




4 Year Global Equity Index Allocation CD

***Preliminary and Indicative Terms
as of May 10, 2007***

THIS PRODUCT FACT SHEET IS INTENDED FOR THE CONVENIENCE OF THE INVESTOR. ANY DECISION TO PURCHASE THE CD SHOULD NOT BE BASED ON THIS PRODUCT FACT SHEET BUT ONLY UPON THE CAREFUL REVIEW OF THE DISCLOSURE STATEMENT FOR CERTIFICATES OF DEPOSIT GENERALLY AND THE SUPPLEMENT TO DISCLOSURE STATEMENT FOR GLOBAL EQUITY INDEX ALLOCATION CERTIFICATES OF DEPOSIT, THE TERMS OF WHICH GOVERN.

Product Highlights

- 4 Year Certificate of Deposit (“CD”) issued by Custodial Trust Company (the “Bank”), an FDIC-insured New Jersey state-chartered bank.
- Expected maturity Date: [June 30, 2011].
- The CD is 100% principal protected, if held to maturity.
- The principal of this CD is  insured up to \$100,000 (\$250,000 for IRA Accounts) per depositor (subject to FDIC deposit aggregation rules).
- At maturity, a Performance Weighted Portfolio Return may be paid based upon the positive performance (if any) of three components (“Components”):
 - the S&P 500 Index (“SPX”);
 - the Dow Jones EUROSTOXX 50 Index (“SX5E”); and
 - the AMEX Hong Kong 30 Index (“HKX”).
- The performance of each Component will be determined by computing the arithmetic average of such Component’s closing levels on 16 quarterly observation dates during the term of the CD.
- The performance of the Components will be weighted as follows: 50% for the top performing Component; 30% for the middle performing Component; and 20% for the worst performing Component.
- There are no periodic interest payments.
- Bear, Stearns & Co. Inc. intends to provide liquidity under normal market conditions.
- Minimum CD purchase is \$10,000 and increments of \$1,000 thereafter.

Selected Risk Factors: *This is a partial list of certain risks associated with the CD. Please refer to the Supplement to Disclosure Statement for a fuller discussion of the risks.*

- Depositors may receive substantially less than the principal amount if the CD is sold or redeemed prior to maturity.
- Depositors may not receive full participation in the appreciation of the Components because the actual Component performance is based on the average of 16 quarterly observations during the term of the CD.
- Many factors may affect the Components; if the Performance Weighted Portfolio Return equals zero, no interest will be credited or paid to Depositors of the CDs.

- No periodic interest payments will be made during the term of the CD.
- The Performance Weighted Portfolio Return, if any, and any gains realized on disposition may be considered ordinary income for US taxpayers, who may also be subject to tax liability on phantom income in accordance with the OID rules. The comparable yield of the CDs is currently calculated as an annual rate of [5.06]%. **Depositors should consult their own tax advisor in determining the tax consequences of holding this CD.**
- Although the Lead Agent intends to provide a limited secondary market, they have no obligation to do so.

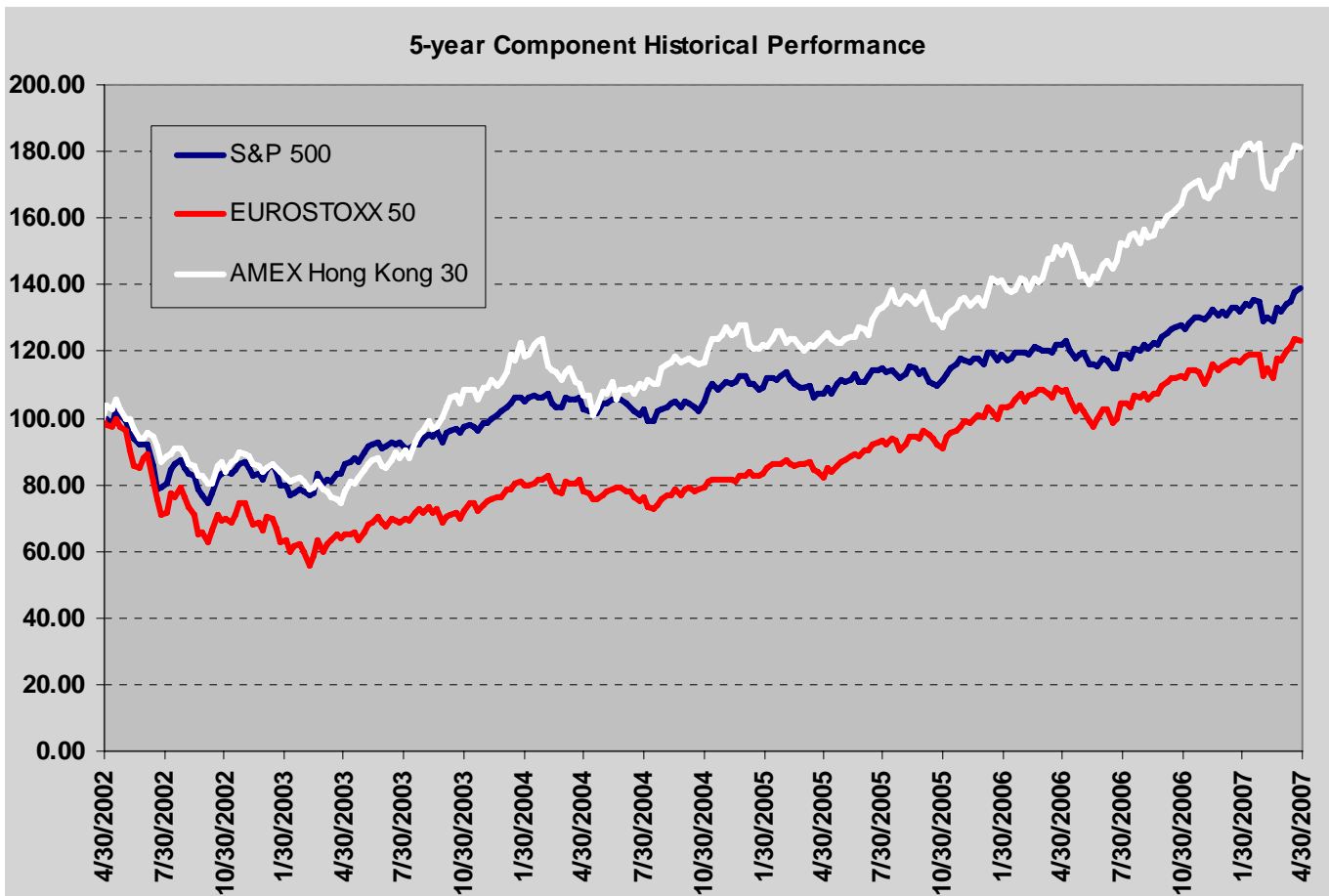
Lead Agent: Bear Stearns & Co, Inc.

Initial Fixing Date: [June 25, 2007].

Issue Date: [June 28, 2007].

Averaging Dates: [September 25, 2007, December 27, 2007, March 25, 2008, June 25, 2008, September 25, 2008, December 29, 2008, March 25, 2009, June 25, 2009, September 25, 2009, December 28, 2009, March 25, 2010, June 25, 2010, September 27, 2010, December 28, 2010, March 25, 2011 and June 27, 2011., subject to adjustment].

CUSIP: 23187P3X7



Source: Bloomberg

Custodial Trust Company

USD 4 Year Principal Protected Certificate of Deposits Linked to:

- The Standard & Poor's 500[®] Index,
- The Dow Jones EUROSTOXX 50SM Index and
- AMEX Hong Kong 30 Index

Due [June 30, 2011]

SUPPLEMENT TO DISCLOSURE STATEMENT

INTRODUCTION

The broker-dealer (the "Agent" and, collectively with the Lead Agent and all other broker-dealers, the "Agents") who sent you this Supplement to Disclosure Statement (the "Supplement") and the accompanying Disclosure Statement (the "Disclosure Statement"), is offering to its customers component-linked certificates of deposit (in book-entry form) representing transferable individual time deposit accounts (the "CDs") of Custodial Trust Company, a New Jersey state chartered bank (the "Bank"). This Supplement must be read together with the accompanying Disclosure Statement. In the event of any inconsistency between this Supplement and the Disclosure Statement, this Supplement shall govern.

- The CDs are direct financial obligations of the Bank and are not obligations of any Agent, the Calculation Agent (as defined in the "Summary of Terms" below), or any other person or entity.
- The CDs will be covered by Federal Deposit Insurance to the extent, and subject to the limits, described under "Deposit Insurance" in this Supplement to Disclosure Statement.
- The risks associated with the CDs may make them inappropriate for some depositors. See "Certain Risk Factors" in this Supplement.

This document does not constitute an offer or solicitation by anyone in any state or jurisdiction in which such an offer or solicitation is not authorized or in which the person making the offer or solicitation is not qualified to do so or to any person for whom it is unlawful to make such an offer or solicitation. CD subscriptions are subject to acceptance and confirmation by the Lead Agent and the Bank. The CDs are being offered by the Lead Agent when, as and if issued by the Bank and received and accepted by the Lead Agent, subject to the Lead Agent's right to reject orders in whole or in part and subject to certain other conditions.

In making an investment decision prospective depositors must rely on their own examination of the Bank and the terms of the offering, including the merits and risks involved. These CDs are not securities under the Securities Act of 1933, as amended, (the "Securities Act") or any state securities law, and are not required to be registered thereunder. The CDs have not been recommended by any federal or state securities commission or regulatory authority, and this Supplement and the accompanying Disclosure Statement set forth general information that has not been reviewed by any governmental agency. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. The information contained herein may not be modified by any oral representation made prior or subsequent to any purchase of the CDs.

**BEAR
STEARNS**

Bear, Stearns & Co. Inc., as Lead Agent

By its purchase and acceptance of CDs each Agent has represented, warranted and agreed that it will observe all applicable laws and regulations in any jurisdiction in which it may offer, sell or deliver CDs; and it will not directly or indirectly offer, sell, resell, reoffer or deliver CDs or distribute this Supplement or any circular, advertisement or other offering material in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations and neither the Bank nor any other Agent shall have any responsibility therefor. Residents of the following jurisdictions are cautioned to consult “Sales Restrictions for Certain Jurisdictions” below: Germany, Greece, Ireland, Israel, Italy, Luxembourg, Monaco, Saudi Arabia, Spain, Sweden, Switzerland, United Arab Emirates and the United Kingdom.

The purchaser of each CD shall represent, and each transferee shall represent, either (A) that it is not, and is not acquiring the CDs with the assets of, (1) an “employee benefit plan” (within the meaning of Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”)) that is subject to Title I of ERISA, (2) a “plan” (within the meaning of Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) that is subject to Section 4975 of the Code, (3) a governmental, church or other plan subject to any federal, state or other law, rule or regulation similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Law”) or (4) any entity whose assets are treated as assets of any such employee benefit plan or plan for purposes of ERISA, Section 4975 of the Code or, if applicable, Similar Law, or (B) that its purchase and holding of the CDs does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, or a non-exempt violation of any Similar Law.

IRS Circular 230

This Supplement 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 Supplement was written in connection with the promotion or marketing by the Agent and/or the Bank of the CDs described herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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SUMMARY OF TERMS

Set forth in this Supplement is a summary of certain of the terms and conditions of a specific CD issuance by the Bank under the general terms and conditions applicable to CDs, as described in the accompanying Disclosure Statement. The following summary of certain terms of the CDs is subject to the more detailed terms of the CDs included elsewhere in this Supplement and the general terms and conditions applicable to the CDs as described in the accompanying Disclosure Statement. Capitalized terms used herein without definition have the meanings ascribed to them in the Disclosure Statement. In the event of any inconsistency between this Supplement and the Disclosure Statement, this Supplement shall govern. Depositors are cautioned that the Bank has not participated in the preparation or distribution of the Disclosure Statement, and the Bank makes no representation or warranty, express or implied, to any prospective purchaser of the CDs or any other person regarding any of the statements contained in the Disclosure Statement.

