and the Base Prospectus. Copies of such Offering Circulars are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[The following documents are also deemed to be incorporated into and form part of this Prospectus:

(a) the audited consolidated annual financial statements of each of the Issuers for the financial years ended [DATE] and [DATE] together in each case with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it;

(b) [INSERT DETAILS OF OTHER DOCUMENTS WHICH WERE INCORPORATED BY REFERENCE INTO THE BASE PROSPECTUS]]

[The Base Prospectus]/[The above documents which are incorporated by reference] [is]/[are] available for viewing at [address] and [website] and copies may be obtained from [address].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

The provisions of the Offering Circular dated August 15, 2005 which constitutes a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive shall be deemed to be incorporated into and form part of these Final Terms/ this Prospectus in their entirety [with the exception of the summary section on pages 8 to 11 and the overview section on pages 12 to 17 of the Base Prospectus,] save that any statement contained in the Base Prospectus shall be deemed to be modified or superseded for the purpose of these Final Terms/ this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of these Final Terms/ this Prospectus. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Base Prospectus. These Final Terms/ this Prospectus must be read in conjunction with the Base Prospectus, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.] Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of provisions set out within this document and the Offering Circulars dated [current date] and August 15, 2005. Copies of such Offering Circulars are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other Final Terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.]]

Noteholders should also read the risk factors set out in the Base Prospectus (including, for the avoidance of doubt, the introductory paragraphs thereto) which are incorporated by reference into these Final Terms.

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risk and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition. Prospective purchasers should conduct their own investigations and, in deciding whether or not to purchase Notes, prospective purchasers should form their own views of the merits of an investment related to the Notes based upon such investigations and not in reliance upon any information given.

[Include any specific risk factors relevant to the particular issuance].²

- | | | | |
|----|-----|-----------------------------------|---|
| 1. | (a) | Issuer: | [] |
| | (b) | [Guarantor: | []] |
| 2. | (a) | Series Number: | [] |
| | (b) | Tranche Number: | [] |
| | | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| 3. | | Specified Currency or Currencies: | [] |
| 4. | (a) | Aggregate Nominal Amount: | |
| | (b) | Series: | [] |
| | (c) | [Tranche: | [] |
| 5. | (a) | [Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)] |
| 6. | | Specified Denominations: | [] |
- (N.B. In respect of Notes issued by Bear Stearns Bank plc, if an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €[1,000]*

² For liquidity risk, include a risk factor substantially as follows:

Neither the Issuer nor the Dealer makes any representation as to the existence of a secondary market for the Notes. However under ordinary market conditions, the Dealer might offer to repurchase some or all of the Notes outstanding, for a price as determined in its sole discretion. There can be no assurance at which price such a bid, if any, would be made. The price of the Notes, if any, may be affected by many factors including, but not limited to: the remaining term of the Notes, the general level of interest rates, the current and prior levels of the Index and the cost to the Issuer of unwinding any related hedging activity or any funding arrangement.

minimum denomination is not required.)

[If the Notes give the right to acquire transferable securities or to receive a cash amount as a consequence of their being converted or the rights conferred on them being exercised, ensure the issuer of the underlying securities is not the relevant issuer or another Bear Stearns group entity.]

7. (a) Issue Date: []
- (b) Interest Commencement Date: []
8. Maturity Date: *[Fixed rate – specify date/
Floating rate – Interest Payment Date falling in or nearest to [specify month]]
[If the Maturity Date is less than one year from the Issue Date, notes, (with the exception of notes issued by BS Bank), must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to professional investors (or another applicable exemption from section 19 of the FSMA must be available).]*
9. Interest Basis: [] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
(further particulars specified below)
10. Redemption/Payment Basis : [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [specify other]
- (N.B. If the Final Redemption Amount is other than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. (a) Status of the Notes: [Senior/[Dated/Perpetual] Subordinated]
- (b) [Status of the Guarantee: [Senior/[Dated/Perpetual] Subordinated]]
- (c) [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [] [and []], respectively]]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)

14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition [Interest])
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
(N.B. This will need to be amended in the case of long or short coupons)
- (c) Business Day Convention (for the purpose of determining Accrual Period pursuant to Condition 5(a)(i)): [Fixed Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/No Adjustment/[specify other]]
- (d) Additional Business Centre(s): []
- (e) Fixed Coupon Amount(s): [] per [] in nominal amount
- (f) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (g) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (h) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (i) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Interest Payment Dates: []
- (b) Business Day Convention (for the purpose of determining Interest Period: (pursuant to Condition 5(b)(i)): [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/No Adjustment/[specify other]]
- (c) Additional Business Centre(s): [] *[If Euro is the Specified Currency and Business Days are defined only by reference to TARGET or London specify "Not Applicable". If any other currency is the Specified Currency and Business Days are defined*

only by reference to London and the principal financial centre of that currency, specify "Not Applicable". Otherwise give details.]

- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: [].
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (h) Margin(s): [+/-] [] per cent. per annum
- (i) Minimum Rate of Interest: [] per cent. per annum
- (j) Maximum Rate of Interest: [] per cent. per annum
- (k) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition [Interest] for alternatives)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Amortisation/Accrual Yield: [] per cent. per annum

- (b) Reference Price: []
- (c) Any other formula/basis of determining amount payable: []
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions [Redemption and Purchase – Early Redemption Amounts] (c) and [-Late Payment on Zero Coupon Notes] apply/specify other] (Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Interest Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent responsible for calculating the interest due: []
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Interest Payment Dates: []
- (e) Correction Cut Off Date: []
(as defined in Condition 6(b)(iii))
19. Linked Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Underlying Securities and/or Formula to be used to determine principal and/or interest or the Securities Amount (Linked Note): [give or annex details]
- (b) Settlement by way of cash and/or physical delivery (Linked Note): []
- (c) Issuer/Noteholder option to vary method of settlement and, if yes, method of election, and procedure, for variation of settlement (Linked Note): []
- (d) Provisions where calculation by reference to the Underlying Securities and/or Formula is impossible or impracticable (Linked Note): [give or annex details]
- (e) Correction Cut Off Date []
(as defined in Condition 21:
- (f) Any other additional terms for Linked Notes: [give or annex details]

20. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Calculation Agent, if any, responsible for calculating the interest payable: []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice period (if other than as set out in the Conditions): []
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee])*
22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination
- (c) Notice period (if other than as set out in the Conditions): []
- (N.B. If setting notice periods which are different to*

those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee]

23. Final Redemption Amount of each Note: [] per Note of [] Specified Denomination /specify other/see Appendix]

(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum specified denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: "For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [] in excess of [] as envisaged in paragraph [6] above, such holding will be redeemed at its nominal amount.")

(NB. If the Final Redemption Amount is other than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition [Redemption and Purchase – Early Redemption Amounts]): [The Early Redemption Amount of the Notes payable on redemption for tax reasons or following an Event of Default shall be an amount equal to the market value of the Notes on the date of redemption, adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Issuer in its sole and absolute discretion.]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. (a) Form of Notes: [Bearer Notes/Registered Notes]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]

(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves)

(b) New Global Note: [Yes][No]

26. Other special provisions relating to Payment Business Days: [Not Applicable/give details]

- (Condition 7(c)) *(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) relates)*
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. *N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
29. Details relating to Instalment Notes:
- (a) [Instalment Amount(s)] [Not Applicable/give details]
- (b) [Instalment Date(s):] [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable [*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*][*(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)*]]
31. Other Final Terms: [Not Applicable/give details]
- (When adding any other Final Terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

32. (a) If syndicated, names [and addresses]** of Managers [and underwriting commitments]**: [Not Applicable/give names [and addresses and underwriting commitments]**]
- (Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.) ***
- (b) Date of [Subscription] Agreement:** []**
- (c) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name [and address]** of relevant Dealer: [Name [and address]**]
34. Total commission and concession:** [] per cent. of the Aggregate Nominal Amount**
35. Whether TEFRA D rules applicable or TEFRA rules not applicable: [TEFRA D/ TEFRA not applicable]

36. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

This document comprises the Final Terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$30,000,000,000 Euro Medium Term Note Programme of [THE BEAR STEARNS COMPANIES INC.]/[BEAR STEARNS BANK PLC]/[BEAR STEARNS GLOBAL ASSET HOLDINGS, LTD.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:
Duly authorized

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [London/ other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable.]

*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.) ***

- (iii) Estimate of total expenses []*
related to admission to trading:*

2. NOTIFICATION

The [name of competent authority in home Member State] [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. - Amend as appropriate if there are other interests]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) [Reasons for the offer] The net proceeds from the issue of Notes will be applied by the Issuer for the general corporate purposes of the Group which may include making a profit, additions to working capital, the repayment of short term indebtedness, the replacement or repayment of long term debt, investments in, or extensions of credit to, subsidiaries of the Parent, the purchase and maintenance of positions in certain stocks, bonds, other securities or assets or certain options contracts or forward contracts or other derivative or synthetic instruments relating thereto in connection with hedging obligations relating to the Notes and other investment activities.

*(If reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)***

- (ii) [Estimated net proceeds:] []

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)***

- (iii) [Estimated total expenses:] []. [Expenses are required to be broken down into each principal intended "use " and presented in order of priority of such "uses".]**]

(NB. If the Notes are derivative securities to which Annex XII

of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

5. YIELD (Fixed Rate Notes only)

Indication of yield: []

[Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. HISTORIC INTEREST RATES (Floating Rate Notes only)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Notes only)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

9. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if []

any):

- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of Euroclear and Clearstream, Luxembourg (in respect of Notes issued as NGNs, the "ICSDs") as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if "yes" selected in which case the Notes must be issued in NGN form]

Notes:

* **Delete if the minimum denomination is less than €50,000**

** **Delete if the minimum denomination is €50,000**

10. NOTEHOLDERS' REPRESENTATIONS

By purchasing the Notes, each Noteholder represents and agrees that:

- (a) in deciding whether or not to purchase the Note it has carefully read and has fully understood the Offering Circular and these Final Terms;
- (b) it has been afforded the opportunity to ask questions of, and receive answers from, the Issuer and the Dealer concerning the terms of the Note, the offering contemplated by the Offering Circular and these Final Terms and related matters;
- (c) it has sufficient knowledge and experience and has taken such professional advice and has independently obtained such information [(including in relation to the Reference Party [if the issuer of the Underlying Securities is defined] and the] Underlying Securities)] as it thinks necessary to make its own evaluation of the merits and risks involved in purchasing the Notes and in making an investment of this type;
- (d) [it has itself been, and will at all times continue to be, solely responsible for making its own independent appraisal of and investigation into the business, financial condition, prospects, creditworthiness, status and affairs of the Issuer[and of the Reference Party];
- (e) in deciding whether or not to purchase the Notes, it is not relying on any communication (written or oral) of the Issuer or the Dealer as investment advice or as a recommendation to purchase the Note, it being understood that information and explanations related to the terms and conditions of the Notes and the agreements that are described in the Base Prospectus and in these Final Terms shall not be considered investment advice or a recommendation to purchase the Notes;
- (f) [it understands that the Issuer is not making, and has not made, any representations whatsoever as to the Reference Party or any information contained in any document filed by the Reference Party with any exchange or with any governmental entity regulating the purchase and sale of securities];
- (g) [it understands that the Issuer and any Affiliate of the Issuer may, for whatever reason, at the date hereof or at any time hereafter, be in possession of information in relation to the Issuer of the Underlying Securities which is or may be material in the context of the Notes and which is or may not be known to the general public or the Noteholder. The Notes do not create any obligation on the part of the Issuer or any Affiliate of the Issuer to disclose to the Noteholder any such relationship or information (whether or not confidential) and neither the Issuer nor any Affiliate shall be liable to the Noteholder by reason of such non-disclosure;]

- (h) [it understands that the Issuer and any Affiliate of the Issuer may have banking or other commercial transactions relating to the Underlying Securities and may engage in proprietary trading in securities of the Underlying Securities (including such trades as the Issuer and/or any Affiliate may consider appropriate in their sole discretion to hedge their market risk relating to the Notes) and that such trading may affect the price of the Underlying Securities and consequently the amount payable under the Notes. Such trading may be effected at any time, including on or near any Valuation Date;]
- (i) [it acknowledges that the Notes [are not, and do not represent or convey any interest in, a direct or indirect obligation of the Reference Party, nor do they][do not] confer on the holder any right (whether in respect of voting, dividend or other distributions in respect of the Underlying Securities) which the holder of any of the Underlying Securities may have. It further understands that the Issuer is not an agent of any Noteholder for any purpose];
- (j) [it understands that it is purchasing these Notes as principal for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment purposes and not with a view to, or for offer or sale in connection with, any distribution or any disposition thereof, and no other person has or will have a direct or indirect beneficial interest in any Note (other than by virtue of such person's direct or indirect beneficial interest in any Noteholder)];
- (k) [it represents that it is [a non-U.S. person purchasing this Note in an offshore transaction in accordance with Regulation S under the Securities Act][a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act][an Accredited Investor and is purchasing the Note for its own account and not with a view to the distribution thereof];
- (l) it understands that the Note has not been registered under the Securities Act, or any state securities laws, and that neither this Note nor any interest or participation herein may be reoffered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the absence of such registration or unless such transaction is exempt from, or not subject to, registration;
- (m) it has all necessary power and authority to acquire the Note and such acquisition will not contravene any law, rule or regulation binding on it or such account or any investment guideline or restriction applicable to it or such account;
- (n) it acknowledges and agrees that neither the Dealer nor the Issuer have made any representation to it regarding the legality of its investment in the Note under applicable legal investment or similar laws or regulations and that the appropriate characterization of the Note under various legal investment restrictions may be subject to significant interpretative uncertainties.
- (o) [it understands that the Notes are not principal protected;]
- (p) it understands that it may suffer a loss of its investment in the Note in the event of an early redemption pursuant to Condition 8(b) or Condition 11;
- (q) [it understands that the [Interest Amount] [Final Redemption Amount] [other – specify] will be dependent upon the performance of the [Shares] [Index(ices)] [other – specify] (as defined in the Schedule attached hereto), which contains substantial credit and interest rate risks [and that if the Final Level is below [●], it may not receive the full amount of its original investment upon the maturity of the Notes];]
- (r) it understands and agrees that the Issue Price may include an amount related to hedging arrangements entered into by the Issuer and one of its affiliates and the Notes may be re-sold in the future at prices which may be greater or less than such price;
- (s) [it understands and acknowledges that a [structuring] [underwriting] fee [has been] [is being] paid to [a third party] [the Joint-Lead Managers] [other – specify] in relation to the issue of the Notes.] [Full details of this fee will be disclosed to the Noteholder upon request;]
- (t) [it understands that the Note is not an insurance contract;]
- (u) [it understands that since the entity acting as Calculation Agent is an affiliate of the Issuer, potential conflicts of interest may exist between such affiliate in its capacity as the Calculation Agent, on the one hand, and the Noteholders on the other;]

- (v) it acknowledges that, in acting hereunder, the Calculation Agent is acting as agent of the Issuer and such entity shall not thereby assume any obligations towards or relationship of agency or trust for or with the Noteholders; and
- (w) it understands that although long term debt of the [Issuer] [Guarantor] has been rated "A1" by Moody's Investors Service, Inc., "A" by Standard and Poor's Ratings Services and "A+" by Fitch Ratings Limited, such ratings would not necessarily apply to the Notes if they were rated since the [Interest Amount] [Final Redemption Amount] [other – specify] is linked to the performance of the [Commodities][Shares] [Index(ices)] [other – specify].

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes (the "**Terms and Conditions**") which will be incorporated by reference into each global Note and which will be endorsed on or attached to (or, if permitted by the relevant stock exchange or other relevant authority and agreed between the relevant Issuer and the relevant Dealer, incorporated by reference into) each definitive Note. The applicable Final Terms in relation to any Notes supplements the following Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms will be incorporated into, or attached to, each Temporary Bearer Global Note, Permanent Bearer Global Note, Registered Global Note and definitive Note. Reference should be made to "Form of the Notes" above for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions.

This Note is one of a series of Notes issued with the benefit of the Agency Agreement (as defined below). References herein to the "**Issuer**" or the "**relevant Issuer**" shall be references to the party specified as the Issuer in the applicable Final Terms (as defined below). This Note is constituted by a Trust Deed dated August 4, 1994, as supplemented by a First Supplemental Trust Deed dated November 30, 1995, a Second Supplemental Trust Deed dated November 20, 1996, a Third Supplemental Trust Deed dated November 26, 1997, a Fourth Supplemental Trust Deed dated November 25, 1998, a Fifth Supplemental Trust Deed dated November 19, 1999, a Sixth Supplemental Trust Deed dated December 8, 2000, a Seventh Supplemental Trust Deed dated December 6, 2001, an Eighth Supplemental Trust Deed dated December 11, 2002, a Ninth Supplemental Trust Deed dated December 17, 2003, a Tenth Supplemental Trust Deed dated August 15, 2005 and an Eleventh Supplemental Trust Deed dated August 15, 2006 (as so supplemented and as further amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between The Bear Stearns Companies Inc. (the "**Parent**") (in its capacity both as an Issuer and as guarantor of Notes issued by BS Bank and BSGAH), Bear Stearns Bank plc as an Issuer ("**BS Bank**"), Bear Stearns Global Asset Holdings, Ltd. as an Issuer ("**BSGAH**"), and Citicorp Trustee Company Limited as trustee (the "**Trustee**", which expression shall include any successor trustee).

References herein to the "**Notes**" shall be references to the Notes of this Series (as defined below) and shall mean: (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency (each as defined below); (ii) definitive Bearer Notes issued in exchange (or part exchange) for a global Note; (iii) definitive Registered Notes; and (iv) any global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) also have the benefit of an Amended and Restated Agency Agreement dated August 15, 2006 (as may be further amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") and made between, *inter alios*, the Parent, BS Bank, BSGAH, JPMorgan Chase Bank, N.A. as issuing and principal paying agent and agent bank (the "**Agent**", which expression shall include any successor agent specified in the Final Terms relating to the Notes (the "**Final Terms**")), the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), JPMorgan Chase Bank, N.A. as registrar (the "**Registrar**", which expression shall include any successor registrar), the transfer agents named therein (the "**Transfer Agents**", which expression shall include any additional or successor transfer agents), JPMorgan Chase Bank, N.A. as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent) and the Trustee.

Interest bearing definitive Bearer Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and global Notes do not have Receipts or Coupons attached on issue.

The Final Terms for this Note is attached hereto or (to the extent relevant) incorporated herein and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the "**applicable Final Terms**" are to the Final Terms attached hereto or incorporated herein.

The Trustee acts for the benefit of the holders of the Notes (the "**Noteholders**", which expression shall, in relation to any Notes represented by a global Note, be construed as provided below), the holders of the Receipts (the "**Receiptholders**") and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the

context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means all Notes with the same Issue Date and which are the subject of the same Final Terms and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection at the London office of the Trustee, being at August 15, 2006 at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, and at the specified office of each of the Paying Agents, the Registrar and the Transfer Agents save that a Final Terms relating to a Note not admitted to trading on a regulated market in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by the relevant Dealer specified in the applicable Final Terms, the Registrar, any Paying Agent or any Transfer Agent and, upon proof satisfactory to the Trustee, the Registrar or the relevant Paying Agent or Transfer Agent, as the case may be, as to identity, by the holder of any Note to which such Final Terms relates. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and that, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes may be in bearer form ("**Bearer Notes**") and/or in registered form ("**Registered Notes**") and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Save as provided below in Condition 13, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note (where payment in respect of interest is linked to an index and/or a formula), an Indexed Redemption Amount Note (where payment in respect of principal is linked to an index and/or a formula), a Linked Note (where payment in respect of principal and/or interest is linked to an underlying equity, bond, other security, such other asset as may be specified in the applicable Final Terms (the "**Underlying Securities**")), a Dual Currency Note or a Partly Paid Note or any appropriate combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Final Terms. It is also a Linked Note, a Dual Currency Note, a Partly Paid Note, an Indexed Interest Note and an Indexed Redemption Amount Note if, in each case, the applicable Final Terms so indicates and, in such case, the appropriate provisions of these Terms and Conditions will apply accordingly.

Bearer Notes in definitive form are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to interest and Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in New York City.

Subject as set out below, the relevant Issuer, the Parent (if BS Bank or BSGAH is the relevant Issuer), the Trustee, any Paying Agent, the Registrar, the Exchange Agent and any Transfer Agent may deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next paragraph.

For so long as any of the Notes is represented by a bearer global Note held by a common depositary or, if the Notes are NGNs, the common safekeeper, on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or for so long as The Depository Trust Company ("**DTC**") or its nominee is the registered holder of a Registered Global Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or, as the case may be, DTC as entitled to a particular nominal amount of Notes (in which regard any certificate or other document issued by Euroclear,

Clearstream, Luxembourg or DTC as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such nominal amount of Notes for all purposes other than with respect to the payment of principal or interest on such Notes, for which purpose such common depositary or common safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such nominal amount of Notes in accordance with and subject to the terms of the relevant global Note (or the Trustee in accordance with the terms of the Trust Deed) (and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and DTC, as the case may be.

References herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the relevant Issuer, the Agent and the Trustee and specified in the applicable Final Terms.

2. STATUS OF THE NOTES AND GUARANTEE

- (a) The Notes and the relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and rank and will rank *pari passu* among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer from time to time outstanding.
- (b) Where the relevant Issuer is BS Bank or BSGAH, the payment of principal of and interest on, and the payment and/or delivery of any Securities Amount in respect of, the Notes and all other moneys payable by either BS Bank or BSGAH under or pursuant to the Trust Deed have been unconditionally and irrevocably guaranteed by the Parent in the Trust Deed (the "**Guarantee**"). The obligations of the Parent under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Parent and rank and will rank *pari passu* among themselves and (subject as aforesaid and to certain statutory exceptions) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Parent from time to time outstanding.

3. NEGATIVE PLEDGE

- (a) So long as any of the Notes remains outstanding (as defined in the Trust Deed), neither the relevant Issuer nor any of the Restricted Subsidiaries (as defined below) shall create or have outstanding any indebtedness for borrowed money secured by a mortgage, charge, pledge, lien or other security interest upon any shares of Voting Stock (as defined below) of any Restricted Subsidiary or (where the relevant Issuer is the Parent) BS Bank and BSGAH without effectively providing that the Notes will be secured equally and rateably with such secured indebtedness to the satisfaction of the Trustee or such other security, guarantee or support is provided for the Notes as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) So long as any of the Notes issued by BS Bank and BSGAH remains outstanding, the Parent shall not create or have outstanding any indebtedness for borrowed money secured by a mortgage, charge, pledge, lien or other security interest upon any shares of Voting Stock of any Restricted Subsidiary without effectively providing that all amounts payable or deliverable under the Guarantee will be secured equally and rateably with such secured indebtedness to the satisfaction of the Trustee or such other security, guarantee or support is provided for all amounts payable or deliverable under the Guarantee as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution of the Noteholders.

4. REDENOMINATION

Where Redenomination is specified in the applicable Final Terms as being applicable, the relevant Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Trustee, the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 16, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the relevant Issuer determines, after consultation with the Agent and with the approval of the Trustee (such approval not to be unreasonably withheld and to be given as soon as reasonably practicable after receiving notice in accordance with this Condition 4), that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the relevant Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed, the Trustee and the Agent of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the relevant Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 7; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders and the Trustee;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the relevant Issuer gives notice (the "**Exchange Notice**") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque, provided that, in relation to Bearer Notes, no payments shall be made by euro cheque and all payments shall be made by transfer to a euro account maintained by the payee with a bank outside the United States and outside of U.S. Possessions;
- (vi) if the Notes are Floating Rate Notes, the applicable Final Terms specifies any relevant changes to the provisions relating to interest;
- (vii) Notes with a maturity of not more than 183 days will have a minimum redenomination of the euro equivalent of U.S.\$500,000 (determined on the date of issuance); and
- (viii) such other changes shall be made to these Terms and Conditions, the Trust Deed and/or the Agency Agreement as the relevant Issuer may decide, after consultation with the Agent and with the approval of the Trustee (such approval not to be unreasonably withheld and to be given as soon as reasonably practicable after receiving notice in accordance with this Condition 4), and as may be specified in the notice, to conform them to conventions then applicable to instruments

denominated in euro. Any such other changes will not take effect until after they have been notified to the Noteholders in accordance with Condition 16.

5. INTEREST

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest so specified, payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date. Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the interest period ending on (but excluding) such date (the "**Fixed Interest Period**") will amount to the Fixed Coupon Amount (the "**Fixed Coupon Amount**"), provided that (i) if the first anniversary of the Interest Commencement Date is not an Interest Payment Date, will amount to the Initial Broken Amount; and (ii) if the Maturity Date is not an Interest Payment Date, interest from (and including) the preceding Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will amount to the Final Broken Amount.

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms, interest shall be calculated by applying the Fixed Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Fixed Interest Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.
- (iii) if "No Adjustment" is specified in the applicable Final Terms, the Accrual Period shall not be subject to adjustment.

(b) Interest on Floating Rate Notes, Indexed Interest Notes and Linked Notes

(i) *Interest Payment Dates*

Each Floating Rate Note, Indexed Interest Note and, where applicable, Linked Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Interest Payment Date(s) specified in the applicable Final Terms (each an "**Interest Payment Date**") in each year (the period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next Interest Payment Date each being an "**Interest Period**"); or
- (B) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes, Indexed Interest Notes and, where applicable, Linked Notes will be determined in the manner specified in the applicable Final Terms.

(iii) *ISDA Determination*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (iii), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes, (the "**ISDA Definitions**") and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either: (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or Euro-zone inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period; or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this Condition 5(b)(iii), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

When this Condition 5(b)(iii) applies, in respect of each relevant Interest Period:

- (A) the Rate of Interest for such Interest Period will be the ISDA Rate plus or minus the Margin (if any) determined by the Agent in accordance with this subparagraph (iii); and
- (B) the Agent will be deemed to have discharged its obligations under Condition 5(b)(vii) in respect of the determination of the Rate of Interest, if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this subparagraph (iii).

(iv) *Screen Rate Determination*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph. Alternatively, provisions dealing with this may be included in the applicable Final Terms.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(v) *Other Determination*

Interest may also be payable from time to time in respect of Floating Rate Notes, Indexed Interest Notes and, where applicable, Linked Notes in accordance with such other manner of determination as may be specified in the applicable Final Terms.

(vi) *Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the above provisions is less than such minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such minimum Rate of Interest. If the applicable Final Terms specifies a maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the above provisions is greater than such maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such maximum Rate of Interest.

(vii) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent or, where the Final Terms specifies another person to act as calculation agent, such person (the "**Calculation Agent**"), in the case of Floating Rate Notes, Indexed Interest Notes and, where applicable, Linked Notes will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes, Indexed Interest Notes or, as the case may be, Linked Notes in respect of each Specified Denomination for the relevant Interest Period. In the case of Indexed Interest Notes and, where applicable, Linked Notes, the Calculation Agent will notify the Agent of the Rate of Interest and the Interest Amount for the relevant Interest Period, as soon as practicable after determining and calculating the same. Each Interest Amount shall be calculated by applying the Rate of Interest to the Specified Denomination, multiplying such sum by the applicable Day Count fraction as specified in the applicable Final Terms or, if none is specified, determined by the Agent or other person specified in the applicable Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) to be customary for such calculation, and rounding the resultant figure to the nearest unit of the smallest size of the relevant Specified Currency customarily used in the settlement of inter-bank payments in such

currency, half such a unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period in accordance with this Condition 5(b) unless otherwise specified in the applicable Final Terms:

- (a) if **"Actual/365"** or **"Actual/Actual (ISDA)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if **"Actual/365 (Fixed)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365,
- (c) if **"Actual/365 (Sterling)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365,
- (d) if **"Actual/360"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360,
- (e) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (f) if **"30E/360"** or **"Eurobond Basis"** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(viii) *Notification of Rate of Interest and Interest Amount*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer, the Parent (where BS Bank or BSGAH is the relevant Issuer), the Trustee and any stock exchange on which the relevant Floating Rate Notes, Indexed Interest Notes or, where applicable, Linked Notes are for the time being listed or other relevant authority and notice thereof to be published in accordance with Condition 16 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes, Indexed Interest Notes or, where applicable, Linked Notes are for the time being listed or other relevant authority and to the Noteholders in accordance with Condition 16. For the purposes hereof **"London Business Day"** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in London.

(ix) *Determination or Calculation by Trustee*

If for any reason the Agent or, as the case may be, the Calculation Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraphs (ii), (iii) or (iv) above, as the case may be, and, in each case, (vii) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any minimum or maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it

shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(x) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Agent, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH), the Agent, the Calculation Agent, the Trustee, the other Paying Agents, the Transfer Agents, the Exchange Agent, the Registrar and all Noteholders, Receiptholders and Couponholders and (in the absence as a willful default or bad faith) no liability to the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH), the Noteholders, the Receiptholders or the Couponholders shall attach to either the Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) **Dual Currency Notes**

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) **Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) **Accrual of Interest**

Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the due date for its redemption unless, upon due presentation thereof, payment of principal or the payment and/or delivery of the Securities Amount (where applicable) is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed or in the applicable Final Terms.

6. ADJUSTMENTS AND DISRUPTION

(a) **Linked Notes**

(i) If on or after the date on which a Transfer Notice is delivered in respect of any Note and prior to the payment and/or delivery of the Securities Amount(s) to which such Transfer Notice relates, any Settlement Disruption Event is subsisting, payment and/or delivery of the relevant Securities Amount(s) (if any) shall be postponed until the first business day (as may be defined in the applicable Final Terms) thereafter on which no Settlement Disruption Event is subsisting, subject to Condition 7(a)(v) above or as otherwise stated in the applicable Final Terms. No Noteholder shall be entitled to any payment whether on account of interest or otherwise on the Notes in the event of any delay in the delivery of such Underlying Securities pursuant to this paragraph and no liability in respect thereof shall attach to the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH).

For the purposes of this Condition, "**Settlement Disruption Event**" means an event beyond the control of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) as a result of which the relevant clearance system cannot clear the transfer of such Underlying Securities.

(ii) As soon as reasonably practicable, following the occurrence of any Potential Adjustment Event or any Extraordinary Event (each as defined below), the Calculation Agent shall, in its sole and absolute discretion, determine (as soon as practicable thereafter) the appropriate adjustment, if any, to be made to any of these Conditions in relation to the Notes to account for the effect of such event (which adjustment may substantially reduce or eliminate the value of a conversion right or

other privilege associated with the relevant Notes), such adjustment to be effective as of the date determined by the Calculation Agent.

In determining whether an adjustment should be made as a result of the occurrence of a Potential Adjustment Event or an Extraordinary Event, the Calculation Agent may take into account market conventions and practices for those products and/or securities which it deems analogous or similar to the Notes, and if options contracts or futures contracts on the Underlying Securities are traded on any stock exchange, the Calculation Agent may have regard to, but shall not be bound by, any adjustment to the terms of the relevant options contract or futures contract made and announced by such stock exchange.

- (iii) In respect of Linked Notes relating to Underlying Securities originally quoted, listed and/or dealt as of the relevant Issue Date in a currency of a Member State of the European Union that has not adopted the single currency in accordance with the EC Treaty, if such Underlying Securities are at any time after the relevant Issue Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange or, where no Exchange is specified, the principal market on which those Underlying Securities are traded, then the Calculation Agent will make such adjustment to the terms of the Linked Notes as the Calculation Agent determines appropriate to preserve the economic terms of the Linked Notes. The Calculation Agent will make any conversion necessary for purposes of any such adjustment as of the Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the Valuation Time. No adjustments pursuant to this paragraph will affect the currency denomination of any payment obligation arising out of the Linked Notes.
 - (iv) In the event that any price published on the Exchange and which is utilised for any calculation or determination made under Linked Notes is subsequently corrected and the correction is published by the Exchange prior to the earlier of (I) 30 days after the original publication and (II) the Correction Cut Off Date the Calculation Agent shall determine or re-determine the relevant Rate of Interest, Final Redemption Amount or any other relevant amount (as the case may be) using the corrected price of the relevant Underlying Securities.
 - (v) If any Valuation Date in respect of a Linked Note is not a Scheduled Trading Day (as defined in Condition 24), that Valuation Date shall be postponed until the next day which is a Scheduled Trading Day, subject to the following sentences of this paragraph. If any Valuation Date is a Disrupted Day in the opinion of the Calculation Agent, then the Valuation Date shall be the first succeeding Scheduled Trading Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (i) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall determine its good faith estimate of the value of the Underlying Securities as of the Valuation Time on that eighth Scheduled Trading Day.
- (b) **Indexed Notes**
- (i) If the Index (as defined in the applicable Final Terms) is (I) not calculated and announced by the sponsor specified in the applicable Final Terms (the "**Index Sponsor**") but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Calculation Agent or (II) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index then the Index will be deemed to be the index (the "**Successor Index**") so calculated and published by the Successor Index Sponsor or that successor or alternative index, as the case may be.
 - (ii) If (A) on or prior to any Valuation Date in respect of any Indexed Notes, the Index Sponsor or (if applicable) the Successor Index Sponsor announces a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock and capitalisation, and other routine events), (an "**Index Modification**") or permanently cancels the Index and no Successor Index exists (an "**Index Cancellation**"), or (B) on any Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index (an "**Index Disruption**" and together with an Index Modification and an Index Cancellation, each an "**Index Adjustment Event**"), then the Calculation Agent shall determine if such Index Adjustment Event has a material effect on the Indexed Notes and, if so,

shall calculate the relevant Rate of Interest or the Final Redemption Amount (as the case may be) using, in lieu of a published level of the Index, the level for the Index as at the relevant Valuation Date as determined by the Calculation Agent in accordance with the formula for and method of calculating the Index last in effect prior to that change, failure or cancellation but using only those securities that comprised the Index immediately prior to that Index Adjustment Event (other than those securities that have since ceased to be listed on the relevant stock exchange).

- (iii) If any level of the Index published on a given day and which is utilized for any calculation or determination made under Indexed Notes is subsequently corrected and the correction is published by the Index Sponsor prior to the earlier of: (I) 30 days after the original publication and (II) the Correction Cut Off Date, the Calculation Agent shall determine or re-determine the relevant Rate of Interest, Final Redemption Amount or any other relevant amount (as the case may be) using the corrected level of the relevant Index.
- (iv) If any Valuation Date in respect of an Indexed Note is not a Scheduled Trading Day (as defined below), that Valuation Date shall be postponed until the next day which is a Scheduled Trading Day, subject to the following sentences of this paragraph. If any Valuation Day is a Disrupted Day in the opinion of the Calculation Agent, then the Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (I) the eighth Scheduled Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (II) the Calculation Agent shall determine the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security as of the Valuation Time on that eighth Scheduled Trading Day).

7. PAYMENTS AND DELIVERIES

For the purposes of this Condition 7, references to payment or repayment (as the case may be) of principal and/or interest and other similar expressions will, where the context so admits, be deemed also to refer to delivery of any Securities Amount(s).

(a) Method of Payment and Delivery

Subject as provided below and, in the case of Linked Notes, subject also as provided in Condition 6:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland respectively), provided that, in relation to Bearer Notes, no payments shall be made by cheque and all payments shall be made by transfer to an account maintained by the payee with a bank outside the United States and outside of U.S. Possessions;
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque, provided that, in relation to Bearer Notes, no payments shall be made by euro cheque and all payments shall be made by transfer to an account maintained by the payee with a bank outside the United States and outside of U.S. Possessions;
- (iii) in the case of Linked Notes which provide for settlement by way of delivery, on the due date for redemption, the relevant Issuer shall deliver, or procure the delivery of, the documents evidencing the number of, or constituting the, Underlying Securities plus/minus any amount due to/from the Noteholder deliverable in respect of each Note (the "**Securities Amount**") to or to the order of the Noteholder in accordance with the instructions of the Noteholder contained in the Transfer Notice (as defined below), provided that, in relation to Bearer Notes, no delivery of the documents evidencing the Securities Amount shall be made by transfer to an account maintained by the payee

with a bank located within the United States and the U.S. Possessions. The Securities Amount shall be evidenced in the manner described in the applicable Final Terms;

- (iv) in the case of Linked Notes which provide the relevant Issuer with an option to vary settlement, details of how this will operate and of any relevant notice periods will be set out in the applicable Final Terms provided that, in relation to Bearer Notes, no payments shall be made by cheque and all payments shall be made by transfer to an account maintained by the payee at a bank outside the United States and outside of U.S. Possessions and no delivery of any documents evidencing the Securities Amount shall be made by transfer to an account maintained by the payee with a bank located within the United States and the U.S. Possessions;
- (v) in the event that a holder of a Linked Note (which may settle by delivery of the Underlying Securities) is not (in the opinion of the Agent, or the Settlement Agent (as defined in Condition 14), as the case may be) able, for any reason, to take delivery of, or become the holder of, the Underlying Securities, or if a Settlement Disruption Event (as defined in Condition 6(a)) has occurred and is continuing for the five business days on which the relevant clearance system is open for the acceptance and execution of settlement instructions immediately following the original date (or as may be otherwise specified in the applicable Final Terms), the relevant Issuer shall, provided that it would not in its opinion be prejudiced thereby, agree to vary the method of settlement in the manner specified in the applicable Final Terms or (in the absence thereof) as the Settlement Agent may in its sole and absolute discretion determine;
- (vi) in respect of payments of interest on Registered Notes issued by BS Bank, the Noteholder may be required to make a declaration in the form (if any) prescribed by applicable Irish law from time to time confirming, as appropriate, that either (I) the beneficial owner of the interest is not resident in Ireland for the purposes of Irish tax or (II) the interest is beneficially owned by a company within the charge to Irish corporation tax and will be included in the profits of the company on which it is to be charged to Irish corporation tax;
- (vii) in respect of payments on Registered Notes with a maturity of more than 183 days that are issued by the Parent, each beneficial owner that is not a United States person as defined in Section 7701(a)(30) of the U.S. Internal Revenue Code of 1986, as amended, of such a Registered Note issued by the Parent must provide a properly completed and executed IRS Form W-8BEN, W-8ECI, W-8EXP or W-8IMY (or such successor form as may be required) with all of the attachments required by the IRS, certifying, under penalties of perjury, that such beneficial owner is not a United States person, prior to payment and from time to time thereafter as required or as requested;
- (viii) in respect of payments on Registered Notes, each holder and beneficial owner of such a Registered Note must provide a properly completed and executed IRS Form W-8BEN, W-8ECI, W-8EXP or W-8IMY or IRS Form W-9, as applicable (or such successor form as may be required) with all of the attachments required by the IRS prior to payment and from time to time thereafter as required or as requested or must otherwise establish an exemption from U.S. backup withholding and information reporting; and
- (ix) upon payment of an advance pursuant to a Bearer Note that is a Partly Paid Note, each beneficial owner of such Bearer Note that is a Partly Paid Note shall provide to the Issuer or the Agent a certification to the effect that the beneficial owner is not a United States person or a person who has purchased the Bearer Notes for resale to any United States person, as required by U.S. Treasury regulations.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

(b) Presentation of Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) only against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used in this Condition 7 and in Conditions 4, 8, 9 and 13(k), means

the United States of America (including the States and the District of Columbia, U.S. Possessions and other areas subject to its jurisdiction)).

In respect of Bearer Notes in definitive form, payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Notes to which they appertain do not constitute valid obligations of the relevant Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes or Indexed Redemption Amount Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Indexed Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

Payments of principal and interest (if any) in respect of Notes represented by any bearer global Note will (subject as provided below) be made in the manner specified in paragraph (a) and otherwise in the manner specified in the relevant global Note against presentation or surrender, as the case may be, of such bearer global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such bearer global Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

Payments of principal (other than instalments of principal (if any) prior to the final instalment) in respect of Registered Notes (whether in definitive or global form) will be made in the manner specified in paragraph (a) to the persons in whose name such Notes are registered at the close of business on the business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) immediately prior to the relevant payment date against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of such Notes at the specified office of the Registrar.

Payments of interest due on a Registered Note (whether in definitive or global form) and payments of instalments of principal (if any) due on a Registered Note (other than the final instalment) will be made in the manner specified in paragraph (a) to the person in whose name such Note is registered at the close of business on the fifteenth day (whether or not such fifteenth day is a business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) (the "**Record Date**")) prior to such due date. In the case of payments by cheque, cheques will be mailed to the holder (or the first named of joint holders) at such holder's registered address on the business day (as described above) immediately preceding the due date.

If payment in respect of any Registered Note is required by credit or transfer as referred to in paragraph (a) above application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

Unless otherwise specified, the holder of a global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the relevant Issuer and the Parent (where BS Bank or BSGAH is the relevant Issuer) will be discharged by payment to, or to the order of, the holder of such global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must, unless the applicable Final Terms states otherwise, look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) to, or to the order of, the holder of such global Note (or the Trustee, as the case may be). Unless otherwise specified, no person other than the holder of such global Note (or the Trustee, as the case may be) shall have any claim against the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) in respect of any payments due on that global Note.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency or conversion into U.S. dollars in accordance with the provisions of the Agency Agreement.

Notwithstanding the foregoing, U.S. dollar payments of principal and interest in respect of Bearer Notes will be made at the specified office of a Paying Agent in the United States:

- (i) if:
 - (A) the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
 - (B) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions; and
 - (C) such payment is then permitted under United States law; and
- (ii) at the option of the relevant holder if payment is then permitted without involving, in the opinion of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH), adverse tax consequences to the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH).

(c) **Payment Business Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Business Day, the holder thereof shall not be entitled to payment until the next following Payment Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the applicable Final Terms, "**Payment Business Day**" means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the relevant place of presentation;
- (ii) a Business Day (as defined in Condition 24); and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and, in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, not a day on which banking institutions are authorised or required by law or regulation to be closed in New York City.

(d) **Linked Notes**

In the case of Linked Notes which provide for settlement by way of delivery of a Securities Amount, the Securities Amount shall be paid and/or delivered to the Noteholder pursuant to these Terms and Conditions, the terms of the applicable Final Terms and a transfer notice ("**Transfer Notice**", the form of which is annexed to the Agency Agreement and copies of which may be obtained from the Paying Agents and the Transfer Agents). No Securities Amount shall be paid and/or delivered until and unless a duly completed Transfer Notice is received in the manner specified in the applicable Final Terms.

Upon receipt of such Transfer Notice by Euroclear, Clearstream, Luxembourg or the Registrar, as the case may be, the Transfer Notice shall be irrevocable and may not be withdrawn. After delivery of a Transfer Notice, the relevant holder may not transfer the Notes specified therein.

Upon receipt of a Transfer Notice, Euroclear, Clearstream, Luxembourg or the Registrar, as the case may be, shall verify that the person specified therein as the accountholder is the holder of the Notes referred to therein according to its books. Subject thereto, Euroclear, Clearstream, Luxembourg or the Registrar, as the case may be, will notify the Agent of the number of Notes to which the Transfer Notice relates.

Notwithstanding anything to the contrary in these Conditions, if a Securities Amount comprises less than a whole number of the Underlying Securities at the relevant time, then (a) the relevant Issuer shall not deliver and the relevant Noteholder shall not be entitled to receive in respect of its Notes that fraction of an Underlying Security (the "**Fractional Entitlement**"), and (b) the relevant Issuer shall pay to the relevant Noteholder a cash amount (to be paid at the same time as the Underlying Securities comprising the Securities Amount are delivered) equal to the value (as determined by the Calculation Agent) of such fraction of the relevant Underlying Security, and such cash amount shall be deemed a part of the Securities Amount for the purposes of these Terms and Conditions.

The costs and expenses of effecting any delivery of a Securities Amount (the "**Transfer Expenses**") pursuant to the foregoing provisions (except for the expenses of delivery by regular mail (if any), which shall be borne by the relevant Issuer, but including the payment of a sum sufficient to cover any transfer or other tax or other governmental charge or insurance charges that may be imposed in relation thereto) shall, in the absence of provision to the contrary in the applicable Final Terms, be borne by the Noteholder and shall be deducted by the relevant Issuer from the amount (including, without limitation, the Securities Amount) due to such holder.

The Underlying Securities will be delivered at the risk of the relevant Noteholder in such manner as may be specified in the Transfer Notice and, notwithstanding Condition 5(e) above, no additional payment or delivery will be due to a Noteholder where any Underlying Securities are delivered after their due date in circumstances beyond the control of either the relevant Issuer or the Settlement Agent.

(e) **Interpretation of Principal and Interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the relevant Issuer or the Parent (if the relevant Issuer is BS Bank) under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

In the case of Linked Notes, references in these Terms and Conditions to principal and/or interest and Securities Amount(s) shall mean such amount less any expenses, fees, stamp duty, levies or other amounts payable on or in respect of the relevant Securities Amount(s).

8. REDEMPTION AND PURCHASE

(a) Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the relevant Issuer at its Final Redemption Amount or, in the case only of Linked Notes where the applicable Final Terms specifies that such Notes will be redeemed by payment and/or delivery of a Securities Amount, by the payment and/or delivery of the Securities Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency (where applicable) on the relative Maturity Date.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the relevant Issuer or the Parent (if the relevant Issuer is BS Bank or BSGAH) in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes and Indexed Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes and Indexed Interest Notes) on giving not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable and shall specify the date for redemption), if:

- (i) (A) on the occasion of the next payment or delivery due under the Notes, the relevant Issuer (or, where the relevant Issuer is BS Bank or BSGAH and payment or delivery is required to be made by the Parent pursuant to the Guarantee, the Parent) has or will become obliged to pay Additional Amounts as described in Condition 9 as a result of any change in or amendment to the laws (or any regulations or rulings promulgated thereunder) of the country in which the relevant Issuer or, as the case may be, the Parent is organised or any political subdivision or any taxing authority thereof or therein affecting taxation, or any change in an official application or interpretation of such laws, regulations or rulings whether or not such change or amendment is made with respect to the relevant Issuer, the Parent (if the relevant Issuer is BS Bank or BSGAH) or any affiliate thereof, which change or amendment becomes effective or generally known on or after the Issue Date of the first Tranche of the Notes; or
- (B) any action (including any of those specified in (A) above) has been taken by any taxing authority of, or any action has been brought in a court of competent jurisdiction in, the United States, whether or not such action was taken or brought with respect to the Issuer, or any change, amendment, application or interpretation shall be officially proposed on or after the Issue Date, which, in any such case in the written opinion of independent legal counsel of recognized standing results in a substantial probability that the Issuer will be required to pay Additional Amounts on the Notes as described in Condition 9; and
- (ii) in the case of (i)(A) and (i)(B) above such obligation cannot be avoided by the relevant Issuer or, as the case may be, the Parent (where the relevant Issuer is BS Bank or BSGAH) taking reasonable measures available to it,

provided that (A) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, the Parent (where the relevant Issuer is BS Bank or BSGAH) would be obliged but for such redemption to pay such Additional Amounts were a payment or delivery in respect of the Notes then due and (B) at the time such notice is given, the obligation to pay such Additional Amounts remains in effect.