CD:.....	USD 4 Year Deposit issued by the Bank.
Bank:	Custodial Trust Company, a New Jersey state chartered bank.
Lead Agent:.....	Bear, Stearns & Co. Inc.
Components:	The Standard & Poor's 500 Composite Stock Price Index, which is generally known as the "S&P 500 Index" (the " <i>S&P 500</i> [®] "), the Dow Jones EUROSTOXX 50 SM (the " <i>DJ EUROSTOXX 50</i> SM ") and the AMEX Hong Kong 30 Index (the "AMEX Hong Kong 30"), or any respective Successor Components as determined by the Calculation Agent in accordance with the terms hereof. See "Annex A—Description of the Components" herein.
Component Sponsor:.....	With respect to the S&P 500 [®] , Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. (" <i>S&P</i> "), with respect to the DJ EUROSTOXX 50 SM , STOXX Limited and with respect to the AMEX Hong Kong 30, the American Stock Exchange.
Principal Amount:.....	US \$1,000 for each CD, subject to a minimum purchase of ten CDs (\$10,000) (hereinafter, the " <i>Minimum Subscription</i> "). CDs will be issued in integral multiples of \$1,000 in excess of the minimum purchase amount.
Issue Price:.....	100% of the Principal Amount.
Aggregate Principal Amount of CDs:.....	US \$[●].
Book-Entry Form:	The CDs will be represented by one or more master CDs held by and registered in the name of Cede & Co., as nominee of the Depository Trust Company (" <i>DTC</i> "). Beneficial interests in the CDs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect

participants. See “Description of the CDs – Evidence of the CDs” in the accompanying Disclosure Statement.

Cusip Number: 23187P3X7
Initial Fixing Date: [June 25, 2007].
Issue Date: [June 28, 2007].
Final Averaging Date: [June 27, 2011], subject to adjustment as described under “Averaging Dates” below.

Maturity Date: The Maturity Date is currently anticipated to be [June 30, 2011], which is the third Business Day (as defined herein) after the currently scheduled Final Averaging Date. If, however, the Final Averaging Date is adjusted as provided in “Averaging Dates” below, the Maturity Date will be the third Business Day following the adjusted Final Averaging Date.

Business Day: Any day on which commercial banks are open for business in New Jersey, New York, London and Hong Kong.

Redemption Amount at Maturity;
Principal Protection: For each CD, an amount as of the Maturity Date equal to the sum of (a) the Principal Amount of the CD, *plus* (b) the Performance Weighted Portfolio Return attributable thereto. Therefore, depositors will receive a minimum of 100% of the Principal Amount of such CDs if held to maturity, while also having the opportunity to participate in a possible increase in the value of the Components during the term of the CDs. However, depositors may receive substantially less than the Principal Amount of the CDs if the CDs are sold or redeemed prior to maturity. The CDs will not otherwise bear interest. The Performance Weighted Portfolio Return for the CDs does not change or vary at preset intervals during the term, and is not quoted on any date other than the Maturity Date. Therefore, the annual percentage yield on the CDs is only determinable at maturity.

Performance Weighted
Portfolio Return: An amount determined by the Calculation Agent as of the Final Averaging Date in accordance with the following formula:

Participation Rate x Principal Amount x [(50% x Top Component Return) + (30% x Middle Component Return) + (20% x Worst Component Return)].

provided, that if the Performance Weighted Portfolio Return equals a negative number, the Performance Weighted Portfolio Return will be deemed to equal zero.

For purposes of determining the Performance Weighted Portfolio Return:

“Return” means, with respect to each Component, a number, expressed as a percentage, calculated as follows:

$$\left(\frac{\text{Final Average} - \text{Initial Level}}{\text{Initial Level}} \right)$$

“Top Component Return” means the greatest Return calculated for any of the Components.

“Worst Component Return” means the lowest Return calculated for any of the Components.

“Middle Component Return” means the Return for the Component which is not the Top Component Return nor the Worst Component Return.

“Participation Rate” means 100%.

“Initial Level” means, [●] with respect to the S&P 500[®], [●] with respect to the DJ EUROSTOXX 50SM and [●] with respect to the AMEX Hong Kong 30, each representing the “Component Level” (as defined herein) of the respective Component as reported by the relevant Component Sponsor on the Initial Fixing Date.

“Final Average” means with respect to each Component, the arithmetic average of the Component Levels of that Component, observed on each of the Averaging Dates, as determined by the Calculation Agent as of the Final Averaging Date.

“Component Level” means with respect to the S&P 500[®], the DJ EUROSTOXX 50SM and the AMEX Hong Kong 30 the closing index level as reported by the relevant Component Sponsor and displayed on the Bloomberg Pages “SPX <Index>”, “SX5E <Index>” and “HKX <Index>”, respectively on the relevant Averaging Date.

“Averaging Dates” means with respect to each Component, [September 25, 2007, December 27, 2007, March 25, 2008, June 25, 2008, September 25, 2008, December 28, 2008, March 25, 2009, June 25, 2009, September 25, 2009, December 28, 2009, March 25, 2010, June 25, 2010, September 27, 2010, December 28, 2010, March 25, 2011 and June 27, 2011], for a total of 16 Averaging Dates during the term of the CDs. If any such day is not a Scheduled Trading Day for any Component then the respective Averaging Date for such Component will be the following Scheduled Trading Day. If a Disrupted Day (as defined herein) exists for any Component on any Averaging Date, the applicable Averaging Date for such Component will be the first following Scheduled Trading Day for such Component on which a Disrupted Day does not exist for such Component. However, if a Disrupted Day occurs for any Component on each

of the five Scheduled Trading Days immediately following any Averaging Date on which a Disrupted Day has occurred with respect to that Component, then, even if a Disrupted Day is occurring on the fifth Scheduled Trading Day, such fifth Scheduled Trading Day will be the applicable Averaging Date for such Component. For the avoidance of doubt, adjustments made according to this paragraph with respect to any Component will not affect the Averaging Dates of any of the other Components.

Early Termination: The CDs may be redeemed by the Calculation Agent prior to the Maturity Date if the Calculation Agent determines that an “Early Termination Event” as described under “Description of the CDs — Redemption Following an Early Termination Event” has occurred and the Bank has designated an Early Termination Date as described under “Description of CDs – Early Termination Event.”

Early Redemption upon the Death or Incapacity of a Depositor: In the event of the death of any beneficial owner of a CD, or the adjudication of any such beneficial owner as incompetent, the full withdrawal of the Principal Amount of the CDs of such beneficial owner will be permitted. In such event, the successor of such depositor shall give prior written notice of such proposed withdrawal, together with appropriate documentation to support such a request, to the Bank and the Agent that old the CD to such depositor. Only a full withdrawal of the Principal Amount of a particular CD will be permitted. The CD so redeemed will not be entitled to any Performance Weighted Portfolio Return.

Bloomberg Page: When used in connection with a designated page and a Component, the display page so designated on Bloomberg Financial Service (“*Bloomberg*”) (or such other page as may replace that page on Bloomberg, or such other source of information selected by the Calculation Agent, for the purpose of obtaining the applicable price or level of such Component).

Calculation Agent: Bear, Stearns & Co. Inc. and any successor. All determinations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will be conclusive for all purposes and be binding on the Bank and the beneficial owners of the CDs, absent manifest error. The Calculation Agent shall be required to act in good faith in making any determination.

FDIC Insurance: The Principal Amount of the CDs will be covered up to \$100,000 (\$250,000 for certain retirement accounts) by federal deposit insurance provided by the Federal Deposit Insurance Corporation. Such insurance covers the principal of the CDs purchased by a depositor, aggregated with all other accounts maintained by the depositor in the same capacity with the Bank.

See “Deposit Insurance” in this Supplement to Disclosure Statement.

Secondary Market: The CDs are new certificates of deposit for which there is currently no established trading market. The Bank does not intend to apply for (i) listing of the CDs on a securities exchange, (ii) quotation of the CDs through the Nasdaq National Market System or (iii) designation for trading in the PORTAL market.

Under ordinary market conditions, the Lead Agent directly or through an affiliate intends to make a market for the CDs on a weekly basis, although it has no obligation to do so or to continue making a secondary market once it has done so. The Lead Agent will determine its market making prices in its sole discretion, based largely on the factors set forth under “Certain Risk Factors-Secondary Trading of the CDs is Limited and Prices are Subject to Many Variables.” Depositors should understand that any market making price quoted by any Agent will be net of all or a portion of the fee on the CDs received by the Agents upon their issuance by the Bank. Other Agents also may, but are not obligated to, make a market in the CDs, and any such market making may be discontinued by the other Agents at any time without notice. Additionally, it may be difficult to obtain reliable information about the value of the CDs at any given time as such value will reflect many factors and cannot be predicted. See “Certain Risk Factors” below. **Depositors choosing to sell their CDs prior to maturity may receive a market price which is less than 100% of their original Principal Amount and which does not necessarily reflect any incremental increase in the Components as of the date of such sale.**

ERISA Limitations: The CDs may not be purchased by, or on behalf of, or with the assets of, an “employee benefit plan,” subject to Title I of ERISA, any “plan” subject to Section 4975 of the Code or any governmental plan subject to any Similar Law, or an entity whose assets are treated as the assets of any such employee benefit plan or plan for purposes of ERISA, Section 4975 of the Code or, if applicable, Similar Law, unless such purchase and holding of the CDs does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, or a non-exempt violation of any Similar Law. (See “Certain Risk Factors – ERISA Limitations” and “Certain ERISA Considerations” below).

Governing Law: New York

Selling Restrictions: Offers and sales of the CDs may be subject to certain restrictions in certain jurisdictions. Persons who come into possession of this Supplement and the accompanying Disclosure Statement

must carefully review “Sales Restrictions for Certain Jurisdictions” below.

THE BANK

The CDs will be issued by Custodial Trust Company, a New Jersey state-chartered, FDIC insured bank and trust company, which was founded in 1984 and is headquartered in Princeton, New Jersey. The Bank is a wholly owned subsidiary of The Bear Stearns Companies Inc., and has over \$205 million in capital. The Bank specializes in domestic and international custody services, in securities clearing, securities lending and other agency services, and in lending to institutional investors and securities firms. The Bank generally has between \$90 billion and \$110 billion of assets under custody. The international rating agency, Fitch Ratings, maintains a credit analysis report on the Bank. Fitch Ratings rates the Bank as AA- for long term deposits, A+ for senior debt and F1+ for short term deposits.

QUESTIONS AND ANSWERS

What Are the CDs?

The CDs are component-linked certificates of deposit issued by the Bank. The CDs mature on the Maturity Date and generally do not provide for earlier redemption by depositors or the Bank. Except in the case of (i) the designation of an Early Termination Date following an Early Termination Event (defined below), or (ii) upon the death or incapacity of a depositor, the Bank will not make any payments on the CDs until maturity.

Each CD represents an initial deposit by a depositor at the Bank in the face amount of \$1,000. The minimum initial purchase is ten CDs (\$10,000), and the CDs will be issued in integral multiples of \$1,000 in excess thereof. Depositors will not have the right to receive physical certificates evidencing their ownership of the CDs; instead the Bank will issue the CDs in book-entry form. Persons acquiring beneficial ownership interests in the CDs will hold such CDs through DTC in the United States if they are participants of DTC, or indirectly through organizations which are participants in DTC. For more details, see “Your Relationship with the Firm and the Issuer” in the accompanying Disclosure Statement.

What Amount Will Depositors Receive at Maturity In Respect of the CDs?

At maturity, the amount depositors will receive for each CD will be equal to the sum of (a) the Principal Amount of the CD, *plus* (b) the Performance Weighted Portfolio Return on the CD based on an increase in the value of the Components over their respective Initial Levels during the term of the CDs. The CDs do not otherwise bear interest. The Performance Weighted Portfolio Return for the CDs does not change or vary at preset intervals during the term, and is not quoted or determined on any date other than the Maturity Date. Therefore, the annual percentage yield on the CD is only determinable at maturity.

The Performance Weighted Portfolio Return on each CD will be an amount determined by the Calculation Agent as of the Final Averaging Date in accordance with the following formula:

Participation Rate x Principal Amount x [(50% x Top Component Return) + (30% x Middle Component Return) + (20% x Worst Component Return)]

provided, that if the Performance Weighted Portfolio Return equals a negative number, the Performance Weighted Portfolio Return will be deemed to equal zero. For further illustration, see the “Calculation Examples Showing Performance Weighted Portfolio Return” below.

Depositors will receive the Principal Amount of their CDs only if they are held to maturity. Depositors may receive substantially less than the Principal Amount if (i) their CDs are sold in a secondary market or (ii) the CDs are redeemed by the Bank prior to maturity due to the

designation of an Early Termination Date following the determination by the Calculation Agent that an Early Termination Event has occurred.

Who Publishes each of the Components and What Do They Measure?

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. publishes the S&P 500[®]. The S&P 500[®] is intended to provide an indication of the price movements of the stocks included in the S&P 500[®]. The calculation of the value of the S&P 500[®] is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. The S&P 500[®] is currently available on the Bloomberg Financial Service under the symbol "SPX".

The DJ EUROSTOXX 50SM was created by STOXX Limited, a joint venture between Deutsche Börse AG, Dow Jones & Company and SWX Group. Publication of the DJ EUROSTOXX 50SM began on February 28, 1998, based on an initial DJ EUROSTOXX 50SM value of 1,000 at December 31, 1991. The DJ EUROSTOXX 50SM is reported daily in the financial pages of many major newspapers, on the Bloomberg Financial Service under the symbol "SX5E" and on the STOXX Limited website: <http://www.stoxx.com>. The DJ EUROSTOXX 50SM is composed of 50 component stocks of market sector leaders from within the Dow Jones EUROSTOXX 50SM Index, which includes stocks selected from the Eurozone.

The AMEX Hong Kong 30 Index was established on June 25, 1993 by the American Stock Exchange, Inc. and is a capitalization weighted stock exchange designed, developed, maintained and operated by the American Stock Exchange, Inc. that measures the market value performance (share prices times the number of shares outstanding of selected The Stock Exchange of Hong Kong Ltd. (the "HKSE") listed stocks. The AMEX Hong Kong 30 currently is based on the capitalization of 30 stocks actively traded on the HKSE and is designed to represent a substantial segment of the Hong Kong stock market. The primary trading market for each of these stocks is either Hong Kong or London.

See generally, "Description of the Components" attached as Annex A hereto.

What Are the U.S. Federal Income Tax Consequences of Investing in the CDs?

The Bank intends to treat the CDs as "contingent payment debt instruments" for federal income tax purposes. Under this treatment, a U.S. Holder of a CD will be required to include original issue discount ("OID") in gross income over the term of the CD prior to receiving payment on the CD at maturity. The amount of OID includible in each year is based on the "comparable yield." In addition, the Calculation Agent will compute a "projected payment schedule" that produces the comparable yield. The comparable yield and the projected payment schedule are neither predictions nor guarantees of the actual yield on the CDs or the actual payment at maturity. If the amount that the Bank actually pays at maturity is, in fact, less than the amount of the projected payment, then a U.S. Holder would have recognized taxable income in periods prior to maturity that exceeds the U.S. Holder's economic income from holding the CD during such periods (with an offsetting ordinary loss). If a U.S. Holder disposes of the CD prior to maturity, the U.S. Holder will be required to treat any gain recognized upon the disposition of the CD as ordinary income (rather than capital gain). Depositors should refer to "Certain U.S. Federal Income Tax Considerations" below.

What About Liquidity?

There is currently no established trading market for the CDs. Under ordinary market conditions, the Lead Agent directly or through an affiliate intends to maintain a secondary market in the CDs on a weekly basis, although it has no obligation to do so or to continue making a secondary market once it has done

so. The Lead Agent or such affiliate will determine its market making prices in its sole discretion, based largely on the factors set forth under “Certain Risk Factors-Secondary Trading of the CDs is Limited and Prices are Subject to Many Variables.”

Prospective depositors should carefully consider all of the information set forth in this Supplement and the accompanying Disclosure Statement and, in particular, should evaluate the specific risk factors set forth under “Certain Risk Factors” herein.

What About Fees?

The Lead Agent will buy CDs from the Bank net of a fee for the services of the Lead Agent of up to [●]% on the Principal Amount thereof sold by the Bank. The Lead Agent may (i) pass all or a portion of this fee along to other Agents to whom the Lead Agent sells CDs and (ii) in the event of an introduction of the CDs by HKC Securities, Inc., as the introducing agent to other Agents, the Lead Agent may also pay a fee not to exceed [●]% of the Principal Amount to HKC Securities, Inc. for its services.

Note that an affiliate of the Lead Agent will enter into hedging arrangements with the Bank under which the Bank will receive an amount equal to the Performance Weighted Portfolio Return in exchange for a LIBOR-based payment during the term of the CDs. As part of these hedging arrangements, the Bank will receive an upfront payment equal to the fee described above. See “Certain Risk Factors – Hedging Transactions by the Bank” below for more information.

What about ERISA Eligibility?

The CDs are not eligible for purchase by, or with the assets of a benefit plan subject to Title I of ERISA, or a plan subject to Section 4975 of the Code or a governmental, church or other plan subject to similar law or an entity whose assets are treated as the assets of any such employee benefit plan, unless the purchase of the CDs does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or a non-exempt violation of Similar Law. (See “ERISA Considerations” below.)

CERTAIN RISK FACTORS

It is suggested that prospective depositors considering purchasing CDs reach an investment decision only after carefully considering, with their financial, legal, tax, accounting and other advisors, the appropriateness of the CDs in light of their particular circumstances and the risk factors set forth below and other information in this Supplement to Disclosure Statement and in the accompanying Disclosure Statement.

The CDs are not appropriate for deposit by all people. In particular, no prospective depositor should purchase the CDs unless he or she understands and is willing and able to bear the associated market, liquidity and yield risks.

Because of the numerous factors that may affect the value of each of the Components, no assurance can be given that depositors holding the CDs will receive any Performance Weighted Portfolio Return. Depositors must understand that they have no interests in the Components or the constituents of each of the Components and neither they, nor the Bank on their behalf nor any Agent on their behalf, will have any recourse against any Component Sponsor or any rights in any of the Components or the constituents of the Components either contractually or statutorily.

Depositors Are Guaranteed to Receive the Principal Amount Only if the CDs are Held to Maturity and No Early Termination Event Occurs.

The CDs are designed so that if, and only if, they are held to maturity, a depositor will receive no less than the Principal Amount. Prior to maturity, a depositor seeking to sell CDs may be quoted a price that is net of the fee received by the selling Agent as described above under “Questions and Answers – What About Fees?” and “Description of the CDs – The Distribution.” As a result, the price at which depositors may sell their CDs prior to maturity may be less than the Principal Amount paid per CD. Additionally, depositors may not receive the entire Principal Amount if the CDs are redeemed prior to maturity upon the occurrence of an Early Termination Event.

Depositors May Not Receive a Redemption Amount at Maturity in Excess of the Principal Amount of their CDs.

While a depositor is guaranteed to receive the Principal Amount of the CD if it is held to maturity, there can be no assurance of the receipt of any amount in excess of the Principal Amount of their CDs. The Performance Weighted Portfolio Return is based on changes in the level of each of the Components, which fluctuate. Changes in the level of any of the Components cannot be predicted. No assurance can be given, and none is intended to be given, that the Final Average with respect to any Component will increase as compared to the Initial Level of such Component as of the Initial Fixing Date or that any Performance Weighted Portfolio Return will be achieved on the CDs.

Depositors Are Not Entitled to the Rights of an Owner in Any Component or Any Constituent of Any Component.

Depositors will not have any ownership or other rights in any of the Components or any of the constituents of any Component such as voting rights, any rights to receive dividends or other distributions or any other rights with respect to the Components or any of the constituents that comprise the Components. The CDs will be paid in cash in U.S. Dollars and depositors will have no right to receive delivery of any of Component or any constituents of any Component.

If the Component Levels of the Components Change, the Market Value of the CDs may not Change in the Same Manner.

The market value of the CDs may not have a direct relationship with the level of any of the Components and changes in the level of any of the Components may not result in a comparable change in the market value of the CDs. The market value of the CDs may not increase even if the level of each of the Components increases above its respective Initial Level.

Depositors’ Yield May Be Less than the Yield on a Standard Debt Security of Comparable Maturity.

There will be no interest payments on the CDs as there would be on a conventional fixed-rate or floating rate debt security having the same maturity date and issuance date as the CDs. Even considering the payment of 100% of the Principal Amount at maturity, the effective yield to maturity of the CDs may be less than that which would be payable on such a conventional fixed-rate or floating rate debt security. The return of only the Principal Amount of each CD at maturity will not compensate the depositor for any opportunity cost implied by inflation and other factors relating to the time value of money.

Risks Relating to the Component Sponsors.

The Bank and its affiliates are not affiliated with the Component Sponsors. The performance of the CDs could be adversely affected by the occurrence of negligence, fraud or misconduct on the part of the Component Sponsors. The Bank and its affiliates are not in a position to protect the depositors against such negligence, fraud or misconduct. Depositors should understand that they could be materially adversely affected by any such occurrences. For example, the occurrence of any such condition may lead to material changes in the composition or calculation of any of the Components and thus an Early Termination Event. An Early Termination Event may cause the termination of the CDs, thus causing a depositor to lose the opportunity to participate in the future performance of the Components. Additionally, the designation of an Early Termination Date following an Early Termination Event may result in a depositor receiving less than the Principal Amount. Depositors should further understand that neither they, nor the Bank or any Agent on their behalf, will have recourse against the Component Sponsors for any loss of return on their CDs.

Risks Relating to the Components.

The CDs are subject to the risks of any deposit in a basket of indices generally, including the risk that the general level of asset prices may decline. The following is a list of some of the significant risks associated with the Components:

- Historical performance of any Component does not indicate the future performance of such Component. Thus, it is impossible to predict whether the level of any Component will fall or rise during the term of the CDs.
- Trading levels of the Components (or the respective levels or prices of any constituents of a Component) will be influenced by political, economic, financial, market and other factors. It is impossible to predict what effect these factors will have on the level of any Component and thus, the return on the CDs.
- The policies of the Component Sponsors concerning additions, deletions and substitutions of the constituents underlying the Components and the manner in which Component Sponsors take account of certain changes affecting such constituents may affect the level of the Components. The policies of Component Sponsors with respect to the calculation of the Components could also affect the value of the CDs.

The Component Sponsors have no Obligations Relating to the CDs.

The Component Sponsors have no obligations relating to the CDs or any amounts to be paid to depositors and have no obligation to take the needs of depositors into consideration for any reason. The Component Sponsors are not responsible for, and have not participated in, the issuance of the CDs and are not responsible for, and will not participate in, the determination or calculation of any amount receivable by the depositors in respect of the CDs. The Component Sponsors are under no obligation to continue the calculation and dissemination of the Components. The CDs are not sponsored, endorsed, sold or promoted by the Component Sponsors or the publishers of the Components. No inference should be drawn from the information contained in this Supplement or the accompanying Disclosure Statement that the Component Sponsors or publishers of the Components make any representation or warranty, implied or express, to the depositors or any member of the public regarding the advisability of investing in the CDs or regarding the ability of the Component Sponsors or the publishers of the Components to track any specific performance.

Secondary Trading of the CDs is Limited and Prices are Subject to Many Variables.

There may be little or no secondary market for the CDs. Even if there is a secondary market, there can be no assurance that it will provide significant liquidity. Accordingly, it may be difficult to obtain reliable information about the value of the CDs.

The CDs are intended for purchasing and holding to maturity. The CDs will be new certificates of deposit for which currently there is no trading market. The Bank does not intend to apply for listing of the CDs on any securities exchange, for quotation through the Nasdaq National Market System, or for trading in the PORTAL market. Under ordinary market conditions, the Lead Agent directly or through an affiliate intends to make a market in the CDs on a weekly basis, although it has no obligation to do so or to continue making a secondary market once it has done so. The Lead Agent or such affiliate will determine its market making prices in its sole discretion, based largely, on the factors set forth below, and any such market making by the Lead Agent or such affiliate may be discontinued at any time without notice. In addition, there can be no assurance that a secondary market would be liquid.