In addition, if the relevant Issuer, or as the case may be, the Parent determines, based upon a written opinion of independent legal counsel of recognised standing, that any payment made outside the United States by the relevant Issuer, or as the case may be, the Parent (whether as issuer of Notes or pursuant to the Guarantee) or any Paying Agent of the full amount of principal or interest due with respect to any Bearer Note, Receipt or Coupon or pursuant to the Guarantee would, under any present or future laws or regulations of the United States or any political subdivision or any taxing authority thereof or therein, be subject to any certification, identification or other information reporting requirement of any kind, the effect of which is the disclosure to the relevant Issuer, or as the case may be, the Parent, any Paying Agent or any governmental authority of the nationality, residence or identity (as distinct from status as a United States Alien, as defined in Condition 9) of a beneficial owner of such Note, Receipt

or Coupon who is a United States Alien (other than such a requirement which (a) would not be applicable to a payment made by the relevant Issuer, or as the case may be, the Parent or any one of its Paying Agents (i) directly to the beneficial owner or (ii) to any custodian, nominee or other agent of the beneficial owner, (b) is applicable only to a payment by a custodian, nominee or other agent of the beneficial owner to such beneficial owner, or (c) can be satisfied by the custodian, nominee or other agent certifying that the beneficial owner is a United States Alien; provided that, in each case referred to in (a)(ii), (b) and (c) above, payment to the beneficial owner by such custodian, nominee or other agent of such beneficial owner is not otherwise subject to any such requirement), the relevant Issuer, or as the case may be, the Parent at its election will either (A) redeem (on an Interest Payment Date in the case of Floating Rate Notes and Indexed Interest Notes) all the Notes, upon not less than 30 nor more than 60 days' prior notice in accordance with Condition 16 or (B) if and so long as the conditions of the second to last paragraph in Condition 9 are satisfied, pay the Additional Amounts specified in that Condition. The relevant Issuer, or as the case may be, the Parent will make such determination and election and notify the Trustee thereof as soon as practicable and the relevant Issuer, or as the case may be, the Parent will promptly give notice of such determination in accordance with Condition 16 (the "**Determination Notice**"), stating the effective date of such certification, identification or information reporting requirement, whether the relevant Issuer, or as the case may be, the Parent will redeem the Notes or will pay the Additional Amounts specified in such paragraph and (if applicable) the last date by which the redemption of the Notes must take place. If the relevant Issuer, or as the case may be, the Parent elects to redeem the Notes, such redemption shall take place at any time (in the case of Notes other than Floating Rate Notes and Indexed Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes and Indexed Interest Notes) not later than one year after publication of the Determination Notice, as the relevant Issuer, or as the case may be, the Parent elects by notice in writing to the Trustee at least 60 days before such date, unless shorter notice is acceptable to the Trustee. Notwithstanding the foregoing, the relevant Issuer, or as the case may be, the Parent will not so redeem the Notes if the relevant Issuer, or as the case may be, the Parent, based upon a written opinion of independent legal counsel of recognised standing, subsequently determines, not less than 30 days prior to the redemption date, that subsequent payments would not be subject to any such requirement, in which case the relevant Issuer, or as the case may be, the Parent will notify the Trustee in writing and the relevant Issuer, or as the case may be, the Parent will promptly give notice to the holders of the Notes of that determination and any earlier redemption notice will thereupon be revoked and of no further effect. If the relevant Issuer, or as the case may be, the Parent elects as provided in (B) above to pay Additional Amounts, the relevant Issuer, or as the case may be, the Parent may, as long as the relevant Issuer, or as the case may be, the Parent is obliged to pay such Additional Amounts, redeem all of the Notes as aforesaid, upon not less than 30 nor more than 60 days' prior notice in accordance with Condition 16.

The relevant Issuer, or as the case may be, the Parent will make the determination described above as soon as practicable after it becomes aware of an event that might give rise to such a determination. The effective date of a determination will be the later of the date on which such determination is made and the date of enactment of the law or adoption of the regulation or interpretation that is the basis for such determination.

Notes redeemed pursuant to this Condition 8(b) or the second to last paragraph in Condition 9 will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer

If the relevant Issuer is specified in the applicable Final Terms as having an option to redeem, the relevant Issuer may, having given:

- (i) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16; and
- (ii) not less than 30 days before the giving of the notice referred to in (i), notice to the Trustee and (in the case of a redemption of Registered Notes) the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s). Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot without involving any part only of a Bearer Note, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg or, as the case may be, DTC, (to be

reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 16 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 16 at least five days prior to the Selection Date.

(d) Redemption at the Option of the Noteholders

If the Noteholders are specified in the applicable Final Terms as having an option to redeem, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 16 not less than 30 nor more than 60 days' notice or such other period of notice as is specified in the applicable Final Terms (which notice shall be irrevocable), the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or Transfer Agent or the Registrar (a "**Put Notice**") accompanied by, if the Note is in definitive form, the Note itself, to the specified office of any Paying Agent, in the case of Bearer Notes, or of any Transfer Agent or the Registrar, in the case of Registered Notes, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account (or, in the case of Notes other than Bearer Notes issued by BS Bank, if payment is by cheque, an address) to which payment is to be made under this Condition 8(d).

(e) Early Redemption Amounts

For the purpose of Condition 8(b) above and Condition 11, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or
- (iii) in the case of Linked Notes, as determined in the manner specified in the applicable Final Terms; or
- (iv) in the case of Zero Coupon Notes, at an amount (the "**Amortised Face Amount**") equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable,

or such other amount as is provided in the applicable Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (I) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360 day year consisting of 12 months of 30 days each or (II) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (in either case) on such other calculation basis as may be specified in the applicable Final Terms.

(f) **Installments**

If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

(g) **Partly Paid Notes**

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition as amended by the applicable Final Terms.

(h) **Purchases**

The relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH), any holding company of the Parent or any other Subsidiary of the Parent or any such holding company may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH) or the relevant holding company or Subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation.

(i) **Cancellation**

All Notes which are redeemed will forthwith be cancelled (together, in the case of definitive Bearer Notes, with all unmaturing Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (h) above (together, in the case of definitive Bearer Notes, with all unmaturing Receipts and Coupons cancelled therewith) shall be forwarded to the Agent and shall not be capable of being reissued or resold.

(j) **Late Payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iv) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the relevant Noteholders either in accordance with Condition 16 or individually.

9. TAXATION

The relevant Issuer or the Parent (where Parent is making a payment on behalf of BS Bank or BSGAH pursuant to the Guarantee) subject to certain limitations and exceptions set forth below will pay to the holder of any Note, Receipt or Coupon who is a United States Alien, is a non-Irish person (each as defined below) or is not resident in the Cayman Islands (as the case may be) such additional amounts ("**Additional Amounts**") as may be necessary in order that every net payment of the principal of and interest on such Note, Receipt or Coupon, after deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon or as a result of such payment by the country in which the relevant Issuer or, where Parent is making payments on behalf of BS Bank or BSGAH pursuant to the Guarantee, the Parent is organised, or any political subdivision or taxing authority thereof or therein, will not be less than the amount provided for in such Note, Receipt or Coupon then due

and payable before any such tax, assessment or other governmental charge; provided that the foregoing obligation to pay Additional Amounts will not apply to:

- (a) any tax, assessment or other governmental charge which would not have been so imposed but for:
 - (i) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership or corporation) and the country in which the relevant Issuer or, where Parent is making payments on behalf of BS Bank or BSGAH pursuant to the Guarantee, Parent (as the case may be) is organised, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, partner, shareholder or possessor) being or having been a citizen or resident of the country in which the relevant Issuer or, where Parent is making payments on behalf of BS Bank or BSGAH pursuant to the Guarantee, the Parent (as the case may be) is organised or treated as a resident thereof, or being or having been engaged in trade or business or present therein, or having or having had a permanent establishment therein or making or having made an election the effect of which is to subject such holder or beneficial owner (or such fiduciary, settlor, beneficiary, member, partner, shareholder or possessor) to such tax, assessment or other governmental charge;
 - (ii) the failure of such holder or beneficial owner of a Note, Receipt or Coupon to comply with any requirement (including any certification, identification or information reporting requirements) under income tax treaties, statutes and regulations or administrative practice of the United States and, if the relevant Issuer is organised in a different country, in the country in which such Issuer is organised, to establish entitlement to exemption from or reduction of such tax, assessment or other governmental charge;
 - (iii) such holder's present or former status as a personal holding company, a foreign personal holding company with respect to the United States, a controlled foreign corporation or a passive foreign investment company for United States tax purposes or a corporation which accumulates earnings to avoid United States federal income tax; or
 - (iv) payment being made in the United States, the Cayman Islands or Ireland, as the case may be, (or, in the case of Bearer Notes issued by BS Bank or BSGAH, otherwise than to an account with a bank outside the United States) on a Bearer Note, Receipt or Coupon;
- (b) any tax, assessment or other governmental charge which would not have been so imposed but for the presentation by the holder of such Note or any Receipt or Coupon appertaining thereto for payment on a date more than 10 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for and notice is given to holders, whichever occurs later;
- (c) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or governmental charge;
- (d) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on such Note, Receipt or Coupon;
- (e) (in the case only of the Parent) any tax, assessment or other governmental charge imposed on interest received as a result of: (i) a person's past or present actual or constructive ownership of 10 per cent. or more of the total combined voting power of all classes of stock of the Parent entitled to vote; or (ii) such holder being a bank receiving interest described in section 881(c)(3)(A) of the U.S. Internal Revenue Code of 1986, as amended; or (iii) such holder being a controlled foreign corporation with respect to the United States that is related to the Parent by stock ownership;
- (f) any tax, assessment or other governmental charge which is payable by a holder that is not the beneficial owner of the Note, Receipt or Coupon, or a portion of either, or that is a foreign or fiduciary partnership, but only to the extent that a beneficial owner, settlor with respect to such fiduciary or member of the partnership would not have been entitled to the payment of an Additional Amount had the beneficial owner or member received directly its beneficial or distributive share of the payment;
- (g) any tax, assessment or other governmental charge required to be withheld by any Paying Agent from any payment of the principal of or interest on any Note, Receipt or Coupon, if such payment can be made without such withholding by any other Paying Agent;

- (h) any Note, Receipt or Coupon where any withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxations of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or law;
- (i) any Note, Receipt or Coupon presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a European Union Member State;
- (j) any tax, assessment or other governmental charge which would not have been so imposed but for the Note being treated as anything other than a debt instrument for U.S. federal tax purposes;
- (k) any tax, assessment or other governmental charge required to be withheld, if such payment can be made without such withholding by the holder satisfying any statutory or procedural requirements including, without limitation, the provision of information; or
- (l) any combination of items (a), (b), (c), (d), (e), (f), (g), (h), (i), (j) and (k).

For the purposes of the foregoing, the holding of or the receipt of any payment with respect to a Note will not constitute a connection between the holder (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or a person having a power over, such holder if such holder is an estate, a trust, a partnership or a corporation) and the United States of America or Ireland as the case may be.

For the purposes of these Conditions, "**United States Alien**" means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a foreign estate or trust subject to withholding under sections 1441 or 1442 of the U.S. Internal Revenue Code of 1986, as amended, or a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a foreign estate or trust subject to withholding under sections 1441 or 1442 of the U.S. Internal Revenue Code of 1986, as amended; and "**non-Irish person**" means any person, including any corporate body, not resident or ordinarily resident in Ireland and any person not under the control of Irish residents but does not include any Irish branch of a corporate body not resident in Ireland.

Notwithstanding the foregoing, if and for so long as a certification, identification or other information reporting requirement referred to in the second paragraph of Condition 8(b) would be fully satisfied by payment of a backup withholding tax or similar charge, the relevant Issuer, or as the case may be, the Parent (where it is the relevant Issuer or payment and/or delivery is required to be made pursuant to the Guarantee) may elect, by so stating in the Determination Notice, to have the provisions of this paragraph apply in lieu of the provisions of that paragraph. In such event, the relevant Issuer, or as the case may be, the Parent will pay as Additional Amounts such amounts as may be necessary so that every net payment made, following the effective date of such requirement, outside the United States by the relevant Issuer, or as the case may be, the Parent or any of its Paying Agents of principal or interest due in respect of any Bearer Note, Receipt or Coupon of which the beneficial owner is a United States Alien (but without any requirement that the nationality, residence or identity of such beneficial owner be disclosed to the relevant Issuer, the Parent, any Paying Agent or any United States governmental authority), after deduction or withholding for or on account of such backup withholding tax or similar charge (other than a backup withholding tax or similar charge which (i) is the result of a certification, identification or other information reporting requirement described in parenthesis in the first sentence of the second paragraph of Condition 8(b), or (ii) is imposed as a result of the fact that the relevant Issuer, or as the case may be, the Parent or any of the Paying Agents has actual knowledge that the beneficial owner of such Bearer Note, Receipt or Coupon is within the category of persons described in items (a) or (e) of the first paragraph of this Condition 9 or (iii) is imposed as a result of presentation of such Bearer Note, Receipt or Coupon for payment more than 10 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for and notice thereof is given to holders, whichever occurs later) but before deduction or withholding on account of any tax, assessment or other governmental charge described in items (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), (k) or (l) of the first paragraph of this Condition 9, will not be less than the amount provided for in such Bearer Note, Receipt or Coupon to be then due and payable. If the relevant Issuer, or as the case may be, the Parent elects to pay such Additional Amounts and so long as it is obliged to pay such Additional Amounts, the relevant Issuer, or as the case may be, the Parent may subsequently redeem the Bearer Notes at any time (in the case of Notes other than Floating Rate Notes and Indexed Interest Notes) or (in the case of Floating Rate Notes and Indexed Interest Notes) on any Interest Payment Date, in whole but not in part, upon not less than 30 but not more than 60 days' notice.

Except as specifically provided herein, the Issuer or Parent (as the case may be) will not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any government or any

political subdivision or taxing authority thereof or therein. References herein to principal and/or interest shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in this Condition 10) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 10 or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in nominal amount of the Notes of the relevant Series then outstanding or if so directed by an Extraordinary Resolution shall, (but, in the case of the happening of any of the events referred to in paragraphs (b) to (e) of this Condition, only if the Trustee shall have certified in writing to the relevant Issuer that such event is in its opinion materially prejudicial to the interests of the Noteholders of the relevant Series) give written notice to the relevant Issuer and (where applicable) the Parent that the Notes of the relevant Series are immediately due and repayable upon the happening of any of the following events in relation to the Notes of the relevant Series (each an "**Event of Default**"):

- (a) default in the payment of any amount, or delivery of any amount payable on Underlying Securities deliverable, in respect of any of the Notes of that Series when due, which default, in the case of payments of interest, has continued for 30 days;
- (b) default in the performance of any other covenant of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) contained in, or any of its other obligations under, the Trust Deed, the Agency Agreement or the Notes of that Series, which default has continued for 60 days after written notice to the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) from the Trustee requiring such default to be remedied;
- (c) default in respect of any other indebtedness for borrowed money of the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH) or any Restricted Subsidiary in excess of U.S.\$100,000,000 that has become or has been declared due and payable prior to maturity, which default has continued for ten days after written notice to the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) from the Trustee requiring such default to be remedied;
- (d) a court having jurisdiction entering a decree or order for relief in respect of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) or of all or substantially all of its property, or ordering the winding-up or liquidation of its affairs, and such decree or order having remained unstayed and in effect for a period of 60 consecutive days; or
- (e) the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) commencing a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consenting to the entry of an order for relief in an involuntary case under any such law, or consenting to the appointment of or taking of possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) or of all or substantially all of its property, or making any general assignment for the benefit of creditors, or failing generally to pay its debts as they become due.

Upon any such notice being given to relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) that the Notes of the relevant Series are due and repayable in accordance with this Condition, the Notes of that Series shall become immediately due and repayable at their Early Redemption Amount (as described in Condition 8(e)) on the date of the notice, together with accrued interest as provided in the Trust Deed.

12. ENFORCEMENT

The Trustee may at its discretion and without further notice take such proceedings against the relevant Issuer and/or the Parent (where the relevant Issuer is BS Bank or BSGAH) as it may think fit to enforce the obligations of the relevant Issuer and/or the Parent (where the relevant Issuer is BS Bank or BSGAH) under the Trust Deed and the Notes, Receipts and Coupons, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by holders of at least 25 per cent. in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing.

13. EXCHANGE OF NOTES, TRANSFER OF REGISTERED NOTES AND REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

(a) Exchange of Bearer Notes for Registered Notes

A Bearer Note in definitive form may be exchanged for Registered Notes of like aggregate nominal amount (in global or definitive form) by submission of a duly completed request for exchange substantially in the form provided in the Agency Agreement (an "**Exchange Request**"), copies of which are available from the specified office of the Registrar or any Transfer Agent, together with the Bearer Note and (subject as provided below) all unmatured Coupons, Talons and Receipts appertaining thereto, to a Transfer Agent at its specified office. Within three business days of the request, if the Registered Notes for which the Bearer Note is to be exchanged are in definitive form, the relevant Transfer Agent will authenticate and deliver, or procure the authentication and delivery of, at its specified office to the holder or (at the risk of the holder) send by mail to such address as may be specified by the holder in the Exchange Request, a definitive Registered Note of a like aggregate nominal amount to the Bearer Note exchanged and will enter the exchange of the Bearer Note in the Register maintained by the Registrar as of the Exchange Date. If the Registered Note(s) for which such Bearer Note is to be exchanged are in global form, the amount of the applicable Registered Global Note(s) will be increased accordingly.

A Bearer Note surrendered in exchange for a Registered Note after a Record Date (as defined in Condition 7(b)) and on or before the next following Fixed Interest Date or Interest Payment Date (as defined in Condition 5) is not required to be surrendered with the Coupon maturing on that payment date. Interest on a Registered Note issued on exchange will accrue as from the immediately preceding Fixed Interest Date or Interest Payment Date, as the case may be, except where issued in respect of a Bearer Note surrendered after a Record Date and on or before the next following Fixed Interest Date or Interest Payment Date, in which event interest shall accrue as from that date.

No exchanges of Bearer Notes for Registered Notes or interests in Registered Global Notes will be permitted for so long as the Bearer Notes are represented by a Temporary Bearer Global Note.

(b) Form of Registered Notes

Registered Notes of each Tranche sold outside the United States in reliance on Regulation S under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will initially be represented by a permanent global Note in registered form, without interest coupons (the "**Reg. S Global Note**"), deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg. Notes in definitive form issued in exchange for Reg. S Global Notes or otherwise sold or transferred in reliance on Regulation S under the Securities Act, together with the Reg. S Global Notes, are referred to herein as "**Reg. S Notes**". Prior to expiry of the period that ends 40 days after completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or by the Lead Manager, in the case of a syndicated issue (the "**Distribution Compliance Period**"), beneficial interests in a Reg. S Global Note may be held only through Euroclear or Clearstream, Luxembourg. After expiry of such Distribution Compliance Period, beneficial interests in a Reg. S Note may be held through DTC directly, by a participant in DTC, or indirectly, through a participant in DTC.

Registered Notes of each Tranche sold in private transactions to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("**QIBs**") will initially be represented by a permanent global Note in registered form, without interest coupons (the "**Restricted Global Note**" and, together with the Reg. S Global Note, the "**Registered Global Notes**") deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes in definitive form issued in exchange for Restricted Global Notes or otherwise sold or transferred in accordance with the requirements of Rule 144A under the Securities Act, together with the Restricted Global Notes, are referred to herein as "**Restricted Notes**".

Registered Notes of each Tranche sold to accredited investors (as defined in Rule 501(a) (1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") who agree to purchase the Notes for their own account and not with a view to the distribution thereof will be in definitive form, registered in the name of the holder thereof.

Registered Notes in definitive form issued to Institutional Accredited Investors and Restricted Notes shall bear the legend set forth in the Restricted Global Note (the "**Legend**"), such Notes being referred to herein as "**Legended Notes**". Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall (save as provided in Condition 13(f)) deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the relevant Issuer such satisfactory evidence as may reasonably be required by the relevant Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and any applicable state securities laws.

Subject as otherwise provided in this Condition 13, Registered Notes in definitive form may be exchanged or transferred in whole or in part in the authorised denominations for one or more definitive Registered Notes of like aggregate nominal amount.

(c) **Exchange of interests in Registered Global Notes for Registered Notes in definitive form**

Interests in the Reg. S Global Note and the Restricted Global Note will be exchangeable for Registered Notes in definitive form, if (i) Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, notifies the relevant Issuer that it is unwilling or unable to continue as depository for such Registered Global Note, (ii) if applicable, DTC ceases to be a "**Clearing Agency**" registered under the United States Securities Exchange Act of 1934 (as amended) or either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depository or alternative clearance system satisfactory to the relevant Issuer and the Trustee is not available, (iii) an Event of Default (as defined in Condition 11) has occurred and is continuing with respect to such Notes, (iv) the holder of a beneficial interest in the Restricted Global Note notifies the Registrar in writing that it is transferring such beneficial interest to an Institutional Accredited Investor who is required to hold its beneficial interest in the Registered Notes in definitive form, or (v) unless otherwise provided in the applicable Final Terms, a written request for one or more Registered Notes in definitive form is made by a holder of a beneficial interest in a Registered Global Note; provided that in the case of (v) such written notice or request, as the case may be, is submitted to the Registrar by the beneficial owner not less than 60 days (or such other period as may be indicated in the applicable Final Terms) prior to the requested date of such exchange. Upon the occurrence of any of the events described in the preceding sentence, the relevant Issuer will cause the appropriate Registered Notes in definitive form to be delivered, provided that, notwithstanding the above, no Registered Notes in definitive form will be issued until expiry of the applicable Distribution Compliance Period.

(d) **Transfers of Registered Global Notes**

Transfers of a Registered Global Note shall be limited to transfers of such Registered Global Note, in whole but not in part, to a nominee of DTC or to a successor of DTC or such successor's nominee.

(e) **Transfers of interests in Reg. S Notes**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Reg. S Note to a transferee in the United States or who is a U.S. Person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
 - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
 - (B) to a person who is an Institutional Accredited Investor,

together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an "**IAI Investment Letter**"); or

- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the relevant Issuer of such satisfactory evidence as the relevant Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of the federal government and of any state of the United States,

and, in each case, in accordance with any applicable securities laws of the federal government and of any state of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Reg. S Notes may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Reg. S Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the relevant Issuer of such satisfactory evidence as the relevant Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

(g) Exchanges and transfers of Registered Notes generally

Registered Notes may not be exchanged for Bearer Notes.

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be transferable and exchangeable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be (the "**Applicable Procedures**").

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms) by the holder or holders surrendering the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the relevant Issuer and the Registrar, or as the case may be, the relevant Transfer Agent may with the prior approval of the Trustee prescribe, including any restrictions imposed by the relevant Issuer on transfers of Registered Notes originally sold to a U.S. person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of a Registered Note in definitive form for an interest in, or to a person who takes delivery of such Note through, a Registered Global Note will be made no later than 60 days after the receipt by the Registrar or, as the case may be, relevant Transfer Agent of the Registered Note in definitive form to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

(h) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8(c), the relevant Issuer shall not be required:

- (i) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the sixty-fifth day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or
- (ii) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(i) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered or a Bearer Note to be exchanged for a Registered Note during the period of 30 days ending on the due date for any payment of principal or interest or payment and/or delivery of any Securities Amount on that Note.

(j) Costs of exchange or registration

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions (except for the expenses of delivery by other than regular mail (if any) and, if the relevant Issuer shall so require, for the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto which will be borne by the Noteholder) will be borne by the relevant Issuer or the Parent, as the case may be.

(k) Replacement of Notes, Receipts, Coupons and Talons

If any Note, Receipt, Coupon or Talon shall become mutilated or defaced or destroyed, lost or stolen, it may be replaced at the specified office of the Agent outside the United States and U.S. Possessions in the case of Bearer Notes, Receipts, Coupons or Talons, or the Registrar in New York City, in the case of Registered Notes, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity and/or security as the relevant Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. AGENT, PAYING AGENTS, TRANSFER AGENTS, EXCHANGE AGENT, REGISTRAR AND SETTLEMENT AGENT

The names of the initial Agent, the initial Registrar, the other initial Paying Agents, the initial Exchange Agent and the initial Transfer Agents and their initial specified offices are set out below. In addition, the Agent may (with the prior written consent of the relevant Issuer and (where BS Bank or BSGAH is the relevant Issuer) the Parent) delegate certain of its functions and duties in relation to Linked Notes to a settlement agent (such person being the "Settlement Agent").

The relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) are, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Paying Agent or the Registrar or the Exchange Agent or any Transfer Agent or Settlement Agent and/or appoint additional or other Paying Agents or additional or other Registrars, Exchange Agents, Transfer Agents or Settlement Agents and/or approve any change in the specified office through which any Paying Agent, Registrar, Exchange Agent, Transfer Agent or Settlement Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Agent), in the case of Bearer Notes, and a Transfer Agent (which may be the Registrar), in the case of Registered Notes, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent with a specified office in a principal financial centre approved by the Trustee in continental Europe;
- (iii) there will at all times be a Registrar with a specified office in New York City;
- (iv) there will at all times be a Transfer Agent having a specified office in a place approved by the Trustee;
- (v) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City;
- (vi) there will at all times be an Agent; and
- (vii) the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) undertake that they will ensure that they maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to confirm to, such Directive.

In addition, the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) shall, with the prior written approval of the Trustee, forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 7(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 16 provided that no such variation, termination, appointment or change shall take effect (except in the case of insolvency) within 45 days before or after any Fixed Interest Date or Interest Payment Date, as the case may be.

In acting under the Agency Agreement, the Exchange Agent, the Registrar, the Agent, the Paying Agents, the Transfer Agents and any Settlement Agent act solely as agents of the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) and, in certain circumstances specified therein, of the Trustee, and do not assume any obligation or relationship of agency or trust to or with the Noteholders, Receiptholders or Couponholders, except that (without affecting the obligations of the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) to the Noteholders, Receiptholders and Couponholders to repay Notes and pay interest thereon or pay and/or deliver any Securities Amount in respect thereof) any funds or Underlying Securities received by the Agent for the payment of the principal of or interest on the Notes or payment and/or delivery of any Securities Amounts shall be held by it on trust for the Noteholders and/or Receiptholders and/or Couponholders until the expiry of the period of prescription specified in Condition 10. Each of the relevant Issuers and the Parent (where the relevant Issuer is BS Bank or BSGAH) has covenanted with the Trustee in the Trust Deed to perform and observe the obligations imposed upon it under the Agency Agreement. The Agency Agreement contains provisions for the indemnification of the Paying Agents, the Registrar, the Exchange Agent, the Transfer

Agents and any Settlement Agent and for their relief from responsibility in certain circumstances and entitles any of them to enter into business transactions with either Issuer and any of their Subsidiaries without being liable to account to the Noteholders, Receiptholders or Couponholders for any resulting profit.

15. EXCHANGE OF TALONS

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

16. NOTICES

All notices regarding the Bearer Notes shall be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* or another daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. The relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication in all the relevant newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or admitted to trading by any other relevant authority and the rules of that stock exchange or other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or other relevant authority.

If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as the global Note(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the same day as delivery is made to Euroclear and/or Clearstream, Luxembourg or DTC, unless otherwise specified in the applicable Final Terms.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any Noteholder to the Agent via Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, may approve for this purpose and any such notice shall be deemed to have been given to the Issuer and the Agent on the same day as delivery is made to such clearing system(s).

17. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or the provisions of the Trust Deed. Such a meeting may be convened by the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH) or by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including, amongst other things, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or

altering the currency of payment of the Notes, Receipts or Coupons) or certain provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trust Deed provides that the Trustee may, without the consent of the Noteholders, Receiptholders or Couponholders, agree to any modification (subject as provided above) of, or to any waiver or authorisation of any breach or proposed breach by the relevant Issuer or Parent (where the relevant Issuer is BS Bank or BSGAH) of, any of the provisions of these Terms and Conditions or of any of the provisions of the Trust Deed or may determine that any act, omission, event or condition which, but for such determination, would or might otherwise on its own or together with another act, omission, event or condition constitute an Event of Default (without prejudice to the rights of the Trustee in respect of any subsequent breach of any of the provisions of these Terms and Conditions or any of the provisions of the Trust Deed) shall not be treated as such, which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders, Receiptholders and Couponholders or to any modification of any of these Terms and Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, Receiptholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16. Notwithstanding the provisions of this Condition 17 and the Trust Deed, the relevant Issuer may, without the consent of the Trustee, change any of the terms of a Series of Notes as set out in the applicable Final Terms provided that it has the prior written agreement of all the holders of such Notes then outstanding and provided, further, that no such change shall take effect if it results in any increase in the duties and obligations of the Trustee or any curtailment of the protections and indemnities afforded to the Trustee by the Trust Deed or otherwise in relation to such Series of Notes. Any such change shall become effective once notice confirming such change (together with an amended version of the applicable Final Terms) has been delivered to all such holders and the Trustee.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the relevant Issuer, the Parent (where the relevant Issuer is BS Bank or BSGAH) or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

18. FURTHER ISSUES

The relevant Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19. CONSOLIDATION AND MERGER

The Trust Deed provides that the relevant Issuer and/or the Parent (where the relevant Issuer is BS Bank or BSGAH) may, without the consent of the Trustee, the Noteholders, the Receiptholders or the Couponholders consolidate or merge with or into any other company, and that the relevant Issuer and/or the Parent (where the relevant Issuer is BS Bank or BSGAH) may sell, lease or convey all or substantially all of its assets to any company organised and existing under the laws of Ireland (in the case of BS Bank) or the Cayman Islands (in the case of BSGAH) or the United States of America or any state thereof (in the case of the Parent) provided that (a) the company (if other than the relevant Issuer or the Parent) formed by or resulting from any such consolidation or merger or that shall have received such assets shall expressly assume (in place of the relevant Issuer) payment and delivery of all amounts payable (including Additional Amounts) and deliverable in respect of the Notes and/or, as the case may be, (in place of the Parent as guarantor) the obligations of the Parent under the Guarantee and in either case the performance and observance of these Terms and Conditions and all of the covenants and conditions of the Trust Deed and the Agency Agreement to be performed or observed by the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or

BSGAH) and (b) neither the relevant Issuer nor the Parent (where the relevant Issuer is BS Bank or BSGAH) nor such successor company shall immediately thereafter be in default under these Terms and Conditions, the Trust Deed or the Agency Agreement.

20. SUBSTITUTION

- (a) The Trustee may, without the consent of the Noteholders, the Receiptholders or Couponholders, agree with the relevant Issuer and the Parent (where the relevant Issuer is BS Bank or BSGAH) to the substitution (I) in place of the relevant Issuer or (where the relevant Issuer is BS Bank or BSGAH) the Parent (or of any previous substitute under this Condition) of any successor company (as defined in the Trust Deed) of the relevant Issuer or (where the relevant Issuer is BS Bank or BSGAH) the Parent as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed or, as the case may be, as guarantor of payments and deliveries by BS Bank or BSGAH under the Notes, the Receipts, the Coupons and the Trust Deed or (II) in place of the relevant Issuer (or of any previous substitute under this Condition) of any wholly-owned Subsidiary of the relevant Issuer or any successor company as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed, subject to (i) (in the case of substitution of such a Subsidiary or of any successor company of BSGAH or BS Bank) the Notes being unconditionally and irrevocably guaranteed by the Parent or any successor company, (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (iii) certain other conditions set out in the Trust Deed being complied with. In the case of a consolidation, merger, sale, lease or conveyance permitted by Condition 19 the Trustee shall agree to the substitution in place of the relevant Issuer and/or the Parent, as the case may be, (or any previous substitute under this Condition) of the company referred to in Condition 19 notwithstanding conditions (i) to (iii) (inclusive) of this paragraph (a).
- (b) Any substitution agreed by the Trustee pursuant to paragraph (a) of this Condition shall be binding on the Noteholders, Receiptholders and Couponholders and shall be notified to the Noteholders as soon as practicable in accordance with Condition 16.

21. INDEMNIFICATION AND TRUSTEE CONTRACTING WITH THE PARENT AND BS BANK

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment or delivery unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Parent, BS Bank, BSGAH or any of their Subsidiaries or holding companies without accounting for any profit resulting therefrom.

22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

23. GOVERNING LAW AND SUBMISSION TO JURISDICTION

The Trust Deed, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

Each of BS Bank, BSGAH and the Parent has irrevocably agreed in the Trust Deed to submit for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, to the jurisdiction of the courts of England for all purposes in connection with the Trust Deed, the Notes, the Receipts and the Coupons and in relation thereto each of BS Bank, BSGAH and the Parent has in the Trust Deed appointed Bear, Stearns International Trading Limited at its registered office at One Canada Square, London E14 5AD as its agent in England for service of process on its behalf and has agreed that in the event of Bear, Stearns International Trading Limited ceasing so to act or ceasing to be registered in England it will appoint such other person as the Trustee may approve as its agent for service of process. Without prejudice to the foregoing, each of BS Bank, BSGAH and the Parent has in the Trust Deed further irrevocably agreed that any suit, action or proceedings arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons may be brought in any other court of competent jurisdiction.

24. DEFINITIONS

For the purposes of these Terms and Conditions:

"Additional Business Centre" has the meaning given to that term in the applicable Final Terms.

"Business Day" means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and any Additional Business Centre; and
- (b) either (i) in relation to any amount payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland respectively) or (ii) in relation to any amount payable in euro, a day on which the TARGET System is open.

"Correction Cut Off Date" means the date specified in the applicable Final Terms (or, if none is specified, the second Business Day immediately preceding the relevant Interest Payment Date, Maturity Date or any other relevant date (as the case may be).

"Delisting" means that the Exchange announces that pursuant to the rules of such Exchange, the Underlying Securities cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any Member State of the European Union).

"Determination Date" has the meaning given to that term in the applicable Final Terms.

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Fixed Interest Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

"Disrupted Day" means any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred.

"Early Closure" means the closure on any Exchange Business Day of the relevant Exchange (or, in the case of Indexed Notes, any relevant Exchange(s) relating to securities that comprise 20 per cent. or more of the level of the Index) or any Related Exchange prior to its Scheduled Closing Time unless such earlier closing time is announced by such relevant Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

"Established Rate" means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

"euro" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

"Exchange Business Day" means any Scheduled Trading Day on which the Exchange(s) and any Related Exchange (as defined below) are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

"Exchange Disruption" means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Underlying Securities on the Exchange (or in the case of Indexed Notes on any relevant Exchange(s)) that comprise 20 per cent. or more of the level of the Index, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Underlying Securities or the relevant Index on any relevant Related Exchange.

"Extraordinary Dividend" means, in respect of the Underlying Securities, an amount specified or otherwise determined as provided in the applicable Final Terms. If no Extraordinary Dividend is specified in or otherwise determined as provided in the applicable Final Terms, the characterisation of a dividend or portion thereof as an Extraordinary Dividend shall be determined by the Calculation Agent.

"Extraordinary Event" means a Merger Event, Tender Offer, Nationalisation, Insolvency, Delisting or any additional disruption event specified in the applicable Final Terms, as the case may be.

"Floating Rate Convention" means, if a business day convention is specified in the applicable Final Terms and if any Interest Payment Date (or any other date) would otherwise fall on a day which is not a Business Day and no express Interest Payment Date(s) is/are specified in the applicable Final Terms, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date (or other date) shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date (or other date) shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period, or Accrual Period, as the case may be, in the applicable Final Terms after the preceding applicable Interest Payment Date occurred.

"Following Business Day Convention" means, if a business day convention is specified in the applicable Final Terms and if any Interest Payment Date (or any other date) would otherwise fall on a day which is not a Business Day such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day.

"Insolvency" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting an issuer, (A) all the Underlying Securities are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Underlying Securities become legally prohibited from transferring them.

"Interest Determination Date" has the meaning given to that term in the applicable Final Terms.

"Market Disruption Event" means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Calculation Agent, determines is material, at any time during the one hour period that ends at the relevant Valuation Time or (iii) an Early Closure. For the purposes of determining whether a Market Disruption Event in respect of the Index exists at any time, if a Market Disruption Event occurs in respect of a security included in the Index at any time, then the relevant percentage contribution of that security to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to the security and (y) the overall level of the Index, in each case immediately before the occurrence of such Market Disruption.

"Merger Date" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent.

"Merger Event" means the occurrence on or prior to any Valuation Date (as defined below) of any of the following:

- (1) the Underlying Securities are reclassified or changed (other than a change in par value, if any, as a result of a subdivision or combination) that results in a transfer of or an irrevocable commitment to transfer all of such Underlying Securities to another entity or person;
- (2) consolidation, amalgamation, merger, or binding share exchange of the issuer of the Underlying Securities with or into another entity (other than a consolidation, amalgamation, merger or binding share exchange in which such issuer is the surviving or continuing entity and which does not result in a reclassification or change of all of the Underlying Securities);
- (3) a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the Underlying Securities that results in a transfer of or an irrevocable commitment to transfer all such Underlying Securities (other than such Underlying Securities owned or controlled by such other entity or person);
- (4) the consolidation, amalgamation, merger or binding share exchange of the issuer of the Underlying Securities or its subsidiaries with or into another entity in which the issuer of the Underlying Securities is the continuing entity and which does not result in a reclassification or change of all such Underlying Securities outstanding but results in the outstanding Underlying Securities (other than Underlying Securities owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Underlying Securities immediately following such an event,

in each case if the Merger Date is on or before the Valuation Date.

"Modified Following Business Day Convention" means, if a business day convention is specified in the applicable Final Terms and if any Interest Payment Date (or any other date) would otherwise fall on a day which is not a Business Day such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other date) shall be brought forward to the immediately preceding Business Day;

"Nationalisation" means that all the Underlying Securities or all or substantially all the assets of an issuer of Underlying Securities are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof.

"No Adjustment" means, if specified in the applicable Final Terms, such Interest Payment Date (or any other date) shall not be adjusted in accordance with any business day convention.

"Potential Adjustment Event" means any of the following:

- (1) a subdivision, consolidation or reclassification of any Underlying Securities (unless resulting in a Merger Event (as defined below)) or a free distribution or dividend of or in respect of any Underlying Securities to existing holders by way of bonus, capitalisation or similar issue;
- (2) a distribution, issue or dividend to existing holders of any Underlying Securities of (a) additional Underlying Securities; (b) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the issuer of the Underlying Securities equally or proportionately with such payments to holders of the Underlying Securities; (c) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the issuer of the Underlying Securities as a result of a spin-off or other similar transaction; or (d) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;
- (3) an Extraordinary Dividend;
- (4) a call in respect of any Underlying Securities that is not fully paid;
- (5) a repurchase by the issuer of any Underlying Securities or any of its subsidiaries of the Underlying Securities, whether out of profits or capital and whether the consideration for such repurchase is in cash, new shares, securities or otherwise; or
- (6) in respect of the issuer of any Underlying Securities, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such issuer pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value, as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (7) any other event in respect of the Underlying Securities analogous to any of the foregoing events or otherwise having, in the opinion of the Calculation Agent, a diluting or concentrative effect on the theoretical value of the Underlying Securities.

"Preceding Business Day Convention" means, if a business day convention is specified in the applicable Final Terms and if any Interest Payment Date (or any other date) would otherwise fall on a day which is not a Business Day such Interest Payment Date (or other date) shall be brought forward to the immediately preceding Business Day. **"Related Exchange"** means another exchange or quotation system (as specified in the applicable Final Terms or notified from time to time to Noteholders in accordance with Condition 16), if any, on which the Underlying Securities or options contracts or futures contracts on the Underlying Securities are traded or quoted, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in such Underlying Securities or options contracts or future contracts has temporarily relocated, as may be selected from time to time by the Calculation Agent.

"Redenomination Date" means the date (being, in the case of interest bearing Notes, a date for payment of interest) specified as such by the relevant Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union or first participates in European and economic monetary union in a manner with similar effect to such third stage.

"Relevant Date" in respect of any payment or delivery means (in the case of Notes or Receipts) the due date for payment or delivery and (in the case of Coupons) the date for payment shown on the Coupons or, if the full amount of moneys payable or Underlying Securities deliverable is not paid or delivered to or to the order of the Trustee, the Agent, the Settlement Agent or the Registrar, as the case may be, on or before the due date for payment or delivery, the date on which the Trustee, the Agent, the Settlement Agent or the Registrar, as the case may be, having received the amount of all moneys payable or Underlying Securities deliverable in respect of the Notes, Receipts or Coupons then due for payment, gives, or procures the giving of, notice to that effect to the Noteholders in accordance with Condition 16.

"Relevant Notes" means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area.

"Restricted Subsidiary" means (a) Bear, Stearns & Co. Inc., (b) Custodial Trust Company, (c) Bear, Stearns Securities Corp., (d) Bear, Stearns International Limited, (e) any other Subsidiary of the Parent which owns, directly or indirectly, any of the common stock of a Restricted Subsidiary, and (f) any other Subsidiary with which a Restricted Subsidiary is merged or consolidated or which acquires or succeeds to a significant portion of the business, properties or assets of a Restricted Subsidiary.

"Scheduled Closing Time" means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

"Scheduled Trading Day" means any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

"Scheduled Valuation Date" means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date.

"Subsidiary" means any body corporate of which at the time of determination the Parent and/or one or more Subsidiaries owns or controls, directly or indirectly, more than 50 per cent. of the shares of Voting Stock.

"sub-unit" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

"Tender Offer" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10% and less than 100% of the outstanding voting shares of the issuer of the Underlying Securities, as determined by the Calculation Agent, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Calculation Agent deems relevant.

"Trading Disruption" means any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise (i) relating to the Underlying Securities on the Exchange (or in the case of an Indexed Note on any relevant Exchange(s) that comprise 20 per cent. or more of the level of the Index), or (ii) in futures or options contracts relating to the Underlying Securities or the relevant Index on any Related Exchange.

"Treaty" means the Treaty establishing the European Community, as amended.

"U.S. Possessions" means Puerto Rico, the Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands.

"Valuation Date" means any date specified in the applicable Final Terms as being a date of valuation or determination or observation of the price of an Underlying Security or the level of an Index in respect of a Linked Note or an Indexed Note (whether or not such date is called a "Valuation Date" in the applicable Final Terms).

"Valuation Time" means such time on the relevant Valuation Date as is specified in the applicable Final Terms or, if no such time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

"Voting Stock" means stock of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such company provided that, for the purposes of these Terms and Conditions, stock which carries only the right to vote conditionally on the happening of an event shall not be considered voting stock whether or not such event shall have happened.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for the general corporate purposes of the Group which may include making a profit, additions to working capital, the repayment of short-term indebtedness, the replacement or repayment of long-term debt, investments in, or extensions of credit to, subsidiaries of the Parent, the purchase and maintenance of positions in certain stocks, bonds, other securities or assets or certain options contracts or forward contracts or other derivative or synthetic instruments relating thereto in connection with hedging obligations relating to the Notes and other investment activities. If in respect of any particular issue of Notes which are derivative securities for the purpose of Article 15 of the Commission Regulation No 809/2004 implementing the Prospective Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

**THE BEAR STEARNS COMPANIES INC. SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

The financial data in the following table for the six months ended May 31, 2006 and 2005 has been derived without material adjustment from the Company's books and records and its unaudited condensed consolidated financial statements in the Company's Quarterly Report on Form 10-Q filed with the U.S. SEC.

	Six Months Ended	
	May 31, 2006	May 31, 2005
	(U.S. \$ in thousands, except common share data, and financial ratios)	
<u>Results</u>		
Revenues, net of interest expense	\$ 4,684,645	\$ 3,711,212
Employee compensation and benefits	\$ 2,267,066	\$ 1,829,683
Non-compensation expenses	\$ 831,027	\$ 840,762
Total expenses	\$ 3,098,093	\$ 2,670,445
Net income	\$ 1,053,489	\$ 676,915
Net income applicable to common shares	\$ 1,042,699	\$ 663,994
<u>Financial Position</u>		
Total assets	\$ 326,180,329	\$ 276,781,609
Long-term borrowings	\$ 46,647,144	\$ 39,688,629
Stockholders' equity	\$ 11,707,594	\$ 9,641,514
Total capital, at period end	\$ 58,354,738	\$ 49,330,143
<u>Common Share Data</u>		
Basic earnings per share	\$ 8.04	\$ 5.26
Diluted earnings per share	\$ 7.26	\$ 4.74
Cash dividend declared per common share	\$ 0.56	\$ 0.50
Book value per common share, at period end	\$ 79.30	\$ 64.67
Common shares outstanding, at period end ⁽¹⁾	147,021,508	145,928,440
<u>Financial Ratios</u>		
Return on average common equity (annualized)	20.1%	15.6%
Pre-tax profit margin ⁽²⁾	33.9%	28.0%

(1) Represents shares used to calculate book value per common share. Common shares outstanding include units issued under certain stock compensation plans which will be distributed as shares of common stock.

(2) Represents the ratio of income before provision for income taxes to revenues, net of interest expense.

SELECTED CONSOLIDATED FINANCIAL DATA OF THE GROUP

The Company

The financial data set forth below for the fiscal years ended November 30, 2005, 2004, 2003, 2002 and 2001 has been derived without material adjustment from the audited financial statements of the Company for those years.

	Fiscal year ended November 30,				
	2005	2004	2003	2002	2001
(in thousands, except common share data, financial ratios and other data)					
Results					
Revenues, net of interest expense	\$ 7,410,794	\$ 6,812,883	\$ 5,994,491	\$ 5,128,236	\$ 4,907,035
Employee compensation and benefits	3,553,216	3,253,862	2,880,695	2,508,197	2,528,852
Non-compensation expenses	1,650,519	1,536,867	1,341,527	1,309,076	1,443,739
Total expenses	5,203,735	4,790,729	4,222,222	3,817,273	3,972,591
Net income	\$ 1,462,177	\$ 1,344,733	\$ 1,156,406	\$ 878,345	\$ 618,692
Net income applicable to common shares	\$ 1,437,856	\$ 1,316,661	\$ 1,125,031	\$ 842,739	\$ 579,579
Financial Position					
Total assets	\$ 292,635,233	\$ 255,949,894	\$ 212,168,110	\$ 184,854,423	\$ 185,530,228
Long-term borrowings	\$ 43,489,616	\$ 36,843,277	\$ 29,430,465	\$ 23,681,399	\$ 23,429,054
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities ⁽¹⁾	\$ —	\$ —	\$ 562,500	\$ 562,500	\$ 762,500
Stockholders' equity	\$ 10,791,432	\$ 8,990,872	\$ 7,470,088	\$ 6,382,083	\$ 5,628,527
Common Share Data					
Basic earnings per share	\$ 11.42	\$ 10.88	\$ 9.44	\$ 7.00	\$ 4.49
Diluted earnings per share	\$ 10.31	\$ 9.76	\$ 8.52	\$ 6.47	\$ 4.27
Cash dividends declared per common share	\$ 1.00	\$ 0.85	\$ 0.74	\$ 0.62	\$ 0.60
Book value per common share	\$ 71.08	\$ 59.13	\$ 48.69	\$ 39.94	\$ 33.84
Common shares outstanding ⁽²⁾	146,431,767	144,484,099	142,369,836	145,591,496	146,465,210
Financial Ratios					
Return on average common equity	16.5%	19.1%	20.2%	18.1%	13.7%
Profit margin ⁽³⁾	29.8%	29.7%	29.6%	25.6%	19.0%
Other Data					
Assets under management (in billions)	\$ 41.9	\$ 37.8	\$ 29.2	\$ 24.0	\$ 24.2
Average value-at-risk (in millions)	\$ 20.5	\$ 15.8	\$ 15.8	\$ 16.5	\$ 15.0
Employees	11,843	10,961	10,532	10,574	10,452

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- (1) In accordance with FIN No. 46 (R) the Company has deconsolidated Bear Stearns Capital Trust III effective beginning in fiscal 2004. As a result, the Debentures issued by the Company to Bear Stearns Capital Trust III are included within long-term borrowings. The \$262.5 million of Preferred Securities issued by Capital Trust III is still outstanding, providing the funding for such Debentures. The Preferred Securities issued by Capital Trust III are no longer included in the Company's Consolidated Statements of Financial Condition. As of November 30, 2003 and 2002, Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities consists of \$300 million of Preferred Securities issued by Bear Stearns Capital Trust II and \$262.5 million of Preferred Securities issued by Bear Stearns Capital Trust III. As of November 30, 2001, Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities consists of \$200 million of Capital Securities issued by Bear Stearns Capital Trust I, \$300

million of Preferred Securities issued by Bear Stearns Capital Trust II and \$262.5 million of Preferred Securities issued by Bear Stearns Capital Trust III.

- (2) Common shares outstanding includes units issued under certain stock compensation plans, which will be distributed as shares of common stock.
- (3) Represents the ratio of income before provision for income taxes to revenues, net of interest expense.