The value of the CDs prior to maturity is expected to depend primarily on market interest rates, market volatility, the performance of the Components until the date of such secondary market sale (including the Component Levels as of the date of such secondary market sale) and the unwinding of any hedging or funding arrangements. Additionally, the price at which a depositor will be able to sell the CDs prior to maturity may be at a discount, which could be substantial, from the Principal Amount thereof, based upon one or more of the factors described below. Any secondary market sale of the CDs by a depositor prior to maturity will be at a price that is net of the fee paid to the Agent as described in “Questions and Answers – What About Fees?.” Moreover, other factors will affect the market value of the CDs prior to maturity, and they interrelate in complex ways, as, for example, one factor may offset an increase in the trading value of the CDs caused by another factor. As an illustration, an increase in U.S. interest rates may offset some or all of any increase in the trading value of the CDs attributable to increases in the Component Levels. The following paragraphs describe the expected impact on the market value of the CDs given a change in a specific factor, assuming all other conditions remain constant.

Fees and Commissions to Agents. Depositors should understand that any market making price quoted by any Agent will be net of all or a portion of any fee on the CDs received by the Agents upon the issuance of the CDs by the Bank.

Component Levels. The Bank believes that the market value of the CDs will likely depend substantially on the performance of the Components up to the time of the secondary market sale (including the Component Levels as of the date of the secondary market sale). Even if the performance of the Components up to the time of the secondary market sale would yield (based upon an application of the methodology for calculating the Redemption Amount at Maturity) a positive return on the CDs, a depositor selling CDs under such circumstances may receive an amount that reflects substantially less than the full amount of that positive return, as well as an amount that is less than the Principal Amount of each CD, because of the time remaining to scheduled maturity. Also, if a depositor decides to sell his or her CDs when the Component Levels as of the prior Averaging Date were below the respective Initial Levels of such Components, such depositor will likely receive less than the Principal Amount of each CD.

Interest Rates. Because the CDs repay at least the Principal Amount at maturity, and provide a Performance Weighted Portfolio Return, the trading value of the CDs will be affected by changes in interest rates. When U.S. interest rates fluctuate, the trading value of the CDs may be adversely affected. Interest rates may also affect the value of the Components, which would affect the value of the CDs.

Volatility of the Components. Volatility is the term used to describe the size and frequency of market fluctuations. Changes to the volatility of the Components may also adversely affect the trading value of the CDs.

Time Remaining to Maturity. The CDs may trade at a value above that which would be expected based on the prevailing level of interest rates and the Component Levels. Any such difference will reflect a “time premium” resulting from expectations concerning the Component Levels during the period prior to the maturity of the CDs. As the time remaining to the maturity of the CDs decreases, this time premium may decrease, adversely affecting the trading value of the CDs.

Notwithstanding the foregoing, neither the Lead Agent nor its affiliates nor any other Agent has any obligation to make a market, and any such person making a market in the CDs can value the CDs based on any formula or method as any such person making a market may deem appropriate in its sole discretion. Depositors choosing to sell their CDs prior to maturity may receive a price which is less than the Principal Amount of such CDs. There can be no assurance that a secondary market for the CDs will develop, and the market making prices of the CDs may reflect a substantial discount from a depositor’s initial investment.

No Affiliation between the Bank and the Component Sponsors.

The Bank and its affiliates are not affiliated with the Component Sponsors. The Bank has no ability to predict or control the actions of the Components or the Component Sponsors, including any corporate actions of the type that could trigger adjustments to the Components, a discontinuance or modification of any of the Components or their constituents or an Early Termination Event. In addition, depositors should understand that they have no rights to vote or otherwise exercise control over any of the Components or their constituents.

No investigation has been made of the Components in connection with the issuance of the CDs. A purchaser of CDs should obtain and evaluate the same information concerning the Components as it would if it were investing directly in the Components.

CDs Are Not Registered Securities

The CDs are not securities under the Securities Act or any state securities laws, and are not required to be registered thereunder. The CDs have not been recommended by any federal or state securities commission or regulatory authority, and this Supplement and the accompanying Disclosure Statement set forth general information that has not been reviewed by any governmental agency.

ERISA Limitations.

CDs may not be acquired by, on behalf of, or with the assets of, and the initial purchaser of each CD and each transferee thereof, shall be deemed to represent and covenant that, throughout the period that he or she holds CDs, he or she is not, and is not acting on behalf of, or with the assets of, an “employee benefit plan” subject to Title I of ERISA, a “plan” subject to Section 4975 of the Code or a governmental, church or other plan subject to Similar Law, or an entity whose assets are treated as the assets of any such employee benefit plan or plan for purposes of ERISA, Section 4975 of the Code or, if applicable, Similar Law, unless the purchase and holding of the CDs does not and will not, and the initial purchaser and transferee will be deemed to represent that the purchase and holding does not and will not, constitute a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, or a non-exempt violation of Similar Law. (See “Certain ERISA Considerations” below.)

Hedging Transactions by the Bank.

The Bank will hedge its exposure to the CDs with an affiliate of the Lead Agent. As part of the hedge, an affiliate of the Bank will be making investments, directly or indirectly, in the Components, the constituents that comprise the Components or in futures or options that track the performance of the Components or the constituents of the Components. Although the Bank does not believe that such activities will have a material impact on the Component Levels or the prices or levels of such other instruments it uses to hedge its exposure, there can be no assurance that Bank or its affiliates will not affect such prices or levels as a result of such activities.

Tax Consequences.

For U.S. federal income tax purposes, the CDs will be classified as contingent payment debt instruments. As a result, U.S. Holders (as defined below under “Certain U.S. Income Tax Considerations”) will be required to include OID in income during their ownership of the CDs although they will receive no cash payments during the term of the CDs. Additionally, depositors will generally be required to recognize ordinary income on the gain, if any, realized on a sale, upon maturity, or other disposition of the CDs. See “Certain U.S. Federal Income Tax Considerations” herein.

Adverse Economic Interests to Depositors.

The Bank has appointed Bear, Stearns & Co. Inc., an affiliate of the Bank, as the Calculation Agent for the CDs. The Calculation Agent will be solely responsible for the determination and calculation of the Redemption Amount at Maturity (including the Performance Weighted Portfolio Return components thereof) or the Early Termination Amount (as defined below) and any other determinations and calculations in connection with the CDs. Because the Calculation Agent is an affiliate of the Bank, the Calculation Agent may have economic interests adverse to those of the depositors, including with respect to certain determinations and judgments that the Calculation Agent must make in determining the Performance Weighted Portfolio Return of the CDs, if any, at maturity or the Early Termination Amount or whether an Early Termination Event or Market Disruption Event has occurred. Consequently, the Calculation Agent or its affiliates may have economic interests adverse to those of the depositors.

Certain Business Activities May Create Conflicts of Interest with Depositors.

The Bank or one or more of its affiliates may engage in trading activities relating to the Components that are not for depositors’ accounts or on the behalf of depositors. These trading activities may present a conflict of interest between a depositor’s interest in the CDs and the interests that the Bank and its affiliates may have in their proprietary accounts. Affiliates of the Bank are active participants in the trading market relating to the Components and other related commodities and derivative products. In connection with these activities, the Bank and/or its affiliates may receive information about the Components that will not be divulged to depositors or other third parties. Any of these activities may affect the value of a Component and thus could be adverse to a depositor’s return on the CDs.

In the course of its business, the Bank or its affiliates may acquire non-public information about the constituents of the Components. Neither the Bank nor any such affiliate undertakes to disclose any such information to depositors. Any prospective depositor should undertake an independent investigation of the Components that in his or her judgment is appropriate to make an informed decision with respect to a purchase of the CDs.

Any of these business activities may affect the value of such constituents, which may affect the value of the Components and thus could be adverse to a depositor’s return on the CDs.

CALCULATION EXAMPLES SHOWING PERFORMANCE WEIGHTED PORTFOLIO RETURN

Hypothetical Example of Redemption Amount at Maturity

The following hypothetical examples indicate how the Component Levels, Performance Weighted Portfolio Return and the Redemption Amount would be calculated with respect to a hypothetical \$100,000 deposit in a CD. These examples assume the following:

- The CD is held to maturity.
- The Top Component Return is weighted 50%.
- The Middle Component Return is weighted 30%.
- The Worst Component Return is weighted 20%.

These are examples only. Actual outcomes will be different.

Example 1: The levels of the Components increase.

	S&P 500 [®]	Dow Jones EUROSTOXX 50 SM	AMEX Hong Kong 30
Initial Level	1,500	4,425	1,000
Observation Date 1	1,692	4,390	995
Observation Date 2	1,805	4,683	1,007
Observation Date 3	1,708	4,976	1,072
Observation Date 4	1,945	4,790	1,068
Observation Date 5	1,868	4,795	1,248
Observation Date 6	1,977	4,646	1,259
Observation Date 7	2,036	5,037	1,221
Observation Date 8	2,115	5,448	1,355
Observation Date 9	2,031	4,927	1,617
Observation Date 10	2,298	4,833	1,720
Observation Date 11	2,305	4,447	1,676
Observation Date 12	2,436	4,762	1,606
Observation Date 13	3,006	5,056	1,876
Observation Date 14	3,056	5,412	1,745
Observation Date 15	2,657	5,405	1,807
Observation Date 16	2,892	5,605	1,865
Return	+49.28%	+11.88%	+44.61%
Component Return	Top	Worst	Middle
Weight	50%	20%	30%
Performance Weighted Portfolio Return:			+40.40%

Performance Weighted Portfolio Return = $[100\% \times \$100,000] \times [(50\% \times 49.28\%) + (30\% \times 44.61\%) + (20\% \times 11.88\%)] = \$40,400$

Redemption Amount at Maturity = $\$100,000 + \$40,400 = \$140,400$

In this case, because the Return on the S&P 500[®] was 49.28%, it is the Top Component Return. The Return on the Dow Jones EUROSTOXX 50SM was 11.88% and therefore it is the Worst Component Return. The Middle Component Return is the Return of the AMEX Hong Kong 30, as it is neither the Top Component Return nor the Worst Component Return. As a result, for purposes of computing the Performance Weighted Portfolio Return, the S&P 500[®] Return is weighted 50%, the AMEX Hong Kong 30 Return is weighted 30%, and the Dow Jones EUROSTOXX 50SM Return is weighted at 20%.

Example 2: The levels of the Components have mixed performances.

	S&P 500[®]	Dow Jones EUROSTOXX 50SM	AMEX Hong Kong 30
Initial Level	1,500	4,425	1,000
Observation Date 1	1,497	4,777	1,000
Observation Date 2	1,508	4,997	902
Observation Date 3	1,448	4,866	863
Observation Date 4	1,214	4,757	902
Observation Date 5	1,213	5,105	841
Observation Date 6	1,455	5,541	839
Observation Date 7	1,669	6,216	878
Observation Date 8	1,497	5,441	709
Observation Date 9	1,256	5,176	736
Observation Date 10	1,207	5,009	770
Observation Date 11	1,125	5,186	667
Observation Date 12	1,207	5,934	703
Observation Date 13	1,412	5,811	729
Observation Date 14	1,495	7,095	859
Observation Date 15	1,515	7,495	892
Observation Date 16	1,497	6,704	896
Return	-7.44%	+27.27%	-17.59%
Component Return	Middle	Top	Worst
Weight	30%	50%	20%
Performance Weighted Portfolio Return:			+7.89%

Performance Weighted Portfolio Return = $[100\% \times \$100,000] \times [(50\% \times 27.27\%) + (30\% \times -7.44\%) + (20\% \times -17.59\%)] = \$7,890$

Redemption Amount at Maturity = $\$100,000 + \$7,890 = \$107,890$

In this case, because the Return on the Dow Jones EUROSTOXX 50SM was 27.27%, it is the Top Component Return. The Return on the AMEX Hong Kong 30 was -17.59% and therefore it is the Worst Component Return. The Middle Component Return is the Return of the S&P 500[®], as it is neither the Top Component Return nor the Worst Component Return. As a result, for purposes of computing the Performance Weighted Portfolio Return, the Dow Jones EUROSTOXX 50SM Return is weighted 50%, the S&P 500[®] Return is weighted 30% and the AMEX Hong Kong 30 Return is weighted 20%.

Example 3: The levels the Components decrease significantly.

	S&P 500[®]	Dow Jones EUROSTOXX 50SM	AMEX Hong Kong 30
Initial Level	1,500	4,425	1,000
Observation Date 1	1,535	4,157	933
Observation Date 2	1,418	3,345	931
Observation Date 3	1,425	3,494	991
Observation Date 4	1,402	3,485	954
Observation Date 5	1,345	3,608	939
Observation Date 6	1,422	3,176	819
Observation Date 7	1,337	3,281	808
Observation Date 8	1,224	2,994	754
Observation Date 9	1,219	2,644	760
Observation Date 10	1,036	2,684	784
Observation Date 11	963	2,867	665
Observation Date 12	856	2,705	676
Observation Date 13	796	2,606	673
Observation Date 14	784	3,282	633
Observation Date 15	729	3,142	587
Observation Date 16	646	2,948	590
Return	-24.43%	-28.79%	-21.89%
Component Return	Middle	Worst	Top
Weight	30%	20%	50%
Performance Weighted Portfolio Return:			-24.03%

Performance Weighted Portfolio Return = $[100\% \times \$100,000] \times [(50\% \times -21.89\%) + (30\% \times -24.43\%) + (20\% \times -28.79\%)] = -\$24,030$. The Performance Weighted Portfolio Return is negative. Therefore, it is deemed to be zero.

Redemption Amount at Maturity = $\$100,000 + \$0 = \$100,000$.

In this case, because the Return on the Dow Jones AMEX Hong Kong 30 was -21.89%, it is the Top Component Return. The Return on EUROSTOXX 50SM was -29.55% and therefore it is the Worst Component Return. The Middle Component Return is the Return of the S&P 500[®], as it is neither the Top Component Return nor the Worst Component Return. As a result, for purposes of computing the Performance Weighted Portfolio Return, the AMEX Hong Kong 30 Return is weighted 50%, the S&P 500[®] Return is weighted 30%, and the Dow Jones EUROSTOXX 50SM Return is weighted 20%. Because the Performance Weighted Portfolio Return in this example is negative, it is deemed to be zero. As such, the depositor is returned the Principal Amount at maturity.

DESCRIPTION OF THE CDS

The CDs described in this Supplement are linked to the performance of the Components. Each CD provides for payment of 100% of the Principal Amount if held to maturity, regardless of the performance of the Components. However, the amount of the Performance Weighted Portfolio Return payable in respect of the CDs will depend on the extent of any appreciation in the Components over the term of the CDs. Except in the case of (i) the designation of an Early Termination Date following an Early Termination Event and (ii) the death or incapacity of a depositor, the Bank will not make any payments on the CDs until the Maturity Date.

No Early Redemptions.

The Bank will not permit early redemption of the CDs.

As noted above, a holder may not redeem a CD prior to the Maturity Date. However, redemption of the entire Principal Amount of a CD, without interest, will be permitted without penalty upon the death of the holder of that CD or if the holder of that CD is adjudicated as incompetent.

Redemption Following an Early Termination Event.

Following the determination by the Calculation Agent that an Early Termination Event (as defined under “Early Termination Events” below) has occurred, the Bank reserves the right in its sole discretion to terminate the CDs at any time prior to the Maturity Date by designating an Early Termination Date. On the Early Termination Date, depositors will receive the Early Termination Amount on account of their CDs. The “*Early Termination Amount*” means an amount determined by the Calculation Agent to be equal to the sum of (i) the present value, determined as of the last calendar day of the month immediately preceding the month in which the Early Termination Date occurs, of the Principal Amount at maturity of the CD based on then-current market indicia, plus (ii) the Breakage Performance Weighted Portfolio Return (as defined below). The “*Breakage Performance Weighted Portfolio Return*” will be an amount equal to the Performance Weighted Portfolio Return as of the date of determination, but in determining the “Final Average” for each Component for the purpose of calculating the Performance Weighted Portfolio Return, the Calculation Agent will use only the Averaging Dates that have occurred prior to the date of determination, if any, together with the respective closing levels of each Component on one or more other dates prior to the date of the date of determination that are designated by the Calculation Agent in order to calculate such “Final Average.” The Breakage Performance Weighted Portfolio Return shall be reduced (but to no lower than zero) by any losses and costs of the Bank or the Calculation Agent or their affiliates that have been or would be incurred under then prevailing circumstances in closing its or its affiliates’ hedge position(s) in connection with the CDs.

Following the designation of an Early Termination Date, the Bank will notify the depositors of its intent to terminate the CDs and the date selected by it as the Early Termination Date. The “*Early Termination Date*” will be the date selected by the Bank on which depositors will receive payment of the Early Termination Amount (as defined below) from the Bank; *provided* that the Early Termination Date shall be a day no later than sixty (60) calendar days following the date upon which the Bank has determined that an Early Termination Event has occurred.

Redemption upon the Death or Incapacity of a Depositor.

In the event of the death of any beneficial owner of a CD, or the adjudication of any such beneficial owner as incompetent by a court or other administrative body of competent jurisdiction, the withdrawal of the entire Principal Amount of the CDs of such beneficial owner will be permitted. In such event: (a)

prior written notice must be given to the depositor's Agent and the Bank of such proposed withdrawal, together with appropriate documentation to support such request; and (b) only a withdrawal of the entire Principal Amount of such CDs will be permitted. The CDs so redeemed will not be entitled to any Performance Weighted Portfolio Return or interest.

Successor Components.

If any Component is (i) not calculated and announced by its relevant Component Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent (which may be the Calculation Agent itself), or (ii) is replaced by a successor or substitute 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 Component, then in each case, that successor component (the "*Successor Component*") will be deemed to be the Component.

Upon any selection by the Calculation Agent of a Successor Component, the Calculation Agent will promptly give written notice thereof to the depositors. If a Successor Component is selected by the Calculation Agent, the Successor Component will be used as a substitute for the Component for all purposes, including for purposes of determining whether a Market Disruption Event (as defined below) exists.

Notwithstanding these alternative arrangements, discontinuance of publication of any Component may adversely affect the value of, and trading in, the CDs.

Component Event.

If at any time during the term of the CDs a Component Sponsor announces that it will make a material change in the formula for or the method of calculating the relevant Component or in any other way materially modifies such Component (other than a modification prescribed in that formula or method to maintain the Component in the event of changes in constituent asset value and other routine events) or a Component is permanently cancelled and no Successor Component exists (each, a "*Component Event*"), then the Calculation Agent may determine that an Early Termination Event has occurred. Following the determination by the Calculation Agent that an Early Termination Event has occurred, the Bank reserves the right in its sole discretion to terminate the CDs at any time prior to the Maturity Date by designating an Early Termination Date and redeem the CDs as described in "Early Termination Events."

If the calculation or publication of any Component is modified, discontinued or suspended, then the Calculation Agent will promptly notify depositors of such modification, discontinuation or suspension and of any modification or adjustment to be made with respect to the calculation of such Component.

Neither the Bank nor the Calculation Agent will have any responsibility for good faith errors or omissions in calculating or disseminating information regarding any Component or as to modifications, adjustments or calculations by any Component Sponsor or any successor thereto in order to arrive at the Component Levels.

Disrupted Days.

With respect to any Component, any Scheduled Trading Day for such Component on which a Market Disruption Event has occurred and is continuing will constitute a "Disrupted Day". With respect to any Component, a "Market Disruption Event" means:

(a) the occurrence or existence of a condition specified below at any time which the Calculation Agent determines is material:

- (i) any suspension of or limitation imposed on trading by the Relevant Exchange or any Related Exchange or otherwise, and whether by reason of movements in price exceeding limits permitted by the Relevant Exchange or any Related Exchanges or otherwise, (A) relating to the Component (or relating to constituents that comprise 20% or more of the Component Level) or (B) in any futures or options contracts relating to a Component, on any Related Exchange; or
- (ii) any event (other than an event described in (iii) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (A) to effect transactions in, or obtain market values for, any Component (or relating to constituents that comprise 20% or more of the Component Level) or (B) to effect transactions in, or obtain market values for, any futures or options contracts relating to any Component, on any Related Exchange; or
- (iii) the closure on any Scheduled Trading Day of the Relevant Exchange relating to any Component (or the Relevant Exchange(s) relating to constituents that comprise 20% or more of the Component Level) or any Related Exchange prior to its Scheduled Closing Time unless such earlier closing time is announced by the Relevant Exchange or such Related Exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on the Relevant Exchange or such Related Exchange on such Scheduled Trading Day and (ii) the submission deadline for orders to be entered into the relevant exchange system for execution at the close of trading on such Scheduled Trading Day for the Relevant Exchange or such Related Exchange; or
- (iv) the Relevant Exchange for such Component fails to open for trading during its regular trading session.

For purposes of the foregoing:

“*Related Exchange*” means, with respect to any Component, each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Component, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the futures or options contracts relating to such Component has temporarily relocated (provided that the Calculation Agent has determined that the liquidity of the futures or options contracts on such Component on such temporary substitute exchange or quotation system is comparable to that on the original Related Exchange).

“*Relevant Exchange*” means with respect to any Component, any exchange on which constituents then included in the relevant Component trade.

“*Scheduled Closing Time*” means, with respect to a Relevant Exchange or a Related Exchange and a Scheduled Trading Day for a Component, the scheduled weekday closing time of such Relevant Exchange or such 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, with respect to a Component, any day on which all of the Relevant Exchanges and each Related Exchange are scheduled to be open for trading.

If a Disrupted Day exists for any Component on any Averaging Date, the Component Level for such Component will be determined on the first following Scheduled Trading Day for such Component on which a Disrupted Day does not exist for such Component. However, if a Disrupted Day occurs for any Component on each of the five Scheduled Trading Days immediately following any Averaging Date on which a Disrupted Day has occurred with respect to that Component, then, even if a Disrupted Day is occurring with respect to such Component on the fifth Scheduled Trading Day such fifth Scheduled Trading Day will be the applicable Averaging Date for such Component and (i) the Component Level will be determined on that fifth Scheduled Trading Day and (ii) the Calculation Agent will determine the

relevant Component Level in accordance with the formula for and method of calculating such Component Level that were last in effect before the Disrupted Day began, using the traded closing Component Level of the relevant Component, on the Relevant Exchange, if applicable, on that fifth Scheduled Trading Day of each constituent most recently included in the Component (or, if trading in any such constituent has been materially suspended or materially limited, using the Calculation Agent's estimate of the closing index level that would have prevailed on that fifth Scheduled Trading Day but for such suspension or limitation). For the avoidance of doubt, adjustments made according to this paragraph with respect to any Component will not affect the Averaging Dates of any of the other Components.

Early Termination Events.

Following an Early Termination Event, the Bank reserves the right to terminate the CDs at any time prior to the Maturity Date by designating an Early Termination Date. The following events, as determined by the Calculation Agent, are each an "*Early Termination Event*":

- There occurs any Component Event;
- There is a change in tax law, tax regulations, practice or the interpretation of tax law, tax regulations or practice by any court, tribunal or regulatory authority that is set forth in any publicly available document released by a governmental agency or made public by an official of a governmental agency which could have an adverse economic impact for the Bank with respect to the CDs or the hedge.

Ratings.

The CDs will not be rated by any rating agency.

The Calculation Agent.

The Calculation Agent will be Bear, Stearns & Co. Inc., an affiliate of the Bank. All determinations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will be conclusive for all purposes and binding on the Bank and the depositors, absent manifest error. Because the Calculation Agent is an affiliate of the Bank, potential conflicts of interest may exist between the Calculation Agent and the depositors owning the CDs, including with respect to certain determinations and judgments that the Calculation Agent must make in arriving at amounts due to depositors in respect of the CDs. The Calculation Agent will carry out its duties and functions in good faith and using its reasonable judgment. The Calculation Agent will not be liable for any loss, liability, cost, claim, action, demand or expense (including, without limitation, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) arising out of or in relation to or in connection with its appointment or the exercise of its functions, except such as may result from its own willful default or gross negligence or that of its officers or agents. Nothing shall prevent the Calculation Agent or its affiliates from dealing in the CDs or from entering into any related transactions, including any swap or hedging transactions, with the Bank or any holder of CDs. The Calculation Agent may resign at any time upon written notice to the Bank, and the Bank may remove the Calculation Agent at any time upon written notice to the Calculation Agent. Neither resignation nor removal of the Calculation Agent will take effect until a successor Calculation Agent has been appointed.