DESCRIPTION OF THE BEAR STEARNS COMPANIES INC.

THE BEAR STEARNS COMPANIES INC.

Business

(a) *General Development of the Business*

The Bear Stearns Companies Inc. (the "**Company**") was incorporated under the laws of the State of Delaware on August 21, 1985. The Company complies with the corporate governance regime of Delaware, its state of incorporation, and the New York Stock Exchange. The Company's purposes, as stated in Article III of its Restated Certificate of Incorporation filed with the Secretary of State Division of Corporations on May 18, 1998, are to "engage in, carry on and conduct any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware". The Company is a holding company that through its broker-dealer and international bank subsidiaries, principally Bear, Stearns & Co. Inc. ("**Bear Stearns**"), Bear, Stearns Securities Corp. ("**BSSC**"), Bear, Stearns International Limited ("**BSIL**") and Bear Stearns Bank plc ("**BSB**") is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services, in addition to clearing and settling customer transactions and certain proprietary transactions of the Company. The Company succeeded on October 29, 1985 to the business of Bear, Stearns & Co., a New York limited partnership (the "**Partnership**"). In addition to conducting a substantial portion of its operating activities through certain of its regulated subsidiaries noted above, (Bear Stearns, BSSC, BSIL and BSB), the Company also conducts activities through the following wholly owned subsidiaries: Bear Stearns Global Lending Limited; Custodial Trust Company; Bear Stearns Financial Products Inc.; Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc.; EMC Mortgage Corporation; Bear Stearns Commercial Mortgage, Inc. and through its majority owned subsidiary Bear Hunter Holdings LLC. As used in this section "*The Bear Stearns Companies Inc.*", the "Company" refers (unless the context requires otherwise) to The Bear Stearns Companies Inc., its subsidiaries and the prior business activities of the Partnership. The Company has 500,000,000 shares of authorized common stock as of November 30, 2005 and 2004 with a par value of \$1.00 of which 184,805,848 shares were issued as of November 30, 2005 and 2004.

The address of the Company's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle. The Company's registration number is 13-3286161. The Company's website is <http://www.bearstearns.com>. The Company makes available free of charge on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "**SEC**"). Also posted on the Company's website, and available in print upon request of any stockholder to the Investor Relations Department, are charters for the Company's Audit Committee, Compensation Committee, Corporate Governance Committee, Nominating Committee and Qualified Legal Compliance Committee. The Audit Committee consists of Henry S. Bienen, Cal D. Glickman, Paul A. Novelty, Fredric V. Salerno, Vincent Tese (Chairman) and Wesley S. Williams Jr. The purpose of the Audit Committee is to assist the Board in their oversight of: the integrity of the financial statements of the Company; the Company's compliance with legal and regulatory requirements; the qualifications, performance and independence of the Company's independent auditor(s); the performance of the Company's internal audit function; and the Company's systems of disclosure controls and procedures, external financial reporting and internal control over financial reporting. The Audit Committee is also directly and solely responsible for the appointment, retention, compensation, oversight and termination of the Company's independent auditor(s) and for pre-approving all audit and permissible non-audit services to be performed by the independent auditor(s). Copies of the Corporate Governance Guidelines and the Code of Business Conduct and Ethics (the "**Code**") governing our directors, officers and employees are also posted on the Company's website within the "Corporate Governance" section under the heading "About Bear Stearns" and are available in print upon request of any stockholder to the Investor Relations Department.

Within the time period required by the SEC and the New York Stock Exchange, Inc. (the "**NYSE**") the Company will post on its website any modifications to the Code and any waivers applicable to Senior Executives, as defined in the Code.

The Investor Relations Department can be contacted at The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179, Attn.: Investor Relations, telephone: (212) 272-2000.

(b) *Financial Information about Industry Segments*

The Company is primarily engaged in business as a securities broker and dealer operating in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. These segments are analyzed separately due to the distinct nature of the products they provide and the clients they serve. Certain Capital Markets products are distributed by the Wealth Management and Global Clearing Services distribution networks, with the related revenues of such intersegment services allocated to the respective segments.

The Capital Markets segment comprises the institutional equities, fixed income and investment banking areas. The Capital Markets segment operates as a single integrated unit that provides the sales, trading and origination effort for various fixed income, equity and advisory products and services. Each of the three businesses works in tandem to deliver these services to institutional and corporate clients. Institutional equities consists of sales, trading and research, in areas such as domestic and international equities, block trading, convertible bonds, over-the-counter ("OTC") equities, equity derivatives, risk and convertible arbitrage and through a consolidated joint venture, the NYSE, American Stock Exchange ("AMEX") and International Securities Exchange ("ISE") specialist and market-making activities. Fixed income includes sales, trading and research provided to institutional clients across a variety of products such as mortgage- and asset-backed securities, corporate and government bonds, municipal bonds, high yield products, foreign exchange, interest rate and credit derivatives. Investment banking provides services in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment-grade, municipal and high yield debt products.

The Global Clearing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short sales to clearing clients worldwide. Prime brokerage clients include hedge funds and clients of money managers, short sellers, arbitrageurs and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business. At November 30, 2005, the Company held approximately \$258.1 billion of equity in Global Clearing Services client accounts.

The Wealth Management segment is composed of the Private Client Services ("PCS") and asset management areas. PCS provides high-net-worth individuals with an institutional level of investment service, including access to the Company's resources and professionals. At November 30, 2005, PCS had approximately 500 account executives in its principal office, six regional offices, three satellite offices and two international offices. Asset management manages equity, fixed income and alternative assets for corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the United States ("US") and abroad. The asset management area had \$41.9 billion in assets under management at November 30, 2005, which compared to \$37.8 billion in assets under management at November 30, 2004.

Financial information regarding the Company's business segments and foreign operations as of November 30, 2005, November 30, 2004, and November 30, 2003 and for the fiscal years ended November 30, 2005, November 30, 2004 and November 30, 2003 is included in the Company's Annual Report for the fiscal year ended November 30, 2005 in Note 19 of Notes to Consolidated Financial Statements, entitled "Segment and Geographic Area Data," and is incorporated herein.

(c) *Narrative Description of Business*

The business of the Company includes: market-making and trading in US government, government agency, corporate debt and equity, mortgage-related, asset-backed, municipal securities and high yield products; trading in options, futures, foreign currencies, interest rate swaps and other derivative products; securities, options and futures brokerage; providing securities clearance services; managing equity and fixed income assets for institutional and individual clients; financing customer activities; securities lending; securities and futures arbitrage; involvement in specialist and market-making activities on the NYSE, AMEX and ISE; underwriting and distributing securities; arranging for the private placement of securities; assisting in mergers, acquisitions, restructurings and leveraged transactions; making principal investments in leveraged acquisitions; engaging in commercial real estate activities; investment management and advisory services; fiduciary, custody, agency and securities research services.

The Company's business is conducted from its principal offices in New York City; from domestic regional offices in Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, San Francisco, San Juan and Scottsdale; from representative offices in Beijing, Hong Kong, São Paulo and Shanghai; and through international offices in Dublin, Hong Kong, London, Lugano, Milan, Singapore and Tokyo. The Company's international offices provide services and engage in investment activities involving foreign clients and international transactions. Additionally, certain of these foreign offices provide services to US clients.

Bear Stearns and BSSC are broker-dealers registered with the SEC. Additionally, Bear Stearns is registered as an investment adviser with the SEC. Bear Stearns and/or BSSC are also members of the NYSE, all other principal US securities and futures exchanges, the National Association of Securities Dealers, Inc. ("**NASD**"), the National Futures Association ("**NFA**") and the ISE. Bear Stearns is a "primary dealer" in US government securities as designated by the Federal Reserve Bank of New York.

BSIL is a full service broker-dealer based in London. BSIL is incorporated in the United Kingdom and is authorized and regulated by the Financial Services Authority ("**FSA**").

BSB is an Ireland-based bank, which was registered in 1996 and subsequently granted a banking license on April 10, 1997 under the Irish Central Bank Act, 1971. BSB allows the Company's existing and prospective clients the opportunity of dealing with a banking counterparty. BSB is incorporated in Ireland.

Bear Stearns Global Lending Limited ("**BSGL**") provides loans to certain Bear Stearns customers. BSGL is incorporated in the Cayman Islands.

Custodial Trust Company ("**CTC**"), a Federal Deposit Insurance Company ("**FDIC**") insured New Jersey state chartered bank, offers a range of trust, lending and securities-clearance services. CTC provides the Company with banking powers including access to the securities and funds-wire services of the Federal Reserve System. CTC provides trust, custody, agency and securities lending services for institutional accounts; commercial and margin lending; the clearance of government securities for institutions and dealers; and the processing of mortgage and mortgage-related products, including derivatives and collateralized mortgage obligations products. At November 30, 2005, CTC held approximately \$61 billion of assets for clients, including institutional clients such as pension funds, mutual funds, endowment funds and insurance companies. CTC is incorporated in the State of New Jersey.

Bear Stearns Financial Products Inc. ("**BSFP**") transacts business as a triple-A-rated counterparty to eligible clients, offering a wide range of fixed income and equity derivative products. Eligible clients are those rated A3 or better by Moody's Investors Service, Inc. and A- or better by Standard & Poor's Ratings Services or counterparties acceptable to both rating agencies. BSFP transfers its market risk associated with derivative transactions to Bear Stearns Capital Markets Inc., an affiliate of BSFP and a wholly owned subsidiary of the Company. BSFP is incorporated in the State of Delaware.

Bear Stearns Capital Markets Inc. ("**BSCM**") is engaged in fixed income derivatives transactions and hedges associated therewith. BSCM is incorporated in the State of Delaware.

Bear Stearns Credit Products Inc. ("**BSCPI**") is engaged in credit derivatives transactions and hedges associated therewith. BSCPI is incorporated in the State of Delaware.

Bear Stearns Forex Inc. ("**BSFX**") is a foreign exchange dealer engaged in foreign currency transactions and hedges associated therewith. BSFX is incorporated in the State of Delaware.

EMC Mortgage Corporation ("**EMC**") is a US Department of Housing and Urban Development ("**HUD**") and Freddie MAC approved lender based in Irving, Texas. EMC purchases both conforming and non-conforming, investment-grade and non-investment grade, conventional fixed rate and adjustable rate residential mortgage loans with servicing released or retained and sells such loans to investors. EMC also purchases and sells residual certificates and mortgage servicing rights. EMC is incorporated in the State of Delaware.

Bear Stearns Commercial Mortgage, Inc. ("**BSCMI**") is primarily engaged in the origination and securitization of commercial mortgage loans for resale in the form of pass-through securities ("**certificates**"). These certificates represent fractional and undivided interests in pools of mortgage loans held in a trust. BSCMI is incorporated in the State of New York.

Bear Hunter Holdings LLC ("**BHH**") is a Delaware limited liability company jointly owned by the Company and Hunter Partners LLC. Bear Wagner Specialists LLC ("**Bear Wagner**"), BHH's principal wholly owned subsidiary, is a registered broker dealer primarily engaged in specialist and market-making activities on the NYSE, AMEX and ISE.

As of November 30, 2005, the Company had 11,843 employees.

The following areas are included in the three business segments mentioned above.

Equities

General. The Company provides customers with liquidity, sales and trading expertise and equity research in products such as domestic and international equities, block trading, convertible bonds, OTC equities, equity derivatives, risk and convertible arbitrage and through our consolidated joint venture, NYSE, AMEX and ISE specialist and market-making activities.

Options and Index Products. The Company provides an array of equity and index option-related execution services to institutional and individual clients. The Company utilizes sophisticated research and computer modeling to formulate specific recommendations relating to options and index trading.

Arbitrage. The Company engages for its own account in both "classic" and "risk" arbitrage. The Company's risk arbitrage activities generally involve the purchase of securities at a discount from a value that is expected to be realized if a proposed or anticipated merger, recapitalization, tender offer or exchange offer is consummated. In classic arbitrage, the Company seeks to profit from temporary discrepancies (i) between the price of a security in two or more markets, (ii) between the price of a convertible security and its underlying security, (iii) between securities that are, or will be, exchangeable at a future date and (iv) between the prices of securities with contracts settling on different dates. The Company also examines relative value strategies. These strategies focus on pairs of equities or different levels of the capital structure of the same firm. In these relative value cases, the Company believes strong reasons exist for the prices of the securities to be highly correlated.

Strategic Structuring and Transactions ("SST"). The Company targets mispriced assets using sophisticated models and proprietary quantitative methods. The Company maintains substantial proprietary trading and investment positions in domestic and foreign markets covering a wide spectrum of equity and commodity products which include the use of futures, listed and OTC options and swaps. The Company has equity ownerships in various power-related assets and has recently formed CalBear Energy L.P., a new energy marketing and trading venture to develop a significant customer business focused on physical natural gas and power trading and related structured transactions.

Equity Securities.

- (i) *OTC.* The Company makes markets on a principal basis in common and preferred stocks, warrants and other securities traded on the NASD's Automated Quotation System and otherwise in the OTC market.
- (ii) *Direct Access.* The Company operates a direct access business through Institutional Direct Inc, a broker-dealer and wholly owned subsidiary of Bear Stearns, by providing execution and operations services to qualified institutional investors. Such investors may directly access brokers on the floor of the NYSE and execute and service orders directly with them.

Equity Research. The Equity Research Department provides in-depth, thematic research underpinned by detailed financial models. The department offers research on more than 1,000 companies in approximately 100 industries (57% of the Standard & Poor's 500 Index and 76% of the market capitalization of the Standard & Poor's 500 Index), is widely recognized for high quality macro research and includes the #1 Institutional Investor ranked strategy and accounting teams. The coverage of US stocks is complemented by Latin, European and Asian research teams. The department provides independent third party research reports and ratings on US covered companies as well as foreign securities with liquid ADRs.

Convertible Securities. The Company engages in the sales and trading of equity-linked securities including convertible bonds, convertible preferred, equity-linked notes and warrants. Market coverage includes the United States, Europe, Asia and Latin America.

Equity Sales. The Company is one of the leading firms in the US providing brokerage services to institutional investors. Institutional equity sales involves the execution of transactions in US and foreign (European, Latin and Asian) equity and equity-linked securities for domestic and foreign institutional customers and providing these customers with liquidity, trading expertise, trade execution, research and investment advice. The Company provides transaction services for institutional customers who trade in futures and futures-related instruments.

Block Stock and Portfolio Trading. The Company effects transactions in large baskets of securities with institutional customers. The Company also provides customers execution capabilities for baskets of equity securities using sophisticated trading systems and analytics. Transactions are handled on an agency basis whenever possible, but the

Company may be required to take a long or short position in a security to the extent that an offsetting purchaser or seller is not immediately available, or to guarantee prices versus a benchmark (i.e. volume weighted average price).

Specialist and Market-Making. The Company engages in specialist and market-making activities on the NYSE, AMEX and ISE through participation in a majority-owned consolidated joint venture. Such joint venture performs specialist functions in NYSE-listed and AMEX-listed stocks and performs market-making functions for options traded on the ISE. The rules of these exchanges generally require specialists to maintain orderly markets in the securities in which they are specialists, which may require commitments of significant amounts of capital to the Company's specialist businesses. The market-making functions of a specialist involve risk of loss during periods of market fluctuation and volatility, since specialists are obligated to take positions in their issues counter to the direction of the market in order to minimize short-term imbalances in the auction market. Due to the occurrence of a Control Event (as defined in BHH's limited liability company agreement) that was triggered in December 2003, the Company began consolidating this entity in fiscal 2004.

Fixed Income

General. The Company makes inter-dealer markets and trades on a principal basis in a wide range of instruments including: US and foreign government securities; government agency securities; corporate debt; mortgages; mortgage-backed and other asset-backed securities; municipal and other tax-exempt securities and interest rate swaps and other derivative products. Bear Stearns is one of the largest dealers in the US in such fixed income securities. Inventories of fixed income securities are generally carried to facilitate sales to customers and other dealers.

US Government Bonds and Agency Obligations. Bear Stearns is designated by the Federal Reserve Bank of New York as a primary dealer in US government obligations. The Company participates in the auction of, and maintains proprietary positions in, US Treasury bills, notes, bonds, and stripped principal and coupon securities. The Company also participates as a selling group member and/or underwriter in the distribution of various US government agency and sponsored corporation securities and maintains proprietary positions in such securities. In connection with these activities, the Company enters into transactions in options, futures and forward contracts to hedge such positions.

As a primary dealer, Bear Stearns bids directly on all auctions of US government securities. Additionally, Bear Stearns furnishes periodic reports of its inventory positions and market transactions in US government securities to the Federal Reserve Bank of New York. Bear Stearns also buys and sells government securities directly with the Federal Reserve Bank of New York as part of the Federal Reserve Bank of New York's open-market activities. In addition, the Company engages in matched book activities, which involve acting as an intermediary between borrowers and lenders of short-term funds, mainly via repurchase agreements and reverse repurchase agreements. The objective of this matched book activity is to earn a positive spread between interest rates.

Mortgage-Related Securities and Products. The Company trades and makes markets in the following mortgage-related securities and products: Government National Mortgage Association ("**GNMA**") securities; Federal Home Loan Mortgage Corporation ("**FHLMC**") participation certificates; Federal National Mortgage Association ("**FNMA**") mortgage-backed securities; Small Business Administration loans; loans guaranteed by the Farmers Home Loan Administration; Federal Housing Authority insured multi-family loans; real estate mortgage investment conduit ("**REMIC**") and non-REMIC collateralized mortgage obligations, including residual interests and other derivative mortgage-backed securities and products. The Company also trades real estate mortgage loans originated by unaffiliated mortgage lenders, both on a securitized and non-securitized basis. The Company acts as underwriter and placement agent in transactions involving rated and non-rated mortgage-related securities issued by affiliated and unaffiliated parties. The Company enters into significant commitments – such as forward contracts – on GNMA, FNMA, and FHLMC securities, and on other rated and non-rated mortgage-related securities. Certain rated and non-rated mortgage-related securities are considered to be liquid, while other such securities and non-securitized mortgage loans are considered to be less readily marketable.

The Company trades GNMA, FNMA and FHLMC "to be announced" securities (i.e., securities having a stated coupon and the original term to maturity, although the issuer and/or the specific pool of mortgage loans is not known at the time of the transaction). The Company buys and sells such securities for its own account in transactions with institutional and individual customers, as well as with other dealers.

The Company, through various special purpose subsidiaries, purchases, originates, sells and services entire loan portfolios of varying quality. These portfolios are generally purchased from financial institutions and other secondary mortgage-market sellers. Prior to bidding on a portfolio of loans, an analysis of the portfolio is undertaken by experienced mortgage-loan underwriters. Upon acquisition of a loan portfolio, the loans are classified as either investment-grade or non-investment-grade. Loan collection is emphasized for the non-investment-grade segment of

the loan portfolio. A collection department employs a staff of workout specialists and loan counselors who assist delinquent borrowers. If collection efforts are unsuccessful, the foreclosure group will commence and monitor the foreclosure process until either the borrower makes the loan current, or the property securing the loan is foreclosed or otherwise acquired. The portfolio may include real estate that has been foreclosed or was in the process of foreclosure at the time of its acquisition. The foreclosure group maintains and markets properties through regional real estate brokers. Investment-grade mortgage loans are sold to other institutional investors in either securitized or non-securitized form. Moreover, special purpose vehicles issue REMIC and non-REMIC collateralized mortgage obligations directly or through trusts that are established for this purpose.

The Company also operates a commercial mortgage conduit that originates and accumulates commercial mortgage loans for the purpose of securitization. After receipt of loan applications, extensive credit underwriting reviews are conducted. After completing pricing analysis and successful negotiations, the loan will "close" and be included in an ensuing securitization.

Asset-Backed Securities. The Company acts as underwriter and placement agent with respect to investment-grade and non-investment-grade asset-backed securities issued by affiliates as well as unaffiliated third parties. These asset-backed securities include: securities backed by consumer automobile receivables originated by the captive finance subsidiaries of automobile manufacturers, commercial banks and finance companies; credit card receivables and home-equity lines of credit or second mortgages. The Company also trades and is a market-maker in these asset-backed securities. While there are ready markets for the investment-grade asset-backed securities described above, non-investment-grade securities and related varieties thereof may lack liquidity.

Municipal Securities and Related Products. The Company is a dealer in tax-exempt and taxable municipal securities and instruments including: general obligation and revenue bonds; notes; leases; and variable-rate obligations issued by state and local governments and authorities, as well as not-for-profit institutions. The Company is active as a managing underwriter of negotiated and competitive new security issuances and, on a select basis, provides financial advisory services. The Company makes markets and takes positions in a broad spectrum of long-term and short-term municipal securities and derivative contracts, mainly to facilitate transactions with institutional and individual customers, as well as other dealers. As agent for issuers, the Company earns fees by remarketing short-term debt instruments to investors in the variable rate demand and auction rate bond market. The Company offers a variety of derivative products to issuers to assist them in reducing their borrowing costs, maximizing investment returns and managing cash flows and balance sheets, including but not limited to interest rate swaps, caps, floors, options and forward delivery, and debt service reserve and debt service deposit agreements. The Company periodically uses municipal and treasury bonds, futures and interest rate swaps to hedge its cash-market bond inventory. In addition, the Company maintains a hedged portfolio of high quality municipal securities which are remarketed as short-term securities in order to generate arbitrage profits.

Derivatives. The Company offers to institutional customers, and trades for its own account, a variety of exchange-traded and OTC derivative products, including fixed income, credit and equity derivatives. These products are transacted, as principal, with customers for hedging (credit, currency, interest rate or market), risk management, asset/liability management, investment, financing and other purposes. These transactions are in the form of swaps, options, swaptions, asset swaps and structured notes, as well as more complex, structured trades which are customized to meet customers' specific needs. Derivatives enable customers to build tailor-made risk/return profiles, to customize transaction terms, to develop packaged solutions to a problem, to implement trades that otherwise could not be executed and to transact business with standardized documentation. The Company also enters into derivative transactions for various purposes, including to manage the risks to which the Company is exposed in its various businesses and through its funding activities. The Company manages its market and counterparty risks arising from derivatives activities in a manner consistent with its overall risk management policies. The Company has 24 hours a day capabilities with personnel based in New York, Chicago, London, Hong Kong, Tokyo, Singapore and Dublin.

Corporate and Sovereign Fixed Income. The Company acts as a dealer in corporate and sovereign fixed income securities as well as preferred stocks in New York, London and Tokyo. The Company buys and sells these securities for its own account in principal transactions with institutional and individual customers, as well as other dealers. The Company conducts trading in the full spectrum of dollar and non-dollar debt securities. The Company offers hedging and arbitrage services to domestic and foreign institutional and individual customers utilizing financial futures and other instruments. Moreover, the Company offers quantitative, strategic and research services relating to fixed income securities to its domestic and international clients. The Company participates in the trading of investment-grade and non-investment-grade corporate debt securities, commercial loans and sovereign and sovereign agency securities.

Foreign Exchange. The Company acts as a dealer in foreign exchange in New York and London. The Company conducts trading in major and minor currencies for spot or forward settlement, over-the-counter foreign exchange options and structured products, and listed foreign exchange futures and options on futures. The Company trades OTC contracts, on a principal basis, with domestic and international clients, as well as other dealers. The Company offers research and assists clients to meet their specific risk management objectives. Additionally, the Company enters into foreign exchange contracts to manage the currency risk or funding requirements of its various businesses.

Fixed Income Research. The Company is a leader in the distribution, trading and underwriting of corporate, government, high yield, emerging markets, municipal debt and mortgage-backed and asset-backed securities. Through objective and comprehensive analysis, the Fixed Income Research Department helps our businesses and clients position themselves strategically in global fixed income markets. Fixed Income Research Department produces a wide range of comprehensive publications, as well as leading data and analytics tools, which are available to investors throughout the world. This department also creates portfolio and trading ideas for investors based on valuations, analytics and market conditions.

Fixed Income Research is comprised of economists, industry analysts and strategists covering the full range of research disciplines: quantitative, fundamental, economic, strategic, credit portfolio, relative value and market-specific analysis. Representative of the Company's commitment to offering a broad range of research products, Fixed Income Research is comprised of the following units located in New York, London and Singapore:

- (i) *Financial Analytics and Structured Transactions Group ("F.A.S.T.")* is comprised of the Rates and Structured Products Research groups. F.A.S.T. is a center of expertise for the creation and analysis of fixed income and derivative securities worldwide. F.A.S.T. uses innovative solutions that employ state-of-the-art analytics and technology to help the Company and its clients successfully meet individual business objectives. F.A.S.T. is a global resource for financial engineering and securitization capabilities, fixed income portfolio management and analytical systems, investment research, trading technology and general financial expertise. A strategic partner for the Company's international trading desks, risk management areas and sales force, F.A.S.T. also serves the Company's external clients. In addition to formulating and executing customized strategic investment and trading solutions, F.A.S.T. develops the tools and recommendations necessary to quantify relevant risks and evaluate portfolios and securities. F.A.S.T.'s resources are used to create and model new types of securities, affording clients the unique perspective of both issuer and investor.
- (ii) *High Grade Research* offers comprehensive coverage on approximately 16 industries and over 400 credit names whose securities are rated as investment-grade by the leading credit rating agencies. Through focus on the credit quality of individual issuers and macroeconomic factors, High Grade Research offers detailed analysis and expertise to investors in investment grade securities.
- (iii) *High Yield Research* offers comprehensive coverage on approximately 20 industries and over 200 credit names whose securities do not qualify as investment-grade by the leading credit rating agencies. High Yield Research analyzes the risks, technical metrics, and fundamentals that investors need to develop their high yield portfolios.
- (iv) *Emerging Markets Research* covers sovereign and corporate issues across Latin America, Central America and the Caribbean, Asia, the Middle East, Eastern Europe, and Africa. Emerging Markets Research focuses on macroeconomic factors, changes in US and global interest rates, investment fundamentals, as well as the political, economic and fiscal environments of issuers, to give investors a unique perspective into emerging markets fixed income securities.
- (v) *Municipal Research* focuses on sectors, trends, and issuer-specific analysis of securities issued by states, cities, counties and other governmental entities. Municipal Research provides investors with detailed information and analysis on credit ratings and bond characteristics for the full range of municipal securities.

Investment Banking

The Company is a major global investment banking firm providing a full range of capital formation and advisory services to a broad spectrum of clients. The Company manages and participates in public offerings and arranges the private placement of debt and equity securities directly with institutional investors. The Company provides advisory

services to clients on a wide range of financial matters and assists with mergers, acquisitions, leveraged buyouts, divestitures, corporate reorganizations and recapitalizations.

The Company's strategy is to concentrate a major portion of its corporate finance business development efforts within those industries in which the Company has established a leadership position in providing investment banking services. Industry speciality groups include media and entertainment, health care, financial institutions, industrial, technology and telecommunications. This list is not exclusive but rather reflects the areas where the Company believes its knowledge and expertise are strongest. The Company also has a group that focuses on financial sponsors. These groups are responsible for initiating, developing and maintaining client relationships and for executing transactions involving these clients.

In addition to being structured according to distinct industry groups, the Company has a number of professionals who specialize in specific types of transactions. These include mergers and acquisitions ("M&A"), equity offerings, high yield securities, leveraged and syndicated bank loans, leveraged acquisitions and other transaction specialties.

Mergers and Acquisitions. The Company provides strategic advisory services on a broad range of financial matters, including mergers and acquisitions, restructurings, split-offs and spin-offs, takeover defenses and other strategic advice.

Equity Offerings. The equity capital markets group focuses on providing financing for issuers of equity and convertible equity securities in the public markets. The group assists in the origination and is responsible for the structuring and execution of transactions for a broad range of clients.

High Yield Securities. The high yield securities group focuses on providing financing in the public and private capital markets. The group is responsible for originating, structuring and executing high yield transactions across a wide range of companies and industries, as well as managing client relationships with both high yield corporate issuers and financial sponsors of leveraged transactions.

Leveraged Loan Origination and Syndication. This area of the Company integrates the origination, structuring, underwriting, distribution and trading of loans. Such loans include both funded as well as committed investment-grade and non-investment-grade loans.

Leveraged Acquisitions. The Company makes investments as principal in leveraged acquisitions and in leveraged buy-out funds as a limited partner. The Company's investments generally take the form of either common or preferred stock or warrants. Equity securities purchased in these transactions generally are held for appreciation and are not readily marketable.

Commercial Real Estate. The Company is engaged in a variety of real estate activities on a nationwide basis. It provides comprehensive real estate-related investment banking, capital markets and financial advisory services.

Merchant Banking. Bear Stearns Merchant Banking, the private equity affiliate of the Company, invests private equity capital in compelling leveraged buyouts, recapitalizations and growth capital opportunities in a broad range of industries.

Emerging Markets

The Company provides financial services in various emerging markets worldwide including: securities brokerage, equity and fixed income trading and sales, and securities research, in addition to offering a full range of investment banking, capital formation and advisory services. As part of these activities, the Company manages and participates in public offerings and arranges the private placement of debt and equity securities with institutional investors. The markets currently covered by the Company include Latin America, Asia and Eastern Europe.

Global Clearing Services

Global Clearing Services provides securities clearing and custody, financing, securities lending, trade execution and technology solutions for hedge funds, broker-dealers and registered investment advisors.

For start-up and established hedge funds worldwide, Global Clearing Services is a leader in providing comprehensive "prime brokerage", which includes securities clearing, advanced web-based portfolio reporting, enhanced leverage programs, term financing, securities lending and cash management.

For broker-dealers conducting retail, institutional and money management activities the Company provides "fully disclosed correspondent securities clearing services". The Company's advanced proprietary technology, combined with comprehensive retail products, integrated prime brokerage, operations expertise and exceptional service have enabled the Company to maintain its industry leadership for many years.

For registered investment advisors whose services include asset management, leverage and active trading, the Company provides a combination of trade execution, web-based portfolio reporting for their investors and comprehensive service and support.

The Company derives revenues from commissions and service charges related to clearing and execution activities and from interest income on margin financing, client short selling activity, and uninvested balances. The Company extends margin loans directly to correspondents to finance proprietary activity.

The financial responsibilities arising from the Company's clearing relationships are allocated in accordance with agreements with correspondents. To the extent that the correspondent has available resources, the Company is protected against claims by customers of the correspondent when the correspondent has been allocated responsibility for an event giving rise to a claim. However, if the correspondent is unable to meet its obligations, dissatisfied customers may attempt to seek recovery from the Company.

Securities transactions are effected for customers on either a cash or margin basis. In a margin transaction, the Company extends credit to a customer for a portion of the purchase price of the security. Such credit is collateralized by securities in the customer's accounts in accordance with regulatory and internal requirements. The Company receives income from interest charged on such loans at a rate that is primarily based upon the Federal Funds Rate, Bear Stearns Base Lending Rate, or the London Inter-Bank Offered Rate (LIBOR).

The Company borrows securities from banks and other broker-dealers to facilitate customer and proprietary short selling activity, and lends securities to broker-dealers and other trading entities to cover short sales and to complete transactions that require delivery of securities by settlement date.

Futures

The Company, through BSSC and other subsidiaries, provides, directly or through third-party brokers, futures commission merchant services for customers and other Bear Stearns affiliates who trade contracts in futures on financial instruments and physical commodities, including options on futures. Exchange-traded futures and options derive their values from the values of the underlying selected stock indices, individual equity securities, fixed income securities, currencies, agricultural and energy products and precious metals.

Domestic futures and options trading is subject to extensive regulation by the Commodity Futures Trading Commission ("CFTC"), pursuant to the Commodity Exchange Act and the Commodity Futures Trading Commission Act of 1974. International futures and options trading activities are subject to regulation by the respective regulatory authorities in the locations where futures exchanges reside, including the FSA in the United Kingdom.

Margin requirements (good faith deposits) covering substantially all transactions in futures and options contracts are subject to each particular exchange's requirements in addition to other regulations. In the US, the Company, through BSSC and other subsidiaries, is a clearing member of the Chicago Board of Trade, the Chicago Mercantile Exchange, the New York Mercantile Exchange and other principal futures exchanges. In the United Kingdom, the Company through BSIL is a member of the International Petroleum Exchange ("IPE"), Euronext Liffe ("LIFFE") and the European Derivatives Exchange ("EDX"). BSIL also has non-clearing memberships with Euronext Paris, Euronext Amsterdam and Eurex AG Frankfurt. In Japan, memberships are held by the Company through Bear Stearns (Japan), Limited ("BSJL") with the Tokyo Stock Exchange, Inc. ("TSE"), the Osaka Securities Exchange Co., Ltd ("OSE") and the Tokyo International Financial Futures Exchange ("TIFFE").

PCS

PCS provides high-net-worth individuals with an institutional level of service, including access to the Company's resources and professionals. PCS has approximately 500 account executives in its principal office, six regional offices, three satellite offices and two international offices.

Asset Management

The Company's Asset Management Department manages equity, fixed income and alternative assets for some of the leading corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the US and abroad. With \$41.9 billion in assets under management as of November 30, 2005, clients benefit from the asset management group's ability to leverage the Company's extensive resources and proven skill at turning innovative ideas into rewarding investment opportunities. Institutional and high-net-worth products span a broad spectrum of equity strategies including large cap, small cap, systematic, core and value equity; fixed income strategies including cash and enhanced cash management, short-term, intermediate, core, high yield and leveraged loans; and alternative investment strategies including various equity and fixed income hedge funds, a fund of proprietary hedge funds, private equity funds of funds, venture capital and structured products.

Administration and Operations

Administration and operations personnel are responsible for the human resources, legal and compliance areas; for processing of securities transactions; receipt, identification and delivery of funds and securities; internal financial controls; accounting functions; regulatory and financial reporting; office services; the custody of customer securities; the overseeing of margin accounts of the Company and correspondent organizations as well as other functions. The processing, settlement and accounting for transactions for the Company, correspondent organizations and the customers of correspondent organizations are handled by employees located in offices in New York, New Jersey and, to a lesser extent, the Company's offices worldwide.

The Company executes transactions globally on listed exchanges and in the OTC markets to facilitate customer and proprietary trading activities. The Company settles all of its domestic and international transactions (i.e., delivery of securities sold, receipt of securities purchased and transfer of related funds) through its own facilities, unaffiliated agent banks, other broker-dealers and through memberships in various clearing organizations.

International

Outside the US, the Company, through its international subsidiaries, provides various services including investment banking, securities and derivatives trading and brokerage and clearing activities to corporations, governments, institutions and individual clients throughout the world. These international subsidiaries of the Company have memberships on various foreign securities and futures exchanges.

BSIL, based in London, is a member of a number of European exchanges such as Eurex Deutschland ("**EUREX**"), the IPE, LIFFE, Euronext Paris, Euronext Amsterdam, and London Metals Exchange ("**LME**"). BSIL's capabilities include investment banking, institutional equities and fixed income sales, trading and research, derivatives, financial futures, foreign exchange, private client services and global clearing.

Bear Stearns International Trading Limited ("**BSIT**") is also based in London and its principal activity is to act as a securities dealer making markets in equities.

BSJL, based in Tokyo, serves the diverse needs of corporations, financial institutions and government agencies by offering a range of international fixed income and equity products as well as listed futures. BSJL also offers a range of derivative products within Japan with special focus on fixed income, credit and equity derivatives. Asset-backed securitization, mergers and acquisitions, corporate finance and restructuring services are also available for local and cross-border business.

Bear Stearns Asia Limited ("**BSAL**"), based in Hong Kong, is the Company's primary operating entity in the Asia-Pacific region, excluding Japan. BSAL provides clients with international equity sales, trading and research services. In addition, BSAL is a major center within the Company's global fixed income, credit and equity-related derivatives businesses. BSAL also has investment banking capabilities to serve the growing needs of clients in Asia.

Bear Stearns Singapore Pte. Limited ("**BSSP**") provides sales, execution and research services on fixed income securities to institutional investors in Asia.

BSB, based in Dublin, allows the Company's existing and prospective clients the opportunity of dealing with a banking counterparty. BSB also serves as a platform from which the Company directs some of its international banking activities, gaining easier access to worldwide markets and thereby expanding its capacity to increase its client base and product range. BSB engages in capital market activities with particular focus on the trading and sales of OTC interest rate derivative products. BSB also provides custody and trustee services to the growing number of alternative investment funds domiciled in Ireland and in other offshore jurisdictions.

(d) *Competition*

The Company encounters intense competition in all aspects of the securities business, particularly underwriting, trading and advisory services and competes directly with other securities firms – both domestic and foreign – many having substantially greater capital and resources and offering a wider range of financial services than does the Company. The Company's competitors include other brokers and dealers, commercial banks, investment banking firms, investment advisors, mutual funds, hedge funds, private equity funds and insurance companies.

The Company believes that the principal factors affecting competition involve the caliber and abilities of professional personnel, the relative price of the service and products being offered, the ability to assist with financing arrangements and the quality of service.

Over time there has been substantial consolidation and convergence as institutions involved in a broad range of financial services industries have either ceased operations or have been acquired by or merged into other firms. This has resulted in competitors gaining greater capital, geographic reach and other resources, such as the ability to offer a wider range of products and services.

(e) *Regulatory and Compliance Factors Affecting the Company and the Securities Industry*

Legal: Firms in the financial services industry have been operating in a difficult regulatory environment. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, NYSE, NASD and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years.

Substantial legal liability or significant regulatory action against Bear Stearns could have material adverse financial effects or cause significant reputational harm to Bear Stearns, which in turn could seriously harm our business prospects. We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions have been increasing.

Bear Stearns, as a participant in the financial services industry, is subject to extensive regulation in jurisdictions in which we conduct business. Bear Stearns from time to time is the subject of inquiries and investigations by regulatory agencies. As a result, among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities. New laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients may also adversely affect our businesses.

In addition, the SEC and other federal and state regulators have increased their scrutiny of complex, structured finance transactions and have brought enforcement actions against a number of financial institutions in connection with such transactions. In some of the enforcement actions, clients of the financial institutions allegedly engaged in accounting, disclosure or other violations of the securities laws, and the financial institutions allegedly facilitated these improprieties by entering into transactions with the clients. We seek to create innovative solutions to address our clients' needs, and we have entered into, and continue to enter into, structured transactions with clients. While we have policies and procedures in place that are intended to ensure that the structured transactions we enter into are appropriately reviewed and comply with applicable laws and regulations, it is possible that certain of these transactions could give rise to litigation or enforcement actions. It is possible that the heightened regulatory scrutiny of, and litigation in connection with, structured finance transactions will make our clients less willing to enter into these transactions, and will adversely affect our business in this area.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases.

On occasion, the Company and its subsidiaries have been subject to investigations and proceedings, and sanctions and fines have been imposed for infractions of various regulations, none of which, to date, has had a material adverse effect on the Company or its business. Settlements of regulatory matters may adversely affect business areas that are the subject of such settlements. As a general matter, regulatory settlements do not resolve related current and/or future civil litigations.

Regulation: The securities industry in the US is subject to extensive regulation under both federal and state laws. Moreover, Bear Stearns is registered as an investment adviser with the SEC. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally the NASD, the Municipal Securities

Rulemaking Board, and national securities exchanges such as the NYSE, which has been designated by the SEC as the primary regulator of certain of the Company's subsidiaries, including Bear Stearns and BSSC. These self-regulatory organizations (i) adopt rules, subject to approval by the SEC, that govern the industry and (ii) conduct periodic examinations of the operations of the Company's broker-dealer subsidiaries. Securities firms are also subject to regulation by state securities administrators in those states where they conduct business.

US broker-dealers are subject to rules and regulations that cover all aspects of the securities business including: sales methods; trade practices; use and safekeeping of customer funds and securities; capital structures; recordkeeping; the preparation of research; the extension of credit and the conduct of officers and employees. Much of this regulation is embodied in the Securities Exchange Act of 1934 and rules promulgated thereunder, as well as the rules of self-regulatory organizations such as the NYSE and NASD. The types of regulations to which investment advisers are subject also are extensive and include: recordkeeping; fee arrangements; client disclosure; custody of customer assets; and the conduct of officers and employees. Much of this regulation is embodied in the Investment Advisers Act of 1940 and rules promulgated thereunder. The mode of operation and profitability of broker-dealers or investment advisers may be directly affected by new legislation, changes in rules promulgated by the SEC and self-regulatory organizations and changes in the interpretation or enforcement of existing laws and rules. The SEC, self-regulatory organizations and state securities commissions may conduct administrative proceedings that can result in censures, fines, the issuance of cease-and-desist orders and the suspension or expulsion of a broker-dealer or an investment adviser, its officers or employees. The principal purpose of regulation and discipline of broker-dealers and investment advisers is the protection of customers and the securities markets, rather than the protection of creditors and stockholders of broker-dealers or investment advisers.

The Market Reform Act of 1990 (the "**Market Reform Act**") was adopted to strengthen the SEC's regulatory oversight of the national securities markets and increase the efficacy and stability of such markets by, among other things: (i) providing the SEC with discretion to halt securities trading on any national exchange for the protection of investors; (ii) requiring broker-dealers and other registrants to regularly provide information to the SEC regarding holding companies and other affiliated entities whose activities can impact their financial condition; (iii) requiring broker-dealers and other registrants who execute large-trade orders to provide information to the SEC regarding such transactions; and (iv) allowing the SEC to prosecute market participants who violate SEC rules and regulations designed to maintain fair and orderly markets. The SEC has adopted the Risk Assessment Reporting Requirements for Brokers and Dealers (the "Risk Assessment Rules") to implement the provisions of the Market Reform Act. The Risk Assessment Rules require that broker-dealers: (i) have an organizational chart; (ii) maintain risk management procedures or standards for monitoring and controlling risks; (iii) maintain and preserve records and other information; and (iv) file quarterly reports covering the risk management procedures and the financial and securities activities of the holding companies of broker-dealers, or broker-dealer affiliates or subsidiaries that are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer.

The Insider Trading and Securities Fraud Enforcement Act of 1988 was adopted to strengthen the SEC's ability to deter, detect and punish insider trading by, among other things: (i) increasing civil penalties that can be assessed against controlling persons who purposefully or recklessly fail to take adequate measures to prevent insider trading; (ii) allowing the SEC to provide cash rewards to individuals who provide evidence of insider trading; (iii) affirming the government's ability to obtain criminal sanctions against those found guilty of insider trading; and (iv) requiring broker-dealers and investment advisers to establish and enforce written procedures reasonably designed to prevent the misuse of material, nonpublic information.

The Government Securities Act of 1986 was adopted to decrease volatility and increase investor confidence and liquidity in the government securities market by creating a coordinated and comprehensive regulatory structure for the market where none had previously existed. In particular, the Government Securities Act: (i) requires broker-dealers solely involved in government securities transactions to register with the SEC; (ii) allows the Secretary of the Treasury to adopt rules regarding the custody, use, transfer and control of government securities; and (iii) bestows upon the SEC authority to enforce such rules as to broker-dealers and other SEC registrants.

The futures industry in the US is subject to regulation under the Commodity Exchange Act, as amended. The CFTC is the federal agency charged with the administration of the Commodity Exchange Act and the regulations thereunder. Bear Stearns and BSSC are registered with the CFTC as futures commission merchants and are subject to regulation as such by the CFTC and various domestic boards of trade and other futures exchanges. Bear Stearns' and BSSC's futures business is also regulated by the NFA, a not-for-profit membership organization, which has been designated a registered futures association by the CFTC.

As registered broker-dealers and member firms of the NYSE, both Bear Stearns and BSSC are subject to the Net Capital Rule (Rule 15c3-1) (the "**Net Capital Rule**") under the Exchange Act, which has been adopted through incorporation by reference in NYSE Rule 325. The Net Capital Rule, which specifies minimum net capital

requirements for registered broker-dealers, is designed to measure the general financial integrity and liquidity of broker-dealers and requires that at least a minimal portion of a broker-dealer's assets be kept in relatively liquid form.

In June 2004, the SEC adopted rule amendments to "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities" (Rule 34-49830) that allow investment banks to voluntarily submit to be regulated by the SEC on a global consolidated basis. These regulations (referred to as CSE) were in response to what is known as the "Financial Conglomerates Directive" (2002/87/EC) of the European Parliament, which served to compel globally active institutions doing business in Europe to be regulated on a global consolidated basis. During fiscal 2005, the Company applied to the SEC to be regulated under this new CSE regime. The application filed with the SEC by Bear Stearns, the Company's principal U.S. broker-dealer, under the net capital rule amendments, was approved in November 2005. As a result, effective December 1, 2005, Bear Stearns will use alternative methods of computing market and derivative-related credit risk, and, as a condition of using these methods, the Company has consented to consolidated supervision by the SEC. The new framework will be a notable change in the Company's regulation, as activities which are currently transacted outside of SEC regulated entities will come under the scope of certain SEC regulations and capital adequacy oversight. In particular, the Company will: compute allowable capital and allowances for market, credit and operational risk on a consolidated basis in accordance with standards prescribed in Appendix G to the Net Capital Rules; permit the SEC to examine the books and records of the Parent Company and any affiliate that does not have a principal regulator; and adopt various additional SEC reporting, record-keeping and notification requirements. Additionally, the Company must comply with the provisions of Rule 15c3-4 of the Exchange Act with respect to a group-wide internal risk management control system in the affiliate group as if it were an OTC derivative dealer, subject to certain limitations. The Company is now deemed a CSE and is in compliance with regulatory capital requirements.

Bear Stearns and BSSC are also subject to the net capital requirements of the CFTC and various futures exchanges, which generally require that Bear Stearns and BSSC maintain a minimum net capital equal to the greater of the alternative net capital requirement provided for under the Exchange Act or 8% of the total risk maintenance margin requirements for positions carried in customer accounts plus 4% of the total risk maintenance margin requirements for positions carried in non-customer accounts, in each case as defined in Rule 1.17 of the CFTC.

Compliance with the Net Capital Rule could limit those operations of Bear Stearns and/or BSSC that require significant capital usage, such as underwriting, trading and the financing of customer margin account debit balances. The Net Capital Rule could also restrict the Company's ability to withdraw capital from Bear Stearns or BSSC, which in turn could limit the Company's ability to pay dividends, pay interest, repay debt, or redeem or purchase shares of its outstanding capital stock. Additional information regarding net capital requirements is included in the Company's Annual Report for the fiscal year ended November 30, 2005 in Note 16 of Notes to Consolidated Financial Statements entitled "Regulatory Requirements".

The activities of the Company's bank and trust company subsidiary, CTC, are regulated by the New Jersey Department of Banking and Insurance and the FDIC. FDIC regulations require certain disclosures in connection with joint advertising or promotional activities conducted by Bear Stearns and CTC. Such regulations also restrict certain activities of CTC in connection with the securities business of Bear Stearns. The Competitive Equality in Banking Act of 1987, as amended, limits the use of overdrafts at Federal Reserve Banks on behalf of affiliates.

Non-US Regulation: BSIL is a member of the following: Borsa Italiana, Casa di Compensazione & Garanzia ("**CC&G**"), Clearstream Banking Frankfurt ("**CBF**"), EDX London Limited, EUREX, Euronext, Deutsche Borse, The Futures Industry Association ("**FIA**"), The Futures & Options Association ("**FOA**"), IPE, International Securities Markets Association ("**ISMA**"), LCH Clearnet Limited ("**LCH**"), Mercato Telematico all'Ingrosso dei Titoli de Stato ("**MTS**"), SegalInterSettle AG ("**SIS**"), Stockholmsborsen AB and Virt-x. Another London subsidiary, BSIT, is a member of the London Stock Exchange ("**LSE**"), CREST (The Settlement Network) and a shareholder in Euroclear Plc. Both BSIL and BSIT are authorized and regulated in the United Kingdom by the FSA, pursuant to The Financial Services and Markets Act 2000. FSA regulates all aspects of the financial services industry in the United Kingdom and its Rules cover (inter alia): senior management responsibilities, regulatory capital, sales and trading practices, safekeeping of customer funds, record keeping, registration standards for individuals and reporting to customers.