THE DISTRIBUTION

The CDs will initially be distributed through the Agents. Please note that the information about the Issue Date, Initial Fixing Date and other terms of the CDs set forth herein only relate to the initial distribution. Depositors who purchase CDs in a market-making transaction after the initial sale will receive information about the price and date of sale in a separate confirmation of sale.

In the future, the Lead Agent or one or more of its affiliates, or another Agent, may repurchase and resell the CDs in market-making transactions, with resales being made at prices related to prevailing market prices at the time of resale or at negotiated prices. See “Certain Risk Factors – Secondary Trading of the CDs is Limited and Prices are Subject to Many Variables” herein.

The Lead Agent will buy CDs from the Bank net of a fee for the services of the Lead Agent of up to [●]% on the Principal Amount thereof sold by the Bank. The Lead Agent may (i) pass all or a portion of this fee along to other Agents to whom the Lead Agent sells CDs and (ii) in the event of an introduction of the CDs by HKC Securities, Inc., as the introducing agent to other Agents, the Lead Agent may also pay a fee not to exceed [●]% of the Principal Amount to HKC Securities, Inc. for its services.

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 CDs. As used in this discussion, the term “U.S. Holder” means a beneficial owner of a CD that is:

- an individual who is a citizen or resident of the United States (as defined for U.S. federal income tax purposes);
- a corporation (or other entity that is treated as a corporation for U.S. 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 U.S. 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 (as defined for U.S. federal income tax purposes) have the authority to control all of its substantial decisions.

As used in this discussion, the term “Non-U.S. Holder” means a beneficial owner of a CD that is, for U.S. federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation,
- an estate whose income is not subject to U.S. 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 no United States persons (as defined for U.S. federal income tax purposes) have the authority to control all of its substantial decisions.

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 U.S. Holders that purchase CDs at initial issuance and beneficially own such CDs 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 depositors or to depositors 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; mutual

funds or real estate investment trusts; small business investment companies; S corporations; depositors that hold their CDs through a partnership or other entity treated as a partnership for federal tax purposes; depositors 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 CDs in tax-deferred or tax-advantaged accounts; or “controlled foreign corporations” or “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 CDs.

Accordingly, prospective depositors are urged to consult their tax advisors with respect to the federal, state and local tax consequences of investing in the CDs, as well as any consequences arising under the laws of any other taxing jurisdiction to which they may be subject.

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 of the CDs addressed in this summary by the Agent and the Bank. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

PROSPECTIVE PURCHASERS OF CDs SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE CDs.

Federal Income Tax Treatment of U.S. Holders

Accruals of Original Issue Discount on the CDs

For U.S. federal income tax purposes, the Bank intends to treat the CDs as “contingent payment debt instruments” (“CPDIs”) subject to taxation under the “noncontingent bond method.” Under the noncontingent bond method, U.S. Holders of the CDs will accrue original issue discount (“OID”) over the term of the CDs based on the CDs’ “comparable yield.” As a result, U.S. Holders will be required to include OID over the term of the CDs even though no cash payments will be made with respect to the CDs until maturity.

In general, the comparable yield of a CPDI is equal to the yield at which its issuer would issue a fixed-rate debt instrument with terms and conditions similar to those of the CPDI, including the level of subordination, term, timing of payments, and general market conditions. If a hedge of the CPDI is available that, if integrated with the CPDI, would produce a synthetic debt instrument with a determinable yield to maturity, the comparable yield will be equal to the yield on the synthetic debt instrument. Alternatively, if such a hedge is not available, but fixed-rate debt instruments of the issuer trade at a price that reflects a spread above a benchmark rate, the comparable yield is the sum of the value of the benchmark rate on the issue date and the spread. Under the noncontingent bond method, the issuer’s reasonable determination of a comparable yield is respected and binding on holders of the CPDI.

U.S. Holders will accrue OID in respect of the Notes at a rate equal to the comparable yield.

Based on these factors, the Calculation Agent estimates that the comparable yield of the CDs would be an annual rate of approximately [5.06]%, compounded annually. The Calculation Agent’s estimate of the comparable yield of the CDs is based on an issue price of CDs equal to the principal amount of the CDs. U.S. Holders may obtain the actual comparable yield by contacting The Bear Stearns Companies Inc., Bill Bamber at (212) 272-6635. Accordingly, U.S. Holders will accrue OID in respect of the CDs at a rate equal to the comparable yield. The issue price of the CDs will be the first price at which

a substantial amount of the CDs are 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). U.S. Holders may contact The Bear Stearns Companies Inc., Bill Bamber at (212) 272-6635 for the issue price of the CDs. (The accrual of OID by U.S. Holders that purchase their CDs at a price other than the issue price of the CDs will be subject to an adjustment described below.) The amount of OID allocable to each annual accrual period will be the product of the “adjusted issue price” of the CDs at the beginning of each such annual accrual period and the comparable yield. The “adjusted issue price” of the CDs at the beginning of an accrual period will equal the issue price of the CDs, increased by the OID accrued in all prior periods. The amount of OID includible in income of each U.S. Holder for each taxable year will equal the sum of the “daily portions” of the total OID on the CDs allocable to each day during the taxable year in which a U.S. Holder held the CDs, regardless of the U.S. Holder’s method of accounting. The daily portion of the OID is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to such accrual period.

Under the noncontingent bond method, the comparable yield of a CPDI is used to construct a projected payment schedule that reflects the projected payment at maturity and produces the comparable yield. U.S. Holders may obtain the projected payment schedule by contacting The Bear Stearns Companies Inc., Bill Bamber at (212) 272-6635. Under the noncontingent bond method, the projected payment schedule is not revised to account for changes in circumstances that occur while the CDs are outstanding.

The comparable yield and the projected payment schedule for the CDs are used to determine accruals of OID for tax purposes only, and are not assurances by the Bank or any of the Bank’s affiliates with respect to the actual yield or payments on the CDs and do not represent expectations by any such person regarding a CD’s yield or the Performance Weighted Portfolio Return.

A U.S. Holder will generally be bound by the Bank’s determination of the comparable yield and projected payment schedule for the CDs, unless the U.S. Holder determines its own projected payment schedule and comparable yield, explicitly discloses such schedule to the Internal Revenue Service (the “IRS”), and explains to the IRS the reason for preparing its own schedule. The Bank believes that the projected payment schedule and comparable yield the Bank provides for the CDs will be reasonable and will therefore be respected by the IRS. The Bank’s determination, however, is not binding on the IRS, and the IRS could conclude that some other comparable yield or projected payment schedule should be used for the CDs.

A U.S. Holder that purchases a CD for an amount other than the issue price of the CD will be required to reasonably allocate the difference between the issue price of the CD and the price at which such U.S. Holder purchased the CD to daily portions of interest or projected payments over the term of the CD, and adjust its OID inclusions and/or positive or negative adjustments accordingly. U.S. Holders that purchase CDs at other than the issue price should consult their tax advisors regarding these adjustments.

Taxation of Payment at Maturity

If the actual payment at maturity is greater than the amount reflected in the projected payment schedule, the excess will be a “positive adjustment,” which is treated as additional OID income. If the actual payment at maturity is less than the amount reflected in the projected payment schedule, the deficiency will be a “negative adjustment.” Such negative adjustment will be applied first to reduce the OID accrued for the year in which the maturity occurs and any remainder of such negative adjustment will be treated as an ordinary loss that will not be subject to the two percent floor limitation imposed on miscellaneous deductions under section 67 of the Code. Holders of record who are individuals will receive information returns reporting OID on the CDs.

Sale, Exchange, Retirement, or Other Disposition of the CDs

A U.S. Holder will generally recognize gain or loss on the sale, exchange, or other disposition of a CD to the extent that the amount realized is more or less than its purchase price, increased by the OID previously accrued by the U.S. Holder on the CD. In general, any gain realized by a U.S. Holder on the sale, exchange or other disposition of a CD will be treated as ordinary interest income, and any loss realized will be treated as an ordinary loss to the extent of the OID previously accrued by the U.S. Holder on the CD, and the loss will not be subject to the two percent floor limitation imposed on miscellaneous deductions under section 67 of the Code. Any loss in excess of the accrued OID will be treated as a capital loss. The deductibility of capital losses by U.S. Holders is subject to limitations.

Federal Income Tax Treatment of Non-U.S. Holders

Any income realized by a Non-U.S. Holder upon the sale, early withdrawal, maturity or other disposition of a CD will not be subject to U.S. federal income or withholding tax, if the income is not effectively connected with a trade or business of the Non-U.S. Holder in the United States.

Information Reporting and Backup Withholding.

Information reporting will apply to certain payments on a CD (including interest and OID) and proceeds of the sale of a CD held by a U.S. Holder that is not an exempt recipient (such as a corporation). Backup withholding may apply to payments made to a U.S. Holder if (a) the U.S. Holder has failed to provide its correct taxpayer identification number on IRS Form W-9, (b) the Agent of a U.S. Holder has been notified by the IRS of an underreporting by such U.S. Holder (underreporting generally refers to a determination by the IRS that a payee has failed to include in income on its tax return any reportable dividend and interest payments required to be shown on a tax return for a taxable year) or (c) the Agent of a U.S. Holder has been notified by the IRS that the tax identification number provided to the IRS on an information return does not match IRS records or that the number was not on such information return.

Backup withholding will not be required with respect to holders that are Non-U.S. Holders, so long as such Non-U.S. Holder's Agent has received a correct and complete IRS Form W-8BEN or Form W-8IMY with all of the attachments required by the IRS, signed under penalty of perjury, identifying such Non-U.S. Holder and stating that it is not a United States person. Interest paid to a Non-U.S. Holder that is an individual who resides in Canada will be reported on IRS Form 1042-S which is filed with the IRS and sent to Non-U.S. Holders.

Information reporting and backup withholding may apply to the proceeds of a sale of a CD by a holder that is not a U.S. holder made within the United States or conducted through certain U.S. related financial intermediaries, unless the payor receives the statement described above. Backup withholding is not an additional tax and may be refunded (or credited against a Non-U.S. Holder's U.S. federal income tax liability, if any), *provided*, that certain required information is furnished. The information reporting requirements may apply regardless of whether or not withholding is required. For Non-U.S. Holders, copies of the information returns reporting such amounts and withholding also may be made available to the tax authorities in the country in which the holder is a resident under the provisions of an applicable income tax treaty or agreement.

The preceding discussion is only a summary of certain of the tax implications of purchasing the CDs. Prospective purchasers are urged to consult with their own tax advisors prior to purchasing to determine the tax implications of such purchase in light of such purchaser's particular circumstances.

CERTAIN ERISA CONSIDERATIONS

Section 4975 of the Code prohibits the borrowing of money, the sale of property and certain other transactions involving the assets of plans that are qualified under the Code (“Qualified Plans”) or individual retirement accounts (“IRAs”) and persons who have certain specified relationships to them. Section 406 of ERISA prohibits similar transactions involving employee benefit plans that are subject to ERISA (“ERISA Plans”). Certain governmental, church and other plans may be subject to federal, state or other laws, rules or regulations similar to the foregoing provisions of ERISA and the Code (“Similar Law”) (such plans are referred to as “Similar Law Plans”). Qualified Plans, IRAs and ERISA Plans are referred to as “Plans”.

Persons who have such specified relationships are referred to as “parties in interest” under ERISA and as “disqualified persons” under the Code. “Parties in interest” and “disqualified persons” encompass a wide range of persons, including any fiduciary (for example, an investment manager, trustee or custodian), any person providing services (for example, a broker), the Plan sponsor, an employee organization any of whose members are covered by the Plan, and certain persons related to or affiliated with any of the foregoing.

The purchase and/or holding of the CDs by a Plan with respect to which the Bank and/or an Agent is a fiduciary and/or a service provider (or otherwise is a “party in interest” or “disqualified person”) might constitute or result in a prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless such CDs are acquired or held pursuant to and in accordance with an applicable statutory or administrative exemption. The Bank, the Lead Agent and several of their affiliates are each considered to be a “disqualified person” under the Code or a “party in interest” under ERISA with respect to many Plans, although the Bank is not a “disqualified person” with respect to an IRA simply because the IRA is established with the Lead Agent or because the Lead Agent provides services to the IRA, and neither the Bank nor the Lead Agent can be a “party in interest” to any IRA other than certain employer-sponsored IRAs as only employer-sponsored IRAs are covered by ERISA.