BSJL is licensed with and regulated by the Financial Services Agency of Japan. BSJL is a limited trade participant to the TSE and the OSE and has a membership on the TIFFE. Bear Stearns Hong Kong Limited is registered as a Commodities Dealer with the Securities and Futures Commission ("**SFC**") in Hong Kong and its main business consists of sales of US futures products to corporate and retail customers in Hong Kong. BSAL is registered as a Securities Dealer with the SFC in Hong Kong and is a participant (i.e. member) of the Hong Kong Exchange Limited. BSSP has a Capital Market Service license to conduct regulated activities in Dealing in Securities &

Advising on Corporate Finance. BSSP provides sales, execution and research services on fixed income securities to institutional investors in Asia.

BSB is an Ireland-based bank which was incorporated as a limited liability company on November 27, 1995 and then re-registered on October 15, 1996 as a public company. BSB was granted a banking license on April 10, 1997 under the Irish Central Bank Act, 1971 and is regulated by the Financial Regulator (formerly the Irish Financial Services Regulatory Authority), which is the principal regulator of banks in Ireland.

Insurance: Bear Stearns and BSSC are members of the Securities Investor Protection Corporation ("**SIPC**"), which provides protection for customer accounts held by these entities of up to \$500,000 for each customer, subject to a limitation of \$100,000 for cash balance claims in the event of the liquidation of a broker-dealer. In addition, all BSSC security accounts are protected by an excess securities bond issued by the Customer Asset Protection Company, up to the amount of their total net equity (both cash and securities) in excess of the underlying SIPC protection.

Directors

The Directors of the Company and their principal occupations are:

Name	Age as of January 31, 2006	Principal Occupation And Directorships Held	Year First Elected to Serve as Director of the Company
James E. Cayne	71	Chairman of the Board and Chief Executive Officer, the Company and Bear Stearns; member of the Executive Committee of the Company	1985
Henry S. Bienen	66	President, Northwestern University	2004
Carl D. Glickman	79	Private Investor; Presiding Trustee and Chairman of the Executive Committee, Lexington Corporate Properties Trust	1985
Alan C. Greenberg	78	Chairman of the Executive Committee of the Company; Director, Viacom Inc.	1985
Donald J. Harrington	60	President, St. John's University	1993
Frank T. Nickell	58	President and Chief Executive Officer, Kelso & Company; Director, BlackRock Inc., Custom Building Products Inc. and Earle M. Jorgensen Company	1993
Paul A. Novelly	62	Chairman of the Board and Chief Executive Officer, Apex Oil Company, Inc.; Director, Intrawest Corporation and Boss Holdings, Inc.	2002
Frederic V. Salerno	62	Former Vice Chairman and Chief Financial Officer, Verizon Communications Inc.; Director, Popular, Inc., Viacom Inc., Consolidated Edison, Inc., Akamai Technologies, Inc. and Intercontinental Exchange, Inc.	1992
Alan D. Schwartz	55	President and Co-Chief Operating Officer, the Company and Bear Stearns, member of the Executive Committee of the Company	1987(1)
Warren J. Spector	48	President and Co-Chief Operating Officer, the Company and Bear Stearns, member of the Executive Committee of the Company	1990(1)
Vincent Tese	62	Former Chairman, Wireless Cable International Inc.; Director, Bowne & Co., Inc., Cablevision Systems	1994

Wesley S. Williams 63
Jr.

Corporation, Mack-Cali
Realty Corporation,
Intercontinental Exchange,
Inc. and Gabelli Asset
Management Inc.
President and Chief 2004
Operating Officer, Co-
Chairman and Co-Chief
Executive Officer, Lockhart
Cos. Inc.; Director,
CarrAmerica Realty
Corporation; Chairman,
Board of Directors, National
Prostrate Cancer Coalition

(1) Did not serve as director during 1997 and 1998.

The business address of the directors is 383 Madison Avenue, New York, NY 10179.

There are no existing or potential conflicts of interest between the duties to the Company of each member of the Board of Directors of the Company and his/her private interests or other duties.

THE BEAR STEARNS COMPANIES INC.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of The Bear Stearns Companies Inc. and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of November 30, 2005. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment, management believes that, as of November 30, 2005, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of November 30, 2005, as stated in their report, appearing on page 103.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Bear Stearns Companies Inc.

We have audited management's assessment, included in the accompanying The Bear Stearns Companies Inc. Management's Report on Internal Control Over Financial Reporting, that The Bear Stearns Companies Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of November 30, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of November 30, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 30, 2005 and the related consolidated statements of income, cash flows and changes in stockholders' equity for the year ended November 30, 2005 of the Company and our report dated February 10, 2006 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

New York, New York
February 10, 2006

THE BEAR STEARNS COMPANIES INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Bear Stearns Companies Inc.

We have audited the accompanying consolidated statements of financial condition of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended November 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Bear Stearns Companies Inc. and subsidiaries as of November 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123," in the fiscal year ended November 30, 2003.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of November 30, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
February 10, 2006

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF INCOME

Fiscal Years Ended November 30,	2005	2004	2003
<i>(in thousands, except share and per share data)</i>			
REVENUES			
Commissions	\$ 1,200,454	\$ 1,178,074	\$ 1,077,926
Principal transactions	3,836,017	3,595,595	3,308,306
Investment banking	1,037,213	1,031,051	853,294
Interest and dividends	5,107,019	2,317,315	1,955,373
Asset management and other income	371,744	299,867	200,545
Total revenues	11,552,447	8,421,902	7,395,444
Interest expense	4,141,653	1,609,019	1,400,953
Revenues, net of interest expense	7,410,794	6,812,883	5,994,491
NON-INTEREST EXPENSES			
Employee compensation and benefits	3,553,216	3,253,862	2,880,695
Floor brokerage, exchange and clearance fees	221,553	230,652	180,548
Communications and technology	401,673	369,176	365,317
Occupancy	167,825	141,916	137,778
Advertising and market development	126,678	113,800	106,506
Professional fees	229,198	197,086	133,304
Other expenses	503,592	484,237	418,074
Total non-interest expenses	5,203,735	4,790,729	4,222,222
Income before provision for income taxes	2,207,059	2,022,154	1,772,269
Provision for income taxes	744,882	677,421	615,863
Net income	\$ 1,462,177	\$ 1,344,733	\$ 1,156,406
Net income applicable to common shares	\$ 1,437,856	\$ 1,316,661	\$ 1,125,031
Basic earnings per share	\$ 11.42	\$ 10.88	\$ 9.44
Diluted earnings per share	\$ 10.31	\$ 9.76	\$ 8.52
Weighted average common shares outstanding:			
Basic	130,326,947	127,468,061	127,819,514
Diluted	147,467,992	145,284,589	145,027,266

See Notes to Consolidated Financial Statements.

Note: Certain prior year items have been reclassified to conform to the current year's presentation.

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of November 30,	2005	2004
<i>(in thousands, except share data)</i>		
ASSETS		
Cash and cash equivalents	\$ 5,859,133	\$ 4,173,385
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	5,269,676	4,422,698
Securities purchased under agreements to resell	42,647,603	45,395,149
Securities received as collateral	12,426,383	8,823,117
Securities borrowed	62,915,010	69,793,266
Receivables:		
Customers	33,254,980	32,114,305
Brokers, dealers and others	3,544,806	2,934,347
Interest and dividends	433,305	315,686
Financial instruments owned, at fair value	93,364,088	41,490,202
Financial instruments owned and pledged as collateral, at fair value	12,880,333	36,906,933
Total financial instruments owned, at fair value	106,244,421	78,397,135
Assets of variable interest entities and mortgage loan special purpose entities	15,151,699	4,837,121
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$968,197 and \$841,008 in 2005 and 2004, respectively	451,247	381,403
Other assets	4,436,970	4,362,282
Total Assets	\$ 292,635,233	\$ 255,949,894
LIABILITIES & STOCKHOLDERS' EQUITY		
Short-term borrowings	\$ 20,015,727	\$ 12,210,832
Securities sold under agreements to repurchase	66,131,617	58,604,250
Obligation to return securities received as collateral	12,426,383	8,823,117
Securities loaned	10,104,325	10,718,592
Payables:		
Customers	73,231,067	79,383,952
Brokers, dealers and others	2,657,178	2,344,731
Interest and dividends	796,956	568,525
Financial instruments sold, but not yet purchased, at fair value	35,004,333	29,475,880
Liabilities of variable interest entities and mortgage loan special purpose entities	14,321,28	4,761,981
Accrued employee compensation and benefits	1,853,416	1,677,655
Other liabilities and accrued expenses	1,811,898	1,546,230
	238,354,185	210,115,745
Commitments and contingencies (Note 17)		
Long-term borrowings	43,489,616	36,843,277
STOCKHOLDERS' EQUITY		
Preferred stock	372,326	448,148
Common stock, \$1.00 par value; 500,000,000 shares authorized as of November 30, 2005 and 2004; 184,805,848 shares issued as of November 30, 2005 and 2004	184,806	184,806
Paid-in capital	4,109,166	3,548,379
Retained earnings	7,492,951	6,176,871
Employee stock compensation plans	2,600,186	2,666,879
Unearned compensation	(143,302)	(158,662)
Treasury stock, at cost:		
Common stock: 70,937,640 and 81,018,928 shares as of November 30, 2005 and 2004, respectively	(3,824,701)	(3,875,549)
Total Stockholders' Equity	10,791,432	8,990,872
Total Liabilities and Stockholders' Equity	\$ 292,635,233	\$ 255,949,894

See Notes to Consolidated Financial Statements.

Note: Certain prior year items have been reclassified to conform to the current year's presentation.

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended November 30, <i>(in thousands)</i>	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,462,177	\$ 1,344,733	\$ 1,156,406
Adjustments to reconcile net income to cash used in operating activities:			
Non-cash items included in net income:			
Depreciation and amortization	269,169	212,575	175,876
Deferred income taxes	112,937	(82,575)	(184,830)
Employee stock compensation plans	801,216	763,162	729,406
Other	7,489	8,598	10,467
Changes in operating assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	(846,978)	4,234,367	(1,556,927)
Securities borrowed, net of securities loaned	6,263,989	7,595,123	(19,192,301)
Net receivables from brokers, dealers and others	(552,783)	2,996,454	(3,109,166)
Financial instruments owned	(30,298,934)	(21,418,456)	(5,307,641)
Other assets	(831,155)	(672,940)	(222,153)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	10,274,913	(432,360)	5,677,494
Net payables to customers	(7,293,560)	(1,750,367)	13,311,105
Financial instruments sold, but not yet purchased	5,528,453	2,366,733	2,687,874
Accrued employee compensation and benefits	170,966	302,727	214,691
Other liabilities and accrued expenses	920,154	2,355,022	392,248
Cash used in operating activities	(14,011,947)	(2,177,204)	(5,217,451)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and leasehold improvements	(202,911)	(128,433)	(36,711)
Cash used in investing activities	(202,911)	(128,433)	(36,711)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	7,804,896	(1,176,830)	(1,022,164)
Proceeds from issuances of long-term borrowings	15,996,998	11,248,786	11,198,660
Payments for retirement/repurchase of long-term borrowings	(7,273,206)	(6,653,510)	(6,066,144)
Proceeds from issuances of derivatives with a financing element, net	254,771	273,849	501,907
Redemption of preferred stock issued by a subsidiary	—	(300,000)	—
Issuance of common stock	201,851	235,812	78,004
Redemption of preferred stock	(75,822)	(89,037)	(27,659)
Treasury stock purchases—common stock	(869,629)	(780,827)	(986,193)
Cash dividends paid	(139,253)	(116,791)	(104,964)
Cash provided by financing activities	15,900,606	2,641,452	3,571,447
Net increase (decrease) in cash and cash equivalents	1,685,748	335,815	(1,682,715)
Cash and cash equivalents, beginning of year	4,173,385	3,837,570	5,520,285
Cash and cash equivalents, end of year	\$ 5,859,133	\$ 4,173,385	\$ 3,837,570

Supplemental Disclosure of Cash Flow Information:

Cash payments for interest were \$4.30 billion, \$1.66 billion and \$1.45 billion during the fiscal years ended November 30, 2005, 2004 and 2003, respectively. Cash payments for income taxes were \$156.2 million, \$525.5 million and \$503.3 million for the fiscal years ended November 30, 2005, 2004 and 2003, respectively.

See Notes to Consolidated Financial Statements.

Note: Certain prior year items have been reclassified to conform to the current year's presentation.

THE BEAR STEARNS COMPANIES INC

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock \$1 Par Value	Paid-in Capital	Retained Earnings	Employee Stock Compensation Plans	Unearned Compensation	Treasury Stock Adjustable-Rate Cumulative Preferred Stock, Series A-\$50 Liquidation Preference	Common Stock	Total
<i>(in thousands, except share and per share data)</i>									
BALANCE, NOVEMBER 30, 2002	\$ 692,832	\$ 184,806	\$ 2,866,290	\$ 3,909,272	\$ 2,213,979	\$ (208,588)	\$ (103,421)	\$ (3,173,087)	\$ 6,382,083
Net income				1,156,406					1,156,406
Dividends declared— Common (\$0.74 per share)				(80,318)	7,333				(72,985)
Preferred				(31,572)					(31,572)
Treasury stock— Common stock purchased (14,037,987 shares)								(986,193)	(986,193)
Common stock issued out of treasury (16,585,635 shares)			17,934		(534,723)			596,041	79,252
Redemption of preferred stock	(154,417)		22,617	720			103,421		(27,659)
Income tax benefit related to distributions from employee stock compensation plans			247,475						247,475
Unearned employee stock compensation, net						19,636			19,636
Employee stock compensation awards, net			92,709		612,581				705,290
Amortization of preferred stock issue costs			(1,645)						(1,645)
BALANCE, NOVEMBER 30, 2003	\$ 538,415	\$ 184,806	\$ 3,245,380	\$ 4,954,508	\$ 2,299,170	\$ (188,952)	\$ 0	\$ (3,563,239)	\$ 7,470,088
Net income				1,344,733					1,344,733
Dividends declared— Common (\$0.85 per share)				(94,888)	7,199				(87,689)
Preferred				(28,712)					(28,712)
Treasury stock— Common stock purchased (9,236,141 shares)								(780,827)	(780,827)
Common stock issued out of treasury (10,454,157 shares)			41,631		(272,293)			468,517	237,855
Redemption of preferred stock	(90,267)			1,230					(89,037)
Income tax benefit related to distributions from employee stock compensation plans			163,887						163,887
Unearned employee stock compensation, net						30,290			30,290
Employee stock compensation awards, net			98,940		61				731,743
Amortization of preferred stock issue costs			(1,459)						(1,459)
BALANCE, NOVEMBER 30, 2004	\$ 448,148	\$ 184,806	\$ 3,548,379	\$ 6,176,871	\$ 2,666,879	\$ (158,662)	\$ 0	\$ (3,875,549)	\$ 8,990,872

THE BEAR STEARNS COMPANIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(CONTINUED)

	Preferred Stock	Common Stock \$1 Par Value	Paid-in Capital	Retained Earnings	Employee Stock Compensation Plans	Unearned Compensation	Treasury Stock Adjustable- Rate Cumulative Preferred Stock, Series A- \$50 Liquidation Preference	Common Stock	Total
<i>(in thousands, except share and per share data)</i>									
BALANCE, NOVEMBER 30, 2004	\$448,148	\$184,806	\$3,548,379	\$6,176,871	\$2,666,879	\$(158,662)	\$ 0	\$(3,875,549)	\$8,990,872
Net income				1,462,177					1,462,177
Dividends declared— Common (\$1.00 per share)				(121,245)	7,181				(114,064)
Preferred				(24,852)					(24,852)
Treasury stock— Common stock purchased (8,483,483 shares)								(869,629)	(869,629)
Common stock issued out of treasury (18,565,624 shares)	(75,822)		12,776		(729,226)			920,477	204,027
Redemption of preferred stock									(75,822)
Income tax benefit related to distributions from employee stock compensation plans			426,055						426,055
Unearned employee stock compensation, net						15,360			15,360
Employee stock compensation awards, net			123,198		655,352				778,550
Amortization of preferred stock issue costs			(1,242)						(1,242)
BALANCE, NOVEMBER 30, 2005	\$372,326	\$184,806	\$4,109,166	\$7,492,951	\$2,600,186	\$(143,302)	\$ 0	\$(3,824,701)	\$10,791,432

See Notes to Consolidated Financial Statements

THE BEAR STEARNS COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Bear Stearns Companies Inc. (the "Company") is a holding company that, through its broker-dealer and international bank subsidiaries, principally Bear, Stearns & Co. Inc. ("Bear Stearns"), Bear, Stearns Securities Corp. ("BSSC"), Bear, Stearns International Limited ("BSIL") and Bear Stearns Bank plc ("BSB"), is primarily engaged in business as a securities broker-dealer and operates in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. Capital Markets comprises the institutional equities, fixed income and investment banking areas. Global Clearing Services provides clearance-related services for prime brokerage clients and clearance on a fully disclosed basis for introducing broker-dealers. Wealth Management comprises the private client services ("PCS") and asset management areas. See Note 19, "Segment and Geographic Area Data," in the Notes to Consolidated Financial Statements. The Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Custodial Trust Company; Bear Stearns Financial Products Inc.; Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc.; EMC Mortgage Corporation; and Bear Stearns Commercial Mortgage, Inc. The Company participates, through a majority-owned joint venture, in specialist activities on the New York Stock Exchange ("NYSE"), American Stock Exchange ("AMEX") and International Securities Exchange ("ISE").

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling interest. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (R), "Consolidation of Variable Interest Entities" ("FIN No. 46 (R)"), the Company also consolidates any variable interest entities ("VIEs") for which it is the primary beneficiary. The assets and related liabilities of such variable interest entities have been shown in the Consolidated Statements of Financial Condition in the captions "Assets of variable interest entities and mortgage loan special purpose entities" and "Liabilities of variable interest entities and mortgage loan special purpose entities." See Note 6, "Variable Interest Entities and Mortgage Loan Special Purpose Entities," in the Notes to Consolidated Financial Statements.

When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity's operating and financial decisions (generally defined as owning a voting or economic interest of 20% to 50%), the Company applies the equity method of accounting.

All material intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. During the quarter ended May 31, 2005, the Company changed the income statement presentation of certain servicing fees and asset-based retail investor advisory fees. All net servicing fees are included in the investment banking line on the Consolidated Statements of Income. Asset-based retail investor advisory fees are included in the asset management and other income line on the Consolidated Statements of Income. Within the Capital Markets segment, certain servicing fees have been reclassified from investment banking to fixed income. These reclassifications in both the Consolidated Statements of Income and the Capital Markets segment were made to prior year amounts to conform to the current year's presentation.

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. These principles require management to make certain estimates and assumptions, including those regarding inventory valuations, stock compensation, certain accrued liabilities and the potential outcome of litigation and tax matters, which may affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

FINANCIAL INSTRUMENTS

Proprietary securities, futures and other derivatives transactions are recorded on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased, including contractual commitments arising pursuant to futures, forward and option contracts, interest rate swaps and other derivative contracts, are recorded at fair value with the resulting net unrealized gains and losses reflected in "Principal Transactions" revenues in the Consolidated Statements of Income.

Fair value is generally based on quoted market prices. If quoted market prices are not available, or if liquidating the Company's position is reasonably expected to affect market prices, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Valuation pricing models consider time value, yield curve and volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other measurements.

The Company follows Emerging Issues Task Force ("EITF") Statement No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." This guidance generally eliminates the practice of recognizing profit at the inception of a derivative contract unless the fair value of the derivative is obtained from a quoted market price in an active market or is otherwise evidenced by comparison to other observable current market transactions or based on a valuation technique that incorporates observable market data.

Equity interests and securities acquired as a result of private equity and merchant banking activities are reflected in the consolidated financial statements at their initial costs until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. Generally, the carrying values of these securities will be increased only in those instances where market values are readily ascertainable by reference to substantial transactions occurring in the marketplace or quoted market prices. Reductions to the carrying value of these securities are made when the Company's estimate of net realizable value has declined below the carrying value.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities, and hedging activities. Accordingly, all derivatives, whether stand-alone or embedded within other contracts or securities (except in narrowly defined circumstances), are carried in the Company's Consolidated Statements of Financial Condition at fair value, with changes in fair value recorded in current earnings in "Principal Transactions" revenues. Designated hedged items in fair value hedging relationships are marked for the risk being hedged, with such changes recorded in current earnings.

CUSTOMER TRANSACTIONS

Customer securities transactions are recorded on the Consolidated Statements of Financial Condition on a settlement date basis, which is generally three business days after trade date, while the related commission revenues and expenses are recorded on a trade date basis. Receivables from and payables to customers include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are generally not reflected in the Consolidated Statements of Financial Condition.

MORTGAGE SERVICING ASSETS, FEES AND ADVANCES

Mortgage servicing rights ("MSRs"), which are included in "Other Assets" on the Consolidated Statements of Financial Condition, are reported at the lower of amortized cost or market. MSRs are amortized in proportion to and over the period of estimated net servicing income. MSRs are periodically evaluated for impairment based on the fair value of those rights determined by using market-based models that discount anticipated future net cash flows considering loan prepayment predictions, interest rates, default rates, servicing costs and other economic factors. For purposes of impairment evaluation and measurement, the Company stratifies MSRs by securitizations, which are collateralized by loans with similar predominant risk characteristics. The excess of amortized cost over market value is reflected as a valuation allowance at balance sheet dates.

Contractual servicing fees, late fees and other ancillary servicing fees earned for servicing mortgage loans are reflected net of MSR amortization and impairment in investment banking revenues in the Consolidated Statements of Income. Contractual servicing fees are recognized when earned based on the terms of a servicing agreement. All other fees are recognized when received. In the normal course of its business, the Company makes principal, interest and other servicing advances to external investors on mortgage loans serviced for these investors. Such advances are generally recoverable from the mortgagors or from the proceeds received from the sales of the underlying properties. A charge to expense is recognized to the extent that servicing advances are estimated to be uncollectible under the provisions of the servicing contracts.

TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

The Company follows SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125," to account for securitizations and other transfers of financial assets and collateral. SFAS No. 140 establishes accounting and reporting standards with a financial-components approach that focuses on control. Under this approach, financial assets or liabilities are recognized when control is established and derecognized when control has been surrendered or the liability has been extinguished. Control is deemed to be relinquished only when all of the following conditions have been met: (1) the assets have been isolated from the transferor, even in bankruptcy or other receivership; (2) the transferee is a Qualifying Special Purpose Entity ("QSPE") or has the right to pledge or exchange the assets received; and (3) the transferor has not maintained effective control over the transferred assets. The Company derecognizes financial assets transferred in securitizations provided that such transfer meets all of these criteria.

COLLATERALIZED SECURITIES TRANSACTIONS

Transactions involving purchases of securities under agreements to resell ("reverse repurchase agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. Resulting interest income and expense is generally included in "Principal Transactions" revenues in the Consolidated Statements of Income. Reverse repurchase agreements and repurchase agreements are presented in the Consolidated Statements of Financial Condition on a net-by-counterparty basis, where permitted by generally accepted accounting principles. It is the Company's general policy to take possession of securities with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is generally required to provide securities to counterparties to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned. It is the Company's policy to value collateral and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

Securities borrowed and securities loaned are recorded based upon the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned, with excess collateral retrieved or additional collateral obtained, when deemed appropriate.

INVESTMENT BANKING AND ADVISORY SERVICES

Underwriting revenues and fees for mergers and acquisitions advisory services are accrued when services for the transactions are substantially completed. Transaction expenses are deferred until the related revenue is recognized.

ASSET MANAGEMENT AND OTHER INCOME

The Company receives advisory fees for investment management. In addition, the Company receives performance incentive fees for managing certain funds. Advisory fees are recognized over the period of advisory service. Unearned advisory fees are treated as deferred revenues and are included in other liabilities in the accompanying Consolidated Statements of Financial Condition. Performance incentive fees are recognized throughout the year as they become realizable based on achievement of specified performance targets.

FIXED ASSETS

Depreciation of property and equipment is provided by the Company on a straight-line basis over the estimated useful life of the asset. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of the estimated useful life of the asset or the remaining life of the lease.

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The Company accounts for goodwill and identifiable intangible assets under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with this guidance, the Company does not amortize goodwill, but amortizes identifiable intangible assets over their useful lives. Goodwill is tested at least annually for impairment and identifiable intangible assets are tested for potential impairment whenever events or changes in

circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

EARNINGS PER SHARE

Earnings per share ("EPS") is computed in accordance with SFAS No. 128, "Earnings Per Share," and EITF Statement No. 03-6, "Participating Securities and the Two Class Method Under FASB Statement No. 128, Earnings Per Share." Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the Capital Accumulation Plan for Senior Managing Directors, as amended ("CAP Plan"), as well as the effect of the redemption of preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes vested units issued under certain stock compensation plans, which will be distributed as shares of common stock. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares related to stock compensation plans.

STOCK-BASED COMPENSATION

Effective December 1, 2002, the Company elected to adopt fair value accounting for stock-based compensation consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," using the prospective method with guidance provided by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." As a result, commencing with options granted after November 30, 2002, the Company expenses the fair value of stock options issued to employees over the related vesting period. Prior to December 1, 2002, the Company had elected to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), as permitted by SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Accordingly, no compensation expense had been recognized for stock option awards granted prior to December 1, 2002 because the exercise price was at the fair market value of the Company's common stock on the grant date.

The cost related to stock-based compensation included in the determination of net income for the fiscal years ended November 30, 2005, 2004 and 2003 is less than that which would have been recognized if the fair value-based method had been applied to stock option awards since the original effective date of SFAS No. 123.

The following table illustrates the effect on net income and earnings per share if the fair value-based method had been applied to all outstanding awards in each fiscal year.

Fiscal Years Ended November 30,	2005	2004	2003
<i>(in millions, except per share amounts)</i>			
Net income, as reported	\$ 1,462.2	\$ 1,344.7	\$ 1,156.4
Add: Stock-based employee compensation plans expense included in reported net income, net of related tax effect	375.4	335.4	306.4
Deduct: Total stock-based employee compensation plans expense determined under the fair value based method, net of related tax effect	(387.3)	(367.6)	(359.5)
Pro forma net income	\$ 1,450.3	\$ 1,312.5	\$ 1,103.3
Earnings per share:			
Basic—as reported	\$ 11.42	\$ 10.88	\$ 9.44
Basic—pro forma	\$ 11.33	\$ 10.63	\$ 9.03
Diluted—as reported	\$ 10.31	\$ 9.76	\$ 8.52
Diluted—pro forma	\$ 10.23	\$ 9.54	\$ 8.16

CASH EQUIVALENTS

The Company has defined cash equivalents as liquid investments not held for sale in the ordinary course of business with original maturities of three months or less that are not part of the Company's trading inventory.

INCOME TAXES

The Company and certain of its subsidiaries file a US consolidated federal income tax return. The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income taxes are based on the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. In addition, deferred income taxes are determined by the enacted tax rates and laws expected to be in effect when the related temporary differences are expected to be reversed.

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly evaluates the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at fiscal year-end rates of exchange, while income statement items are translated at daily average rates of exchange during the fiscal year. Gains or losses resulting from foreign currency transactions are included in net income.

ACCOUNTING AND REPORTING DEVELOPMENTS

In December 2004, the FASB issued SFAS No. 123 (R), "Share-Based Payment." SFAS No. 123 (R) is a revision of SFAS No. 123 and supersedes APB Opinion No. 25 and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123 (R) eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements using a fair value-based method. Effective December 1, 2002, the Company elected to adopt fair value accounting for stock-based compensation consistent with SFAS No. 123 using the prospective method with guidance provided by SFAS No. 148. In April 2005, the SEC amended the effective date of SFAS No. 123 (R) to provide additional time for companies to comply with the reporting requirements. The Company adopted SFAS No. 123 (R), as required, on December 1, 2005, using the modified prospective method. The Company does not expect that adoption of this standard will have a material impact on the consolidated financial statements of the Company.

In June 2005, the EITF reached a consensus on EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." The EITF consensus requires a general partner in a limited partnership to consolidate the limited partnership unless the presumption of control is overcome. The general partner may overcome this presumption of control and not consolidate the entity if the limited partners have: (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without having to show cause; or (b) substantive participating rights in managing the partnership. This guidance became effective upon ratification by the FASB on June 29, 2005 for all newly formed limited partnerships and for existing limited partnerships for which the partnership agreements have been modified. For all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company does not expect the EITF consensus on EITF issue No. 04-5 to have a material impact on the consolidated financial statements of the Company.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Company's assets and liabilities are carried at contracted amounts that approximate fair value. Assets that are recorded at contracted amounts approximating fair value consist largely of short-term secured receivables, including reverse repurchase agreements, securities borrowed, customer receivables and certain other receivables. Similarly, the Company's short-term liabilities, such as bank loans, commercial paper, repurchase agreements, securities loaned, customer payables and certain other payables, are recorded at contracted amounts approximating fair value. These instruments generally have variable interest rates and/or short-term maturities, in many cases overnight, and accordingly, their fair values are not materially affected by changes in interest rates.

The estimated fair value of the Company's long-term borrowings, based on market rates of interest and current foreign exchange rates available to the Company at November 30, 2005 for debt obligations of similar maturity, approximate carrying value as a result of applying SFAS No. 133. The Company uses derivatives to modify the interest rate characteristics of its long- and short-term debt. The Company generally enters into interest rate swaps and other transactions designed to either convert its fixed-rate debt into floating-rate debt or otherwise hedge its exposure to interest rate movements.

3. FINANCIAL INSTRUMENTS

Financial instruments owned and financial instruments sold, but not yet purchased, consisting of the Company's proprietary trading inventories, at fair value, as of November 30, 2005 and 2004, were as follows:

<i>(in thousands)</i>	2005	2004
FINANCIAL INSTRUMENTS OWNED:		
US government and agency	\$ 9,914,866	\$ 6,043,204
Other sovereign governments	1,159,265	1,316,206
Corporate equity and convertible debt	18,601,132	15,788,681
Corporate debt and other	21,571,914	14,857,555
Mortgages, mortgage- and asset-backed	40,297,016	27,679,581
Derivative financial instruments	14,700,228	12,711,908
	\$ 106,244,421	\$ 78,397,135
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:		
US government and agency	\$ 10,115,133	\$ 8,851,452
Other sovereign governments	1,617,998	1,240,916
Corporate equity and convertible debt	6,900,004	6,386,064
Corporate debt and other	3,274,034	2,896,233
Mortgages, mortgage- and asset-backed	139,988	428,909
Derivative financial instruments	12,957,176	9,672,306
	\$ 35,004,333	\$ 29,475,880

As of November 30, 2005 and 2004, all financial instruments owned that were pledged to counterparties where the counterparty has the right, by contract or custom, to rehypothecate those securities are classified as "Financial Instruments Owned, Pledged as Collateral" in the Consolidated Statements of Financial Condition.

Financial instruments sold, but not yet purchased, represent obligations of the Company to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to repurchase such securities may exceed the amount recognized in the Consolidated Statements of Financial Condition.

CONCENTRATION RISK

The Company is subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities, securities of a single issuer (including governments), issuers located in a particular country or geographic area, or issuers engaged in a particular industry. Positions taken and commitments made by the Company, including underwritings, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment-grade issuers. At November 30, 2005, the Company's most significant concentrations are related to US government and agency inventory positions, including those of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. In addition, a substantial portion of the collateral held by the Company for securities purchased under agreements to resell consists of securities issued by the US government and agencies.

4. DERIVATIVES AND HEDGING ACTIVITIES

The Company, in its capacity as a dealer in over-the-counter derivative financial instruments and its proprietary market-making and trading activities, enters into transactions in a variety of cash and derivative financial instruments for proprietary trading and to manage its exposure to market and credit risk. These risks include interest rate, exchange rate and equity price risk. Derivative financial instruments represent contractual commitments between counterparties that derive their value from changes in an underlying interest rate, currency exchange rate, index (e.g., Standard & Poor's 500 Index), reference rate (e.g., London Interbank Offered Rate, or LIBOR), or asset value referenced in the related contract. Some derivatives, such as futures contracts, certain options and index-referenced warrants, can be traded on an exchange. Other derivatives, such as interest rate and currency swaps, caps, floors, collars, swaptions, equity swaps and options, credit derivatives, structured notes and forward contracts, are

negotiated in the over-the-counter markets. Derivatives generate both on- and off-balance-sheet risks depending on the nature of the contract. Generally, these financial instruments represent commitments or rights to exchange interest payment streams or currencies or to purchase or sell other securities at specific terms at specified future dates. Option contracts generally provide the holder with the right, but not the obligation, to purchase or sell a financial instrument at a specific price on or before an established date or dates. Financial instruments sold, but not yet purchased may result in market and/or credit risk in excess of amounts recorded in the Consolidated Statements of Financial Condition.

MARKET RISK

Derivative financial instruments involve varying degrees of off-balance-sheet market risk, whereby changes in the level or volatility of interest rates, foreign currency exchange rates or market values of the underlying financial instruments may result in changes in the value of a particular financial instrument in excess of the amounts currently reflected in the Consolidated Statements of Financial Condition. The Company's exposure to market risk is influenced by a number of factors, including the relationships among and between financial instruments with off-balance-sheet risk, the Company's proprietary securities, futures and derivatives inventories as well as the volatility and liquidity in the markets in which the financial instruments are traded. The Company attempts to mitigate its exposure to market risk by entering into hedging transactions, which may include over-the-counter derivatives contracts or the purchase or sale of interest-bearing securities, equity securities, financial futures and forward contracts. In this regard, the utilization of derivative instruments is designed to reduce or mitigate market risks associated with holding dealer inventories or in connection with arbitrage-related trading activities.

DERIVATIVES CREDIT RISK

Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. At any point in time, the Company's exposure to credit risk associated with counterparty non-performance is generally limited to the net replacement cost of over-the-counter contracts, net of the value of collateral held. Such financial instruments are reported at fair value on a net-by-counterparty basis pursuant to enforceable netting agreements. Exchange-traded financial instruments, such as futures and options, generally do not give rise to significant unsecured counterparty exposure due to the Company's margin requirements, which may be greater than those prescribed by the individual exchanges. Options written generally do not give rise to counterparty credit risk since they obligate the Company (not its counterparty) to perform.

The Company has controls in place to monitor credit exposures by assessing the future creditworthiness of counterparties and limiting transactions with specific counterparties. The Company also seeks to control credit risk by following an established credit approval process, monitoring credit limits and requiring collateral where appropriate.

NON-TRADING DERIVATIVES ACTIVITY

To modify the interest rate characteristics of its long- and short-term debt, the Company also engages in non-trading derivatives activities. The Company has issued US dollar- and foreign currency-denominated debt with both variable- and fixed-rate interest payment obligations. The Company has entered into interest rate swaps, primarily based on LIBOR, to convert fixed-rate interest payments on its debt obligations into variable-rate payments. In addition, for foreign currency debt obligations that are not used to fund assets in the same currency, the Company has entered into currency swap agreements that effectively convert the debt into US dollar obligations. Such transactions are accounted for as fair value hedges.

These financial instruments are subject to the same market and credit risks as those that are traded in connection with the Company's market-making and trading activities. The Company has similar controls in place to monitor these risks. Interest rate swap agreements reduced net interest expense on the Company's long- and short-term debt obligations by \$115.4 million, \$589.3 million and \$635.3 million during the fiscal years ended November 30, 2005, 2004 and 2003, respectively.

SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149, establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities and for hedging activities. It requires that all derivatives, whether stand-alone or embedded within other contracts or securities (except in very defined circumstances) be carried on the Company's Statement of Financial Condition at fair value. SFAS No. 133 also requires items designated as being fair value hedged to be recorded at fair value, as defined in SFAS No. 133, provided that the intent to hedge is fully documented. Any resultant net change in value for both the hedging derivative and the hedged item is recognized in earnings immediately, such net effect being deemed the "ineffective" portion of the hedge. The gains and losses associated with the ineffective portion of the fair value

hedges are included in "Principal Transactions" revenues in the Consolidated Statements of Income. These amounts were immaterial for fiscal 2005, 2004 and 2003.

5. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES

SECURITIZATIONS

The Company is a market leader in mortgage-backed securitization and other structured financing arrangements. In the normal course of business, the Company regularly securitizes commercial and residential mortgages, consumer receivables and other financial assets. Securitization transactions are generally treated as sales, provided that control has been relinquished. In connection with securitization transactions, the Company establishes special-purpose entities ("SPEs"), in which transferred assets, including commercial and residential mortgages, consumer receivables and other financial assets are sold to an SPE and repackaged into securities or similar beneficial interests. Transferred assets are accounted for at fair value prior to securitization. The majority of the Company's involvement with SPEs relates to securitization transactions meeting the definition of a QSPE under the provisions of SFAS No. 140. Provided it has relinquished control over such assets, the Company derecognizes financial assets transferred in securitizations and does not consolidate the financial statements of QSPEs. For SPEs that do not meet the QSPE criteria, the Company uses the guidance in FIN No. 46 (R) to determine whether the SPE should be consolidated.

In connection with these securitization activities, the Company may retain interests in securitized assets in the form of senior or subordinated securities or as residual interests. Retained interests in securitizations are generally not held to maturity and typically are sold shortly after the settlement of a securitization. The weighted average holding period for retained interest positions in inventory at November 30, 2005 and 2004 was approximately 90 days and 70 days, respectively. These retained interests are included in "Financial Instruments Owned" in the Consolidated Statements of Financial Condition and are carried at fair value. Consistent with the valuation of similar inventory, fair value is determined by broker-dealer price quotations and internal valuation pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for pricing variables are based on observable transactions in similar securities and are further verified by external pricing sources, when available.

The Company's securitization activities are detailed below:

	Agency Mortgage- Backed	Other Mortgage- and Asset- Backed	Total
<i>(in billions)</i>			
Total securitizations			
Fiscal 2005	\$ 26.2	\$ 89.8	\$ 116.0
Fiscal 2004	\$ 30.2	\$ 75.2	\$ 105.4
Retained interests			
As of November 30, 2005	\$ 1.8	\$ 3.7	\$ 5.5(1)
As of November 30, 2004	\$ 2.6	\$ 1.9	\$ 4.5(2)

(1) Includes approximately \$0.8 billion in non-investment-grade and unrated retained interests.

(2) Includes approximately \$0.3 billion in non-investment-grade and unrated retained interests.

The following table summarizes cash flows from securitization trusts related to securitization transactions during the fiscal years ended November 30, 2005 and 2004:

	Agency Mortgage- Backed	Other Mortgage- and Asset- Backed	Total
<i>(in millions)</i>			
Cash flows received from retained interests			
Fiscal 2005	\$ 452.9	\$ 498.0	\$ 950.9
Fiscal 2004	\$ 537.2	\$ 260.8	\$ 798.0
Cash flows from servicing			
Fiscal 2005	\$ 1.7	\$ 68.8	\$ 70.5
Fiscal 2004	\$ 1.0	\$ 40.6	\$ 41.6

The Company is an active market maker in these securities and therefore may retain interests in assets it securitizes, predominantly highly rated or government agency-backed securities. The models employed in the valuation of retained interests use discount rates that are based on the Treasury curve plus a spread. Key points on the constant maturity Treasury curve at November 30, 2005 were 4.40% for two-year Treasuries and 4.63% for 10-year Treasuries, and ranged from 3.97% to 4.83%. These models also consider prepayment speeds as well as credit losses. Credit losses are considered through option-adjusted spreads that also incorporate additional factors such as liquidity and optionality.

Weighted average key economic assumptions used in measuring the fair value of retained interests in assets the Company securitized at November 30, 2005 were as follows:

	Agency Mortgage- Backed	Other Mortgage- and Asset- Backed
Weighted average life (years)	7.8	4.6
Average prepayment speeds (annual rate)	6%-21%	6%-49%
Credit losses	0.46%	4.94%

The following hypothetical sensitivity analysis as of November 30, 2005 illustrates the potential adverse change in fair value of these retained interests due to a specified change in the key valuation assumptions. The interest rate changes represent a parallel shift in the Treasury curve. This shift considers the effect of other variables, including prepayments. The remaining valuation assumptions are changed independently. Retained interests in securitizations are generally not held to maturity and are typically sold shortly after the settlement of a securitization. The Company considers the current and expected credit profile of the underlying collateral in determining the fair value and periodically updates the fair value for changes in credit, interest rate, prepayment and other pertinent market factors. Actual credit losses on retained interests have not been significant.

	Agency Mortgage- Backed	Other Mortgage- and Asset- Backed
<i>(in millions)</i>		
Interest rates		
Impact of 50 basis point adverse change	(\$34.0)	(\$100.1)
Impact of 100 basis point adverse change	(71.4)	(191.6)
Prepayment speeds		
Impact of 10% adverse change	(0.8)	(18.5)
Impact of 20% adverse change	(1.5)	(34.2)
Credit losses		
Impact of 10% adverse change	(4.3)	(44.6)
Impact of 10% adverse change	(8.5)	(87.1)

In the normal course of business, the Company originates and purchases conforming and non-conforming, conventional fixed-rate and adjustable-rate residential mortgage loans and sells such loans to investors. In connection with these activities, the Company may retain MSR that entitle the Company to a future stream of cash flows based on the contractual servicing fee. In addition, the Company may purchase and sell MSRs. At November

30, 2005, the key economic assumptions and the sensitivity of the current fair value of MSR's to immediate changes in those assumptions were as follows:

	Sub-Prime Loans	Fixed-Rate Prime & Alt-A Loans	Adjustable-Rate Prime & Alt-A Loans
<i>(in millions)</i>			
Fair value of MSR's	\$ 155.3	\$ 76.9	\$ 236.3
Constant prepayment rate (in CPR)	15%-75%	10%-18%	20%-46%
Impact on fair value of:			
5 CPR adverse change	\$ (15.5)	\$ (8.6)	\$ (12.4)
10 CPR adverse change	(27.6)	(18.3)	(22.7)
Discount rate	14%	13%	13%
Impact on fair value of:			
5% adverse change	\$ (12.9)	\$ (9.7)	\$ (17.9)
10% adverse change	(22.3)	(17.2)	(33.4)

The previous tables should be viewed with caution since the changes in a single variable generally cannot occur without changes in other variables or conditions that may counteract or amplify the effect of the changes outlined in the tables. Changes in fair value based on a 10% adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the tables do not consider the change in fair value of hedging positions, which would generally offset the changes detailed in the tables, nor do they consider any corrective action that the Company may take in response to changes in these conditions. The impact of hedges is not presented because hedging positions are established on a portfolio level and allocating the impact would not be practicable.

MSR's are included in "Other Assets" on the Consolidated Statements of Financial Condition. The Company's MSR's activities for the fiscal years ended November 30, 2005 and 2004 were as follows:

	2005	2004
<i>(in millions)</i>		
Balance, beginning of year	\$ 230.2	\$ 108.0
Additions	384.1	206.4
Sales	(47.1)	—
Amortization	(135.9)	(57.1)
Impairment	(0.2)	(27.1)
Balance, end of year	\$ 431.1	\$ 230.2

Changes in the MSR valuation allowance for the fiscal years ended November 30, 2005 and 2004 were as follows:

	2005	2004
<i>(in millions)</i>		
Balance, beginning of year	\$ (33.7)	\$ (6.6)
Impairment	(0.2)	(27.1)
Balance, end of year	\$ (33.9)	\$ (33.7)

6. VARIABLE INTEREST ENTITIES AND MORTGAGE LOAN SPECIAL PURPOSE ENTITIES

The Company regularly creates or transacts with entities that may be VIEs. These entities are an essential part of its securitization, asset management and structured finance businesses. In addition, the Company purchases and sells instruments that may be variable interests. The Company adopted FIN No. 46 (R) for its variable interests in fiscal 2004. The Company consolidates those VIEs in which the Company is the primary beneficiary.

The Company may perform various functions, including being the seller, investor, structurer or underwriter in securitization transactions. These transactions typically involve entities that are considered to be QSPEs as defined in SFAS No. 140. QSPEs are exempt from the requirements of FIN No. 46 (R). For securitization vehicles that do not qualify as QSPEs, the holders of the beneficial interests have no recourse to the Company, only to the assets held by the related VIE. In certain of these VIEs, the Company is the primary beneficiary often through its ownership of certain beneficial interests, and is, therefore, required to consolidate the assets and liabilities of the VIE.

The Company has a limited number of mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140 because the securitization vehicles were not QSPEs. The assets in these mortgage securitizations approximated \$5.3 billion and \$1.6 billion at November 30, 2005 and 2004, respectively.

The Company also acts as portfolio manager and/or underwriter in several collateralized debt obligation transactions. In these transactions, the Company establishes a trust that purchases a portfolio of assets and issues trust certificates that represent interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, the Company may also retain certain trust certificates. In certain of these transactions, these interests result in the Company becoming the primary beneficiary of these entities. The holders of the trust certificates have recourse only to the underlying assets of the trusts and not to other assets of the Company.

Assets held by VIEs, which are currently consolidated because the Company is the primary beneficiary, approximated \$1.2 billion and \$0.4 billion at November 30, 2005 and 2004, respectively. At November 30, 2005 and 2004, the Company's maximum exposure to loss as a result of its relationship with these VIEs is approximately \$531.0 million and \$16.3 million, respectively, which represents the fair value of its interests in the VIEs.

The Company also owns significant variable interests in several VIEs related to collateralized debt obligations or asset securitizations for which the Company is not the primary beneficiary and therefore does not consolidate these entities. In aggregate, these VIEs have assets approximating \$4.7 billion and \$5.8 billion at November 30, 2005 and 2004, respectively. At November 30, 2005 and 2004, the Company's maximum exposure to loss from these entities approximates \$29.6 million and \$35.5 million, respectively, which represents the fair value of its interests and is reflected in the consolidated financial statements.

The Company purchases and sells interests in entities that may be deemed to be VIEs in its market-making capacity in the ordinary course of business. As a result of these activities, it is reasonably possible that such entities may be consolidated and deconsolidated at various points in time. Therefore, the Company's variable interests included above may not be held by the Company in future periods.

The Company has retained call options on a limited number of securitization transactions that require the Company to continue recognizing the assets subject to the call options, which approximated \$8.7 billion and \$2.8 billion at November 30, 2005 and 2004, respectively.

7. COLLATERALIZED FINANCING ARRANGEMENTS

The Company enters into secured borrowing and lending agreements to obtain collateral necessary to effect settlements, finance inventory positions, meet customer needs or re-lend as part of its dealer operations.

The Company receives collateral under reverse repurchase agreements, securities borrowing transactions, derivative transactions, customer margin loans and other secured money-lending activities. In many instances, the Company is also permitted by contract or custom to rehypothecate securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending or derivative transactions or cover short positions.

At November 30, 2005 and 2004, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately \$254.62 billion and \$259.01 billion, respectively. Of these securities received as collateral, those with a fair value of approximately \$184.25 billion and \$163.95 billion were delivered or repledged at November 30, 2005 and 2004, respectively.

The Company also pledges financial instruments owned to collateralize certain financing arrangements and permits the counterparty to pledge or rehypothecate the securities. These securities are recorded as "Financial Instruments Owned and Pledged As Collateral, at Fair Value" in the Consolidated Statements of Financial Condition. The carrying value of securities and other inventory positions owned that have been pledged or otherwise encumbered to counterparties where those counterparties do not have the right to sell or repledge was approximately \$20.83 billion at November 30, 2005.

8. SHORT-TERM BORROWINGS

The Company obtains short-term borrowings through the issuance of commercial paper and bank loans and other borrowings. The interest rates on such short-term borrowings reflect market rates of interest at the time of the transactions.