Applicable administrative exemptions may include certain prohibited transaction class exemptions (for example, Prohibited Transaction Class Exemption (“PTCE”) 84-14 relating to qualified professional asset managers, PTCE 96-23 relating to certain in-house asset managers, PTCE 91-38 relating to bank collective investment funds, PTCE 90-1 relating to insurance company separate accounts and PTCE 95-60 relating to insurance company general accounts). In view of the fact that the CDs represent deposits with the Bank, fiduciaries should take into account the prohibited transaction exemption described in ERISA Section 408(b)(4), relating to the investment of plan assets in deposits bearing a reasonable rate of interest in a financial institution supervised by the United States or a state, and/or Part IV of PTCE 81-8, relating to transactions involving short-term investments, specifically certificates of deposit. Finally, it should also be noted that the recently enacted Pension Protection Act of 2006 contains a new statutory exemption from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code for transactions involving certain parties in interest or disqualified persons who are such merely because they are a service provider to a Plan, or because they are related to a service provider. Generally, the new exemption would be applicable if the party to the transaction with the Plan is a party in interest or a disqualified person to the Plan but is not (i) an employer, (ii) a fiduciary who has or exercises any discretionary authority or control with respect to the investment of the Plan assets involved in the transaction, (iii) a fiduciary who renders investment advice (within the meaning of ERISA and Section 4975 of the Code) with respect to those assets, or (iv) an affiliate of (i), (ii) or (iii). Any Plan fiduciary relying on this new statutory exemption (Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code) and purchasing securities on behalf of a Plan will be deemed to represent that (x) the fiduciary has made a good faith determination that the Plan is paying no more than, and is receiving no less than, adequate consideration in connection with the transaction and (y) neither the Bank, the Lead Agent nor their affiliates directly or indirectly exercises any discretionary authority or control or renders investment

advice (as defined above) with respect to the assets of the Plan which such fiduciary is using to purchase the CDs both of which are necessary preconditions to utilizing this new exemption. Any purchaser that is a Plan is encouraged to consult with counsel regarding the application of the new exemption. A fiduciary of a Plan or a Similar Law Plan purchasing the CDs, or in the case of certain IRAs, the grantor or other person directing the purchase of the CDs for the IRA, shall be deemed to represent, by its purchase, that its purchase, holding, and disposition of the CDs does not constitute a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code or a non-exempt violation of Similar Law.

The sale of CDs to a Plan or a Similar Law Plan is in no respect a representation by the Bank or its affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans or Similar Law Plans generally or any particular Plan or Similar Law Plan, or that such an investment is appropriate for a Plan or Similar Law Plan generally or any particular Plan or Similar Law Plan.

DEPOSIT INSURANCE

The CDs are insured by the FDIC, an independent agency of the U.S. Government, to a maximum amount of \$100,000 (including principal and interest) for all deposits held in the same capacity at the Bank except for certain retirement accounts. Generally, any non-retirement accounts or deposits that a depositor may maintain directly with the Bank in the same capacity as that in which the CDs are maintained would be aggregated with the CDs for purposes of the \$100,000 limit. In the event the Bank fails, non-retirement interest-bearing CDs are insured, up to the \$100,000 limit, for principal and interest accrued to the date the Bank is closed.

Under certain circumstances, if a person becomes the owner of CDs or other deposits at the Bank because another depositor dies, beginning six months after the death of the depositor the FDIC will aggregate those deposits for purposes of the \$100,000 limit with any other CDs or deposits that such person owns in the same capacity at the Bank. Examples of accounts that may be subject to this FDIC policy include joint accounts, “payable on death” accounts and certain trust accounts. The FDIC provides the six month “grace period” to permit a depositor to restructure its deposits to obtain the maximum amount of deposit insurance for which such depositor is eligible.

Depositors are responsible for monitoring the total amount of deposits that they hold with the Bank in order for them to determine the extent of deposit insurance coverage available to them on their deposits, including the CDs. No Agent is responsible for any insured or uninsured portion of the CDs or any other deposits.

BY ITS PURCHASE OF A CD EACH DEPOSITOR IS DEEMED TO REPRESENT TO THE BANK AND THE AGENTS THAT ITS DEPOSITS WITH THE BANK (OR IF IT IS ACTING AS A CUSTODIAN, THE DEPOSITS OF THE BENEFICIARIES), INCLUDING THE CD, WHEN AGGREGATED IN ACCORDANCE WITH FDIC REGULATIONS, ARE WITHIN THE APPLICABLE DEPOSIT INSURANCE LIMITS.

If a depositor’s CDs or other deposits at the Bank are assumed by another depository institution pursuant to a merger or consolidation, such CDs or deposits will continue to be separately insured from the deposits that such depositor might have established with the acquirer until (i) the maturity date of the CDs or other time deposits which were assumed, or (ii) with respect to deposits which are not time deposits, the expiration of a six month period from the date of the acquisition. Thereafter, any assumed deposits will be aggregated with such depositor’s existing deposits with the acquirer held in the same capacity for purposes of federal deposit insurance. Any deposit opened at the Bank after the acquisition will be aggregated with deposits established with the acquirer for purposes of federal deposit insurance.

In the event that a person purchases a CD in the secondary market at a premium over the par amount, that premium is not insured. Similarly, a depositor is not insured for any premium reflected in the estimated market value of its CD on its account statement. If deposit insurance payments become necessary for the Bank, a depositor can lose the premium paid for its CD and will not receive any premium shown on its account statement. See the section headed “Secondary Market” in the Disclosure Statement.

The application of the \$100,000 federal deposit insurance limitation for non-retirement accounts is illustrated by several common factual situations discussed below.

Individual Customer Accounts. Funds owned by an individual and held in an account in the name of an agent or nominee of such individual (such as the CDs held in an Agent’s account) are not treated as owned by the agent or nominee, but are added to other deposits of such individual held in the same capacity (including funds held in a sole proprietorship) and are insured up to \$100,000 in the aggregate.

Custodial Accounts. Funds in accounts held by a custodian (for example, under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act) are not treated as owned by the custodian, but are added to other deposits of the minor or other beneficiary held in the same capacity and are insured up to \$100,000 in the aggregate.

Corporate, Partnership and Unincorporated Association Accounts. Funds in accounts owned by corporations (including Subchapter S corporations), partnerships and unincorporated associations, operated for a purpose other than to increase deposit insurance, are added together with other deposits owned by such corporation, partnership and unincorporated association, respectively, and are insured up to \$100,000 in the aggregate.

Joint Accounts. An individual’s interest in funds in all accounts held under any form of joint ownership valid under applicable state law may be insured up to \$100,000 in the aggregate, separately and in addition to the \$100,000 allowed on other deposits individually owned by any of the co-owners of such accounts (hereinafter referred to as a “*Joint Account*”). For example, a Joint Account owned by two persons would be eligible for insurance coverage of up to \$200,000 (\$100,000 for each person), subject to aggregation with each owner’s interests in other Joint Accounts at the same depository institution. Joint Accounts will be insured separately from individually owned accounts only if each of the co-owners is an individual person and has a right of withdrawal on the same basis as the other co-owners.

Revocable Trust Accounts. General Rule. Funds held in an account in which the owner evidences an intent that at his or her death the funds shall belong to one or more individuals (frequently referred to as a “Totten trust” account, “payable upon death” account or other type of revocable trust account (as determined under applicable state law)) will be aggregated with other funds of the owner held in an individual capacity at the Bank and insured up to a maximum of \$100,000. Special Rule. Revocable trust accounts will be insured as to each named beneficiary, separately from another account of the owner or the beneficiary, provided that: (i) the account’s records evidence an intention that upon the death of the owner the funds will belong to the owner’s spouse, or to one or more parents, siblings, children or grandchildren and (ii) the beneficiaries of the revocable trust are specifically named in the account’s records. However, a revocable trust account established by a husband and wife that names the husband and wife as sole beneficiaries will be treated as a joint account, and will be aggregated with other joint accounts subject to the rules described above under “Joint Accounts.”

Irrevocable Trust Accounts. Funds in an account established pursuant to one or more irrevocable trust agreements created by the same grantor (as determined under applicable state law) will be insured for up to \$100,000 for the interest of each beneficiary provided that the beneficiary’s interest in the account is non-contingent (i.e., capable of determination without evaluation of contingencies). The deposit

insurance of each beneficiary's interest is separate from the coverage provided for other accounts maintained by the beneficiary, the grantor, the trustee or other beneficiaries. The interest of a beneficiary in irrevocable trust accounts at the Bank created by the same grantor will be aggregated and insured up to \$100,000.

Deposit Insurance for CDs Purchased by Retirement Plans and Accounts

Retirement Plans and Accounts - Generally. Depositors may have interests in various retirement plans and accounts that are holding the CDs of the Bank. The amount of deposit insurance a depositor will be entitled to, including whether CDs held by the plan or account will be considered separately or aggregated with the CDs of the Bank held by other plans or accounts will vary depending on the type of plan or account. It is therefore important to understand the type of plan or account holding the CD. The following sections entitled "Individual Retirement Accounts," "Pass-Through Deposit Insurance for Employee Benefit Plan Deposits" and "Aggregation of Retirement Plan and Account Deposits" generally discuss the rules that apply to deposits of retirement plans and accounts.

Individual Retirement Accounts. The CDs of the Bank held in an individual retirement account (an "IRA") are insured up to \$250,000 in the aggregate. However, the CDs of the Bank acquired by an IRA will be aggregated with the CDs of the Bank held by certain employee benefit plans in which the owner of the IRA has an interest. (See "Aggregation of Retirement Plan and Account Deposits.") Thus, the owner of an IRA will only be entitled to insurance of \$250,000 for CDs of the Bank held in plans and accounts that are subject to aggregation.

Pass-Through Deposit Insurance for Employee Benefit Plan Deposits. Subject to the limitations discussed below, under FDIC regulations an individual's non-contingent interests of up to \$250,000 in the deposits of the Bank held by many types of plans are eligible for insurance on a "pass-through" basis. This means that instead of an employee benefit plan's deposits at the Bank being entitled to only \$250,000 of insurance in total, each participant in the employee benefit plan is entitled to insurance of his or her interest in the employee benefit plan's deposits at the Bank of up to \$250,000 (subject to the aggregation of the participant's interests in different plans, as discussed below). The pass-through insurance provided to an individual as an employee benefit plan participant is in addition to the \$250,000 deposit insurance allowed on other deposits held by an individual with the Bank.

The contingent interests of employees in an employee benefit plan and overfunded amounts attributed to any employee benefit plan are not insured on a pass-through basis. Contingent interests of an employee in an employee benefit plan deposit are interests that are not capable of evaluation in accordance with FDIC rules, and are aggregated and insured up to \$250,000. Similarly, overfunded amounts are insured, in the aggregate for all participants, up to \$250,000 separately from the insurance provided for any other funds owned by or attributable to the employer or an employee benefit plan participant.

Under federal law, whether an employee benefit plan deposit is entitled to pass-through deposit insurance coverage is based, in part, on the type of employee benefit plan involved. In general, the issuing depository institution may only accept employee benefit plan deposits if it is not undercapitalized.

Types of Employee Benefit Plans. The types of plans for which deposits may receive "pass-through" treatment are employee benefit plans, as defined in section 3(3) of ERISA (including "Keogh Plans" of owner-employees described in section 401(d) of the Code, whether or not they are technically "employee benefit plans" under ERISA) ("*ERISA Plans*") and deferred compensation plans for certain employees of state or local governments or tax-exempt organizations ("*Section 457 Plans*"). (Collectively, ERISA Plans and Section 457 Plans are referred to herein as "*Plans*.") Plans eligible for pass-through treatment include a tax-qualified pension, profit-sharing or stock bonus plan, a governmental plan or a church plan.