The Company's short-term borrowings at November 30, 2005 and 2004 consisted of the following:

	2005	2004
<i>(in thousands)</i>		
Commercial paper	\$ 9,675,903	\$ 3,924,027
Bank loans and other borrowings ⁽¹⁾	10,339,824	8,286,805
Total short-term borrowings	\$ 20,015,727	\$ 12,210,832

(1) Included in bank loans and other borrowings at November 30, 2005 and 2004 were secured borrowings of \$258.9 million and \$484.1 million, respectively.

The effective weighted average interest rates for short-term borrowings are as follows:

	As of November 30,		Fiscal Years Ended November 30,		
	2005	2004	2005	2004	2003
Commercial paper	4.11%	1.96%	3.28%	1.32%	1.28%
Bank loans and other borrowings	4.16%	2.24%	3.33%	1.63%	1.61%

9. LONG-TERM BORROWINGS

The Company's long-term borrowings (which have original maturities of at least 12 months) at November 30, 2005 and 2004 consisted of the following:

	2005	2004
<i>(in thousands)</i>		
Fixed-rate notes due 2006 to 2018: (1)		
US dollar-denominated	\$ 12,414,889	\$ 12,605,006
Floating-rate notes due 2007 to 2010:		
US dollar-denominated	2,707,346	1,308,989
Medium-term notes and other borrowings:		
Fixed-rate, US dollar-denominated	4,226,308	2,778,131
Fixed-rate, non-US-dollar-denominated	5,331,974	3,002,511
Floating-rate, US dollar-denominated	7,610,466	9,256,014
Floating-rate, non-US-dollar-denominated	3,890,974	2,974,133
Index/equity/credit-linked notes		
US dollar-denominated	1,999,226	1,364,806
Non-US-dollar-denominated	5,308,433	3,553,687
Total long-term borrowings	\$ 43,489,616	\$ 36,843,277

Amounts include fair value adjustments in accordance with SFAS No. 133.

(1) At November 30, 2005, US dollar-denominated fixed-rate notes are at interest rates ranging from 2.9% to 7.8%.

The Company has entered into interest rate swaps and other transactions to convert its fixed-rate notes into floating rates based on LIBOR. For floating-rate notes that are not based on LIBOR, the Company has generally entered into interest rate swaps and other transactions to convert them into floating rates based on LIBOR. The Company's long-

term MTNs have initial maturities ranging from 12 months to 30 years from the date of issue and bear interest at either a fixed rate or a variable rate primarily based on LIBOR. The Company has entered into interest rate swaps and certain other transactions to convert substantially all of its fixed-rate MTNs into floating rates based on LIBOR. Index/equity-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Dow Jones Industrial Average), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying equity position or index, the Company has entered into various equity swap contracts. Credit-linked notes include various structured instruments whose payments and redemption values are linked to the performance of a basket of credit products, an index or an individual security. To minimize exposure to these instruments, the Company has entered into swaps that pay the performance of the underlying security or index.

The effective weighted average interest rates for long-term borrowings, after giving effect to the swaps, are as follows:

	As of November 30,		Fiscal Years Ended November 30,		
	2005	2004	2005	2004	2003
Fixed-rate notes	4.71%	2.68%	3.76%	2.02%	1.99%
Floating-rate notes	4.46%	2.54%	3.80%	1.97%	1.77%
Medium-term notes and other borrowings	4.50%	2.60%	3.61%	2.01%	1.95%

The Company's long-term borrowings at November 30, 2005 mature as follows:

	US Dollar						Non-US-Dollar		
			MTNs and other borrowings			MTNs and other borrowings			
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Index/Equity /Credit Linked	Fixed Rate	Floating Rate	Index/Equity /Credit Linked	
<i>(in millions)</i>									
FISCAL YEAR									
2006	\$ 2,391	\$ —	\$ —	\$ 2,412	\$ 236	\$ 336	\$ 766	\$ 347	
2007	1,948	496	1,717	2,930	489	191	4	543	
2008	2,111	1,542	318	319	566	322	221	411	
2009	705	—	215	1,406	167	882	1,204	939	
2010	2,228	669	66	153	301	1,377	326	850	
Thereafter	3,032	—	1,910	390	240	2,224	1,370	2,218	
Total	\$ 12,415	\$ 2,707	\$ 4,226	\$ 7,610	\$ 1,999	\$ 5,332	\$ 3,891	\$ 5,308	

Amounts include fair value adjustments in accordance with SFAS No. 133 as well as \$262.5 million of junior subordinated deferrable interest debentures ("Debentures"). The Debentures will mature on May 15, 2031; however, the Company, at its option, may redeem the Debentures beginning May 15, 2006. The Debentures are reflected in the table at their contractual maturity date.

Included in fiscal 2007 and fiscal 2008 are approximately \$2.20 billion and \$0.1 billion, respectively, of floating-rate MTNs that are redeemable prior to maturity at the option of the noteholder. These notes contain certain provisions that effectively enable noteholders to put these notes back to the Company and, therefore, are reflected in the table at the date such notes first become redeemable. The final maturity dates of these notes are during fiscal 2009 and fiscal 2010.

Instruments governing certain indebtedness of the Company contain various financial covenants, including maintenance of minimum levels of stockholders' equity of the Company. At November 30, 2005, the Company was in compliance with all covenants contained in these debt agreements.

10. PREFERRED STOCK

PREFERRED STOCK ISSUED BY THE BEAR STEARNS COMPANIES INC.

The Company is authorized to issue a total of 10 million shares of preferred stock at par value of \$1.00 per share. At November 30, 2005, the Company has 1,861,632 shares issued and outstanding under various series as described below. All preferred stock has a dividend preference over the Company's common stock in the paying of dividends and a preference in the liquidation of assets.

The Company has outstanding 3,493,250 depositary shares representing 873,313 shares of Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), having an aggregate liquidation preference of \$174.7 million as of November 30, 2005. Each depositary share represents a one-fourth interest in a share of Series E Preferred Stock. Dividends on the Series E Preferred Stock are payable at an annual rate of 6.15%. Series E Preferred Stock is redeemable at the option of the Company at any time on or after January 15, 2008, in whole or in part, at a redemption price of \$200 per share (equivalent to \$50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2005, the Company did not repurchase any depositary shares.

The Company has outstanding 1,881,700 depositary shares representing 470,425 shares of Cumulative Preferred Stock, Series F ("Series F Preferred Stock"), having an aggregate liquidation preference of \$94.1 million as of November 30, 2005. Each depositary share represents a one-fourth interest in a share of Series F Preferred Stock. Dividends on the Series F Preferred Stock are payable at an annual rate of 5.72%. Series F Preferred Stock is redeemable at the option of the Company at any time on or after April 15, 2008, in whole or in part, at a redemption price of \$200 per share (equivalent to \$50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2005, the Company redeemed and retired 731,100 depositary shares.

The Company has outstanding 2,071,575 depositary shares representing 517,894 shares of Cumulative Preferred Stock, Series G ("Series G Preferred Stock"), having an aggregate liquidation preference of \$103.6 million as of November 30, 2005. Each depositary share represents a one-fourth interest in a share of Series G Preferred Stock. Dividends on the Series G Preferred Stock are payable at an annual rate of 5.49%. Series G Preferred Stock is redeemable at the option of the Company at any time on or after July 15, 2008, in whole or in part, at a redemption price of \$200 per share (equivalent to \$50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2005, the Company redeemed and retired 785,325 depositary shares.

PREFERRED STOCK ISSUED BY SUBSIDIARIES

Bear Stearns Capital Trust III ("Capital Trust III"), a wholly owned subsidiary of the Company, has issued \$262.5 million (10,500,000 shares) of Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities ("Preferred Securities"). The Preferred Securities are fixed-rate securities, which have a liquidation value of \$25 per security. Holders of the Preferred Securities are entitled to receive quarterly preferential cash distributions at an annual rate of 7.8% through May 15, 2031. The proceeds of the issuance of the Preferred Securities were used to acquire junior subordinated deferrable interest debentures ("Debentures") issued by the Company. The Debentures have terms that correspond to the terms of the Preferred Securities and are the sole assets of Capital Trust III. The Preferred Securities will mature on May 15, 2031. The Company, at its option, may redeem the Preferred Securities at their principal amount plus accrued distributions beginning May 15, 2006.

In accordance with FIN No. 46 (R) the Company has deconsolidated Capital Trust III. As a result, the Debentures issued by the Company to Capital Trust III are included within long-term borrowings at November 30, 2005 and 2004. The \$262.5 million of Preferred Securities issued by Capital Trust III is still outstanding, providing the funding for such Debentures. The Preferred Securities issued by Capital Trust III are no longer included in the Company's Consolidated Statements of Financial Condition.

11. EARNINGS PER SHARE

Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the CAP Plan, as well as the effect of the redemption of preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes vested units issued under certain stock compensation plans, which will be distributed as shares of common stock. Diluted EPS includes the determinants of Basic EPS and, in addition, gives effect to dilutive potential common shares related to stock compensation plans.

The computations of Basic and Diluted EPS for the fiscal years ended November 30, 2005, 2004 and 2003 are set forth below:

	2005	2004	2003
<i>(in thousands, except per share amounts)</i>			
Net income	\$ 1,462,177	\$ 1,344,733	\$ 1,156,406
Preferred stock dividends	(24,321)	(28,072)	(31,375)
Redemption of preferred stock	—	1,230	720
Income adjustment (net of tax) applicable to deferred compensation arrangements—vested shares	50,630	69,518	81,177
Net earnings used for Basic EPS	1,488,486	1,387,409	1,206,928
Income adjustment (net of tax) applicable to deferred compensation arrangements—non-vested shares	31,622	31,011	29,063
Net earnings used for Diluted EPS	\$ 1,520,108	\$ 1,418,420	\$ 1,235,991
Total basic weighted average common shares outstanding(1)	130,327	127,468	127,820
Effect of dilutive securities:			
Employee stock options	4,064	3,604	2,415
CAP and restricted units	13,077	14,213	14,792
Dilutive potential common shares	17,141	17,817	17,207
Weighted average number of common shares outstanding and dilutive potential common shares	147,468	145,285	145,027
Basic EPS	\$ 11.42	\$ 10.88	\$ 9.44
Diluted EPS	\$ 10.31	\$ 9.76	\$ 8.52

(1) Includes 18,091,681; 24,557,902 and 29,610,739 vested units for the fiscal years ended November 30, 2005, 2004 and 2003, respectively, issued under certain employee stock compensation plans, which will be distributed as shares of common stock.

12. EMPLOYEE BENEFIT PLAN

The Company has a qualified non-contributory profit sharing plan covering substantially all employees. Contributions are made at the discretion of management in amounts that relate to the Company's level of income before provision for income taxes. The Company's expense related to the profit sharing plan for the fiscal years ended November 30, 2005, 2004 and 2003 was \$37.0 million, \$26.0 million and \$32.4 million, respectively.

13. STOCK COMPENSATION PLANS

The Company has various stock compensation plans designed to increase the emphasis on stock-based incentive compensation and align the compensation of its key employees with the long-term interests of stockholders. These plans are summarized below.

CAPITAL ACCUMULATION PLAN

Pursuant to the CAP Plan, certain key executives receive a portion of their total annual compensation in the form of CAP units. The number of CAP units credited is a function of the dollar amount awarded to each participant and the closing fair market value of the Company's common stock on the date of the award. The CAP units awarded under the CAP Plan are generally subject to vesting. The total number of CAP units that may be issued under the CAP Plan during any fiscal year may not exceed 15% of the sum of issued and outstanding shares of common stock and CAP units outstanding determined as of the last day of the current fiscal year.

Each CAP unit gives the participant an unsecured right to receive, on an annual basis, an amount equal to the Company's pre-tax income per share, as defined by the CAP Plan, less the value of certain changes in the Company's book value per common share during such fiscal year resulting from increases or decreases in the Company's consolidated retained earnings ("earnings adjustment"), subject to certain limitations. The earnings adjustment will be credited to each participant's deferred compensation account in the form of additional CAP units, based on the number of CAP units in such account at the end of each fiscal year. The number of CAP units credited depends on the amount awarded to each participant and the average per share cost of common stock acquired by the Company. On completion of the five-year deferral period, participants are entitled to receive shares of common stock equal to the number of CAP units then credited to their respective deferred compensation accounts.

During the fiscal years ended November 30, 2005, 2004 and 2003, the Company expensed \$363.4 million, \$330.9 million and \$294.8 million, respectively, attributable to CAP units granted to participants in each of those years. In addition, during the fiscal years ended November 30, 2005, 2004 and 2003, the Company recognized expense of \$144.0 million, \$176.0 million and \$193.0 million, respectively, attributable to CAP units with respect to the earnings adjustment. Awards allocated pursuant to the CAP Plan are credited to participants' deferred compensation accounts in the form of CAP units and are included in stockholders' equity.

RESTRICTED STOCK UNIT PLAN

The Restricted Stock Unit Plan ("RSU Plan") provides for a portion of certain key employees' compensation to be granted in the form of restricted stock units ("RSUs"), with allocations made to participants' deferred compensation accounts. Under the RSU Plan, RSUs granted to employees have various vesting provisions and generally convert to common stock within four years. Such units are restricted from sale, transfer or assignment until the end of the restriction period. Holders of RSUs generally may forfeit ownership of a portion of their award if employment is terminated before the end of the vesting period. Holders of RSUs are entitled to receive a dividend in the form of additional RSUs, based on dividends declared on the Company's common stock. The total number of RSUs that may be granted under the RSU Plan may not exceed 15,000,000. As of November 30, 2005, the total number of RSUs outstanding was 8,657,602.

The Company measures compensation cost for RSUs based on the fair market value of its common stock at the award date. A portion related to current service is expensed in the year of the award and that portion relating to future service is amortized over the vesting period. Amounts awarded and deferred pursuant to the RSU Plan and the unamortized portion of these amounts are shown as separate components of stockholders' equity. During the fiscal years ended November 30, 2005, 2004 and 2003, the Company recognized compensation expense of \$130.5 million, \$114.2 million and \$111.9 million, respectively, related to these awards.

STOCK AWARD PLAN

Pursuant to the Stock Award Plan, certain key employees are given the opportunity to acquire common stock through the grant of options. Stock options generally have a 10-year expiration. The total number of stock options that may be issued under the Stock Award Plan may not exceed 40,000,000. As of November 30, 2005, the total number of stock options outstanding was 23,873,136.

Effective December 1, 2002, the Company has adopted fair value accounting for stock-based compensation consistent with SFAS No. 123, using the prospective method with guidance provided by SFAS No. 148. As a result, commencing with options granted after November 30, 2002, the Company expenses the fair value of stock options issued to employees over the related vesting period. Prior to December 1, 2002, the Company elected to account for its stock-based compensation plans using the intrinsic value method prescribed by APB No. 25, as permitted by SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Accordingly, no compensation expense had been recognized for stock option awards prior to December 1, 2002 because the exercise price was at the fair market value of the Company's common stock on the grant date.

The Company awarded approximately \$108 million, \$110 million and \$110 million of employee stock options in fiscal 2005, 2004 and 2003, respectively, of which approximately \$99 million, \$90 million and \$90 million were immediately vested and expensed in fiscal 2005, fiscal 2004 and fiscal 2003, respectively. The balance of the unvested awards will be expensed over the future vesting periods, generally over three years. In fiscal 2005, fiscal 2004 and fiscal 2003, the Company recognized total compensation expense related to stock options of \$123.2 million, \$98.9 million and \$92.7 million, respectively.

Fair value was estimated at grant date based on a modified Black-Scholes option-pricing model. The weighted average fair value of options granted related to the fiscal years ended November 30, 2005, 2004 and 2003 was \$26.50, \$26.00 and \$19.36 per option, respectively. These amounts reflect adjustments for vesting requirements and potential maturity shortening.

The following table highlights the assumptions used for the fiscal years ended November 30:

	2005	2004	2003
Risk-free interest rate	4.46%	4.24%	3.17%
Expected option life	5 years	5 years	5 years
Expected stock price volatility	21%	24%	27%
Dividend yield	0.90%	1.45%	1.11%

NON-EMPLOYEE DIRECTORS' STOCK OPTION AND STOCK UNIT PLAN

Pursuant to the Non-Employee Directors' Stock Option and Stock Unit Plan ("Directors' Plan"), members of the Board of Directors of the Company who are not employees of the Company or any of its subsidiaries ("Non-Employee Directors") may be offered the opportunity to acquire common stock through the grant of options and will receive common stock on the vesting of RSUs. Non-Employee Directors may elect to exchange a portion of their annual cash retainer paid by the Company for services rendered as a director, for stock options or RSUs. Stock options and RSUs issued under the plan generally vest six months after the date of issuance and stock options have a 10-year expiration. The total number of stock options and RSUs combined that may be issued under the Directors' Plan may not exceed 300,000. As of November 30, 2005, the total number of stock options and RSUs outstanding was 106,043 and 19,007, respectively.

SUMMARY OF ALL STOCK UNIT AND OPTION ACTIVITY

The following is a summary of CAP units and RSUs outstanding:

	Cap Units	RSUs (2)
Balance, November 30, 2002	39,470,584	9,876,842
Granted ⁽¹⁾	6,785,704	2,386,795
Forfeited	(230,740)	(458,073)
Distributed	(13,230,305)	(1,436,785)
Balance, November 30, 2003	32,795,243	10,368,779
Granted ⁽¹⁾	5,213,688	1,707,215
Forfeited	(147,139)	(771,777)
Distributed	(4,604,225)	(1,394,443)
Balance, November 30, 2004	33,257,567	9,909,774
Granted ⁽¹⁾	4,679,369	2,198,554
Forfeited	(40,020)	(392,243)
Distributed	(12,073,202)	(3,039,476)
Balance, November 30, 2005	25,823,714	8,676,609

(1) Average market price for units granted was \$112.01, \$96.06 and \$72.01 for fiscal years ended November 30, 2005, 2004 and 2003, respectively.

(2) Includes 208,907; 1,162,632; 2,267,594; and 3,381,903 RSUs outstanding as of November 30, 2005, 2004, 2003 and 2002, respectively, which were granted under a one-time award.

In December 2005, 6,809,175 CAP units and 1,239,897 RSUs were converted into common shares and distributed to participants. This distribution is not reflected in the table above.

Activity with respect to stock options for the fiscal years ended November 30, 2005, 2004 and 2003 is presented below:

	2005		2004		2003	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Beginning balance	23,401,445	\$ 67.94	23,810,849	\$ 58.91	20,454,067	\$ 53.12
Granted	4,075,475	\$ 115.83	4,352,561	\$ 102.34	5,727,498	\$ 73.70
Exercised	(3,398,603)	\$ 59.39	(4,402,820)	\$ 53.36	(1,869,506)	\$ 41.72
Forfeited	(99,138)	\$ 65.44	(359,145)	\$ 61.93	(501,210)	\$ 55.73
Ending balance	23,979,179 ⁽¹⁾	\$ 77.31	23,401,445 ⁽¹⁾	\$ 67.94	23,810,849 ⁽¹⁾	\$ 58.91

(1) 21,826,644; 13,225,173 and 6,808,154 stock options were exercisable with a weighted average exercise price of \$76.09, \$70.69 and \$63.98 at November 30, 2005, 2004 and 2003, respectively.

Information for the Company's stock options as of November 30, 2005 is presented in the following table:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price	
\$35.00-\$49.99	4,402,391	\$ 47.07	4.8	4,402,391	\$ 47.07	
\$50.00-\$64.99	6,940,114	\$ 60.47	6.5	6,936,908	\$ 60.47	
\$65.00-\$79.99	4,278,799	\$ 73.72	8.0	3,180,687	\$ 73.72	
\$80.00-\$94.99	40,750	\$ 86.20	8.2	23,149	\$ 86.26	
\$95.00-\$109.99	4,492,856	\$ 102.63	9.1	3,712,453	\$ 102.63	
\$110.00-\$124.99	3,824,269	\$ 116.83	10.0	3,571,056	\$ 116.67	
Total	23,979,179	\$ 77.31	7.5	21,826,644	\$ 76.09	

14. CUSTOMER ACTIVITIES

CUSTOMER CREDIT RISKS

The Company's clearance activities for both clearing clients and customers (collectively, "customers"), involve the execution, settlement and financing of customers' securities and futures transactions. Customers' securities activities are transacted on either a cash or margin basis, while customers' futures transactions are generally transacted on a margin basis subject to exchange regulations.

In connection with the customer clearance activities, the Company executes and clears customer transactions involving the sale of securities short ("short sales"), entering into futures transactions and the writing of option contracts. Short sales require the Company to borrow securities to settle customer short sale transactions and as such, these transactions may expose the Company to loss if customers are unable to fulfill their contractual obligations and customers' collateral balances are insufficient to fully cover their losses. In the event customers fail to satisfy their obligations, the Company may be required to purchase financial instruments at prevailing market prices in order to fulfill the customers' obligations.

The Company seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and, pursuant to such guidelines, may require customers to deposit additional cash or collateral, or to reduce positions, when deemed necessary. The Company also establishes credit limits for customers engaged in futures activities and monitors credit compliance. Additionally, with respect to the Company's correspondent clearing activities, introducing correspondent firms generally guarantee the contractual obligations of their

customers. Further, the Company seeks to reduce credit risk by entering into netting agreements with customers, which permit receivables and payables with such customers to be offset in the event of a customer default.

In connection with the Company's customer financing and securities settlement activities, the Company may pledge customers' securities as collateral to satisfy the Company's exchange margin deposit requirements or to support its various secured financing sources such as bank loans, securities loaned and repurchase agreements. In the event counterparties are unable to meet their contractual obligations to return customers' securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices to satisfy its obligations to such customers. The Company seeks to control this risk by monitoring the market value of securities pledged and by requiring adjustments of collateral levels in the event of excess exposure. Moreover, the Company establishes credit limits for such activities and monitors credit compliance.

CONCENTRATIONS OF CREDIT RISKS

The Company is engaged in providing securities processing services to a diverse group of individuals and institutional investors, including affiliates. A substantial portion of the Company's transactions are collateralized and are executed with, or made on behalf of, institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds, hedge funds and other financial institutions. The Company's exposure to credit risk, associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities and futures transactions, can be directly affected by volatile or illiquid trading markets, which may impair customers' ability to satisfy their obligations to the Company. The Company attempts to minimize credit risk associated with these activities by monitoring customers' credit exposure and collateral values and requiring, when deemed necessary, additional collateral to be deposited with the Company.

A significant portion of the Company's securities processing activities includes clearing transactions for hedge funds, brokers and dealers and other professional traders, including affiliates. Due to the nature of their operations, which may include significant levels of credit extension such as leveraged purchases, short selling and option writing, the Company may have significant credit exposure should these customers be unable to meet their commitments. In addition, the Company may be subject to concentration risk through providing margin to those customers holding large positions in certain types of securities, securities of a single issuer, including sovereign governments, issuers located in a particular country or geographic area or issuers engaged in a particular industry, where the Company receives such large positions as collateral. The Company seeks to control these risks by monitoring margin collateral levels for compliance with both regulatory and internal guidelines. Additional collateral is obtained when necessary. To further control these risks, the Company has developed computerized risk control systems that analyze the customers' sensitivity to major market movements. The Company will require customers to deposit additional margin collateral, or to reduce positions if it is determined that customers' activities may be subject to above-normal market risk.

The Company acts as a clearing broker for substantially all of the customer and proprietary securities and futures activities of its affiliates on either a fully disclosed or omnibus basis. Such activities are conducted on either a cash or margin basis. The Company requires its affiliates to maintain margin collateral in compliance with various regulatory guidelines. The Company monitors required margin levels and requests additional collateral when deemed appropriate.

15. INCOME TAXES

The Company and certain of its subsidiaries file a US consolidated federal income tax return. The provision for income taxes for the fiscal years ended November 30, 2005, 2004 and 2003 consisted of the following:

	2005	2004	2003
<i>(in thousands)</i>			
CURRENT:			
Federal	\$ 448,840	\$ 568,972	\$ 594,442
State and local	59,030	125,332	156,451
Foreign	124,070	65,692	49,800
Total current	631,940	759,996	800,693
DEFERRED:			
Federal	93,860	28,519	(133,688)
State and local	35,240	(34,485)	(52,700)
Foreign	(16,170)	(19,571)	1,558
Total deferred	112,930	(82,575)	(184,830)
Total provision for income taxes	\$ 744,870	677,421	615,863

As of November 30, 2005, the Company had approximately \$961 million in accumulated earnings permanently reinvested overseas. If such income were repatriated, additional federal income tax (net of available tax credits) at current tax rates would be approximately \$195 million.

Significant components of the Company's deferred tax assets (liabilities) as of November 30, 2005 and 2004 were as follows:

	2005	2004
<i>(in thousands)</i>		
DEFERRED TAX ASSETS:		
Deferred compensation	\$ 1,233,847	\$ 1,229,316
Liability reserves and valuation adjustments	168,274	202,689
Unrealized loss	18,869	33,649
Other	126,559	125,371
Total deferred tax assets	1,547,549	1,591,025
DEFERRED TAX LIABILITIES:		
Unrealized appreciation	(123,341)	(101,653)
Depreciation/amortization	(45,893)	(30,386)
Other	(32,687)	(421)
Total deferred tax liabilities	(201,921)	(132,460)
Net deferred tax assets	\$ 1,345,628	\$ 1,458,565

At November 30, 2005 and 2004, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized.

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs. The resolution of tax matters could have a material impact on the Company's effective tax rate.

A reconciliation of the statutory federal income tax rates to the Company's effective tax rates for the fiscal years ended November 30, 2005, 2004 and 2003 was as follows:

	2005	2004	2003
Statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	2.7	2.9	3.8
Tax-exempt interest income and dividend exclusion	(2.1)	(2.3)	(2.8)
Domestic tax credits	(0.5)	(0.5)	(0.3)
Other, net	(1.3)	(1.6)	(0.9)
Effective tax rate	33.8%	33.5%	34.8%

Not included in the effective tax rate is the effect of approximately \$426.1 million, \$163.9 million and \$247.5 million in income tax benefits attributable to the distribution of common stock under the CAP Plan and other deferred compensation plans as well as the exercise of options, credited directly to paid-in capital, for fiscal 2005, 2004 and 2003, respectively.

16. REGULATORY REQUIREMENTS

Bear Stearns and BSSC are registered broker-dealers and, accordingly, are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 ("Net Capital Rule") and the capital rules of the NYSE, the Commodity Futures Trading Commission ("CFTC") and other principal exchanges of which Bear Stearns and BSSC are members. At November 30, 2005, Bear Stearns' net capital of \$1.27 billion exceeded the minimum requirement by \$1.18 billion. Bear Stearns' net capital computation, as defined, includes \$792.0 million, which is net capital of BSSC in excess of 5.5% of aggregate debit items arising from customer transactions.

BSIL and Bear Stearns International Trading Limited ("BSIT"), London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the Financial Services Authority.

BSB, an Ireland-based bank principally involved in the trading and sales of fixed income products, is registered in Ireland and is subject to the regulatory capital requirements of the Irish Financial Services Regulatory Authority.

At November 30, 2005, Bear Stearns, BSSC, BSIL, BSIT and BSB were in compliance with their respective regulatory capital requirements.

Regulatory rules, as well as certain covenants contained in various instruments governing indebtedness of the Company, Bear Stearns and other regulated subsidiaries, may restrict the Company's ability to withdraw capital from its regulated subsidiaries, which in turn could limit the Company's ability to pay dividends. Also, the Company's broker-dealer subsidiaries and other regulated subsidiaries are subject to minimum capital requirements that may restrict the Company's ability to withdraw capital from its regulated subsidiaries, which in turn could limit the Company's ability to pay dividends. At November 30, 2005, approximately \$3.75 billion in equity capital of Bear Stearns, BSSC, BSIL, BSIT and BSB was restricted as to the payment of cash dividends and advances to the Company.

In June 2004, the SEC adopted rule amendments to "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities" (Rule 34-49830) that allow investment banks to voluntarily submit to be regulated by the SEC on a global consolidated basis. These regulations (referred to as CSE) were in response to what is known as the "Financial Conglomerates Directive" (2002/87/EC) of the European Parliament, which served to compel globally active institutions doing business in Europe to be regulated on a global consolidated basis. During fiscal 2005, the Company applied to the SEC to be regulated under this new CSE regime. The application filed with the SEC by Bear Stearns, the Company's principal US broker-dealer, under the net capital rule amendments, was approved in November 2005. As a result, effective December 1, 2005, Bear Stearns will use alternative methods of computing market and derivative-related credit risk, and, as a condition of using these methods, the Company has consented to consolidated supervision by the SEC. The new framework will be a notable change in the Company's regulation, as activities which are currently transacted outside of SEC regulated entities will come under the scope of certain SEC regulations and capital adequacy oversight. In particular, the Company will: compute allowable capital and allowances for market, credit and operational risk on a consolidated basis in accordance with standards prescribed in Appendix G to the Net Capital Rules; permit the SEC to examine the books and records of the Parent Company and any affiliate that does not have a principal regulator; and adopt various additional SEC reporting, record-keeping and notification requirements. Additionally, the Company must comply with the provisions of Rule 15c3-4 of the Exchange Act with respect to a group-wide internal risk management

control system in the affiliate group as if it were an OTC derivative dealer, subject to certain limitations. The Company is now deemed a CSE and is in compliance with regulatory capital requirements.

17. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company has commitments in connection with various activities, the most significant of which are as follows:

LEASES

The Company occupies office space under leases that expire at various dates through 2024. At November 30, 2005, future minimum aggregate annual rentals payable under non-cancelable leases (net of subleases), including 383 Madison Avenue in New York City, for fiscal years ended November 30, 2006 through 2010 and the aggregate amount thereafter, are as follows:

(in thousands)

FISCAL YEAR	
2006	\$ 74,971
2007	78,090
2008	77,946
2009	72,452
2010	56,363
Thereafter	212,844

The various leases contain provisions for periodic escalations resulting from increased operating and other costs. Rental expense, including escalations and net of sublease rental income, under these leases was \$134.2 million, \$111.4 million and \$108.1 million for the fiscal years ended November 30, 2005, 2004 and 2003, respectively.

LENDING-RELATED COMMITMENTS

In connection with certain of the Company's business activities, the Company provides financing or financing commitments to investment grade and non-investment-grade companies in the form of senior and subordinated debt, including bridge financing. Commitments have varying maturity dates and are generally contingent on the accuracy and validity of certain representations, warranties and contractual conditions applicable to the borrower. Lending-related commitments to investment grade borrowers aggregated approximately \$2.37 billion and \$2.58 billion at November 30, 2005 and 2004, respectively. Of this amount, approximately \$652.5 million and \$511.0 million was hedged at November 30, 2005 and 2004, respectively. Lending-related commitments to non-investment-grade borrowers approximated \$1.44 billion and \$2.19 billion at November 30, 2005 and 2004, respectively.

The Company also had contingent commitments to investment grade and non-investment-grade companies of approximately \$3.89 billion and \$1.98 billion as of November 30, 2005 and 2004, respectively. Generally, these commitments are provided in connection with leveraged acquisitions. These commitments are not indicative of the Company's actual risk because the borrower may never draw upon the commitment. In fact, the borrower may not be successful in the acquisition, the borrower may access the capital markets instead of drawing on the commitment, or the Company's portion of the commitment may be reduced through the syndication process. Additionally, the borrower's ability to draw may be subject to there being no material adverse change in either market conditions or the borrower's financial condition, among other factors. These commitments generally contain certain flexible pricing features to adjust for changing market conditions prior to closing.

PRIVATE EQUITY-RELATED INVESTMENTS AND PARTNERSHIPS

In connection with the Company's merchant banking activities, the Company has commitments to invest in merchant banking and private equity-related investment funds as well as commitments to invest directly in private equity-related investments. At November 30, 2005 and 2004, such commitments aggregated \$222.1 million and \$338.3 million, respectively. These commitments will be funded, if called, through the end of the respective investment periods, with the longest of such periods ending in 2014.

UNDERWRITING

In connection with the Company's mortgage-backed securitizations and fixed income underwriting, the Company had commitments to purchase new issues of securities aggregating \$943.1 million and \$418.2 million, respectively, at November 30, 2005 and 2004.

COMMERCIAL AND RESIDENTIAL LOANS

The Company participates in the acquisition, securitization, servicing, financing and disposition of commercial and residential loans. At November 30, 2005 and 2004, the Company had entered into commitments to purchase or finance mortgage loans of \$5.1 billion and \$1.2 billion, respectively.

LETTERS OF CREDIT

At November 30, 2005 and 2004, the Company was contingently liable for unsecured letters of credit of approximately \$2.50 billion and \$2.40 billion, respectively, and letters of credit of \$985.6 million and \$1.19 billion, respectively, secured by financial instruments, primarily used to provide collateral for securities borrowed and to satisfy margin requirements at option and commodity exchanges.

OTHER

The Company had commitments to purchase Chapter 13 and other credit card receivables of \$159.8 million and \$82.5 million respectively, at November 30, 2005 and 2004.

The Company has executed a set of contractual arrangements providing for the extension of credit under certain limitations with a merchant power generator. The limit of this facility is \$350 million, is subject to various operating limits and secured by various forms of collateral. The Company receives a fee based on actual utilization of the facility. This facility has a term of one year expiring November 30, 2006 and is renewable on a quarterly basis with the mutual consent of each party. There were no borrowings outstanding under this facility at November 30, 2005.

With respect to certain of the commitments outlined above, the Company utilizes various hedging strategies to actively manage its market, credit and liquidity exposures. Additionally, since these commitments may expire unused, the total commitment amount may not necessarily reflect the actual future cash funding requirements.

LITIGATION

On December 15, 2005, the Company announced that an offer of settlement had been submitted to the Securities and Exchange Commission ("SEC") and the NYSE to resolve the previously disclosed investigations relating to mutual fund trading. The settlement offer, which was negotiated with the staffs of the SEC and the NYSE and will be recommended by them, is subject to approval by the respective regulators. Terms include a payment of \$250 million and retention of independent consultants to review aspects of its mutual fund trading and global clearing operations. At November 30, 2005, the Company was fully reserved for this settlement.

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of the foregoing matters will not have a material adverse effect on the financial condition of the Company; taken as a whole, such resolution may, however, have a material effect on the operating results in any future period, depending on the level of income for such period.

The Company has provided reserves for such matters in accordance with SFAS No. 5, "Accounting for Contingencies." The ultimate resolution may differ materially from the amounts reserved.

18. GUARANTEES

In the ordinary course of business, the Company issues various guarantees to counterparties in connection with certain derivative, leasing, securitization and other transactions. FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" requires the Company to recognize a liability at the inception of certain guarantees and to disclose information about its obligations under certain guarantee arrangements.

The guarantees covered by FIN No. 45 include contracts that contingently require the guarantor to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party, contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement and indirect guarantees of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes to an asset, liability or equity security of the guaranteed party. In addition, FIN No. 45 covers certain indemnification agreements that contingently require the guarantor to make payments to the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

The following table sets forth the maximum payout/notional amounts associated with the Company's guarantees as of November 30, 2005:

(in millions)	Amount of Guarantee Expiration Per Period				Total
	Less Than One Year	One to Three Years	Three to Five Years	Greater Than Five Years	
Certain derivatives contracts (notional) ⁽¹⁾	\$ 148,692	\$ 217,712	\$ 114,724	\$ 97,142	\$ 578,270
Municipal securities	2,459	317	—	—	2,776
Residual value guarantee	—	—	570	—	570

(1) The carrying value of these derivatives approximated \$3.1 billion as of November 30, 2005.

DERIVATIVE CONTRACTS

The Company's dealer activities cause it to make markets and trade a variety of derivative instruments. Certain derivatives contracts that the Company has entered into meet the accounting definition of a guarantee under FIN No. 45. Derivatives that meet the FIN No. 45 definition of guarantees include credit default swaps (whereby a default or significant change in the credit quality of the underlying financial instrument may obligate the Company to make a payment), put options, as well as floors, caps and collars. Since the Company does not track the counterparties' purpose for entering into a derivative contract, it has disclosed derivatives contracts that are likely to be used to protect against a change in an underlying financial instrument, regardless of their actual use.

On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest rates and foreign exchange rates is not contractually limited by the terms of the contracts. As such, the Company has disclosed notional amounts as a measure of the extent of its involvement in these classes of derivatives rather than maximum payout. Notional amounts do not represent the maximum payout and generally overstate the Company's exposure to these contracts. These derivatives contracts are recorded at fair value, which approximated \$3.1 billion at November 30, 2005.

In connection with these activities, the Company attempts to mitigate its exposure to market risk by entering into a variety of offsetting derivatives contracts and security positions. For a discussion of derivatives, see Risk Management and Management's Discussion and Analysis of Financial Condition and Results of Operations.

MUNICIPAL SECURITIES

In 1997, the Company established a program whereby it created a series of municipal securities trusts in which it has retained interests. These trusts purchase fixed-rate, long-term, highly rated, insured or escrowed municipal bonds financed by the issuance of trust certificates. Certain of the trust certificates entitle the holder to receive future payments of principal and variable interest and to tender such certificates at the option of the holder on a periodic basis. The Company acts as placement agent and as liquidity provider. The purpose of the program is to allow the Company's clients to purchase synthetic short-term, floating-rate municipal debt that does not otherwise exist in the

marketplace. In the Company's capacity as liquidity provider to the trusts, the maximum exposure to loss at November 30, 2005 was approximately \$2.78 billion, which represents the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds. The underlying municipal bonds in the trusts are either AAA or AA-rated, insured or escrowed to maturity. Such bonds had a market value, net of related hedges, approximating \$2.84 billion at November 30, 2005.

RESIDUAL VALUE GUARANTEE

The Company has entered into an operating lease arrangement for its world headquarters at 383 Madison Avenue in New York City (the "Synthetic Lease"). Under the terms of the Synthetic Lease, the Company is obligated to make monthly payments based on the lessor's underlying interest costs. The Synthetic Lease expires on August 14, 2009 unless both parties agree to a renewal prior to expiration. At the expiration date of the Synthetic Lease, the Company has the right to purchase the building for the amount of the then outstanding indebtedness of the lessor or to arrange for the sale of the property with the proceeds of the sale to be used to satisfy the lessor's debt obligation. If the sale of the property does not generate sufficient proceeds to satisfy the lessor's debt obligation, the Company is required to fund the shortfall up to a maximum residual value guarantee. As of November 30, 2005, there was no expected shortfall and the maximum residual value guarantee approximated \$570 million.

INDEMNIFICATIONS

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions, including certain asset sales and securitizations and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. To mitigate these risks with respect to assets being securitized that have been originated by third parties, the Company seeks to obtain appropriate representations and warranties from such third-party originators upon acquisition of such assets. The Company generally performs due diligence on assets purchased and maintains underwriting standards for assets originated. The Company may also provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur.

Maximum payout information under these indemnifications is not readily available because of the number, size and lives of these transactions. In implementing this accounting interpretation, the Company reviewed its experience with the indemnifications on these structures. Based on such experience, it is unlikely that the Company will have to make significant payments under these arrangements.

OTHER GUARANTEES

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the consolidated financial statements for these arrangements.

19. SEGMENT AND GEOGRAPHIC AREA DATA

The Company operates in three principal segments — Capital Markets, Global Clearing Services and Wealth Management. These segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments' transactions.

The Capital Markets segment comprises the institutional equities, fixed income and investment banking areas. The Capital Markets segment operates as a single integrated unit that provides the sales, trading and origination effort for various fixed income, equity and advisory products and services. Each of the three businesses work in tandem to deliver these services to institutional and corporate clients.

Institutional equities consists of research, sales and trading in areas such as domestic and international equities, block trading, convertible bonds, over-the-counter equities, equity derivatives, risk and convertible arbitrage and the NYSE, AMEX and ISE specialist activities. Fixed income includes sales, trading and research provided to institutional clients across a variety of products such as mortgage- and asset-backed securities, corporate and

government bonds, municipal bonds, high yield products, foreign exchange and interest rate and credit derivatives. Investment banking provides services in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment grade, municipal and high yield debt products.

The Global Clearing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short sales to clearing clients worldwide. Prime brokerage clients include hedge funds and clients of money managers, short sellers and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business.

The Wealth Management segment is composed of the PCS and asset management areas. PCS provides high-net-worth individuals with an institutional level of investment service, including access to the Company's resources and professionals. Asset management manages equity, fixed income and alternative assets for leading corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the US and abroad.

The three business segments comprise many business areas, with interactions among each. Revenues and expenses include those that are directly related to each segment. Revenues from intersegment transactions are based upon specific criteria or agreed-upon rates with such amounts eliminated in consolidation. Individual segments also include revenues and expenses relating to various items, including corporate overhead and interest, which are internally allocated by the Company primarily based on balance sheet usage or expense levels. The Company generally evaluates performance of the segments based on net revenues and profit or loss before provision for income taxes.

Within the Capital Markets segment, certain servicing fees were reclassified from investment banking to fixed income during the quarter ended May 31, 2005. These reclassifications within the Capital Markets segment were made to prior year amounts to conform to the current year's presentation.

Fiscal Years Ended November 30,	2005	2004	2003
<i>(in thousands)</i>			
NET REVENUES ⁽¹⁾			
Capital Markets			
Institutional equities	\$ 1,409,603	\$ 1,071,609	\$ 932,567
Fixed income	3,251,333	3,186,741	2,972,192
Investment banking	980,459	1,072,770	914,558
Total Capital Markets	5,641,395	5,331,120	4,819,317
Global Clearing Services	1,067,985	932,416	784,072
Wealth Management			
Private client services ⁽²⁾	450,181	441,242	378,787
Asset management	228,643	185,085	132,520
Total Wealth Management	678,824	626,327	511,307
Other ⁽³⁾	22,590	(76,980)	(120,205)
Total net revenues	\$ 7,410,794	\$ 6,812,883	\$ 5,994,491
PRE-TAX INCOME			
Capital Markets	\$ 1,969,564	\$ 1,980,513	\$ 1,924,071
Global Clearing Services	526,148	404,312	245,531
Wealth Management	39,665	66,942	19,217
Other ⁽³⁾	(328,318)	(429,613)	(416,550)
Total pre-tax income	\$ 2,207,059	\$ 2,022,154	\$ 1,772,269

⁽¹⁾ Certain prior year items have been reclassified to conform to the current year's presentation.

⁽²⁾ Private client services detail:

Gross revenues, before transfer to Capital Markets segment	\$ 543,767	\$ 526,122	\$ 477,227
Revenue transferred to Capital Markets segment	(93,586)	(84,880)	(98,440)
Private client services net revenues	\$ 450,181	\$ 441,242	\$ 378,787

⁽³⁾ Includes consolidation and elimination entries, unallocated revenues (predominantly interest) and certain corporate administrative functions, including certain legal costs and costs related to the CAP Plan, which approximated \$144.0 million, \$176.0 million and \$193.0 million for the fiscal years ended November 30, 2005, 2004 and 2003, respectively.

As of November 30,	2005	2004	2003
(in thousands)			
SEGMENT ASSETS			
Capital Markets	\$ 195,292,625	\$ 157,141,644	\$ 123,174,061
Global Clearing Services	85,625,396	87,793,151	79,251,142
Wealth Management	2,751,749	2,679,697	2,325,456
Other	8,965,463	8,335,402	7,417,451
Total segment assets	\$ 292,635,233	\$ 255,949,894	\$ 212,168,110

The operations of the Company are conducted primarily in the United States of America. The Company also maintains offices in Europe, Asia and Latin America. The following are net revenues, income before provision for income taxes and assets by geographic region for the fiscal years ended November 30, 2005, 2004 and 2003:

	2005	2004	2003
(in thousands)			
US net revenues	\$ 6,439,926	\$ 6,172,286	\$ 5,493,407
Non-US net revenues	970,868	640,597	501,084
Consolidated net revenues	\$ 7,410,794	\$ 6,812,883	\$ 5,994,491
US income before provision for income taxes	\$ 1,882,484	\$ 1,920,038	\$ 1,704,898
Non-US income before provision for income taxes	324,575	102,116	67,371
Consolidated income before provision for income taxes	\$ 2,207,059	\$ 2,022,154	\$ 1,772,269
US assets	\$ 346,267,057	\$ 330,035,057	\$ 279,673,476
Non-US assets	74,268,831	57,627,686	43,432,595
Eliminations	(127,900,655)	(131,712,849)	(110,937,961)
Consolidated assets	\$ 292,635,233	\$ 255,949,894	\$ 212,168,110

Because of the international nature of the financial markets and the resultant integration of US and non-US services, it is difficult to precisely separate foreign operations. The Company conducts and manages these activities with a view toward the profitability of the Company as a whole. Accordingly, the foreign operations information is, of

necessity, based on management judgments and internal allocations. Included within the Company's US net revenues during fiscal 2005 and fiscal 2004 are the revenues of Bear Wagner Specialists LLC.

20. MAJORITY-OWNED JOINT VENTURE

The Company participates, through a majority-owned joint venture, in specialist activities on the NYSE, AMEX and ISE. For fiscal 2003, the Company included revenues from specialist activities in "Principal Transactions" revenues in the Consolidated Statement of Income. Due to the occurrence of a Control Event, as defined by the joint venture Operating Agreement, triggered in December 2003, the Company achieved a controlling interest in the joint venture. As a result, commencing in fiscal 2004, the Company began consolidating this entity. Included in the Consolidated Statements of Financial Condition at November 30, 2005 and 2004 are total assets of \$1.7 billion and \$1.8 billion, including approximately \$323 million and \$363 million of goodwill and identifiable intangible assets, respectively.

21. QUARTERLY INFORMATION (UNAUDITED)

The unaudited quarterly results of operations of the Company for the fiscal years ended November 30, 2005 and 2004 are prepared in conformity with accounting principles generally accepted in the United States of America, which include industry practices, and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

	Quarters Ended,					Total
	February 28, 2005	May 31, 2005	August 31, 2005	November 30, 2005		
<i>(in thousands, except per share data)</i>						
FISCAL YEAR ENDED						
NOVEMBER 30, 2005						
Revenues	\$ 2,622,369	\$ 2,823,580	\$ 2,925,394	\$ 3,181,104	\$ 11,552,447	
Interest expense	784,709	950,028	1,113,114	1,293,802	4,141,653	
Revenues, net of interest expense	1,837,660	1,873,552	1,812,280	1,887,302	7,410,794	
Non-interest expenses						
Employee compensation and benefits	906,775	922,908	850,985	872,548	3,553,216	
Other	352,557	488,205	381,140	428,617	1,650,519	
Total non-interest expenses	1,259,332	1,411,113	1,232,125	1,301,165	5,203,735	
Income before provision for income taxes	578,328	462,439	580,155	586,137	2,207,059	
Provision for income taxes	199,523	164,329	201,850	179,180	744,882	
Net income	\$ 378,805	\$ 298,110	\$ 378,305	\$ 406,957	\$ 1,462,177	
Basic earnings per share ⁽¹⁾	\$ 2.94	\$ 2.32	\$ 2.96	\$ 3.21	\$ 11.42	
Diluted earnings per share ⁽¹⁾	\$ 2.64	\$ 2.09	\$ 2.69	\$ 2.90	\$ 10.31	
Cash dividends declared per common share	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 1.00	

	Quarters Ended,				
	February 29, 2004	May 31, 2004	August 31, 2004	November 30, 2004	Total
<i>(in thousands, except per share data)</i>					
FISCAL YEAR ENDED					
NOVEMBER 30, 2004					
Revenues	\$ 2,081,445	\$ 2,063,798	\$ 1,894,353	\$ 2,382,306	\$ 8,421,902
Interest expense	355,522	340,260	359,588	553,649	1,609,019
Revenues, net of interest expense	1,725,923	1,723,538	1,534,765	1,828,657	6,812,883
Non-interest expenses					
Employee compensation and benefits	849,148	860,053	743,038	801,623	3,253,862
Other	345,797	352,009	347,848	491,213	1,536,867
Total non-interest expenses	1,194,945	1,212,062	1,090,886	1,292,836	4,790,729
Income before provision for income taxes	530,978	511,476	443,879	535,821	2,022,154
Provision for income taxes	169,913	163,673	160,620	183,215	677,421
Net income	\$ 361,065	\$ 347,803	\$ 283,259	\$ 352,606	\$ 1,344,733
Basic earnings per share (1)	\$ 2.88	\$ 2.77	\$ 2.31	\$ 2.91	\$ 10.88
Diluted earnings per share	\$ 2.57	\$ 2.49	\$ 2.09	\$ 2.61	\$ 9.76
Cash dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.25	\$ 0.85

(1) Due to rounding and/or the effect of averaging the number of shares of common stock and common stock equivalents throughout the year, the sum of the quarters' earnings per share amounts does not equal the full fiscal year amount.

DESCRIPTION OF BEAR STEARNS BANK PLC

Introduction

Bear Stearns Bank plc ("**BS Bank**" or the "**Bank**") was incorporated in Dublin, Ireland as a limited liability company under the laws of Ireland on November 27, 1995 with registered number 241404. The Bank was re-registered as a public limited company on October 15, 1996. The Bank is based in Dublin, Ireland, is regulated by the Financial Regulator and is a wholly owned subsidiary of Bear Stearns Ireland Limited which itself is wholly owned by The Bear Stearns Companies Inc. BS Bank is dependent on the Company. The telephone number of BS Bank is +353 1402 6200.

The last prepared audited financial statements were for the year ended November 30, 2005.

The authorised share capital of the Bank is €38,092 divided into 30,000 ordinary shares of €1.26974 each and U.S.\$50,000,000 divided into 50,000,000 ordinary shares of U.S.\$1 each. 30,000 ordinary shares of €1.26974 are issued and fully paid in cash at par, and 952,000 ordinary shares of U.S.\$1 are issued and fully paid.

Business Activities

The Bank's activities centre principally around the trading and sales of derivative products and lending.

The Financial Regulator (formally the Irish Financial Services Regulatory Authority), which is the principal regulator of banks in Ireland, granted a banking licence to the Bank on April 10, 1997.

On October 1, 1997 the Bank obtained from the Bank of England an acknowledgement that it is a "European Authorised Institution" and is therefore entitled to operate as an institution authorised under The Banking Act 1987.

Administration and Operations

There are operational, credit, accounting, risk management and legal departments of the Bank in Dublin. The operations department has responsibility for the confirmation of over-the-counter derivatives contracts, the processing of associated cash flows, receipt and delivery of collateral (where applicable) against derivatives contract exposures and the reconciliation of all bank and inter-company accounts. A Management Committee of the Board of Directors of the Bank (the "**Management Committee**") sets specific strategic directions for the Bank, establishes policy with respect to market, credit and liquidity risk and has responsibility for considering and acting upon general matters involving the day-to-day business and affairs of the Bank.

Directors, Officers and Employees

The directors of the Bank and their principal occupations are:

Name	Principal Occupation And Directorships Held
Pascal Lambert* (Chairman)	Senior Managing Director of Bear, Stearns & Co. Inc. ("Bear Stearns")
Samuel L. Molinaro, Jr.*	Executive Vice President and Chief Financial Officer of the Company and Bear Stearns
Liam MacNamara*	Joint Chief Executive Officer of the Bank
Niamh Walsh*	Joint Chief Executive Officer of the Bank
Jeffrey C. Bernstein*	Senior Managing Director of Bear Stearns
Wendy L. de Monchaux*	Senior Managing Director of Bear Stearns
Michael J. Meagher	Non-Executive Director
Michael Minikes	Treasurer of the Company; Senior Managing Director of Bear Stearns; Director, Depository Trust Company; Chairman of the Board, International Depository and Clearing Inc.; Trustee, the Milestone Funds
A. Graham Sadler	Senior Managing Director of Bear Stearns; Chief Financial Officer of BSIL
Padraic O'Connor	Non-Executive Director
Michel Péretié*	Chairman BSIL
Patrick J. Mahon	Senior Managing Director of Bear Stearns

* Member of the Management Committee

The business address of each director is Block 8, Harcourt Centre, Charlotte Way, Dublin 2, Ireland.

There are no existing or potential conflicts of interest between the duties to BS Bank of each member of the Board of Directors of BS Bank and his/her private interests or other duties.

The Board of Directors has established an audit committee (the "**Audit Committee**") to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and BS Bank's process for monitoring compliance with laws and regulations and the code of conduct. The current members of the Audit Committee are Michael Meagher, Jeffrey C. Bernstein, Pascal J. L. Lambert, Padraic O'Connor, Anthony Graham Sadler and Samuel L. Molinaro Jr. The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The Audit Committee reports and makes recommendations to the Board of Directors.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BEAR STEARNS BANK plc

We have audited the financial statements of Bear Stearns Bank plc for the year ended 30 November 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to the company's members, as a body, in accordance with Section 193 the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Bank; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and whether the information given in the report of the directors is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Bank's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report. We read the directors' report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Bank as at 30 November 2005 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2005 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

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

In our opinion the information given in the report of the directors is consistent with the financial statements.

The net assets of the Bank, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 30 November 2005 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Bank.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
2 February 2006

**Deloitte
Touche
Tohmatsu**

PROFIT AND LOSS ACCOUNT
for the year ended 30 November 2005

		Year Ended 30 November 2005 US\$'000	Year Ended 30 November 2004 US\$'000
	Note		
Interest receivable			
Other interest receivable and similar income	1	100,040	46,540
Interest payable			
Other interest payable and similar charges	2	<u>(76,237)</u>	<u>(72,191)</u>
NET INTEREST		23,803	(25,651)
Dealing profit		19,124	61,062
Other operating income		<u>6,219</u>	<u>4,660</u>
OPERATING INCOME		49,146	40,071
Administrative expenses	3	(10,415)	(7,876)
Depreciation		<u>(96)</u>	<u>(46)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	38,635	32,149
Taxation on Profit on Ordinary Activities	5	<u>(3,948)</u>	<u>(3,125)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		34,687	29,024
Profit and loss account at beginning of year		<u>46,991</u>	<u>17,967</u>
PROFIT AND LOSS ACCOUNT AT END OF YEAR		<u><u>81,678</u></u>	<u><u>46,991</u></u>

There were no other recognised gains or losses in the year and therefore no separate statement of total recognised gains and losses has been presented. The results for the year reflect continuing activities. The reconciliation of movement in shareholders' funds is detailed in note 18 to the financial statements. The accompanying notes on pages 12-27 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 2 February 2006.

Signed on behalf of the Board of Directors

Liam J. MacNamara
Director

Niamh G. Walsh
Director

BALANCE SHEET
30 November 2005

	Note	2005 US\$'000	2004 US\$'000
ASSETS			
Cash and bank balances		516,348	780,250
Balances at Central Bank		8,096	6,691
Securities purchased under agreements to resell – group companies		3,492,697	3,229,597
Loans and advances to customers - repayable on demand		377,000	585,372
Debt securities	6	4,496,969	321,969
Market and client receivables	7	2,461,530	1,107,707
Derivative financial instruments owned, at fair value	8	2,877,314	3,179,273
Tangible fixed assets	9	378	128
Prepayments and accrued income	10	157	16,954
TOTAL ASSETS		<u>14,230,489</u>	<u>9,227,941</u>
LIABILITIES			
Deposits by banks		56,753	51,152
Securities sold under agreements to repurchase – group companies		5,024,899	1,657,051
Debt securities in issue	11	2,570,346	1,578,225
Market and client payables	12	1,763,311	2,104,488
Derivative financial instruments sold, at fair value	13	3,323,396	3,137,069
Other liabilities	14	399,106	85,465
Subordinated loan	15	750,000	412,500
Called up share capital	16	1,000	1,000
Share premium account		9,000	9,000
Reserves	17	251,000	145,000
Profit and loss account		81,678	46,991
TOTAL LIABILITIES		<u>14,230,489</u>	<u>9,227,941</u>
MEMORANDUM ITEMS			
Guarantees and assets pledged as collateral security		<u>20,418</u>	<u>250,118</u>

These financial statements were approved by the Board of Directors on 2 February 2006. The accompanying notes on pages 12-27 form an integral part of the financial statements.

Signed on behalf of the Board of Directors

Liam J. MacNamara
Director

Niamh G. Walsh
Director

CASH FLOW STATEMENT
for the year ended 30 November 2005

	Note	Year Ended 30 November 2005 US\$'000	Year Ended 30 November 2004 US\$'000
Net cash (outflow) / inflow from operating activities	19	(679,203)	76,096
Taxation		(4,781)	(3,620)
Return on investment and servicing of finance	19	(21,667)	(7,148)
Capital expenditure and financial investment	19	<u>(346)</u>	<u>(112)</u>
Net cash (outflow) / inflow before use of liquid resources and financing		(705,997)	65,216
Financing	19	<u>443,500</u>	<u>226,500</u>
(DECREASE) / INCREASE IN CASH		<u><u>(262,497)</u></u>	<u><u>291,716</u></u>

STATEMENT OF ACCOUNTING POLICIES for the year ended 30 November 2005

Basis of preparation

The financial statements are prepared in accordance with Irish Statute comprising the Companies Acts, 1963 to 2005, the European Communities (Credit Institutions: Accounts) Regulations, 1992 as well as accounting standards generally accepted in Ireland and comply with the financial reporting standards of the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland. The significant accounting policies adopted are described below. In addition to the above, the financial statements have been prepared in compliance with the following Statements of Recommended Practice ("SORPs") as issued by the British Bankers' Association and the Irish Bankers' Federation: a) Securities; b) Advances; c) Segmental Reporting by Banks; d) Contingent Liabilities and Commitments; and e) Derivatives.

Accounting convention

The financial statements are prepared in United States dollars (US\$) under the historical cost convention, as modified by the inclusion of financial instruments at market value.

Dealing profits

Dealing profits is a term prescribed by the European Communities (Credit Institutions: Accounts) Regulations, 1992 (the "Regulations"). 'Dealing profits' reflects trading income net of dealing costs and credit intermediation fees. It excludes interest payable and receivable arising from these activities. Credit intermediation fees are charged by Bear Stearns Financial Products to the Bank for use of the "AAA" rated entity. These fees are determined by calculating an estimate of the present value of amounts due over the life of the transaction. Under the terms of this Agreement, seventy-five percent of the transaction fee is incurred on the commencement of the transaction and the remaining twenty-five percent is deferred and recognized over the life of the related derivative agreement. Directly incurred staff and other administrative expenses arising from trading activities are not included under this category but are included under the appropriate heading within administrative expenses. As stated below, dealing profits include unrealised gains or losses, a departure from the accounting principles set out in the Regulations. In the opinion of the Directors this treatment is more appropriate given the nature of the Bank's business and is consistent with industry practice.

Employee benefit plans

The Bank maintains a defined contribution pension plan covering substantially all employees who have met minimum employment standards. The Bank makes contributions to the plan based on a percentage of each participant's base salary. The cost of this plan is charged to the profit and loss account for the year in which it is incurred.

Financial instruments

Financial instruments purchased or sold are recorded on a trade-date basis and include all proprietary securities and contractual commitments arising pursuant to futures, forward and option contracts, interest rate swaps, and other derivative contracts. Financial instruments, comprising both long and short positions, are recorded at fair value with the resulting net unrealised gains and losses reflected in dealing profits.

Fair value is generally based on quoted market prices. If quoted market prices are not available, or if liquidating the Bank's position is reasonably expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Valuation pricing models consider time value and volatility factors underlying financial instruments as well as other relevant economic measurements.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 November 2005 (continued)

Similarly, the Bank's short-term liabilities pursuant to bank loans, commercial paper, medium-term notes, repurchase agreements, securities loaned, and certain other payables are recorded at contracted amounts approximating fair value. These instruments generally have variable interest rates or short-term maturities, in many cases overnight, and, accordingly, are not materially affected by changes in interest rates.

Debt securities in issue

Debt securities in issue comprise certificates of deposit and medium term notes. Both are considered non-trading book items and are recorded at amortised cost.

Foreign currency

The Bank's functional currency is the United States dollar. The Bank translates monetary assets and liabilities at year end exchange rates and non-monetary assets and liabilities at historical rates. Income and expense accounts are translated at the average rates in effect during the year. Gains and losses from foreign currency translations are included in the profit and loss account under administrative expenses.

Income recognition

Interest income and expenses related to lending or financing activities is recognised as it is accrued, except in the case of doubtful debts where interest is recognised on a cash receipts basis.

Other operating income recognition

Other operating income is earned on investment management and custodial services provided by the Bank. Income is recognized as it is earned in accordance with the underlying contractual agreements.

Leases

The costs of operating leases are charged to the profit and loss account in equal annual amounts over the duration of the lease.

Resale and repurchase transactions

The Bank enters into transactions involving the purchase of securities with a simultaneous agreement to resell ("reverse repurchase agreements") and transactions involving the sale of securities with a simultaneous agreement to repurchase ("repurchase agreements"). Such transactions are treated as collateralised financing transactions and are recorded at their contracted purchase or sale amounts plus accrued interest. Reverse repurchase agreements are generally collateralised with securities having a market value at least equal or greater to the principal amount loaned.

Securities borrowed transactions

Securities borrowed are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Bank to deposit cash, letters of credit or other collateral with the lender.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 November 2005 (continued)

Tangible fixed assets and depreciation

All tangible fixed assets are stated at historical cost, net of accumulated depreciation. Depreciation is provided in equal annual instalments over the estimated useful lives of the assets and is calculated on the cost of the assets. The following rates are used:

Furniture and equipment	-	15% per annum
Computer equipment	-	33 1/3% per annum
Short term leasehold improvements	-	Over the period of the lease

Taxation

Corporation tax is recognised on taxable profits at the standard rate. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not recognised on permanent differences.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. A deferred tax asset is deemed recoverable where, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005

1. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 November 2005 US\$'000	Year ended 30 November 2004 US\$'000
Group companies	80,752	34,937
Other	19,288	11,603
	<u>100,040</u>	<u>46,540</u>

2. OTHER INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 November 2005 US\$'000	Year ended 30 November 2004 US\$'000
Group companies - interest on subordinated loans	21,667	7,148
Group companies - other	39,849	12,667
Other	14,721	52,376
	<u>76,237</u>	<u>72,191</u>

3. ADMINISTRATIVE EXPENSES

	Year ended 30 November 2005 US\$'000	Year ended 30 November 2004 US\$'000
Wages and salaries	6,497	4,940
Social welfare costs	578	447
Other payroll related expenditure (including pension costs)	393	345
	<u>7,468</u>	<u>5,732</u>
Other administrative expenses	2,947	2,144
	<u>10,415</u>	<u>7,876</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)**

4. ADMINISTRATIVE EXPENSES (CONTINUED)

Number of employees: The average number of securities related trading staff and support staff employed by the Bank during the year was 66 (2004 - 50).

Employee benefit plans: The Bank maintains a defined contribution plan as described in the accounting policies note. For the year ended 30 November 2005 the expense incurred by the Bank under this plan was US\$194,000 (2004 – US\$148,000). This cost is included in other payroll related expenditure. No amounts relating to pensions are outstanding or prepaid at year end.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 30 November 2005 US\$'000	Year ended 30 November 2004 US\$'000
Profit on ordinary activities before taxation is after charging:		
Auditors' remuneration		
- Audit	140	140
- Other services	29	24
Depreciation	96	46
Directors' remuneration		
- Emoluments	632	594
- Pension contributions	18	19
Rentals under operating leases	12	12
	<u>12</u>	<u>12</u>

The Irish based Non-Executive Directors of the Bank received aggregate fees totalling US\$21,500 (2004: US\$20,000) in respect of advisory services provided to the Bank on an arms length basis. There were no other transactions with Directors or other officers of the Bank requiring disclosure in accordance with the Companies Act 1990.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)**

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 November 2005 US\$'000	Year ended 30 November 2004 US\$'000
Irish Corporation tax charge for the year	<u>3,948</u>	<u>3,125</u>
<u>Reconciliation of effective tax rate:</u>		
Profit on ordinary activities before tax	38,635	32,149
Corporation tax charge at standard rate of 12.5%	4,829	4,019
Effects of:		
Section 446 relief under TCA 1997	(966)	(804)
Corporation tax under / (over) accrued in previous years	85	(90)
	<u>3,948</u>	<u>3,125</u>

The Bank qualifies for an effective corporation tax rate of 10% on qualifying activities under the provisions of Section 446, Taxes Consolidation Act, 1997 until 31 December 2005. This certificate expires on December 31, 2005. The anticipated standard corporation tax rate from that date is 12.5%.

7. DEBT SECURITIES

	2005 US\$'000	2004 US\$'000
Government securities - due one year or over	4,491,863	180,570
Other debt securities - due one year or over	<u>5,106</u>	<u>141,399</u>
	<u>4,496,969</u>	<u>321,969</u>

8. MARKET AND CLIENT RECEIVABLES

	2005 US\$'000	2004 US\$'000
Receivable from brokers and dealers	793,764	477,517
Cash collateral deposited with clients on derivatives activity	883,430	628,812
Receivable from group companies	<u>784,336</u>	<u>1,378</u>
	<u>2,461,530</u>	<u>1,107,707</u>

9. MARKET AND CLIENT RECEIVABLES (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

The Bank's short-term receivables generally attract interest at fluctuating rates based on the US Federal Funds rate in the case of US Dollar borrowings and at applicable country market rates with respect to receivables denominated in other foreign currencies.

10. DERIVATIVE FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE

	2005 US\$'000	2004 US\$'000
Swap agreements and forward contracts		
- with group companies	121,422	77,441
- with third parties	2,601,361	3,044,268
Options held	<u>154,531</u>	<u>57,564</u>
	<u><u>2,877,314</u></u>	<u><u>3,179,273</u></u>

11. TANGIBLE FIXED ASSETS

	Leasehold improvements US\$'000	Fixtures and fittings US\$'000	Computers and other equipment US\$'000	TOTAL US\$'000
Cost				
At 1 December 2004	686	218	1,633	2,537
Additions	64	118	164	346
Disposals	<u>-</u>	<u>-</u>	<u>(363)</u>	<u>(363)</u>
At 30 November 2005	<u>750</u>	<u>336</u>	<u>1,434</u>	<u>2,520</u>
Accumulated depreciation				
At 1 December 2004	686	174	1,549	2,409
Charge for the year	16	15	65	96
Disposals	<u>-</u>	<u>-</u>	<u>(363)</u>	<u>(363)</u>
At 30 November 2005	<u>702</u>	<u>189</u>	<u>1,251</u>	<u>2,142</u>
Net book value				
At 30 November 2005	<u><u>48</u></u>	<u><u>147</u></u>	<u><u>183</u></u>	<u><u>378</u></u>
At 30 November 2004	<u>-</u>	<u>44</u>	<u>84</u>	<u>128</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)**

12. PREPAYMENTS AND ACCRUED INCOME

	2005 US\$'000	2004 US\$'000
Prepayments and other debtors	<u>157</u>	<u>16,954</u>

13. DEBT SECURITIES IN ISSUE

	2005 US\$'000	2004 US\$'000
Bonds by remaining maturity		
- five years or less but over one year	2,084,724	712,303
- over five years	194,449	568,671
Other debt securities in issue by remaining maturity		
- three months or less	-	-
- three months to six months	-	-
- six months to twelve months	-	6,747
- five years or less but over one year	100,503	95,227
- over five years	<u>190,670</u>	<u>195,277</u>
	<u>2,570,346</u>	<u>1,578,225</u>

Other debt securities comprise certificates of deposit, medium term notes and warrants issued by the Bank.

14. MARKET AND CLIENT PAYABLES

	2005 US\$'000	2004 US\$'000
Amounts due to other group companies	421,546	388,552
Amounts due to third parties	12,044	17,930
Cash collateral received from clients on derivatives activity	<u>1,329,721</u>	<u>1,698,006</u>
	<u>1,763,311</u>	<u>2,104,488</u>

The Bank's market and client payables generally incur interest at fluctuating rates based on the US Federal Funds rate in the case of US Dollar payables and at applicable country market rates with respect to payables denominated in other foreign currencies.

15. DERIVATIVE FINANCIAL INSTRUMENTS SOLD, AT FAIR VALUE

	2005 US\$'000	2004 US\$'000
Swap agreements and forward contracts		
- with group companies	896,833	1,299,407
- with third parties	<u>2,426,563</u>	<u>1,837,662</u>
	<u>3,323,396</u>	<u>3,137,069</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

16. OTHER LIABILITIES

	2005 US\$'000	2004 US\$'000
Accruals and other creditors	11,199	18,514
Short term borrowings from ultimate parent company	387,098	65,309
Corporation tax	809	1,642
	<u>399,106</u>	<u>85,465</u>

The Bank's short-term borrowings from the ultimate parent company are repayable on demand and generally incur interest at fluctuating rates based on the US Federal Funds rate in the case of US Dollar borrowings and at prevailing market rates with respect to borrowings denominated in other foreign currencies.

17. SUBORDINATED LOAN

	2005 US\$'000	2004 US\$'000
Amount falling due over five years	<u>750,000</u>	<u>412,500</u>

Interest on outstanding borrowings is payable at the rate equal to the average daily US Federal Funds rate plus 108 basis points per annum.

18. CALLED UP SHARE CAPITAL

	2005 US\$'000	2004 US\$'000
Authorised		
30,000 ordinary shares of €1.269738 each	48	48
50,000,000 ordinary shares of US\$1 each	<u>50,000</u>	<u>50,000</u>
	<u>50,048</u>	<u>50,048</u>
Called up and allotted		
30,000 ordinary shares of €1.269738 each, fully paid	48	48
952,000 ordinary shares of US\$1 each, fully paid	<u>952</u>	<u>952</u>
	<u>1,000</u>	<u>1,000</u>

19. RESERVES

	2005 US\$'000	2004 US\$'000
Capital Reserve at beginning of year	145,000	95,000
Capital contribution	<u>106,000</u>	<u>50,000</u>
Capital Reserve at end of year	<u>251,000</u>	<u>145,000</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

20. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital U\$'000	Capital Reserve U\$'000	Share Premium U\$'000	Profit & Loss Account U\$'000	Total U\$'000
Balance at 30 November 2004	1,000	145,000	9,000	46,991	201,991
Capital Contribution	-	106,000	-	-	106,000
Profit for the year	-	-	-	34,687	34,687
Balance at 30 November 2005	<u>1,000</u>	<u>251,000</u>	<u>9,000</u>	<u>81,678</u>	<u>342,678</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

21. CASH FLOW STATEMENT

Amounts included in the cash flow statement are analysed as:

	Year Ended 30 November 2005 US\$'000	Year Ended 30 November 2005 US\$'000
Net cash flow from operating activities		
Profit on ordinary activities before tax	38,635	32,149
Interest on subordinated loans	21,667	7,148
Depreciation	96	46
Loss on disposal of fixed assets	-	-
	<u>60,398</u>	<u>39,343</u>
(Increase) in securities purchased under resale agreements	(263,100)	(14,769)
Decrease / (Increase) in loans to customers	208,372	(504,595)
(Increase) / Decrease in debt securities	(4,175,000)	246,107
(Increase) in market and client receivables	(1,353,823)	(610,169)
Decrease / (Increase) in derivative financial instruments owned, at fair value	301,959	(726,621)
Decrease / (Increase) in prepayments and accrued income	16,797	(11,029)
Increase in deposits by banks	5,601	9,637
Increase in securities sold under repurchase agreements	3,367,848	356,170
Increase in debt securities in issue	992,121	608,711
(Decrease) / Increase in market and client payables	(341,177)	577,351
Increase in derivative financial instruments sold, at fair value	186,327	117,919
Increase / (Decrease) in other liabilities	314,474	(11,959)
	<u>(679,203)</u>	<u>76,096</u>
Net cash (outflow) / inflow from operating activities		
Taxation	<u>(4,781)</u>	<u>(3,620)</u>
Return on investment and servicing of finance		
Interest on subordinated loans	<u>(21,667)</u>	<u>(7,148)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	<u>(346)</u>	<u>(112)</u>
Financing		
Additions to subordinated loan	337,500	176,500
Capital contribution	<u>106,000</u>	<u>50,000</u>
Net cash inflow from financing	<u>443,500</u>	<u>226,500</u>
Analysis of net funds - represented by cash and balances at Central Bank		
Balance at beginning of year	786,941	495,225
Net cash (outflow) / inflow	<u>(262,497)</u>	<u>291,716</u>
Balance at end of year	<u>524,444</u>	<u>786,941</u>

The Bank is required to maintain a minimum reserve cash balance with the Central Bank of Ireland, which, at the balance sheet date, amounted to US\$6,443,000 (2004 – US\$4,666,000)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank enters into transactions in a variety of cash and derivative financial instruments in order to reduce its exposure to market, currency and interest rate risk. A derivative covers such products as a future, forward, swap or option contract, or other financial instruments with similar characteristics such as caps, floors and collars. Generally, these financial instruments represent future commitments to exchange interest payment streams or currencies or to purchase or to sell other financial instruments at specific terms at specified future dates. Option contracts provide the holder with the right, but not the obligation, to purchase or sell a financial instrument at a specific price before or on an established date. These financial instruments may have market and/or credit risk in excess of amounts recorded in the financial statements.

The Bank has established policies for the management and control of risks associated with its business activities. Risk exists primarily from movements in interest rates, foreign exchange rates and values of securities (market risk), from the failure of counterparties to meet the terms of their obligations (credit risk) and from operational processes (operational risk). The control of risk rests with both the Bank's Management Committee and Board of Directors. Risk policies, including limits, reporting lines and control procedures are reviewed regularly by the various committees within the Bank and recommended changes are then subject to the authorisation of either the Bank's Management Committee and/or Board of Directors. The introduction of new products is subject to review and approval by the relevant departments within the Bank.

Market Risk

Derivative financial instruments involve varying degrees of off-balance sheet market risk whereby changes in the level or volatility of interest rates, foreign currency exchange rates, or market values of the underlying financial instrument or commodities may result in changes in the value of the financial instrument in excess of the amounts currently reflected in the financial statements. The Bank's exposure to market risk is influenced by a number of factors including the relationships among financial instruments with off-balance sheet risk and the Bank's proprietary positions as well as the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Bank's overall exposure to market risk. The Bank attempts to control its exposure to market risk arising from the use of these financial instruments through the use of hedging strategies and various statistical monitoring techniques. In order to measure derivative activity, notional or contract amounts are frequently utilised. Notional or contract amounts, which are not included on the balance sheet, are used to calculate contractual cash flows to be exchanged and are generally not actually paid or received, with the exception of currency swaps, foreign exchange forwards and mortgage-backed securities forwards. The notional or contract amounts of financial instruments that give rise to off-balance sheet market risk are indicative only of the extent of involvement in the particular class of financial instrument and are not necessarily an indication of overall market risk. The following table represents the notional or contract amounts of the Bank's outstanding derivative financial instruments at the balance sheet date.

<i>Notional or contract amounts at balance sheet date</i>	2005	2004
	US\$ millions	US\$ millions
Swap agreements and forward foreign exchange contracts		
- with group companies	879,479	495,961
- with third parties	2,174,928	1,548,529
	<u>3,054,407</u>	<u>2,044,490</u>
Options held	177,047	144,379
	<u>3,231,454</u>	<u>2,188,869</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Fair Value

The instruments used in the Bank's trading activities are recorded at fair value with the resulting unrealised gains or losses recorded in the financial statements and the related income or loss reflected in dealing profits. The fair values of derivative financial instruments held or issued for trading purposes at the balance sheet date and the average fair values of the derivative financial instruments are as follows:

	Fair Value		Fair Value	
	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities
	US\$'000	US\$'000	US\$'000	US\$'000
Swap agreements and forward foreign exchange contracts				
- with group companies	121,422	896,833	77,441	1,299,407
- with third parties	2,601,361	2,426,563	3,044,268	1,837,662
	<u>2,722,783</u>	<u>3,323,396</u>	<u>3,121,709</u>	<u>3,137,069</u>
Options held	154,531	-	57,564	-
	<u>2,877,314</u>	<u>3,323,396</u>	<u>3,179,273</u>	<u>3,137,069</u>

	Average Fair Value		Average Fair Value	
	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities
	US\$'000	US\$'000	US\$'000	US\$'000
Swap agreements and forward foreign exchange contracts				
- with group companies	118,594	949,022	121,306	852,792
- with third parties	2,551,368	2,323,460	2,680,443	2,242,558
	<u>2,669,962</u>	<u>3,272,482</u>	<u>2,801,749</u>	<u>3,095,350</u>
Options held	106,911	-	76,308	-
	<u>2,776,873</u>	<u>3,272,482</u>	<u>2,878,057</u>	<u>3,095,350</u>

The fair values of sovereign and corporate securities held for trading purposes at the balance sheet date and the average fair values of the sovereign debt and corporate bonds are as follows:

	Fair Value		Fair Value	
	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities
	US\$'000	US\$'000	US\$'000	US\$'000
- Sovereign Debt Securities	4,491,863	2,279,173	180,570	1,280,974
- Corporate Bonds	5,106	-	141,399	-
	<u>4,496,969</u>	<u>2,279,173</u>	<u>321,969</u>	<u>1,280,974</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Fair Value

	Average Fair Value 2005		Average Fair Value 2004	
	Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000
- Sovereign Debt Securities	2,811,187	1,826,610	620,812	2,399,725
- Corporate Bonds	38,985	-	42,758	-
	<u>2,850,172</u>	<u>1,826,610</u>	<u>663,570</u>	<u>2,399,725</u>

The majority of the Bank's transactions with off-balance-sheet risk are short-term in duration with a weighted average maturity of approximately 5.08 years (2004 period – 4.8 years). The maturities for notional or contract amounts outstanding were as follows:

<i>As at 30 November 2005</i>	Less than 1 year US\$ millions	1 to 3 years US\$ millions	3 to 5 years US\$ millions	Over 5 years US\$ millions	Total US\$ millions
Swap agreements and Forward foreign exchange contracts					
- with group companies	212,295	243,476	163,136	260,572	879,479
- with third parties	519,574	512,739	368,402	774,213	2,174,928
	<u>731,869</u>	<u>756,215</u>	<u>531,538</u>	<u>1,034,785</u>	<u>3,054,407</u>
Options held	29,360	99,726	33,737	14,224	177,047
<i>Total</i>	<u>761,229</u>	<u>855,941</u>	<u>565,275</u>	<u>1,049,009</u>	<u>3,231,454</u>
<i>Percent of total</i>	<u>24%</u>	<u>26%</u>	<u>18 %</u>	<u>32%</u>	<u>100%</u>
 <i>As at 30 November 2004</i>					
Swap agreements and Forward foreign exchange contracts					
- with group companies	61,015	177,338	99,177	158,431	495,961
- with third parties	300,441	398,562	289,364	560,162	1,548,529
	<u>361,456</u>	<u>575,900</u>	<u>388,541</u>	<u>718,593</u>	<u>2,044,490</u>
Options held	46,187	49,282	36,196	12,714	144,379
<i>Total</i>	<u>407,643</u>	<u>625,182</u>	<u>424,737</u>	<u>731,307</u>	<u>2,188,869</u>
<i>Percent of total</i>	<u>19%</u>	<u>29%</u>	<u>19%</u>	<u>33%</u>	<u>100%</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Value at risk

The Bank manages the market risk in its portfolios through position and sensitivity limits as well as Value at Risk (VaR) limits. Although the Bank uses a range of techniques to manage the market price risk in its trading book, the main method involves the use of Value at Risk (VaR) limits. The VaR of a trading book is the expected loss that will arise on the trading book over a specified period of time from an adverse market movement with a specified probability. The VaR limits are established using different confidence levels and holding periods, for the purposes of monitoring the level of various market price risks arising from its trading book and action is taken to keep the VaR within the ranges specified. Actual outcomes are monitored to test the validity of the assumptions made in the calculation of VaR.

Assuming a 95% (two sided) confidence level and a one day holding period, the VaR for the Bank's trading book was:

	Year Ended 30 November 2005 US\$'000	Year Ended 30 November 2004 US\$'000
At the balance sheet date	4,568	5,509
Average	7,831	6,389
Highest	14,642	10,055
Lowest	<u>3,469</u>	<u>2,396</u>

This means, inter alia, that, on the basis of the risks in the trading book in the year ended 30 November 2005, the Bank expected not to incur a loss on its trading book of more than US\$14,642,000 (2004 – US\$10,055,000) in any one day more than 2.5% of the time.

Although the Bank is satisfied that the package of controls it uses to manage the market price risk in its trading book is an effective means of controlling that risk, it recognises that all measures of market price risk, when considered in isolation, have limitations. The VaR figures disclosed above, for example, have the following main limitations:

- The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors, or be the best estimate of risk factor changes that will occur in the future.
- Using a one-day time horizon does not fully capture the market price risk of positions that cannot be closed off within one day. Similarly, focusing on the maximum loss that is expected to be incurred 95% of the time says little about the, admittedly smaller, losses that are expected to be incurred more frequently or the size of the losses in excess of the VaR that are expected to be incurred 2.5% of the time.
- The highest, lowest and average figures disclosed are based on calculations performed at the end of each business day, and the balance sheet date figure is also an end-of-day figure. The VaR during the course of a single day may change substantially and there is no reason why the end-of-day figure should be representative of the figure at other times of the day.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Bank's Management Committee approves the VaR limits. Exposures are monitored by the Risk Management Group and are reported on a daily basis to both Executive Directors and Senior Management. The Risk Management Group is independent of the business units and reports directly to the President and Board of the Bank. The Risk Management Group is responsible for reviewing and approving independent pricing and other risk models and monitoring the results of the regular stress testing of trading portfolios. The Bank supplements its daily VaR calculations with stress testing which measures the impact of abnormal changes in market rates and prices on the fair value of the Bank's trading portfolios.

Foreign exchange

The following table details the amount of monetary assets and liabilities in the non-trading book as at 30 November 2005 showing the amount denominated in each principal currency analysed by reference to the functional currencies of the operations involved. Net monetary assets by functional currency of operation involved:

	2005	2004
	US\$'000	US\$'000
Euro	558	388
<i>Total</i>	<u>558</u>	<u>388</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Interest rate exposure

The following table summarises the interest rate sensitivity gap which exists on the non-trading book.

	Less than 3 months	Less than 1 year greater than 3 months	Greater than 1 year	Non interest bearing assets and liabilities	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>As at 30 November 2005</i>					
Cash and balances at Central Bank	524,444	-	-	-	524,444
Loans and advances to customers	377,000	-	-	-	377,000
Collateral deposited	883,430	-	-	-	883,430
Receivable from associated Company	-	-	775	-	775
Receivable from affiliated Company	-	9,459	308,915	-	318,374
Other non-trading book assets	-	-	-	67	67
	<u>1,784,874</u>	<u>9,459</u>	<u>309,690</u>	<u>67</u>	<u>2,104,090</u>
Interbank borrowings	(28,777)	(9,459)	(18,517)	-	(56,753)
Debt securities in issue	-	-	(291,173)	-	(291,173)
Collateral received	(1,329,721)	-	-	-	(1,329,721)
Payable to affiliated Company	(426,376)	-	-	-	(426,376)
Other non-trading book Liabilities	-	-	-	-	-
	<u>(1,784,874)</u>	<u>(9,459)</u>	<u>(309,690)</u>	<u>-</u>	<u>(2,104,023)</u>
<i>Interest rate sensitivity gap on the non-trading book</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67</u>	<u>67</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Interest rate exposure continued

	Less than 3 months	Less than 1 year greater than 3 months	Greater than 1 year	Non interest bearing assets and liabilities	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>As at 30 November 2004</i>					
Cash and balances at Central Bank	786,941	-	-	-	786,941
Loans and advances to customers	585,372	-	-	-	585,372
Collateral deposited	628,812	-	-	-	628,812
Receivable from associated Company	-	-	735	-	735
Receivable from affiliated Company	-	6,747	325,921	-	332,668
Other non-trading book assets	-	-	-	67	67
	2,001,125	6,747	326,656	67	2,334,595
Interbank borrowings	(15,000)	-	(36,152)	-	(51,152)
Debt securities in issue	-	(6,747)	(290,504)	-	(297,251)
Collateral received	(1,698,006)	-	-	-	(1,698,006)
Payable to affiliated Company	(288,119)	-	-	-	(288,119)
Other non-trading book Liabilities	-	-	-	-	-
	(2,001,125)	(6,747)	(326,656)	-	(2,334,528)
<i>Interest rate sensitivity gap on the non-trading book</i>	-	-	-	67	67

Credit Risk

The notional or contract amounts of these instruments do not represent the Bank's potential risk of loss due to counterparty non-performance. Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Bank's exposure to credit risk associated with counterparty non-performance is limited to the net replacement cost of over-the-counter contracts in a gain position which are recognised in the Bank's financial statements. Exchange-traded financial instruments, such as futures and options, generally do not give rise to significant counterparty exposure due to the margin requirements of the individual exchanges. Options written generally do not give rise to counterparty credit risk since they obligate the Bank (not its counterparty) to perform. The Bank has controls in place to monitor credit exposures by limiting transactions with specific counterparties and assessing the future creditworthiness of counterparties. The Bank also seeks to control credit risk by following an established credit approval process, monitoring credit limits, and requiring collateral where appropriate. This includes analysis of risk concentrations, including those to individual counterparties, industry sectors, products, countries and geographic regions. This process is controlled by the Credit Committee of the Bank, which consists of Executive Directors and Senior Management of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

22. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal controls and procedures. The Bank manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by Internal Audit. The Bank also maintains contingency facilities to support operations in the event of a disaster.

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

At 30 November 2005 the Bank had annual commitments under operating leases which expire as follows:

	2005	2004
	US\$'000	US\$'000
Less than one year	290	-
Between two and five years	-	380
Over five years	-	-
	<u>290</u>	<u>380</u>

At 30 November 2005 the Bank had other financial commitments which expire as follows:

	2005	2004
	US\$'000	US\$'000
Less than one year	200	200
Between two and five years	-	-
Over five years	-	-
	<u>200</u>	<u>200</u>

24. SEGMENTAL INFORMATION

The Bank's principal trading activity is that of an international bank. It is not, however, possible to allocate revenues or profits to any particular source as one trade may involve parties situated in a number of different geographic areas. In the opinion of the Directors, if disclosure was practicable, it would be prejudicial to the interests of the Bank to disclose such information.

25. EVENTS OCCURRING SUBSEQUENT TO THE BALANCE SHEET DATE

There were no events occurring subsequent to the balance sheet date requiring disclosure in these financial statements.

26. ULTIMATE HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The immediate holding company is Bear Stearns Ireland Limited, a company registered in the Republic of Ireland. The Company's ultimate holding company is The Bear Stearns Companies Inc., a company registered in Delaware, United States of America. Copies of the group financial statements of The Bear Stearns Companies Inc. are available from The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179 and from Bear Stearns Bank plc, Block 8, Harcourt Centre, Charlotte Way, Dublin 2.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 November 2005 (continued)

The smallest group into which the financial statements of Bear Stearns Bank are consolidated is that headed by Bear Stearns (Ireland) Limited. The largest group into which the financial statements are consolidated is that headed by The Bear Stearns Companies Inc.

The Bank provides investment management services to Liquid Funding Limited, an associated company, for which income of US\$5,779,260 (2004: US\$4,452,099) was earned.

An exemption contained in Financial Reporting Standard No. 8 "Related Party Disclosures" permits the Bank not to disclose related party transactions and detailing transactions and balances with group companies as it is a wholly owned subsidiary of another company which prepares group accounts which are made available to the public.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 2 February 2006.

DESCRIPTION OF BEAR STEARNS GLOBAL ASSET HOLDINGS, LTD.

History and Principal Activities

Bear Stearns Global Asset Holdings, Ltd. ("**BSGAH**"), a wholly-owned subsidiary of the Company, was incorporated on July 19, 1988 under the laws of the Cayman Islands as an exempted company with limited liability. BSGAH is registered under no. 300277. BSGAH's registered office is at P.O. Box 309 GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. BSGAH's telephone number at its registered office is +1 345 949 8066. The authorized share capital of BSGAH is U.S. \$900,000 divided into 90,000,000 shares of U.S.\$0.01 each, of which two are issued and fully paid and are directly held by the Company. Clause 3 of BSGAH's Memorandum of Association states that the objects of BSGAH are unrestricted and goes on to specify that such objects include, without limitation, the issuance on commission or otherwise of stocks, shares and securities of all kinds, as provided by the Companies Law (Cap. 22). BSGAH is dependent on the Company.

Business

BSGAH's principal business is the issuance to various dealers, as may be determined by BSGAH and the Company, of medium term notes denominated in any currency, and having any maturity as agreed between BSGAH and certain other members of the Group. All Securities issued by BSGAH are unconditionally and irrevocably guaranteed by the Company. BSGAH may also hold certain hedges for the amounts due under the Securities.

Board of Directors

The Directors of BSGAH and their principal occupations are:

Name	Principal Occupation and Directorships Held
Wendy L. de Monchaux	Director of BSGAH and director and senior managing director of Bear, Stearns & Co
Jeffrey M. Farber	Director and treasurer of BSGAH, controller of the Company, controller and senior managing director of Bear, Stearns & Co. Inc.
Donald A. Martocchio	Director of BSGAH and director and senior managing director of Bear, Stearns & Co. Inc.
Steven D. Meyer	Director of BSGAH and director and senior managing director of Bear, Stearns & Co. Inc.
Samuel L. Molinaro, Jr	Director of BSGAH, chief financial officer and executive vice president of the Company and of Bear, Stearns & Co. Inc. and director and senior managing director of Bear, Stearns & Co. Inc.
Leonard Feder	Director of BSGAH, branch manager of Bear Stearns (Japan) Ltd., Tokyo Branch and director of Bear Stearns Asia Limited.

The secretary of BSGAH is Peter J. Cooke and the assistant secretary is Jeffrey M. Lipman.

The business address of each of the directors is 383 Madison Avenue, New York, NY 10179, USA.

There are no existing or potential conflicts of interest between the duties to BSGAH of each member of the Board of Directors of BSGAH and his/her private interests or other duties.

BSGAH does not have a separate audit committee.

Financial Statements

Since the date of its incorporation, no audited or unaudited financial statements of BSGAH have been prepared. BSGAH is not required to prepare audited or unaudited financial statements under Cayman Islands law and does not currently intend to do so. However, under Cayman Islands law BSGAH is obligated to keep proper books of accounts.

TAXATION

1. UNITED STATES TAXATION

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax consequences of the purchase, beneficial ownership and disposition of Notes.

For purposes of this summary, a "**U.S. holder**" is a beneficial owner of a Note that is:

- an individual who is a citizen or a resident of the United States, for federal income tax purposes;
- a corporation (or other entity that is treated as a corporation for federal tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate whose income is subject to federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons, for federal income tax purposes, have the authority to control all of its substantial decisions.

For purposes of this summary, a "**non-U.S. holder**" is a beneficial owner of a Note that is:

- a nonresident alien individual for federal income tax purposes;
- a foreign corporation for federal income tax purposes;
- an estate whose income is not subject to federal income tax on a net income basis; or
- a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if United States persons do not have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States for federal income tax purposes by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one third of the days present in the immediately preceding year, and one sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. This summary addresses only holders that purchase Notes at initial issuance, and own Notes as capital assets and not as part of a "straddle," "hedge," "synthetic security," or a "conversion transaction" for federal income tax purposes or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as banks, thrifts or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; regulated investment companies or real estate investment trusts; small business investment companies; S corporations; investors that hold their Notes through a partnership or other entity treated as a partnership for federal tax purposes; investors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities, or persons holding the

Notes in tax-deferred or tax-advantaged accounts; or "controlled foreign corporations" or a "passive foreign investment companies" for federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder, or any state, local or foreign tax consequences of the purchase, ownership or disposition of the Notes. Persons considering the purchase of Notes should consult their own tax advisors concerning the application of federal income tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of Notes arising under the laws of any other taxing jurisdiction. The following summary was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. The following summary was written in connection with the promotion or marketing by the Issuers and the Programme Dealers of the Notes. Each Noteholder should seek advice based on its particular circumstances from an independent tax advisor.

The applicable Final Terms may contain a further discussion of the special federal income tax consequences applicable to certain Notes. The summary of the federal income tax considerations contained in the applicable Final Terms supersedes the following summary to the extent it is inconsistent therewith.

PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF NOTES.

(a) Tax Treatment of U.S. Holders

The following discussion is limited to the U.S. federal income tax consequences relevant to holders of Registered Notes. Notes will not be offered to United States persons.

U.S. Federal Income Tax Treatment of the Notes as Indebtedness for U.S. Federal Income Tax Purposes

Unless otherwise indicated in the applicable Final Terms, we intend to treat the Notes as indebtedness for federal income tax purposes and except as provided below under "—Certain Equity-Linked Notes," the balance of this summary assumes that the Notes are treated as indebtedness for federal income tax purposes. However, the treatment of a Note as indebtedness for federal income tax purposes depends on a number of factors, and if the Notes are not properly treated as indebtedness for federal income tax purposes, the federal income tax treatment of investors in Notes may be different than that described below.

Payments of Interest

Unless otherwise indicated in the applicable Final Terms, interest on a Note will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder's normal method of accounting for tax purposes.

Original Issue Discount

The applicable Final Terms will indicate whether we intend to treat the Notes as issued with original issue discount. The following is a summary of the principal federal income tax consequences of the ownership of Notes issued with original issue discount.

A Note will have original issue discount for federal income tax purposes if its "issue price" is less than its "stated redemption price at maturity" by more than a de minimis amount, as discussed below, and it has a term of more than one year.

The issue price of a Note generally is the first price at which a substantial amount of the "issue" of Notes is sold to the public for money (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), excluding pre-issuance accrued interest (as discussed below under "—Pre-Issuance Accrued Interest").

The "stated redemption price at maturity" of a Note generally is the total amount of all payments provided by the Note other than "qualified stated interest" payments.

Qualified stated interest generally is stated interest that is "unconditionally payable" in cash or property (other than debt instruments of the issuer) at least annually either at a single fixed rate, or a "qualifying variable rate" (as described below). Qualified stated interest is taxable to a U.S. holder when accrued or received in accordance with the U.S. holder's normal method of tax accounting.

Interest is considered unconditionally payable only if reasonable legal remedies exist to compel timely payment or the Note otherwise provides terms and conditions that make the likelihood of late payment (other than a late payment within a reasonable grace period) or non-payment a remote contingency. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between stated interest payments. Thus, if the interval between payments varies during the term of the instrument, the value of the fixed rate on which payment is based generally must be adjusted to reflect a compounding assumption consistent with the length of the interval preceding the payment.

Notes having "de minimis original issue discount" generally will be treated as not having original issue discount unless a U.S. holder elects to treat all interest on the Note as original issue discount. See "—Election to Treat All Interest and Discount as Original Issue Discount (Constant Yield Method)." A Note will be considered to have "de minimis original issue discount" if the difference between its stated redemption price at maturity and its issue price is less than the product of $\frac{1}{4}$ of 1 percent of the stated redemption price at maturity and the number of complete years from the issue date to maturity (or the weighted average maturity in the case of a Note that provides for payment of an amount other than qualified stated interest before maturity).

U.S. holders of Notes having original issue discount will be required to include original issue discount in gross income for federal income tax purposes as it accrues (regardless of the U.S. holders' method of accounting), which may be in advance of receipt of the cash attributable to such income. Original issue discount accrues under the constant yield method, based on a compounded yield to maturity, as described below. Accordingly, U.S. holders of Notes having original issue discount will generally be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Certain Notes issued with original issue discount that are treated as "variable rate debt instruments" are subject to special rules described below. The applicable Final Terms will indicate whether we intend to treat a Note as a variable rate debt instrument that is subject to these special rules.

If a variable rate debt instrument bears interest that is unconditionally payable at least annually at a "single qualified floating rate" or "objective rate", all stated interest is treated as qualified stated interest. The accrual of any original issue discount is determined by assuming the Note bears interest at a fixed interest rate equal to the issue date value of the qualified floating rate or qualified inverse floating rate or, in the case of any other objective rate, a fixed internal rate that is equal to the reasonably expected yield for the Note. The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period. The applicable Final Terms will indicate whether a Note is subject to these rules.

If a variable rate debt instrument bears interest at a qualifying variable rate other than a single qualified floating rate or objective rate, the amount and accrual of original issue discount generally are determined by (i) determining a fixed rate substitute for each variable rate as described in the preceding paragraph, (ii) determining the amount of qualified stated interest and original issue discount by assuming the Note bears interest at such substitute fixed rates and (iii) making appropriate adjustments to the qualified stated interest and original issue discount so determined for actual interest rates under the Note. However, if the qualifying variable rate includes a fixed rate, the Note is treated for purposes of applying clause (i) of the preceding sentence as if it provided for an assumed qualified floating rate (or qualified inverse floating rate if the actual variable rate is such) that would cause the Note to have approximately the same fair market value, and the rate is used in lieu of the fixed rate. The applicable Final Terms will indicate whether a Note is subject to these rules.

The annual amount of original issue discount includible in income by the initial U.S. holder of a Note having original issue discount will equal the sum of the "daily portions" of the original issue discount with respect to the Note for each day on which the U.S. holder held the Note during the taxable year. Generally, the daily portions of original issue discount are determined by allocating to each day in an "accrual period" the ratable portion of original issue discount allocable to the accrual period. The term accrual period means an interval of time with respect to which the accrual of original issue discount is measured and which may vary in length over the term of the Note provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first or last day of an accrual period.

The amount of original issue discount allocable to an accrual period will be the excess of:

- the product of the "adjusted issue price" of the Note at the commencement of the accrual period and its "yield to maturity" over
- the amount of any qualified stated interest payments allocable to the accrual period.

The adjusted issue price of a Note at the beginning of the first accrual period is its issue price and, on any day thereafter, it is the sum of the issue price and the amount of original issue discount previously includible in the gross income of the U.S. holder (without regard to any "acquisition premium" as described below), reduced by the amount of any payment other than a payment of qualified stated interest previously made on the Note. If an interval between payments of qualified stated interest contains more than one accrual period, the amount of qualified stated interest that is payable at the end of the interval (including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval) is allocated on a pro-rata basis to each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period in the interval is increased by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but is not payable until the end of the interval. The yield to maturity of a Note is the yield to maturity computed on the basis of compounding at the end of each accrual period properly adjusted for the length of the particular accrual period. If all accrual periods are of equal length except for a shorter initial and/or final accrual period(s), the amount of original issue discount allocable to the initial period may be computed using any reasonable method; however, the original issue discount allocable to the final accrual period will always be the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

Pre-Issuance Accrued Interest

If (i) a portion of the initial purchase price of a Note is attributable to pre-issuance accrued interest, (ii) the first stated interest payment on the Note is to be made within one year of the Note's issue date, and (iii) the payment will equal or exceed the amount of pre-issuance accrued interest, then the U.S. holder may compute the issue price of the Note by subtracting the amount of the pre-issuance accrued interest. In that event, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on the Note.

Notes Subject to Call or Put Options

For purposes of calculating the yield and maturity of a Note subject to an option, in general, a call option held by the issuer is presumed exercised if, upon exercise, the yield on the Note is less than it would have been had the option not been exercised, and a put option held by a U.S. holder is presumed exercised if, upon exercise, the yield on the Note is more than it would have been had the option not been exercised. The effect of this rule generally may accelerate or defer the inclusion of original issue discount in the income of a U.S. holder whose Note is subject to a put option or a call option, as compared to the equivalent Note without such an option. The applicable Final Terms will indicate whether a put option or call option will be presumed to be exercised and the effect of that presumption. If any option that is presumed to be exercised is not in fact exercised, the Note is treated as reissued solely for purposes of the original issue discount rules on the date of presumed exercise for an amount equal to its adjusted issue price on that date. The deemed reissuance will have the effect of redetermining the Note's yield and maturity for original issue discount purposes and any related subsequent accruals of original issue discount.

Short-Term Debt Instruments

Certain Notes that are treated as "short-term debt instruments" are subject to special rules. The applicable Final Terms will indicate whether we intend to treat a Note as a short-term debt instrument. A Note that is a "short-term debt instrument" will be acquired with "acquisition discount" equal to all payments under the Note over the U.S. holder's basis in the Note. U.S. holders that report income for federal income tax purposes on the accrual method and certain other holders are required to include original issue discount (equal to the difference between all payments on the Note over its issue price) in income or, if the U.S. holder elects, acquisition discount with respect to a Note that is a short-term debt instrument. Original issue discount or acquisition discount on Notes that are short-term debt instruments is accrued on a straight-line basis, unless an irrevocable election with respect to the Note is made to accrue the original issue discount or acquisition discount under the constant yield method based on daily compounding.

In general, an individual or other cash method U.S. holder of a short-term debt instrument is not required to accrue original issue discount or acquisition discount with respect to a Note that is a short-term debt instrument, unless the U.S. holder elects to do so. An election by a cash basis U.S. holder to accrue original issue discount on a Note that is a short-term debt instrument, as well as the election to accrue acquisition discount instead of original issue discount with respect to a Note that is a short-term debt instrument, applies to all short-term debt instruments acquired by the U.S. holder during the first taxable year for which the election is made, and all subsequent taxable years of the U.S. holder, unless the Internal Revenue Service (the "IRS") consents to a revocation. In the case of a U.S. holder that is not required (and does not elect) to include original issue discount or acquisition discount in income currently, any gain realized on the sale, exchange or other taxable disposition of a Note that is a short-term debt instrument is treated as ordinary income to the extent of the original issue discount that had accrued on a straight-line basis (or, if elected, under the constant yield method based on daily compounding) through the date of sale, exchange or other disposition, and the U.S. holder will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry the Note in an amount not exceeding the accrued original issue discount (determined on a ratable basis, unless the U.S. holder elects to use a constant yield basis) on the Note, until the original issue discount is recognized.

Market Discount, Acquisition Premium, and Premium

If a U.S. holder purchases a Note, other than a contingent payment debt instrument (described below) or a short-term debt instrument, for an amount that is less than its stated redemption price at maturity or, in the case of a Note having original issue discount, less than its revised issue price (which is the sum of the issue price of the Note and the aggregate amount of the original issue discount previously includible in the gross income of any holder (without regard to any acquisition premium)), the amount of the difference generally will be treated as market discount for federal income tax purposes. (It is possible that a U.S. holder may purchase a Note at original issuance for an amount that is different than its issue price.) The amount of any market discount generally will be treated as de minimis and disregarded if it is less than the product of 0.25 percent of the stated redemption price at maturity of the Note and the number of complete years to maturity (or weighted average maturity in the case of Notes paying any amount other than qualified stated interest prior to maturity).

Under the market discount rules, a U.S. holder is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of any accrued market discount that has not previously been included in income. If the Note is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includible as ordinary income to the U.S. holder as if the U.S. holder had sold the Note at its then fair market value. In addition, the U.S. holder may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Note.

Market discount accrues ratably during the period from the date of acquisition to the maturity of a Note, unless the U.S. holder elects to accrue it under the constant yield method. A U.S. holder of a Note may elect to include market discount in income currently as it accrues (either ratably or under the constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. The election to include market discount currently applies to all market discount obligations acquired during or after the first taxable year to

which the election applies and may not be revoked without the consent of the IRS. If an election is made to include market discount in income currently, the basis of the Note in the hands of the U.S. holder will be increased by the market discount thereon as it is included in income.

A U.S. holder that purchases a Note having original issue discount (other than a contingent payment debt instrument) for an amount exceeding its "adjusted issue price" (which is described above under "— Original Issue Discount") and less than or equal to the sum of all remaining amounts payable on the Note other than payments of qualified stated interest will be treated as having purchased the Note with acquisition premium. The amount of original issue discount that the U.S. holder must include in gross income with respect to such Note will be reduced in the proportion that the excess bears to the original issue discount remaining to be accrued as of the Note's acquisition and ending on the stated maturity date. Rather than apply the above fraction, the U.S. holder that, as discussed below, elects to treat all interest as original issue discount would treat the purchase at an acquisition premium as a purchase at an original issuance and calculate original issue discount accruals on a constant yield to maturity.

A U.S. holder that acquires a Note, other than a contingent payment debt instrument, for an amount that is greater than the sum of all remaining amounts payable on the Note other than payments of qualified stated interest will be treated as having purchased the Note at a bond premium and will not be required to include any original issue discount in income. A U.S. holder generally may elect to amortize bond premium. The election to amortize bond premium must be made with a timely filed federal income tax return for the first taxable year to which the U.S. holder wishes the election to apply.

If bond premium is amortized, the amount of interest that must be included in the U.S. holder's income for each period ending on an interest payment date or on stated maturity, as the case may be, will be reduced by the portion of bond premium allocable to such period based on the Note's yield to maturity (or, in certain circumstances, until an earlier call date) determined by using the U.S. holder's basis of the Note, compounding at the close of each accrual period. If the bond premium allocable to an accrual period is in excess of qualified stated interest allocable to that period, the excess may be deducted to the extent of prior income inclusions and is then carried to the next accrual period and offsets qualified stated interest in such period. If an election to amortize bond premium is not made, a U.S. holder must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale or other disposition or payment of the principal amount of the Note.

An election to amortize bond premium will apply to amortizable bond premium on all Notes and other bonds, the interest on which is includible in the U.S. holder's gross income, held at the beginning of the U.S. holder's first taxable year to which the election applies or thereafter acquired, and may be revoked only with the consent of the IRS. The election to treat all interest as original issue discount is treated as an election to amortize premium. Special rules may apply if a Note is subject to call prior to maturity at a price in excess of its stated redemption price at maturity.

Election to Treat All Interest and Discount as Original Issue Discount (Constant Yield Method)

A U.S. holder of a Note may elect to include in income all interest and discount (including de minimis original issue discount and de minimis market discount), as adjusted by any premium with respect to the Note, based on a constant yield method, which is described above under "— Original Issue Discount." The election is made for the taxable year in which the U.S. holder acquired the Note, and it may not be revoked without the consent of the IRS. If such election is made with respect to a Note having market discount, the U.S. holder will be deemed to have elected currently to include market discount on a constant yield basis with respect to all debt instruments having market discount acquired during the year of election or thereafter. If made with respect to a Note having amortizable bond premium, the U.S. holder will be deemed to have made an election to amortize premium generally with respect to all debt instruments having amortizable bond premium held by the U.S. holder during the year of election or thereafter.

Sale, Exchange, Redemption or Repayment of the Notes

Upon the disposition of a Note by sale, exchange, redemption, repayment of principal at maturity or other taxable disposition, a U.S. holder will generally recognize taxable gain or loss equal to the difference between (i) the amount realized on the disposition (other than amounts attributable to accrued but untaxed interest) and (ii) the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the cost of the Note (net of accrued interest) to the U.S. holder, increased by amounts includible in income as original issue discount or market discount, as described below (if the holder elects to include market discount in income on a current basis) and reduced by any amortized bond premium and any payments (other than payments of qualified stated interest) made on the Note.

Because the Note is held as a capital asset, such gain or loss (except to the extent that the market discount rules or the rules relating to short-term debt instruments otherwise provide) will generally constitute capital gain or loss. Capital gains of individual taxpayers from the sale, exchange or other disposition of a Note held for more than one year may be eligible for reduced rates of taxation. The deductibility of a capital loss realized on the sale, exchange, or other disposition of a Note is subject to limitations.

Contingent Payment Debt Instruments

Certain Notes that are treated as "contingent payment debt instruments" are subject to special rules. The applicable Final Terms will indicate whether we intend to treat a Note as a contingent payment debt instrument. If a contingent payment debt instrument is issued for cash or publicly traded property, original issue discount is determined and accrued under the "noncontingent bond method." Unless otherwise indicated in the applicable Final Terms, we intend to treat all Notes that are treated as contingent payment debt instruments as subject to the noncontingent bond method.

Under the noncontingent bond method, for each accrual period, U.S. holders of the Notes accrue original issue discount equal to the product of (i) the "comparable yield" (adjusted for the length of the accrual period) and (ii) the "adjusted issue price" of the Notes at the beginning of the accrual period. This amount is ratably allocated to each day in the accrual period and is includible as ordinary interest income by a U.S. holder for each day in the accrual period on which the U.S. holder holds the contingent payment debt instrument, whether or not the amount of any payment is fixed or determinable in the taxable year. Thus, the noncontingent bond method may result in recognition of income prior to the receipt of cash.

In general, the comparable yield of a contingent payment debt instrument is equal to the yield at which the issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the contingent payment debt instrument, including level of subordination, term, timing of payments, and general market conditions. For example, if a hedge of the contingent payment debt instrument is available that, if integrated with the contingent payment debt instrument, would produce a "synthetic debt instrument" with a specific yield to maturity, the comparable yield will be equal to the yield of the synthetic debt instrument. However, if such a hedge is not available, but similar fixed rate debt instruments of the issuer are traded at a price that reflects a spread above a benchmark rate, the comparable yield is the sum of the benchmark rate on the issue date and the spread. The applicable Final Terms will either provide the comparable yield, or the name or title and address or telephone number of our representative who will provide such comparable yield.

The adjusted issue price at the beginning of each accrual period is generally equal to the issue price of the Note plus the amount of original issue discount previously includible in the gross income of the U.S. holder less any noncontingent payment and the projected amount of any contingent payment contained in the projected payment schedule (as described below) previously made on the contingent payment debt instrument.

In addition to the determination of a comparable yield, the noncontingent bond method requires the construction of a projected payment schedule. The projected payment schedule includes all noncontingent payments, and projected amounts for each contingent payment to be made under the contingent payment debt instrument that are adjusted to produce the comparable yield. The applicable Final Terms will either provide such projected payment schedule, or the name or title and address or telephone number of our representative who will provide such projected payments schedule. The projected payment schedule remains fixed throughout the term of the contingent payment debt instrument. A U.S. holder is required to use the issuer's projected payment schedule to determine its interest accruals and adjustments, unless the U.S. holder determines that the issuer's projected payment

schedule is unreasonable, in which case the U.S. holder must disclose its own projected payment schedule in connection with its federal income tax return and the reason(s) why it is not using the issuer's projected payment schedule.

If the actual amounts of contingent payments are different from the amounts reflected in the projected payment schedule, a U.S. holder is required to make adjustments in its original issue discount accruals when such amounts are paid. Adjustments arising from contingent payments that are greater than the assumed amounts of those payments are referred to as "positive adjustments"; adjustments arising from contingent payments that are less than the assumed amounts are referred to as "negative adjustments." Positive and negative adjustments are netted for each taxable year with respect to each Note. Any net positive adjustment for a taxable year is treated as additional original issue discount income of the U.S. holder. Any net negative adjustment reduces any original issue discount on the Note for the taxable year that would otherwise accrue. Any excess is then treated as a current-year ordinary loss to the U.S. holder to the extent of original issue discount accrued in prior years. The balance, if any, is treated as a negative adjustment in subsequent taxable years. Finally, to the extent that it has not previously been taken into account, an excess negative adjustment reduces the amount realized upon a sale, exchange, or retirement of the Note.

A U.S. holder's basis in a contingent payment debt instrument is increased by the projected contingent payments accrued by the holder under the projected payment schedule (as determined without regard to adjustments made to reflect differences between actual and projected payments) and reduced by the amount of any non-contingent payments and the projected amount of any contingent payments previously made. Gain on the sale, exchange or other taxable disposition of a contingent payment debt instrument generally is treated as ordinary income. Loss, on the other hand, is treated as ordinary only to the extent of the U.S. holder's prior net original issue discount inclusions (i.e., reduced by the total net negative adjustments previously allowed to the U.S. holder as an ordinary loss) and capital to the extent in excess thereof. The deductibility of a capital loss realized on the sale, exchange or other taxable disposition of a Note is subject to limitations.

A U.S. holder that purchases a Note for an amount other than the issue price of the Note will be required to adjust its original issue discount inclusions to account for the difference. These adjustments will affect the U.S. holder's basis in the Note. Reports to U.S. holders may not include these adjustments. U.S. holders that purchase Notes at other than the issue price should consult their tax advisors regarding these adjustments.

Prospective investors should consult their own tax advisors with respect to the application of the contingent payment debt instrument provisions to Notes.

Amortizing Notes

Payments received pursuant to an amortizing Note may consist of both a principal and an interest component. The principal component will generally constitute a tax-free return of capital that will reduce a U.S. holder's adjusted tax basis in the Note.

Foreign Currency Notes

Certain Notes that are denominated in or indexed to a foreign currency are subject to special rules. The applicable Final Terms will indicate whether we intend to treat the Notes as subject to these special rules. The following discussion summarizes the principal federal income tax consequences of owning a Note that is denominated in or indexed to a foreign currency (other than a currency described in this section that is considered "hyperinflationary"), and is not a contingent payment debt instrument or a dual currency Note. Special federal income tax considerations applicable to Notes that are denominated in or indexed to a hyperinflationary currency, are contingent payment debt instruments, or are dual currency Notes, will be discussed in the applicable Final Terms.

In general, a U.S. holder that uses the cash method of accounting and holds a Note will be required to include in income the U.S. dollar value of the amount of interest income received, whether or not the payment is received in U.S. dollars or converted into U.S. dollars. The U.S. dollar value of the amount of interest received is

the amount of the interest paid in the foreign currency, translated into U.S. dollars at the spot rate on the date of receipt. The U.S. holder will not have exchange gain or loss on the interest payment itself, but may have exchange gain or loss when it disposes of any foreign currency received.

A U.S. holder that uses the accrual method of accounting is generally required to include in income the dollar value of interest accrued during the accrual period. Accrual basis U.S. holders may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, the dollar value of accrued interest is translated at the average rate for the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year). For this purpose, the average rate is the simple average of spot rates of exchange for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by the U.S. holder. Under the second method, a U.S. holder can elect to accrue interest at the spot rate on the last day of the interest accrual period (in the case of a partial accrual period, the last day of the taxable year) or, if the last day of an interest accrual period is within five business days of the receipt, the spot rate on the date of receipt. Any such election will apply to all debt instruments held by the U.S. holder and is irrevocable without the consent of the IRS. An accrual basis U.S. holder will recognize exchange gain or loss, as the case may be, on the receipt of a foreign currency interest payment if the exchange rate on the date payment is received differs from the rate applicable to the previous accrual of that interest income. The foreign currency gain or loss will generally be treated as U.S. source ordinary income or loss.

Original issue discount on a Note described in this section is determined in the foreign currency and is translated into U.S. dollars in the same manner that an accrual basis U.S. holder accrues stated interest. Exchange gain or loss is determined when original issue discount is considered paid to the extent the exchange rate on the date of payment differs from the exchange rate at which the original issue discount was accrued.

The amount of market discount on a Note described in this section includible in income will generally be determined by computing the market discount in the foreign currency and translating that amount into dollars at the spot rate on the date the Note is retired or otherwise disposed of. If the U.S. holder accrues market discount currently, the amount of market discount which accrues during any accrual period is determined in the foreign currency and translated into U.S. dollars on the basis of the average exchange rate in effect during the accrual period. Exchange gain or loss may be recognized to the extent that the rate of exchange on the date of the retirement or disposition of the Note differs from the exchange rate at which the market discount was accrued.

Amortizable bond premium on a Note described in this section is computed in units of foreign currency and, if the U.S. holder elects, will reduce interest income in units of foreign currency. At the time amortized bond premium offsets interest income (i.e., the last day of the tax year in which the election is made and the last day of each subsequent tax year), exchange gain or loss with respect to amortized bond premium is recognized and is measured by the difference between exchange rates at that time and at the time of the acquisition of the Note.

With respect to the sale, exchange, retirement or other disposition of a Note denominated in a foreign currency, the foreign currency amount realized will be considered to be first, the payment of accrued but unpaid interest (on which exchange gain or loss is recognized as described above); second, accrued but unpaid original issue discount (on which exchange gain or loss is recognized as described above); and, finally, as receipt of principal. With respect to principal, exchange gain or loss is equal to the difference between (i) the foreign currency principal amount translated on the date the payment is received or the date of disposition and (ii) the foreign currency principal amount translated on the date the Note was acquired, or deemed acquired. Exchange gain or loss computed on accrued interest, original issue discount, market discount and principal is realized, however, only to the extent of total gain or loss on the transaction. The conversion of U.S. dollars into a foreign currency and the immediate use of that currency to purchase a Note described in this section generally will not result in a taxable gain or loss for a U.S. holder.

Extendible Notes

Parent may have an option under the terms of a Note to extend its maturity date and, in connection therewith, to reset the interest rate or spread and establish new interest reset dates, new interest payment dates and new provisions for redemption or optional repayment.

The applicable Final Terms will discuss the principal federal income tax consequences with respect to Notes that are extendible at the option of Parent.

Certain Other Debt Securities

Certain Notes may be subject to special rules. The applicable Final Terms will discuss the principal federal income tax consequences with respect to Notes that are subject to special rules, including Notes that provide for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies relating to payments of interest or of principal.

Certain Equity-Linked Notes

Certain Notes Treated as a Put Option and a Deposit

We may treat certain Notes as consisting of a put option and a deposit for federal income tax purposes. The applicable Final Terms will indicate whether we intend to treat the Notes as consisting of a put option and a deposit for federal income tax purposes. This section describes the federal income tax consequences of the purchase, beneficial ownership and disposition of a Note that we intend to treat as consisting of a put option and a deposit.

There are no regulations, published rulings or judicial decisions addressing the treatment for federal income tax purposes of Notes with terms that are substantially the same as the Notes described in this section. We intend to treat each Note described in this section as consisting of a put option (the "**Put Option**") that requires the holder to purchase the equities referenced in the Note (the "**Reference Shares**") from us for an amount equal to the principal amount of the Note if certain conditions are satisfied, and a deposit with us of cash, in an amount equal to the principal amount of the Note (the "**Deposit**") to secure the U.S. holder's potential obligation to purchase the Reference Shares. Pursuant to the terms of the Notes, each holder agrees to such treatment for all federal income tax purposes. Except for the possible alternative treatments described below, the balance of this summary assumes that the Notes are so treated.

We intend to treat a portion of the stated interest payments on a Note described in this section as interest or original issue discount on the Deposit, and the remainder as put premium in respect of the Put Option (the "Put Premium"). The portion of the stated interest rate on a Note described in this section that constitutes interest or original issue discount on the Deposit and the portion that constitutes Put Premium will be specified in the applicable Final Terms.

If the term of a Note described in this section is more than one year, U.S. holders should include the portion of the stated interest payments on the Note that is treated as interest in income, as described above under "—Payments of Interest." If any portion of the stated interest payments on a Note described in this section is treated as original issue discount its treatment will be as described above under "—Original Issue Discount."

If the term of a Note described in this section is one year or less, the Deposit should be treated as a short-term obligation as described above under "—Short-Term Debt Instruments."

The Put Premium should not be taxable to a U.S. holder upon its receipt. If the Put Option expires unexercised, the U.S. holder should recognize the total Put Premium received as short-term capital gain at such time.

If the Put Option is exercised and a U.S. holder receives Reference Shares, the U.S. holder should not recognize any gain or loss with respect to the Put Option (other than with respect to cash received in lieu of fractional shares, as described below). In this event, the U.S. holder should have an adjusted tax basis in all Reference Shares received (including for this purpose any fractional shares) equal to the Deposit, plus accrued but unpaid interest or discount, as applicable, on the Deposit less the total Put Premium received. The U.S. holder's holding period for any Reference Shares received should start on the day after the delivery of the Reference Shares. The U.S. holder should generally recognize a short-term capital gain or loss with respect to cash received in lieu of fractional shares in an amount equal to the difference between the amount of such cash received and the U.S. holder's basis in the fractional shares, which is equal to the U.S. holder's basis in all of the Reference Shares

(including the fractional shares), times a fraction, the numerator of which is the fractional shares and the denominator of which is all of the Reference Shares (including fractional shares).

If we elect to cash settle the Put Option, a U.S. holder should generally recognize a short-term capital gain or loss equal to (i) the amount of cash received upon exercise plus the total Put Premium received less (ii) the amount of the Deposit, plus accrued but unpaid acquisition discount or original issue discount on the Deposit.

Upon the exercise or cash settlement of a Put Option, a cash method U.S. holder of a short-term obligation that does not elect to accrue acquisition discount in income currently will recognize ordinary income equal to the accrued and unpaid acquisition discount.

Upon a sale, or other taxable disposition of a Note described in this section for cash, a U.S. holder should allocate the cash received between the Deposit and the Put Option on the basis of their respective values on the date of sale. The U.S. holder should generally recognize gain or loss with respect to the Deposit in an amount equal to the difference between the amount of the sales proceeds allocable to the Deposit (less accrued and unpaid "qualified stated interest" or accrued acquisition discount that the U.S. holder has not included in income, which will be treated as ordinary interest income) and the U.S. holder's adjusted tax basis in the Deposit (which will generally equal the initial purchase price of the Note increased by any accrued acquisition discount or original issue discount previously included in income on the Deposit and decreased by the amount of any payment (other than an interest payment that is treated as qualified stated interest) received on the Deposit). Such gain or loss should be capital gain or loss and should be long-term capital gain or loss if the U.S. holder has held the Deposit for more than one year at the time of such disposition. The ability of U.S. holders to use capital losses to offset ordinary income is limited.

If the Put Option has a positive value on the date of a sale of a Note, the U.S. holder should recognize short-term capital gain with respect to the Put Option equal to the portion of the sale proceeds allocable to the Put Option plus any previously received Put Premium. If the Put Option has a negative value on the date of sale, the U.S. holder should be treated as having paid the buyer an amount equal to the negative value in order to assume the U.S. holder's rights and obligations under the Put Option. In such a case, the U.S. holder should recognize a short-term capital gain or loss with respect to the Put Option in an amount equal to the difference between the total Put Premium previously received and the amount of the payment deemed made by the U.S. holder with respect to the assumption of the Put Option. The amount of the deemed payment will be added to the sales price allocated to the Deposit in determining the gain or loss in respect of the Deposit. The ability of U.S. holders to use capital losses to offset ordinary income is limited.

U.S. holders should consult the offering documents for the Reference Shares for the federal income tax treatment of acquiring, owning and selling the Reference Shares.

Although we intend to treat each Note described in this section as a Deposit and a Put Option, there are no regulations, published rulings or judicial decisions addressing the characterization of securities with terms that are substantially the same as those of the Notes described in this section, and therefore the Notes could be subject to some other characterization or treatment for federal income tax purposes. For example, the Notes could be treated as contingent payment debt instruments for federal income tax purposes. In this case, in general, U.S. holders should be treated as described above under "—Contingent Payment Debt Instruments."

Other characterizations and treatments of Notes described in this section are possible. Prospective investors in the Notes described in this section should consult their tax advisors as to the tax consequences to them of purchasing Notes described in this section, including any alternative characterizations and treatments.

Certain Notes Treated as Forward Contracts

We may treat certain Notes as a forward contract for federal income tax purposes. The applicable Final Terms will indicate whether we intend to treat a Note as a forward contract for federal income tax purposes. This section describes the principal federal income tax consequences of the purchase, beneficial ownership and disposition of a Note that we intend to treat as a forward contract.

There are no regulations, published rulings or judicial decisions addressing the treatment for federal income tax purposes of Notes with terms that are substantially the same as those described in this section. Accordingly, the proper federal income tax treatment of the Notes described in this section is uncertain. Under one approach, the Notes would be treated as pre paid cash settled forward contracts with respect to the reference index or asset. We intend to treat each Note described in this section consistent with this approach, and pursuant to the terms of the Notes, each holder agrees to such treatment for all federal income tax purposes. Except for the possible alternative treatments described below, the balance of this summary assumes that the Notes described in this section are so treated.

A U.S. holder's tax basis in a Note described in this section generally will equal the U.S. holder's cost for the Note. Upon receipt of cash upon maturity or redemption and upon the sale, exchange or other disposition of the Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized at maturity or on the redemption, sale, exchange or other disposition and the U.S. holder's tax basis in the Note. Any such gain upon the maturity, redemption, sale, exchange or other disposition of the Note generally will constitute capital gain. Capital gain of non-corporate taxpayers from the maturity, redemption, sale, exchange or other disposition of a non-principal protected Note held for more than one year may be eligible for reduced rates of taxation. Any loss from the maturity, redemption, sale, exchange or other disposition of a non-principal protected Note will generally constitute a capital loss. The ability of U.S. holders to use capital losses to offset ordinary income is limited.

Although we intend to treat each Note described in this section as a pre-paid cash-settled forward contract as described above, there are no regulations, published rulings or judicial decisions addressing the characterization of securities with terms that are substantially the same as those of the Notes described in this section, and therefore the Notes could be subject to some other characterization or treatment for federal income tax purposes. For example, the Notes could be treated as "contingent payment debt instruments" for federal income tax purposes. In this case, in general, U.S. holders should be treated as described above under "—Contingent Payment Debt Instruments."

In addition, certain proposed Treasury regulations require the accrual of income on a current basis for contingent payments made under certain "notional principal contracts." The preamble to the proposed regulations states that the "wait and see" method of accounting does not properly reflect the economic accrual of income on those contracts, and requires current accrual of income for some contracts already in existence. While the proposed regulations do not apply to prepaid forward contracts, the preamble to the proposed regulations indicates that similar timing issues exist in the case of prepaid forward contracts. If the IRS or the U.S. Treasury Department publishes future guidance requiring current economic accrual for contingent payments on prepaid forward contracts, it is possible that a U.S. holder could be required to accrue income over the term of the Notes described in this section. In addition, it is possible that the Notes could be treated as representing an ownership interest in the reference index or asset for federal income tax purposes, in which case a U.S. holder's federal income tax treatment could be different than described above. Finally, other alternative federal income tax characterizations or treatments of the Notes described in this section are possible, and if applied could also affect the timing and the character of the income or loss with respect to the Notes.

Prospective investors in the Notes described in this section should consult their tax advisors as to the tax consequences to them of purchasing the Notes, including any alternative characterizations and treatments.

Information Reporting and Backup Withholding

Distributions made on the Notes and proceeds from the sale of Notes to or through certain brokers may be subject to a "backup" withholding tax on "reportable payments" unless, in general, the Noteholder complies with certain procedures or is an exempt recipient. Any amounts so withheld from distributions on the Notes generally will be refunded by the IRS or allowed as a credit against the Noteholder's federal income tax, provided the Noteholder makes a timely filing of an appropriate tax return or refund claim.

Reports will be made to the IRS and to holders that are not excepted from the reporting requirements.

Notes Issued by Bear Stearns Bank plc and BSGAH

For U.S. Holders of Notes issued by BS Bank or BSGAH, amounts treated for U.S. federal income tax purposes as interest or OID on the Notes (as described in the captions above) will generally constitute foreign source income for U.S. federal income tax purposes.

(b) Tax Treatment of Non-U.S. Holders

United States Income and Withholding Tax

Notes Issued by Parent

Payments on Notes to non-U.S. holders and gain on contingent payment debt instruments (as described above) will not be subject to federal income or withholding tax if either (i) the Note is a Bearer Note that has a maturity of 183 days or less or (ii) the following conditions are satisfied:

- the non-U.S. holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote;
- the non-U.S. holder is not a controlled foreign corporation for federal income tax purposes that is related to us through actual or constructive ownership;
- the non-U.S. holder is not a bank receiving interest on a loan made in the ordinary course of its trade or business;
- interest payable on the Notes is either (a) not determined by reference to any receipts, sales or other cash flow, income or profits, change in the value of any property of, or any dividend or similar payment made by us or a person related to us, within the meaning of Code section 871(h)(4)(A) or (b) determined by reference to changes in the value of actively traded property or an index of the value of actively traded property within the meaning of section 871(h)(4)(C)(v) of the Code; and
- the payments are not effectively connected with a trade or business conducted by the non-U.S. holder in the United States and in the case of Registered Notes either (a) the non-U.S. holder provides a correct, complete and executed IRS Form W-8BEN or Form W 8IMY (or successor form) with appropriate attachments, or (b) the non-U.S. holder holds its Note through a qualified intermediary (generally a foreign financial institution or clearing organization or a non-U.S. branch or office of a U.S. financial institution or clearing organization that is a party to a withholding agreement with the IRS) which has provided an IRS Form W-8IMY and has received documentation upon which it can rely to treat the payment as made to a foreign person.

Unless otherwise indicated in the applicable Final Terms we expect that if interest payable on the Notes is determined by reference to the value of any property or an index of property that the property will be treated as actively traded or any index will reference actively traded property within the meaning of section 871(h)(4)(C)(v). If any of these conditions are not satisfied, interest (including original issue discount) on the Notes may be subject to a 30% withholding tax, unless an income tax treaty reduces or eliminates the tax or the interest is effectively connected with the conduct of a U.S. trade or business and, in either case, in the case of Registered Notes, certain certification requirements are met. If such non-U.S. holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

In general, gain realized on the sale, exchange or retirement of the Notes by a non-U.S. holder will not be subject to federal income tax, unless:

- the gain with respect to the Notes is effectively connected with a trade or business conducted by the non-U.S. holder in the United States, or

- the non-U.S. holder is a nonresident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

If the gain realized on the sale, exchange or retirement of the Notes by the non-U.S. holder is described in either of the two preceding bullet points, the non-U.S. holder may be subject to federal income tax with respect to the gain except to the extent that an income tax treaty reduces or eliminates the tax and in the case of Registered Notes, the appropriate documentation is provided.

Non-U.S. holders that receive Reference Shares should consult the offering documents for the Reference Shares for the federal income tax treatment of acquiring, owning and selling the Reference Shares.

A Note held by an individual who at death is a non-U.S. holder will not be includible in the individual's gross estate for federal estate tax purposes if the individual would not be subject to any federal income or withholding tax with respect to income or gain on the Note or reverse convertible Note.

Non-U.S. holders should consult the offering documents for the Reference Shares for the federal estate tax treatment of acquiring, owning and selling the Reference Shares.

Notes Issued by BS Bank and BSGAH

In general, payments on the Notes to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Notes by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless

- such income is effectively connected with a trade or business conducted by the non-U.S. holder in the United States, or
- in the case of gain the non-U.S. holder is a nonresident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Payments on Notes Issued by BS Bank and BSGAH

Under certain circumstances, payments on Notes issued by BS Bank or BSGAH to a Non-U.S. holder, including the payment of the proceeds from the disposition of the Notes, may be subject to information reporting and possible backup withholding if such payments are made by a person with one or more of certain enumerated relationships with the United States, such as a controlled foreign corporation (such person a "**U.S. related person**"), including BS Bank.

Registered Notes. Backup withholding generally should not apply to payments on Registered Notes made by BS Bank, BSGAH or a Paying Agent, so long as prior to the payment of interest or OID, the beneficial owner of such Registered Notes provides a properly completed and executed IRS Form W-8BEN (or such successor form as may be required), certifying, under penalties of perjury, that such beneficial owner is not a U.S. person, or such beneficial owner otherwise establishes an exemption (absent actual knowledge or reason to know that the beneficial owner is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied).

Bearer Notes. Backup withholding generally should not apply to payments on Bearer Notes made by BS Bank, BSGAH, or a Paying Agent, outside the United States to a Non-U.S. holder (absent actual knowledge or reason to know that the payee is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied).

Payments on Notes Issued by Parent

Registered Notes. In the case of Registered Notes, Parent must report annually to the IRS and to each Non-U.S. holder any interest and OID that is subject to U.S. withholding tax or that is exempt from U.S. withholding tax pursuant to a tax treaty or the portfolio interest exception. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the Non-U.S. holder resides. Backup withholding however, will generally not apply to payments of interest (or OID) that qualify as portfolio interest (absent actual knowledge or reason to know that the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied).

Bearer Notes. In the case of Bearer Notes, no information reporting or backup withholding is generally required with respect to payments of interest or principal that are made outside the United States by the Parent or its Paying Agent (absent actual knowledge or reason to know that the beneficial owner is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied). However, any Bearer Notes payable 183 days or less from the date of original issuance may need to meet certain additional requirements to be exempt from information reporting and backup withholding.

Payments of Proceeds on Notes Issued by BS Bank, BSGAH or Parent.

The payment of the proceeds from the disposition of Notes to or through the U.S. office of any broker, U.S. or foreign, will be subject to information reporting and possible backup withholding, unless the owner certifies its non U.S. status under penalties of perjury or otherwise establishes an exemption (absent actual knowledge or reason to know that the payee is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied). The payment of the proceeds from the disposition of a Note to or through a non U.S. office of a non U.S. broker will not be subject to information reporting or backup withholding if the broker is neither a U.S. person nor a U.S. related person (absent actual knowledge or reason to know that the beneficial owner is a U.S. person or that the conditions of any other exemptions are not, in fact, satisfied).

In the case of the payment of proceeds from the disposition of Notes through a non U.S. office of a broker that is either a U.S. person or a "U.S. related person," information reporting will apply, unless the broker has documentary evidence in its files that the owner is a non U.S. person and the broker has no knowledge nor reason to know to the contrary. Backup withholding, however, will not apply to payments made through foreign offices of a broker that is a U.S. person or a U.S. related person (absent actual knowledge or reason to know that the beneficial owner is a U.S. person or that the conditions of any other exemptions are not, in fact, satisfied).

Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. holder will be allowed as a refund or a credit against such Non-U.S. Holder's U.S. federal income tax liability, provided that certain required information is timely furnished to the IRS.

Non-U.S. holders should consult their tax adviser to determine the application of the information reporting and backup withholding rules to their particular circumstances with respect to the Notes.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN NOTES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

2. IRISH TAXATION

The following comments are based on existing Irish tax law, including relevant regulations, administrative ruling and practices, as in effect on the date hereof, which may apply to investors who are the beneficial owners of the Notes. Each prospective purchaser should understand that future legislative, administrative and judicial changes could modify the tax consequences described below. This summary is not exhaustive and prospective purchasers are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes. In particular it does not address the specific tax considerations applicable to particular Notes which may be set out in the applicable Final Terms

nor does it address the Irish tax position of a holder of Notes that is either resident or ordinarily resident in Ireland.

(a) Stamp Duty

No stamp, issue, registration or similar duty or tax is imposed in Ireland on the issue or redemption of the Notes. With regard to the transfer of Notes, no stamp duty will be payable to the extent that title to the Notes passes by the delivery of the relevant bearer instrument. Where a transfer of Notes is effected by an instrument (e.g. in the case of registered notes), a stamp duty charge may arise unless the Notes satisfy the terms of a specific exemption from stamp duty on the transfer of "loan capital".

(b) Withholding Tax

Interest and other payments on the Notes issued by BS Bank may be paid free of withholding or deductions for or on account of Irish income tax where the interest is paid by BS Bank (i) in the ordinary course of its business, or (ii) to a person who is neither resident nor ordinarily resident in Ireland provided (1) it is paid in respect of a "relevant security" (as defined in section 246 of the Taxes Consolidation Act, 1997 ("TCA"), and (2) that person completes a declaration where relevant to the effect that he is the beneficial owner of the interest and is not resident in Ireland. Alternatively, if BS Bank and the relevant Dealer(s) comply in full in the applicable Final Terms with the terms of a concession agreed with the Irish Revenue Commissioners on July 1st 1997, as modified from time to time, BS Bank will not be required to withhold on account of Irish deposit interest retention tax. In the case of Notes issued with an original maturity of two years or less which are held in a recognised clearing system (Euroclear and Clearstream, Luxembourg are so recognised) and have a minimum denomination of €500,000 in the case of Notes denominated in euro, U.S.\$500,000 in the case of Notes denominated in U.S. Dollars or, in the case of Notes denominated in a currency other than euro or U.S. Dollars, the equivalent of that other currency of €500,000, then BS Bank will not be required to withhold or deduct for or on account of Irish income tax or Irish deposit interest retention tax.

(c) Income Tax

A holder of Notes issued by BS Bank who is neither resident nor ordinarily resident in Ireland and who does not carry on a trade in Ireland through a branch or agency will not be subject to Irish income tax or corporation tax on interest payments received in respect of such Notes, provided that the interest is paid in respect of a relevant security. Where a holder's return on the Notes issued by BS Bank is by way of repayment at par of Notes issued at a discount or by way of repayment at a premium, the Irish Revenue Commissioners have confirmed that where the discount/premium is received by a non-Irish resident person who does not carry on a business in Ireland through a branch or agency, such holder of Notes will likewise not be subject to Irish income tax or corporation tax on the amount of the discount/premium.

(d) Capital Gains Tax

Capital gains arising on the disposal of the Notes by a holder of Notes who is neither resident nor ordinarily resident in Ireland will not be subject to Irish capital gains tax unless the Notes are used for the purposes of a trade carried on in Ireland through a branch or agency.

(e) Capital Acquisitions Tax

A gift or inheritance comprising of Notes will only be within the charge to Irish capital acquisitions tax if either (1) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor on the relevant date or (2) if the Notes are Irish situate property.

Notes which are in bearer form will be regarded for Irish capital acquisitions tax purposes as being situated in Ireland only if the bearer certificate in relation to such Notes is located in Ireland at the time of the gift or inheritance.

3. CAYMAN ISLANDS TAXATION

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider the particular circumstances of any purchaser of Notes, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Island laws:

- (i) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of a Note or any Receipt or Coupon appertaining thereto and gains derived from the sale of the Notes will not be subject to Cayman Islands' income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and
- (ii) the holder of any Note (or the legal personal representative of such holder) whose Note is brought into the Cayman Islands may, in certain circumstances, be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

BSGAH has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor In Council of the Cayman Islands substantially in the following form:—

"CAYMAN ISLANDS

THE TAX CONCESSIONS LAW
(REVISED)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with the provisions of section 6 of the Tax Concessions Law (Revised), the following undertaking is hereby given to Bear Stearns Global Asset Holdings, Ltd. being a company certified by the Registrar of Companies to be a company registered as an exempted company under section 182 of the Companies Law (Revised):

- (i) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the aforesaid exempted company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the aforesaid exempted company.

This undertaking shall be for a period of twenty years from the 2nd day of August, 1988.

Governor In Council"

4. EU SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

BOOK-ENTRY CLEARANCE PROCEDURES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuers, the Trustee or any agent party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-Entry Ownership of Registered Global Notes

The relevant Issuer will make application to DTC for acceptance in its book-entry settlement system of each Tranche of Notes represented by a Reg. S Global Note and/or a Restricted Global Note, respectively.

The custodian with whom the Registered Global Notes are deposited (the "**Custodian**") and DTC will electronically record the principal amount of the Notes represented by the Reg. S Global Note and the Restricted Global Note, as the case may be, held within the DTC system. Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Notes, investors may hold their interests in the Reg. S Global Note only through Clearstream, Luxembourg or Euroclear. Thereafter, investors may additionally hold such interests directly through DTC if they are participants in such system, or indirectly through organisations which are participants in DTC. Clearstream, Luxembourg and Euroclear will hold interests in the Reg. S Global Note on behalf of their accountholders through customers' securities accounts in Clearstream, Luxembourg's or Euroclear's respective names on the books of their respective depositaries, which in turn will hold such interests in the Reg. S Global Note in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. will initially act as depositary for Clearstream, Luxembourg and Morgan Guaranty Trust Company of New York will initially act as depositary for Euroclear. Investors may hold their interests in the Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organisations which are participants in such system.

Payments of principal and interest in respect of Registered Global Notes registered in the name of DTC's nominee, will be to or to the order of its nominee as the registered holder of such Registered Global Note. The relevant Issuer expects that the nominee will, upon receipt of any such payment, immediately credit DTC participants' accounts with any such payments denominated in U.S. dollars in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Registered Global Note as shown on the records of DTC or the nominee. In the case of any such payments which are denominated otherwise than in U.S. dollars payment of such amounts will be made to the Exchange Agent on behalf of the nominee who will make payment of all or part of the amount to the beneficial holders of interests in such Registered Global Note directly, in the currency in which such payment was made and/or cause all or part of such payment to be converted into U.S. dollars and credited to the relevant participant's DTC account as aforesaid, in accordance with instructions received from DTC. The relevant Issuer also expects that payments by DTC participants to owners of beneficial interests in such DTC Global Note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuers nor any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

Application will be made on behalf of the relevant Issuer to Clearstream, Luxembourg and Euroclear for acceptance of each Tranche of Notes issued under the Programme in their respective book-entry system.

Transfers of Notes represented by Registered Global Notes

Transfers of interests in Registered Global Notes within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. The laws in some states in the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a Registered Global Note to such persons may require that such interests be exchanged for Notes in definitive form. Because DTC can only act on behalf of participants in DTC, who in turn act on behalf of indirect participants, the ability of a person having an interest in a DTC Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interests be exchanged for Notes in definitive form. The ability of the holder of a beneficial interest in any Registered Note represented by the Global Registered Notes to resell, pledge or otherwise transfer such interest may also be impaired if the proposed transferee of such interest is not eligible to hold the same through a participant or indirect participant in DTC.

DTC has advised the Issuers that it is a limited purpose trust company organised under the State of New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the U.S. Securities Exchange Act of 1934. DTC was created to hold securities among its participants and to facilitate the clearance and settlement of securities transactions among participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of security certificates. Participants include securities brokers and dealers, banks, trust companies and certain other organisations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Indirect access to DTC is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

DTC has advised the Issuers that it will take any action permitted to be taken by the holding of a beneficial interest in a Registered Global Note (including, without limitation, the presentation of a Global Note for exchange as described above) only at the direction of one or more participants to whose account with DTC interests in such Registered Global Note are credited and only in respect of such portion of the aggregate nominal amount of Notes in respect of which such participant or participants has or have given such direction. If an Event of Default under the Notes occurs, DTC will exchange the Registered Global Notes for Notes in definitive registered form, legended as appropriate, which it will distribute to the relevant participants.

Bearer Notes held outside the United States may be held in book-entry form through Clearstream, Luxembourg or Euroclear. Clearstream, Luxembourg and Euroclear will operate with respect to the Notes in accordance with customary Euromarket practice.

Secondary Trading, Same-Day Settlement and Payment

All payments made by the relevant Issuer or the Parent (where the relevant Issuer is BS Bank or BSGAH) with respect to Registered Notes registered in the name of Cede & Co., as nominee for DTC, will be passed through to DTC in same-day funds. In relation to secondary market trading, since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading Within Same Clearing System

Trading within DTC. If neither the seller nor the purchaser of Registered Notes represented by any Registered Global Note holds or will receive (as the case may be) such Notes through a participant in DTC acting on behalf of Euroclear or Clearstream, Luxembourg, the trade will settle in same-day funds and in accordance with DTC rules, regulations and procedures.

Trading within Euroclear or Clearstream, Luxembourg. Transfers between accountholders in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Trading Between Clearing Systems

Trading between Euroclear or Clearstream, Luxembourg seller and DTC purchaser involving only Registered Global Notes. Due to time zone differences in their favour, Euroclear and Clearstream, Luxembourg accountholders may employ their customary procedures for transactions in which interests in a Registered Global Note are to be transferred by Euroclear or Clearstream, Luxembourg (as the case may be) to a participant in DTC. The seller will send instructions to Euroclear or Clearstream, Luxembourg through a Euroclear or Clearstream, Luxembourg accountholder (as the case may be) at least one business day prior to settlement. In these cases, Euroclear or Clearstream, Luxembourg will instruct its respective depository to deliver the interests in the Registered Global Note to the participant's account against payment. Payment will include interest (if any) accrued on such interests in the Note from and including the immediately preceding date for the payment of interest to and excluding the settlement date. The payment will then be reflected in the account of the Euroclear or Clearstream, Luxembourg accountholder the following day, and receipt of cash proceeds in the Euroclear or Clearstream, Luxembourg accountholder's account would be back-valued to the value date (which would be the preceding day when settlement occurred in New York). Should the Euroclear or Clearstream, Luxembourg accountholder have a line of credit in its respective Clearing System and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e. the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream, Luxembourg accountholder's account would be valued instead as of the actual settlement date.

Trading between DTC seller and Euroclear or Clearstream, Luxembourg purchaser involving only Registered Global Notes. When interests in a Registered Global Note are to be transferred from the account of a participant in DTC to the account of a Euroclear or Clearstream, Luxembourg accountholder, the purchaser will send instructions to Euroclear or Clearstream, Luxembourg through a Euroclear or Clearstream, Luxembourg accountholder, as the case may be, at least one business day prior to settlement. Euroclear or Clearstream, Luxembourg, as the case may be, will instruct its respective depository to receive such interests against payment. Payment will include interest (if any) accrued on such interests in the Registered Global Note from and including the immediately preceding date for the payment of interest to and excluding the settlement date. Payment will then be made by the depository to the participant's account against delivery of the interests in the Note. After settlement has been completed, the interests will be credited to the respective Clearing System, and by the Clearing System, in accordance with its usual procedures, to the Euroclear or Clearstream, Luxembourg accountholder's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and any interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (i.e. the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Day traders that use Euroclear or Clearstream, Luxembourg to purchase interests in a Reg. S Global Note from participants in DTC for delivery to Euroclear or Clearstream, Luxembourg accountholders should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

- (i) borrowing through Euroclear or Clearstream, Luxembourg for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream, Luxembourg accounts) in accordance with the Clearing System's customary procedures;
- (ii) borrowing the interests in the United States from a participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Euroclear or Clearstream, Luxembourg account in order to settle the sale side of the trade; or

(iii) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the participant is at least one day prior to the value date for the sale to the Euroclear or Clearstream, Luxembourg accountholder.

Euroclear or Clearstream, Luxembourg accountholders will need to make available to the respective Clearing System the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on-hand or existing lines of credit, as such participants would do for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, such participants may take on credit exposure to Euroclear or Clearstream, Luxembourg until the interests in the Note are credited to their accounts one day later.

Alternatively, if Euroclear or Clearstream, Luxembourg has extended a line of credit to a Euroclear or Clearstream, Luxembourg accountholder, as the case may be, such accountholder may elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear or Clearstream, Luxembourg accountholders purchasing interests in the Note held in DTC would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Note were credited to their accounts. However, any interest on the Note would accrue from the value date. Therefore, in many cases the investment income on the interests in the Note held in DTC earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each accountholder's particular cost of funds.

Since settlement takes place during New York business hours, participants can employ their usual procedures for transferring interests in global Notes to the respective depositaries of Euroclear or Clearstream, Luxembourg for the benefit of Euroclear or Clearstream, Luxembourg accountholders. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participants, a cross-market transaction will settle no differently from a trade between participants.

Secondary trading in long-term notes and debentures of corporate issuers is generally settled in clearing-house or next day funds. In contrast, Registered Notes held through participants or indirect participants will trade in DTC's Same-Day Funds Settlement System until the earliest of maturity or redemption, and secondary market trading activity in such Registered Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlements in immediately available funds on trading activity in such Registered Notes.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuers, any agent or any Dealer will have the responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Registered Global Note is lodged with DTC or its custodian, Notes represented by individual definitive Notes will not be eligible for clearing or settlement through DTC, Clearstream, Luxembourg or Euroclear.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS

The Programme Dealers, pursuant to an Amended and Restated Dealer Agreement dated August 15, 2006, as may be further amended, restated and/or supplemented from time to time (the "**Dealer Agreement**"), have agreed with the Issuers a basis upon which any one or more of the Programme Dealers may from time to time agree to purchase (as principal, unless the applicable Final Terms states otherwise) Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes" above. In the Dealer Agreement, each Issuer has agreed to reimburse the Programme Dealers for certain of their expenses in connection with the establishment and any update of the Programme and the issue of Notes under the Programme. Each Issuer may also agree to issue Notes to Issue Dealers who shall enter into the Dealer Agreement with such Issuer for the purpose only of a particular issue or issues of Notes under the Programme on, and subject to, the terms of the Dealer Agreement. Dealers will be entitled in certain circumstances to be released from their obligations under the Dealer Agreement in respect of the issue and purchase of Notes under the Programme. The relevant Issuer also may issue Notes to any Programme Dealer or Issue Dealer as principal, either at a discount from their principal amount to be agreed upon at the time of issue or at 100 per cent. of their principal amount, for resale to one or more investors and other purchasers at varying prices, to be determined by such Dealer at the time of resale, which may be greater or less than the issue price for such Notes paid by such Dealer. In certain transactions, the issue price may include an amount related to a swap entered into by the relevant Issuer and an affiliate of such Dealer.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and any applicable state securities laws. Where the context so requires, terms used in this subsection have the meanings given to them by Regulation S under the Securities Act.

- (i) Offers, sales, resales and other transfers of Notes made in the United States made or approved by a Dealer (including in connection with secondary trading) shall be made with respect to Registered Notes only and shall be effected pursuant to an exemption from the registration requirements of the Securities Act and any applicable state securities laws.
- (ii) Offers, sales, resales and other transfers of Registered Notes made in the United States will be made only in private transactions to (a) Institutional Accredited Investors that have executed and delivered to a Dealer the IAI Investment Letter addressed to the relevant Issuer (and, if the relevant Issuer is BS Bank or BSGAH, to the Parent) substantially in the form set out in the Agency Agreement or (b) institutional investors that are reasonably believed to qualify as qualified institutional buyers ("**QIB**") within the meaning of Rule 144A. Prospective investors are hereby notified that the Issuers may be relying upon the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A.
- (iii) Registered Notes will be offered in the United States only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Notes in the United States.
- (iv) No sale of Registered Notes in the United States to any one Institutional Accredited Investor will be for less than U.S.\$100,000 principal amount, and no Registered Note will be issued in connection with such a sale in a smaller principal amount. If such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 principal amount of such Notes.
- (v) Each Registered Note (other than Reg. S Notes in definitive form) shall contain a legend in substantially the following form:

"This Note has not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws. Neither this Note nor any interest or participation herein may be reoffered, sold,

assigned, transferred, pledged, encumbered or otherwise disposed of in the absence of such registration or unless such transaction is exempt from, or not subject to, registration.

The holder of this Note by its acceptance hereof, on its own behalf and on behalf of any account for which it is purchasing this Note or any interest or participation herein, agrees to offer, sell or otherwise transfer such Note or any interest or participation herein only to, or for the account or benefit of, (A) the Issuer or a Dealer (as defined in the offering circular for the Note), (B) a "Qualified Institutional Buyer" (as defined in Rule 144A under the Securities Act), (C) an "Accredited Investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that is an institution and that, prior to such transfer, shall have furnished to such holder and to the Issuer of this Note a written certification containing certain representations and agreements relating to the restrictions on transfer of this Note (the form of which letter can be obtained from the Registrar and the Transfer Agents), (D) outside the United States in a transaction which meets the requirements of Rule 904 under the Securities Act, (E) pursuant to an effective registration statement under the Securities Act, or (F) pursuant to any other available exemption from the registration requirements of the Securities Act. Upon any transfer of this Note or any interest or participation herein pursuant to clauses (C), (D) or (F), in the case of Legended Notes, or clauses (B), (C) or (F), in the case of Reg. S Notes, the holder will be required to furnish to the Issuer such certifications (which in the case of transfers pursuant to clauses (C), (D) or (F), in the case of Legended Notes, or clauses (B), (C) or (F), in the case of Reg. S Notes, can be obtained from the Registrar and the Transfer Agents), legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The holder will also be required to deliver to the transferee of this Note or any interest or participation therein a notice substantially to the effect of this legend. Any resale or other transfer or attempted resale or other transfer of this Note made other than in compliance with the foregoing restriction shall not be recognised by the Issuer, the Registrar, the Transfer Agents or any other agent of the Issuer."

The legend endorsed on each Reg. S Global Note shall cease to apply after expiry of the Distribution Compliance Period applicable thereto.

By its purchase of any Notes, each investor in the United States shall be deemed to have agreed to the restrictions contained in any legend endorsed on the Note purchased by it (to the extent still applicable) and each such purchaser shall be deemed to have represented to the relevant Issuer, the seller and the Dealer, if applicable, that it is either (i) a QIB or (ii) an Institutional Accredited Investor that is acquiring the Notes for its own account for investment and not with a view to the distribution thereof. Each such investor (other than an investor in Reg. S Notes following expiry of the applicable Distribution Compliance Period), by its purchase of any Notes, also agrees to deliver to the transferee of any Note a notice substantially to the effect of the above legend.

Each prospective investor is hereby offered the opportunity to ask questions of, and receive answers from, the relevant Issuer and the Dealers concerning the terms and conditions of the offering.

Pursuant to the Dealer Agreement, each Issuer has agreed to indemnify the Dealers against, or to contribute to losses arising out of, certain liabilities, including liabilities under certain securities laws, in respect of Notes of which it is the Issuer.

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that, except as described above, it will not offer, sell or deliver any Notes (i) as part of their distribution at any time or (ii) otherwise until expiry of the Distribution Compliance Period applicable to the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them under Regulation S under the Securities Act.

In addition, until expiry of the relevant Distribution Compliance Period, an offer or sale of Notes within the United States by any dealer, including a dealer that is not participating in the offering, may violate the registration requirements of the Securities Act.

Notes in bearer form, which may be issued pursuant to a Final Terms, are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that:

- (a) except to the extent permitted under U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D), it (i) has not offered or sold, and during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) has not delivered and will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;
- (b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person except as permitted by U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D);
- (c) if it is a United States person, it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D)(6);
- (d) with respect to each affiliate that acquires Notes from a Programme Dealer or any successive Programme Dealer or Issue Dealer for the purpose of offering or selling such Notes during the restricted period, such Programme Dealer or Issuer Dealer, as the case may be, will be deemed to have repeated and confirmed the representations and agreements contained in sub-clauses (a), (b) and (c) on such affiliate's behalf; and
- (e) each Dealer agrees that it will obtain from any distributor (within the meaning of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any Notes in bearer form from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer) (such contract being entered into solely upon prior written consent of the Issuer), for the benefit of the relevant Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of subclauses (a), (b), (c), and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder, including U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D).

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that it has not entered and agrees that it will not enter into any contractual arrangement with respect to the distribution or delivery of Notes, so as to cause any person to become a "distributor" within the meaning of Regulation S or U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) except with its affiliates or with the prior written consent of the relevant Issuer.

Each issuance of Dual Currency or Indexed Notes will be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer(s) may agree as a term of the issue and purchase of such Notes, as indicated in the applicable Final Terms. Each Programme Dealer has agreed and, if different, the relevant Dealer in respect of each such issue will be required to agree that it will offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Parent;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not, or in the case of BS Bank, would not, if it was not an authorised person, apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Programme Dealer has represented and agreed and each further Programme Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy and sell shares or debentures (whether as principal or agent) or (ii) in other circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) ("**CO**"), or (iii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) ("**SFO**") and any rules made under the SFO, or (iv) in other circumstances which do not result in the document being a "prospectus" within the meaning of the CO; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue, or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

France

Each of the Issuers, the Parent and each Programme Dealer has represented and agreed, and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that in connection with their initial distribution, it has not offered or sold, and will not offer or sell, directly or indirectly, Notes to the public in France and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France this Offering Circular or any other offering material relating to the Notes, and that such offers, sales and distributions have been, and shall only be, made in France only to (a) providers of investment services relating to portfolio management for the account of third parties and/or (b) to qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in and in accordance with Articles L.411-1 and L.411-2 of the French Code *monétaire et financier* and *decret* no. 98-880 dated October 1, 1998.

Germany

Each Dealer has represented and agreed that it shall only offer Notes in the Federal Republic of Germany in compliance with the provisions of the German Securities Sales Prospectus Act (Wertpapier - Verkaufprospektgesetz), or any other laws applicable in the Federal Republic of Germany."

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "**Securities and Exchange Law**") and each Programme Dealer has agreed, and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to agree, that it will not offer or sell any of the Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Austria

No prospectus has been or will be published pursuant to the Austrian Capital Markets Act, Federal Law Gazette 1991/625 as amended (the "**CMA**"). Neither this document nor any other document connected therewith constitutes a prospectus according to the CMA and neither this document nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Dealers. No

steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria.

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that it will offer and sell Notes only in Austria in compliance with the provisions of the CMA and any other laws, ordinances or regulations applicable in Austria governing the offer and sale of the Notes in Austria.

Republic of Italy

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed, in the Republic of Italy, except:

- (i) to professional investors ("*operatori qualificati*"), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the "**Financial Services Act**") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the "**Banking Act**");
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristic; and
- (c) in compliance with any other applicable laws and regulations.

Ireland

Each Programme Dealer has represented and agreed (and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree) that, subject to the last paragraph of this section, it will not knowingly offer, sell or deliver any notes in Ireland to any Irish resident person or to a person whose usual place of abode is in Ireland. Each Programme Dealer (and each further Programme Dealer or Issue Dealer appointed under the Programme) involved in an issue of Notes by BS Bank will also confirm that, subject to the last two paragraphs of this Section, it will not knowingly distribute or cause to be distributed in Ireland any offering material in connection with such Notes.

Each Programme Dealer represents and agrees that it has complied and will comply with all applicable provisions of the Investment Intermediaries Act 1995 with respect to anything done by it in relation to the Notes if operating in or otherwise involving Ireland.

Subject to compliance with the regulatory requirements and provided, where necessary, it is confirmed in the relevant Final Terms that this is acceptable to the Irish Revenue Commissioners, BS Bank and the Dealers will not be subject to the selling restrictions contained in this Offering Circular or in the Dealer Agreement, where they wish to sell, or offer to sell, Notes which are listed on a stock exchange which constitute "debts on a security" for Irish tax purposes, or which are to be sold to an Irish resident or ordinarily resident, where that person is a person falling

within (i) to (vi) of (a) in the definition of "relevant deposit" in Section 256 of the Irish Taxes Consolidation Act 1997, and is acquiring the Notes beneficially for its own account, or (iii) which have an original maturity of two years or less, the minimum denomination amounts of which will be □500,000 in the case of Notes denominated in euro, U.S.\$500,000 in the case of Notes denominated in U.S. Dollars or, in the case of Notes denominated in a currency other than euro or U.S. Dollars, the equivalent of that other currency of €500,000.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the MAS) under the Securities and Futures Act, Chapter 289 of Singapore (the Securities and Futures Act). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person falling within section 274 of the Securities and Futures Act, (2) a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (3) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Portugal

Each Dealer has represented and agreed that: (i) no document, circular, advertisement or any offering material in relation to the Notes has been or will be subject to approval by the Portuguese Securities Exchange Commission (Comissão do Mercado de Valores Mobiliários, the CMVM); (ii) it has not advertised, offered or sold and will not, directly or indirectly, advertise, offer or sell the Notes in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code (Código dos Valores Mobiliários, the CVM) or in circumstances which would qualify as an issue or public placement of securities in the Portuguese market; (iii) it has not distributed or caused to be distributed to the public in Portugal the Offering Circular or any other offering material relating to the Notes; (iv) all offers, sales and distributions of the Notes have been and will only be made in Portugal to qualified investors (investidores institucionais) or to less than 200 identified people, all in accordance with the CVM; (v) all applicable provisions of the CVM and any applicable CMVM Regulations have been complied with regarding the Notes, in any matters involving Portugal.

Spain

The Notes may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law but may be offered or sold in Spain in compliance with the requirements of Law 24/1998, of 28th July (as amended by Law 37/1998, of 16th November), on the Spanish Securities Market and the Royal Decree 291/1992, of 27th March (as amended by the Royal Decree 2590/1998, of 7th December), on issues and public offers for the sale of securities.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in the Netherlands in circumstances where another exemption or a dispensation from the requirement to make a prospectus publicly available has been granted under Article 4 of the Securities Transaction Supervision Act 1996 ("*Wet toezicht effectenverkeer 1995*").

Cayman Islands

Securities may not be offered for subscription or sold to the public in the Cayman Islands.

General

Each Programme Dealer has agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers nor any other Dealer shall have any responsibility therefor.

Neither the Issuers nor any Dealer represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer and such Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

(1) Incorporation, registered and principal executive office

The Parent is incorporated with shares and limited liability under the laws of the State of Delaware, the United States. The Parent's registered office is at Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, U.S.A. The Parent's principal executive office is at 383 Madison Avenue, New York, NY 10179, U.S.A.

Bear Stearns Bank plc is incorporated with shares and limited liability under the laws of Ireland. Its registered office is at Block 8, Harcourt Centre, Charlotte Way, Dublin 2, Ireland. Its telephone number is 01 402 6200.

Bear Stearns Global Asset Holdings, Ltd. is incorporated under the laws of the Cayman Islands as an exempted company with limited liability and is registered under no. 300277. Its registered office is at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

(2) Authorisation

The establishment of the Programme and the issue of Notes by the Parent under the Programme were duly authorised by a resolution of the executive committee of the board of directors of the Parent dated July 5, 1994 and the entry into and performance of the Guarantee (in respect of Notes issued by BS Bank and BSGAH) were duly authorised by a resolution of the executive committee of the board of directors of the Parent dated November 11, 1996 in respect of Notes issued by BS Bank and dated June 23, 1997 in respect of notes issued by BSGAH. The updating of the Programme and the appointment of Bear Stearns Global Asset Holdings, Ltd. as an additional Issuer has been duly authorised by a resolution of the board of directors of the Parent passed on August 14, 2006 and by resolutions of the board of directors of BSGAH passed on August 14, 2006. Approval of the Programme and issues of Notes by BS Bank under the Programme have been duly authorised by a resolution of the board of directors of BS Bank dated October 22, 1996 and a written resolution of its members dated October 24, 1996. The updating of the Programme and the appointment of Bear Stearns Global Asset Holdings, Ltd. as an additional Issuer was duly authorised by a resolution of the board of directors of BS Bank passed on August 15, 2006.

(3) Admission of Notes to the Official List

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange Gilt Edged and Fixed Interest Market will be admitted separately as and when issued, subject only to the issue of the relevant Note or Notes in global and/or definitive form initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Notes is expected to be granted on or before August 15, 2006.

(4) Documents Available

For the period of the 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available from the principal executive office of the Parent, the registered office of BS Bank and BSGAH and from the specified office of the Agent in London:

- (i) the Certificate of Incorporation and By-laws of the Parent and the Memorandum and Articles of Association of BS Bank and BSGAH;
- (ii) the published audited consolidated financial statements of the Group contained in the Parent's Annual Report on Form 10-K for the financial years ended November 30, 2005 as amended by Forms 10-K/A filed with the SEC on February 13, 2006 and as on February 22, 2006 and November 30, 2004, in each case together with the audit reports prepared in connection therewith;

- (iii) the most recently available audited consolidated financial statements of the Group contained in the Parent's Annual Report on Form 10-K, the most recently available published quarterly reports of the Parent on Form 10-Q and any filings of the Parent on Form 8-K which contain consolidated financial statements of the Group in each case together with any audit or review reports prepared in connection therewith;
- (iv) the published audited financial statements of BS Bank as at November 30, 2005, November 30, 2004 and November 30, 2003(including the auditors' reports thereon);
- (v) the most recently available audited annual financial statements of BS Bank and the most recently available unaudited interim financial statements of BS Bank (if any);
- (vi) the Dealer Agreement, the Agency Agreement and the Trust Deed containing the forms of Temporary Bearer Global Notes, Permanent Bearer Global Notes, Reg. S Global Notes, Restricted Global Notes, Notes in definitive form, Receipts, Coupons and Talons from time to time issuable under the Programme;
- (vii) a copy of this Offering Circular;
- (viii) any future offering circulars, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (ix) in the case of a syndicated issue of listed Notes, the syndication agreement (or equivalent document).

(5) Clearing Systems

The Bearer Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate common code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the relevant Issuer will make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

(6) Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

(7) Significant or Material Change

There has been no significant change in the financial or trading position of the Parent, the Group, BSGAH or BS Bank since May 31, 2006 or any material adverse change in the financial position or prospects of the Parent, the Group, BSGAH or BS Bank since November 30, 2005.

(8) Litigation

Save as disclosed in this section (8), there are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which any Issuer is aware in the

12 months preceding the date of this document which may have or have in such period had a significant effect on the consolidated financial position or profitability of the Group, BSGAH or of BS Bank.

Fezzani, et al. v. Bear, Stearns & Co. Inc., et al. : On February 2, 1999, an action was commenced in the United States District Court for the Southern District of New York by eleven individuals or entities that allegedly purchased securities underwritten by A.R. Baron & Company, Inc. ("**Baron**"), a firm for which BSSC provided clearing services. The action named as defendants Bear Stearns, BSSC, a former officer of BSSC, thirteen former officers and employees of Baron, and 33 other individuals and entities that purportedly participated in alleged misconduct by Baron involving attempts to manipulate the market for securities it underwrote. On April 6, 2004, the district court granted motions to dismiss all causes of action that plaintiffs brought against Bear Stearns, BSSC, and the former officer of BSSC.

On or about September 23, 2004, the plaintiffs filed an amended complaint against Bear Stearns, BSSC, a former officer of BSSC and other individuals and entities, alleging that they participated in misconduct by Baron involving attempts to manipulate the market for certain securities underwritten by Baron. As a result of plaintiffs' failure to seek the district court's leave prior to filing their amended complaint, the court subsequently mandated plaintiffs to formally move the court for permission to file an amended complaint. By Order dated March 1, 2005, the court granted in part and denied in part plaintiffs' motion seeking permission to file an amended complaint.

Plaintiffs subsequently filed an amended complaint, which contains many of the same allegations as the original complaint that was filed in 1999. The amended complaint alleges claims against the Bear Stearns defendants for violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, common law fraud, aiding and abetting fraud, and civil conspiracy to defraud in connection with providing clearing services and financing to Baron. The amended complaint seeks to recover compensatory damages of at least \$8.3 million and punitive damages of \$125 million from Bear Stearns and BSSC.

Bear Stearns and BSSC deny all allegations of wrongdoing asserted against them in the amended complaint and believe they have substantial defenses to these claims.

McKesson HBOC, Inc. : The following matters arise out of a merger between McKesson Corporation ("**McKesson**") and HBO & Company ("**HBOC**") resulting in an entity called McKesson HBOC, Inc. ("**McKesson HBOC**"). Bear Stearns believes that it has substantial defenses to the claims asserted in each of these matters.

(i) In re McKesson HBOC, Inc. Securities Litigation : Beginning on June 29, 1999, 53 purported class actions were commenced in the United States District Court for the Northern District of California. On November 2, 1999, these actions were consolidated, and the plaintiffs proceeded to file a series of amended complaints. On February 15, 2002, plaintiffs filed a third amended consolidated complaint, which alleges that Bear Stearns violated Sections 10(b) and 14(a) of the Exchange Act in connection with allegedly false and misleading disclosures contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger.

Plaintiffs purport to represent a class consisting of all persons who either (i) acquired publicly traded securities of HBOC between January 20, 1997 and January 12, 1999, or (ii) acquired publicly traded securities of McKesson or McKesson HBOC between October 18, 1998 and April 27, 1999, and who held McKesson securities on November 27, 1998 and January 22, 1999. Named defendants include McKesson HBOC, certain present and former directors and/or officers of McKesson HBOC, McKesson and/or HBOC, Bear Stearns and Arthur Andersen LLP. Compensatory damages in an unspecified amount are sought.

On January 6, 2003, the court granted Bear Stearns' motion to dismiss the Section 10(b) claim asserted in the third amended complaint, and denied Bear Stearns' motion to dismiss the Section 14(a) claim. On March 7, 2003, Bear Stearns filed an answer to the third amended complaint denying all allegations of wrongdoing and asserting affirmative defenses to the claims in the complaint. On January 12, 2005, McKesson HBOC announced that it had reached a settlement, which settlement required court approval, with the plaintiff class. Bear Stearns' engagement letter with McKesson in connection with the merger of McKesson and HBOC provides that McKesson cannot settle any litigation without Bear Stearns' written consent unless McKesson obtains an unconditional written release for Bear Stearns and, under certain circumstances, is required to provide indemnification to Bear Stearns.

By Order dated May 23, 2005, the Court denied preliminary approval of the proposed settlement between McKesson HBOC and the plaintiff class. On July 12, 2005, the plaintiff and McKesson HBOC submitted a revised proposed settlement, purporting to address the issues identified by the Court in its order denying preliminary approval, to which Bear Stearns objected. The revised proposed settlement provides, among other things, that Bear Stearns' rights under its engagement letter are preserved for future resolution. McKesson HBOC's claims in connection with the letter are also preserved. On September 8, 2005, the court granted preliminary approval of the revised proposed settlement. On February 24, 2006 the court granted final approval of the revised proposed settlement. On March 23, 2006, Bear Stearns filed notice with the court of its intent to appeal the final approval order to the United States Circuit Court of Appeals for the Ninth Circuit. Bear Stearns intends to seek reversal of the final approval and the settlement by the Ninth Circuit on the grounds it raised in opposition to final approval.

On December 8, 2005, Bear Stearns commenced a separate action in New York State Supreme Court, New York County, Bear Stearns v. McKesson Corp., asserting breach of contract and other claims against McKesson based on the engagement letter and seeking, among other things, declaratory relief and damages.

(ii) Merrill Lynch Fundamental Growth Fund, Inc., et al. v. McKesson HBOC, Inc., et al. : On or around March 19, 2002, an action was commenced against, among others, Bear Stearns in the Superior Court of the State of California, County of San Francisco, by two investment funds that acquired the common stock of McKesson HBOC between February 5 and March 12, 1999. On August 8, 2002, plaintiffs filed an amended complaint and thereafter a second and third amended complaint that did not name Bear Stearns as a defendant. On October 7, 2002, this action was consolidated with other litigation arising out of the merger between McKesson and HBOC.

On September 26, 2003, the court granted plaintiffs' motion for leave to file a fourth amended complaint adding Bear Stearns as a defendant. Also named as defendants are McKesson HBOC, HBOC, certain present or former officers and/or directors of McKesson, HBOC and/or McKesson HBOC and Arthur Andersen. The complaint alleges, among other things, that Bear Stearns violated Section 25500 of the California Corporations Code and committed common law fraud and negligent misrepresentation in connection with allegedly false and misleading disclosure contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger. Compensatory damages in an unspecified amount are sought. Bear Stearns filed an answer to the fourth amended complaint in which it denied all allegations of wrongdoing and asserted affirmative defenses to the claims in the complaint.

On October 28, 2005, the Merrill Lynch Fundamental Growth Fund's claims were dismissed with respect to Bear Stearns with prejudice. Bear Stearns did not make any payments in connection with the dismissal of the claims against it.

Helen Gredd, Chapter 11 Trustee for Manhattan Investment Fund Ltd. v. Bear, Stearns Securities Corp.: On April 24, 2001, an action was commenced in the United States Bankruptcy Court for the Southern District of New York by the Chapter 11 Trustee for Manhattan Investment Fund Limited ("**MIFL**"). BSSC is the sole defendant. The complaint alleges, among other things, that certain transfers of cash and securities to BSSC in connection with short sales of securities by MIFL in 1999 were "fraudulent transfers" made in violation of Sections 548 and 550 of the United States Bankruptcy Code and are recoverable by the Trustee. The Trustee also alleges that any claim that may be asserted by BSSC against MIFL should be equitably subordinated to the claims of other creditors pursuant to Sections 105 and 510 of the Bankruptcy Code. The Trustee seeks to recover in excess of \$1.9 billion in connection with the allegedly fraudulent transfers to BSSC.

On March 21, 2002, the district court dismissed the Trustee's claims seeking to recover allegedly fraudulent transfers in amounts exceeding \$1.9 billion. The district court also remanded to the bankruptcy court the Trustee's remaining claims, which seek to recover allegedly fraudulent transfers in the amount of \$141.4 million and to equitably subordinate any claim that may be asserted by BSSC against MIFL to the claims of other creditors.

On October 17, 2002, BSSC filed an answer to the complaint in which it denied all allegations of wrongdoing and asserted affirmative defenses.

Sterling Foster & Co., Inc. : The following matters arise out of Bear Stearns' role as clearing broker for Sterling Foster & Co., Inc. ("Sterling Foster").

(i) Levitt, et al. v. Bear Stearns, et al. : On February 16, 1999, a purported class action was commenced in the United States District Court for the Southern District of New York on behalf of all persons who purchased ML Direct, Inc. common stock or warrants through Sterling Foster & Co., Inc. ("**Sterling Foster**") between September 4, 1996 and December 31, 1996. Named as defendants are Bear Stearns and BSSC. The complaint alleges, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder and committed common law fraud in connection with providing clearing services to Sterling Foster with respect to certain transactions by customers of Sterling Foster in ML Direct common stock and warrants. Compensatory damages of \$50 million and punitive damages of approximately \$100 million are sought.

On April 6, 1999, this action was transferred by the Judicial Panel on Multi-District Litigation to the United States District Court for the Eastern District of New York.

On June 27, 2002, the court granted defendants' motion and dismissed this action in its entirety. On August 1, 2002, plaintiff filed a notice of appeal from the district court order dismissing the complaint in this action. On August 13, 2003, the United States Court of Appeals for the Second Circuit vacated the district court order granting defendants' motion to dismiss and remanded the action to the district court.

Bear Stearns, BSSC and the former officer of BSSC described below have entered into a settlement agreement with the plaintiffs and certain other defendants that would resolve all claims against them as defendants in this class action and the class action described immediately below. This settlement is subject to approval by the United States District Court for the Eastern District of New York, which has scheduled a hearing on the fairness of the proposed settlement's terms.

(ii) Rogers v. Sterling Foster & Co., Inc. : On February 16, 1999, Bear Stearns, BSSC and a former officer of BSSC were added as defendants in a purported class action pending in the United States District Court for the Eastern District of New York. The action is brought on behalf of a purported class consisting of all persons who purchased or otherwise acquired certain securities that were underwritten by Sterling Foster. Named as defendants, in addition to the Bear Stearns defendants set forth above, are Sterling Foster, seven individuals alleged to have had an employment relationship with, or exercised control over, Sterling Foster, six companies that issued securities underwritten by Sterling Foster, seven individuals who were directors, officers and/or employees of these issuers, one individual who controlled a corporate investor in and selling shareholder in the issuers' IPOs, and Bernstein & Wasserman LLP and two of its partners. The second amended complaint alleged, among other things, that the Bear Stearns defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and Section 349 of the New York General Business Law and committed common law fraud in connection with providing clearing services to Sterling Foster. Compensatory damages in an unspecified amount were sought. On June 27, 2002, the court granted defendants' motion to dismiss and dismissed the claims against Bear Stearns, BSSC, and the former officer of BSSC in their entirety.

On September 29, 2004, the court granted plaintiffs' motion to vacate the June 27, 2002 dismissal and granted plaintiffs' request to amend their complaint against Bear Stearns and BSSC with respect to two securities underwritten by Sterling Foster.

Bear Stearns, BSSC and the former officer of BSSC have entered into a settlement agreement with the plaintiffs and certain other defendants that would resolve all claims against them as defendants in this class action and the class action described immediately above. This settlement is subject to approval by the United States District Court for the Eastern District of New York, which has scheduled a hearing on the fairness of the proposed settlement's terms.

Enron Corp. : The following matters arise out of Bear Stearns' business transactions with or relating to Enron Corp. ("**Enron**").

(i) Purported Securities Actions : Bear Stearns and numerous other defendants were named in certain actions commenced beginning on October 15, 2002 in the Superior Court of the State of California, state court in

Iowa and the United States District Court for the Southern District of Texas brought by purchasers of securities issued by Osprey Trust, Osprey I, Inc., Enron and certain other entities related to Enron. The complaints generally alleged violations of the disclosure requirements of the federal securities laws and/or state law and common law claims, including fraud, and seek compensatory and/or punitive damages in unspecified amounts.

The parties to the actions pending in the Superior Court of the State of California and state court Iowa, including Bear Stearns, have reached agreements to settle these actions and have jointly filed stipulations of dismissal for the settled actions with the respective California and Iowa state courts.

With respect to the Enron-related litigation pending in the United States District Court for the Southern District of Texas, Bear Stearns and the plaintiffs in that litigation have reached an agreement to settle this action. By Order dated April 4, 2006, the court dismissed Bear Stearns from this action with prejudice.

(ii) Enron Corp., et ano. v. Bear, Stearns International Ltd., et ano. : On November 25, 2003, BSIL and BSSC were named as defendants in an adversary proceeding commenced by Enron and Enron North America Corp. in the United States Bankruptcy Court for the Southern District of New York. Plaintiffs seek, inter alia, to recover payments, totaling approximately \$26 million, that they allegedly made to BSIL and BSSC during August 2001 in connection with an equity derivative contract between BSIL and Enron. According to the complaint, Enron's payments constituted (a) fraudulent transfers, under Section 548(a) of the United States Bankruptcy Code and under applicable state law and (b) an unlawful redemption of Enron common stock in violation of Oregon law. Enron seeks judgment (a) avoiding and setting aside Enron's August 2001 payments to BSIL and BSSC, (b) directing BSIL and BSSC to pay Enron approximately \$26 million, plus prejudgment interest, (c) declaring that Enron's August 2001 payments violated Oregon law, (d) disallowing any claims by BSIL and BSSC in connection with Enron's bankruptcy proceedings until they have returned the August 2001 payments to Enron and (e) awarding Enron its reasonable attorneys' fees and costs incurred in connection with the action.

By Order dated June 3, 2005, the bankruptcy court denied the motion to dismiss filed by BSIL and BSSC. On July 5, 2005, defendants filed a motion for leave to take an interlocutory appeal from the bankruptcy court's decision. By Order dated May 2, 2006, the District Court denied defendants' motion.

(iii) Enron Corp. v. International Finance Corp., et al. : On November 20, 2003, numerous parties, including Bear Stearns, were named as defendants in an adversary proceeding commenced by Enron in the United States Bankruptcy Court for the Southern District of New York. The complaint asserts, inter alia, that certain alleged payments by Enron during May 2001 in connection with the purchase from certain defendants of notes issued by ENA CLO I Trust, including a payment to Bear Stearns of approximately \$34 million, constituted fraudulent transfers in violation of Section 548(a)(1)(B) of the United States Bankruptcy Code. As to Bear Stearns, Enron seeks an order (a) directing Bear Stearns to pay Enron approximately \$34 million, plus prejudgment interest, (b) disallowing any claims by Bear Stearns in connection with Enron's bankruptcy proceedings until Bear Stearns has paid that amount to Enron and (c) awarding Enron its reasonable attorneys' fees and costs incurred in connection with the proceeding. By Order and Opinion dated May 2, 2006, the Bankruptcy Court granted defendants' motions to dismiss the complaint in this action.

(iv) Enron Corp., et al. v. Bear Stearns & Co. Inc., et al. : Bear Stearns has been named as a defendant in two adversary proceedings commenced by Enron in the United States Bankruptcy Court for the Southern District of New York. The complaints in these actions seek equitable subordination and disallowance under the Bankruptcy Code of certain debt claims against Enron in the total amount of \$19 million that were purchased by Bear Stearns from certain third parties subsequent to Enron's filing for bankruptcy.

Bear Stearns denies all allegations of wrongdoing asserted against it in these litigations and believes that it has substantial defenses to these claims.

IPO Allocation Securities and Antitrust Litigations

The Company, along with many other financial services firms, has been named as a defendant in many putative class actions filed during 2001 and 2002 in the United States District Court for the Southern District of New York involving the allocation of securities in certain initial public offerings ("IPOs"). The complaints in these purported class actions generally allege, among other things, that between 1998 and 2000: (i) the underwriters of certain "hot" IPOs of technology and internet-related companies obtained excessive compensation by allocating shares in these IPOs to preferred customers who, in return, purportedly agreed to pay additional compensation to the underwriters, and the underwriters failed to disclose this additional compensation and/or (ii) the underwriters' customers, in return for a favorable allocation of these securities, agreed to purchase additional shares in the aftermarket at pre-arranged prices or to pay additional compensation in connection with other transactions.

Beginning on April 19, 2002, the plaintiffs in these litigations filed amended complaints by virtue of which the public offerings of each of the 309 issuers are now the subjects of separate complaints. Bear Stearns is a defendant in 95 of these amended complaints. As amended, the complaints allege, among other things, that the underwriters, including Bear Stearns, violated Section 11 of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, based on the wrongdoing alleged in the original complaints and by causing their securities analysts to issue unwarranted positive reports regarding the issuers. Compensatory damages in unspecified amounts are sought.

By Order dated October 13, 2004, the court granted in part and denied in part class certification for each of the six cases selected to be the focus cases for these proceedings.

By Opinion and Order dated February 15, 2005, the Court preliminarily approved the proposed settlement among plaintiffs and a substantial number of the non-bankrupt issuer defendants and their officers and directors. The settlement generally provided that (1) the insurers of these issuers will guarantee an ultimate recovery by plaintiffs, in this and related litigations, of \$1 billion; (2) these issuers will assign to plaintiffs so-called "excess compensation" claims against the underwriter defendants, including Bear Stearns, that these issuers allegedly possess; and (3) plaintiffs will, upon final approval of the settlement, dismiss all claims against these issuers and the individual director and officer defendants. That preliminary approval, however, was conditioned upon certain changes being made to the terms of the settlement.

In January 2002, the Company was named as a defendant, along with nine other financial services firms, in an antitrust complaint filed in the same court on behalf of a putative class of purchasers who, either in IPOs or the aftermarket, purchased technology-related securities during the period March 1997 to December 2000. Plaintiffs allege that the defendants conspired to require that customers, in return for an allocation in the IPOs, (i) pay charges in addition to the IPO price, such as non-competitively determined commissions on the purchase or sale of other securities and/or (ii) agree to purchase the IPO securities in the aftermarket at prices above the IPO price. Plaintiffs claim that these alleged practices violated Section 1 of the Sherman Act and state antitrust laws and seek compensatory and treble damages. On November 6, 2003, the Court granted the motion of the defendants (including the Company) to dismiss all claims asserted against them by these antitrust plaintiffs. The plaintiffs appealed that decision to the Second Circuit Court of Appeals. On September 28, 2005, the Second Circuit Court of Appeals vacated the dismissal and remanded this matter to the lower court for further proceedings.

The Company denies all allegations of wrongdoing asserted against it in these litigations and believes that it has substantial defenses to these claims.

IPO Underwriting Fee Antitrust Litigation : Bear Stearns, along with numerous other financial services firms, is a defendant in several consolidated class actions currently pending in the United States District Court for the Southern District of New York. The first consolidated action, filed on March 15, 2001, purports to be brought on behalf of a putative class of purchasers of stock in initial public offerings (the "**Purchaser Action**"). The second consolidated action, filed on July 6, 2001, purports to be brought on behalf of a putative class of issuers of stock in initial public offerings (the "**Issuer Action**"). Each suit alleges that the Company violated federal antitrust laws by fixing underwriting fees at 7% for initial public offerings with an aggregate issuance value of \$20-\$80 million for the time period 1994 to the present. The Purchaser Action currently involves only claims for declaratory relief, while the Issuer Action asserts claims for treble damages.

On September 16, 2005, plaintiffs in the Purchaser Action and the Issuer Action moved for class certification. By Order dated April 18, 2006, the District Court denied the Issuer Action plaintiffs' motion for class certification and postponed a ruling on the class certification motion in the Purchaser Action pending resolution of whether, in light of the Court's ruling in the Issuer Action, the Purchaser Action plaintiffs nonetheless want to proceed with their action.

Bear Stearns has denied all allegations of wrongdoing asserted against it in these litigations and believes that it has substantial defenses to these claims.

Mutual Fund Matters : The following matters arise out of mutual fund trading:

(i) Regulatory : On March 16, 2006, the SEC and the NYSE announced their acceptance of the Offer of Settlement previously submitted by Bear Stearns and BSSC in connection with investigations by the SEC and the NYSE relating to mutual fund trading. Pursuant to the terms of the settlement, Bear Stearns and BSSC will, among other things, pay an amount equal to \$250 million, composed of a \$90 million penalty and \$160 million as disgorgement and prejudgment interest, and retain an Independent Compliance Consultant to review procedures at Bear Stearns and BSSC. This settlement concludes the investigations by the SEC and the NYSE regarding the Company.

(ii) Litigation : On November 7, 2003, BSSC, the Company and Bear Stearns, together with 18 other entities and individuals, were named as defendants in a purported class action lawsuit, in the United States District Court for the Southern District of New York by a mutual fund investor on behalf of persons who purchased and/or sold ownership units of mutual funds in the Janus or Putnam families of mutual funds between November 1, 1998 and July 3, 2003. On January 26, 2004, plaintiff filed a first amended complaint, again on behalf of persons who traded in the Janus or Putnam families of mutual funds, against the same Bear Stearns entities and 16 other entities and individuals, including mutual funds and other financial institutions. On October 22, 2003, another purported class action was filed on behalf of the general public of the State of California against multiple defendants, including the Company, with respect to various mutual funds. Both of these actions allege that the defendants violated federal and/or state laws by allowing certain investors to market time and/or late trade mutual fund shares and seek various forms of relief including damages of an indeterminate amount. On March 19, 2004, these actions were transferred to the District of Maryland for coordinated and/or consolidated pre-trial proceedings as part of MDL 1586-In re: Mutual Funds Investment Litigation.

On or subsequent to September 29, 2004, fourteen new and/or amended class action or derivative complaints were filed in MDL-1586 naming as defendants the Company, Bear Stearns and/or BSSC (the "**Bear Stearns defendants**"), various mutual fund companies, certain broker-dealers, and others. Plaintiffs who have brought actions, either directly or derivatively, against one or more of the Bear Stearns defendants are shareholders in the following families of mutual funds: AIM, Invesco, PIMCO, Excelsior, Alliance, Franklin Templeton, One Group, Strong, Columbia, Pilgrim Baxter, Alger, Janus and MFS. Among other things, the actions allege that the defendants violated federal and/or state laws by allowing certain investors to market time and/or late trade mutual fund shares and seek various forms of relief including damages of an indeterminate amount.

The Bear Stearns defendants, along with other broker-dealer defendants, had filed an omnibus motion to dismiss the consolidated class action and derivative claims against them. On November 3, 2005, the derivative claims against the Bear Stearns defendants were dismissed. As of December 31, 2005, the Bear Stearns defendants' motion to dismiss has been granted in part and denied in part as to direct investor claims in the following families of mutual funds: Janus, AIM/Invesco, RS, One Group, MFS, Columbia, PIMCO/Allianz Dresdner, Alger, Excelsior and Strong.

The Bear Stearns defendants believe that they have substantial defenses to the remaining claims.

Bear Wagner Specialists LLC ("Bear Wagner") : Bear Wagner, a subsidiary of the Company, is among numerous defendants named in purported class actions brought on behalf of investors beginning in October 2003 in the United States District Court for the Southern District of New York alleging violations of the federal securities laws in connection with NYSE floor specialist activities. The actions seek unspecified compensatory damages, restitution, and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998

and October 15, 2003. Bear Wagner and the Company are also among the defendants in a purported class action filed in December 2003 in California Superior Court, Los Angeles County alleging violation of California law in connection with the same conduct. This case was transferred to the United States District Court for the Southern District of New York. The district court consolidated these purported class actions under the caption In re NYSE Specialists Securities Litigation, No. 03 Civ. 8264 (RWS). On September 15, 2004, a consolidated amended complaint was filed in this action.

Bear Wagner and the Company deny all allegations of wrongdoing in the class action specialist litigations and believe they have substantial defenses to the claims.

In re Prime Hospitality, Inc. Shareholders Litigation : On July 15, 2005, plaintiff shareholders of Prime Hospitality Corporation ("Prime") filed a consolidated amended class action complaint in the Delaware Chancery Court against the directors of Prime, the Blackstone Group ("Blackstone") and certain affiliates of Blackstone, and Bear Stearns. As amended, the complaint alleges that Bear Stearns acted as financial advisor to Prime in connection with the sale of Prime to Blackstone, and that Bear Stearns aided and abetted a breach of fiduciary duty by the directors of Prime in connection with that transaction. The amended complaint seeks from defendants compensatory damages in an unspecified amount, as well as various forms of equitable relief, including, but not limited to, rescissory damages, the imposition of a constructive trust and an accounting. On October 3, 2005, Bear Stearns filed its answer to the consolidated amended class action complaint denying all allegations of wrongdoing and asserted affirmative defenses. The parties have reached an agreement in principle to settle the action against all defendants, including Bear Stearns, subject to confirmatory discovery. Under the agreement in principle, Bear Stearns will not make any financial contribution settlement.

Municipal Bond Offering Matters

Bear Stearns has been notified by the Chicago office of the SEC of a formal investigation into its municipal bond offering practices, which has been focused on the municipal underwriting business conducted through the Chicago office of Bear Stearns. Bear Stearns has also received subpoenas and requests for information relating to its municipal underwriting business conducted through the Chicago office of Bear Stearns from the United States Attorney's Office for the Northern District of Illinois; the State of Illinois, Office of Executive Inspector General; the Illinois Securities Department; and the Office of the Attorney General of Illinois.

Bear Stearns is cooperating with each of these investigations or inquiries.

Other Investigations/Inquiries

Bear Stearns has been notified by the Staff of the SEC, Southeast Regional Office, that the Staff intends to recommend that the Commission bring a civil enforcement action against Bear Stearns in connection with Bear Stearns' involvement in the pricing, valuation, and analysis related to approximately \$62.9 million of collateralized debt obligations that were purchased by a client of Bear Stearns. Such an action could result in, among other things, disgorgement, civil monetary penalties and/or other remedial sanctions.

The Company is also continuing to respond to subpoenas and other requests for information from regulatory and law enforcement agencies relating to certain collateralized debt obligations.

* * *

In the normal course of business, the Company and/or subsidiaries of the Company also have been named as defendants in various other legal actions, including arbitrations, class actions and other litigation, arising out of its activities as a broker and dealer, as an underwriter, as an investment banker, as an employer or arising out of alleged employee misconduct. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual

settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management that the resolution of the foregoing matters will not have a material adverse effect on the financial condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future period, depending on the level of income for such period.

The Company has provided reserves for such matters in accordance with SFAS No. 5, "Accounting for Contingencies." The ultimate resolution may differ from the amounts reserved.

Periodically, the Company is also involved in other reviews, investigations and proceedings by governmental agencies and self-regulatory organizations regarding the Company's business. Certain of the foregoing could result in adverse judgments, settlements, fines, penalties or other relief. Because such reviews, investigations and proceedings are inherently unpredictable, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management that the resolution of the foregoing matters will not have a material adverse effect on the financial condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future period, depending on the level of income for such period.

(9) Independent Registered Public Accounting Firm and Auditors

The consolidated statements of financial condition of the Group as of November 30, 2005 and November 30, 2004, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended November 30, 2005, and management's report on the effectiveness of internal control over financial reporting as of November 30, 2005, which are included in this Offering Circular, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein. The auditors of the Group have no material interest in the Group. The financial statements of BS Bank as at November 30, 2005, November 30, 2004 and November 30, 2003 were audited, without qualification, by Deloitte & Touche, Deloitte & Touche House, Earlsfort Terrace, Dublin 2, Ireland, Chartered Accountants, in accordance with auditing standards generally accepted in Ireland. The auditors of BS Bank have no material interest in BS Bank.

The reports of the auditors of the Issuer, (with the exception of BSGAH which, for the avoidance of doubt, is not required to prepare audited or unaudited financial statements under Cayman Islands law), and BS Bank are included or incorporated in the form and context in which they are included or incorporated, with the consent of the relevant auditors who have authorized the contents of that part of this Offering Circular.

(10) Post-issuance information

None of the Issuers intends to provide any post-issuance information in relation to any issues of Notes.

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