Capital Status of the Issuing Depository Institution. In general, whether a deposit institution domiciled in the U.S. or one of its territories may accept brokered deposits depends upon such institution's capital level. The federal banking regulators have established categories to reflect such an institution's capital level. If such an institution's capital category is either "well capitalized," or is "adequately capitalized" and such institution has received the necessary brokered deposit waiver from the FDIC, then such institution may accept brokered deposits. If such an institution is either "adequately capitalized" without a waiver from the FDIC or is in a capital category below "adequately capitalized," then such institution may not accept brokered deposits.

FDIC regulations provide an exception from this general rule on the availability of pass-through insurance coverage for employee benefit plan deposits when, although a deposit institution domiciled in the U.S. or one of its territories is not permitted to accept brokered deposits, such institution is "adequately capitalized" and the depositor receives a written statement from such institution indicating that such deposits are eligible for insurance coverage on a pass-through basis.

Written Statement. In order to assist Plans in determining the availability of pass-through deposit insurance, FDIC regulations require the Bank to provide a written statement to persons administering or managing a Plan that includes both the Bank's capital category and a representation regarding the availability of pass-through deposit insurance. The Co-Lead Agents will obtain the written statement from the Bank at the time the deposit is made.

In the event that the Bank fails, the FDIC could elect to deny pass-through deposit insurance for Plan deposits if the representations of the Bank were false at the time the Plan deposit was made. If the requirements for pass-through deposit insurance are not met, coverage will be limited to \$250,000 per Plan, rather than per Plan participant. If a denial of pass-through treatment would be significant for a Plan, the Plan may wish to limit its deposits in one depository institution to \$250,000.

Aggregation of Retirement Plan and Account Deposits. Under FDIC regulations, an individual's interests in Plans maintained by the same employer or employee organization (e.g., a union) which are holding deposits of the Bank will be insured for \$250,000 in the aggregate. In addition, under FDIC regulations an individual's interest in the CDs of the Bank held by (i) IRAs, (ii) Section 457 Plans, (iii) self-directed Keogh Plans and (iv) self-directed defined contribution plans that are acquired by these plans and accounts will be insured for \$250,000 in the aggregate whether or not maintained by the same employer or employee organization.

Questions About FDIC Deposit Insurance Coverage

If a depositor has questions about basic FDIC insurance coverage, it may contact the relevant Agent. A depositor may wish to seek advice from its own attorney concerning FDIC insurance coverage of deposits held in more than one capacity. A depositor may also obtain information by contacting the FDIC, Office of Consumer Affairs, by letter (550 17th Street, N.W., Washington, D.C. 20429), by phone (877-275-3342, 800-925-4618 (TDD) or 202-942-3100) or by e-mail (dcainternet@fdic.gov) or by visiting the FDIC website at www.fdic.gov.

Payments under Adverse Circumstances

As with all deposits, if it becomes necessary for federal deposit insurance payments to be made on the CDs, there is no specific time period during which the FDIC must make insurance payments available. Accordingly, depositors should be prepared for the possibility of an indeterminate delay in obtaining insurance payments.

As explained above, the maximum \$100,000 deposit insurance coverage, or \$250,000 deposit insurance coverage for retirement accounts, as appropriate, applies to the principal and accrued interest on all CDs and other deposit accounts maintained by a depositor at the Bank in the same capacity. The records maintained by the Bank and the relevant Agent regarding ownership of CDs would be used to establish a depositor's eligibility for federal deposit insurance payments. In addition, a depositor may be required to provide certain documentation to the FDIC and to the relevant Agent before insurance payments are released to such depositor. For example, if a person holds CDs as trustee for the benefit of trust participants, such person may also be required to furnish an affidavit to that effect; such person may be required to furnish other affidavits and provide indemnities regarding an insurance payment.

In the event that deposit insurance payments become necessary for a depositor's CDs, the FDIC is required to pay the original par amount plus accrued interest to the date of the closing of the Bank, as prescribed by law, and subject to the \$100,000 or \$250,000 limitation, as appropriate. No interest is earned on deposits from the time the Bank is closed until insurance payments are received.

As an alternative to a direct deposit insurance payment from the FDIC, the FDIC may transfer the insured deposits of an insolvent institution to a healthy institution. Subject to insurance verification requirements and the limits on deposit insurance coverage, the healthy institution may assume the CDs under the original terms or offer a depositor a choice between paying the CD off and maintaining the deposit at a different rate. The relevant Agent will advise the depositor of its options in the event of a deposit transfer.

No Agent will be obligated to a depositor for amounts not covered by deposit insurance nor will any Agent be obligated to make any payments to a depositor in satisfaction of a loss it might incur as a result of (i) a delay in insurance payouts applicable to such depositor's CD, or (ii) such depositor's receipt of a decreased interest rate on an investment replacing such depositor's CD as a result of the payment of the principal and accrued interest of a CD prior to its scheduled maturity or (iii) payment in cash of the principal and accrued interest of such depositor's CD prior to maturity in connection with the liquidation of the Bank or the assumption of all or a portion of its deposit liabilities. In connection with the latter, the amount of a payment on a CD which had been purchased at a premium in the secondary market is based on the original par amount and not on any premium amount. Therefore, a depositor can lose up to the full amount of the premium as a result of such a payment. Also, no Agent will be obligated to credit a depositor's account with funds in advance of payments received from the FDIC.

SALES RESTRICTIONS FOR CERTAIN JURISDICTIONS

Germany

Each Agent has represented and agreed with the Bank that it shall only offer and sell CDs in the Federal Republic of Germany in accordance with the provisions of the Securities Sales Prospectus Act of 9 September 1998, as amended (Wertpapier-Verkaufsprospektgesetz) and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of the CDs in the Federal Republic of Germany.

The CDs are neither registered for public distribution with the Federal Financial Supervisory Authority according to the German Investment Act nor listed on a German exchange. No sales prospectus pursuant to the German Sales Prospectus Act has been filed with the Supervisory authorities. Consequently, the CDs may not be offered to the public. Depositors should be aware that there might be disadvantageous tax consequences when purchasing investment fund shares on a private placement basis. In doubt, depositors should consult their financial or tax adviser before purchasing the shares.

Greece

The CDs have not been approved by the Capital Market Commission for distribution to the public in Greece in accordance with Presidential Decree 52/1992 and article 10 of Law 876/1979. Consequently, each of the Bank, the Lead Agent and the participating Agents has represented and agreed, and each further broker or dealer appointed by any of the above will be required to represent and agree, that it has not offered nor sold, and will not offer nor sell, directly or indirectly, CDs to the public in Greece and has not distributed nor will distribute to the public in Greece the Supplement or the accompanying Disclosure Statement or any other offering or information material in relation to the CDs. Any offer, sale or distribution of information and marketing material has been and will be made in Greece to ‘persons engaged professionally in the investment business’ or to a ‘restricted number’ of persons, in the sense of article 2 of Presidential Decree 52/1992, as amended and in force today.

Ireland

The CDs are only being offered for subscription to persons (a) who are purchasing a minimum amount of €40,000 principal amount of CDs, and (b) whose ordinary business is to buy or sell shares or debentures whether as principal or agent. Any person described in clause (b) of the preceding sentence will be required to represent and agree that they will not sell or offer to sell the CDs in a manner which would constitute an offer to the public under the Irish Companies Act, 1963.

Israel

This Supplement is reserved to the addressee hereof and cannot be passed on to any other person (other than to legal, investment, financial and tax advisors of the addressee). The CDs described in this Supplement are being marketed on a confidential, private basis in Israel only to persons or corporate entities listed in the Schedule to the Israel Securities Law, 5728-1968 referred to in Section 15A(b)(1) of that Law (“*qualified purchasers*”) for their own account and to no more than 35 additional purchasers. The CDs are not being marketed or sold to the public in or from Israel. Each Agent has represented and agreed that it will not market or sell the CDs to the public in or from Israel, directly or indirectly.

Transfer and resale of the CDs may be subject to restrictions under the Israel Securities Law, 5728-1968. The contents of this Supplement do not constitute legal, investment, financial or tax advice and each addressee should consult addressee’s own advisors.

Italy

The offering of the CDs has not been registered with the Commissione Nazionale per la Società e la Borsa (“*CONSOB*”) (the Italian securities exchange commission) pursuant to the Italian securities legislation and, accordingly, the CDs cannot be offered, sold or delivered nor any copies of the Supplement or any other document relating to the CDs can be distributed in the Republic of Italy (“*Italy*”) in a solicitation to the public at large (sollecitazione all’investimento) and the CDs in Italy shall only be: (i) offered or sold to professional investors (operatori qualificati), as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of 1 July 1998 (the “*Regulation No 11522*”), as amended, and effected in compliance with the terms and procedures provided therein; or (ii) offered or sold in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998 (the “*Financial Services Act*”) and Article 33, first paragraph, of CONSOB Regulation No 11971 of 14 May 1999.

Moreover, and subject to the foregoing, the CDs may not be offered, sold or delivered and neither the Supplement nor any other material relating to the CDs may be distributed or made available in Italy unless such offer, sale or delivery of CDs or distribution or availability of copies of the Supplement or any other material relating to the CDs in the Italy is made: (a) by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September, 1993 (the “*Italian Banking Act*”), Regulation No 11522, and

any other applicable laws and regulations; (b) in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending inter alia on the amount of the issue and the characteristics of the securities, applies; and (c) in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

Luxembourg

The CDs are not for distribution to the public in or from Luxembourg. Each Agent has represented and agreed that it will not offer or sell any CDs to the public in or from the Grand Duchy of Luxembourg, directly or indirectly. Neither this information nor any form of application, advertisement or other marketing material may be distributed or be made available to the public in or from Luxembourg.

Monaco

Each of the Bank, the Lead Agent and each other Agent hereby represents and warrants that it has not offered or sold and will not offer or sell the CDs in the Principality of Monaco, nor has it distributed nor will it distribute any other document or offering materials in Monaco relating to the distribution of the CDs except to entities currently licensed and in good standing in Monaco for (i) the management of securities or financial instruments portfolios, (ii) the placement of orders in the financial markets and (iii) advisory services in respect of such activities under Monaco law N° 1.194 dated 9 July 1997 as modified by law N° 1.241 of 3 July 2001 and related ordinances. This Supplement is reserved to the addressee only and cannot be passed on to third parties. It does not constitute a public offering or “appel public à l'épargne” in the sense commonly referred to under French and Monaco law.

Saudi Arabia

The Bank, the Lead Agent and each other Agent has represented and agreed, and each further Agent appointed from time to time will be required to represent and agree that it has not offered or sold, and will not offer or sell, directly, CDs to the public in Saudi Arabia and has not distributed and will not distribute directly to the public in Saudi Arabia this Supplement or any other offering material relating to the CDs. This Supplement has not been approved by the Saudi Arabian Monetary Agency, the Saudi Arabian Capital Market Authority or the Saudi Arabian Ministry of Commerce and Industry, nor have the Bank, the Lead Agent or any other Agent received authorization or licensing from the Saudi Arabian Monetary Agency, Saudi Arabian Capital Market Authority or the Saudi Arabian Ministry of Commerce and Industry to market or sell securities in Saudi Arabia.

Spain

The offer of CDs has not been registered with the Comisión Nacional del Mercado de Valores, the CNMV. Accordingly, each of the Agents has represented, warranted and agreed that it has not offered or sold and will not offer or sell the CDs in the Kingdom of Spain nor has it distributed nor will it distribute any document or offering materials in Spain or targeted to Spanish resident investors save in compliance and in accordance with the requirements of the Spanish Securities Market Law, as amended, and Royal Decree 291/1992, 27 March as amended, and the regulations issued thereunder.

Sweden

This Supplement has not been filed with, examined or approved by any Swedish authority and does not constitute a public offer in Sweden. This document is for the intended recipient only and may not in any way, directly or indirectly, be forwarded to the public in Sweden.

Switzerland

The CDs are not being offered to the public in Switzerland. This Supplement is being communicated in Switzerland to a limited circle of selected purchasers only. Each copy of this document is addressed to a specifically named recipient and shall not be passed on to a third party.

United Arab Emirates

The CDs are only being offered for sale in the United Arab Emirates (“*U.A.E.*”) (a) by persons licensed pursuant to regulations promulgated by the U.A.E. Central Bank under its Resolution No. 164/8/94, or (b) by persons conducting all marketing and selling activities with respect to the CDs entirely outside the U.A.E.

United Kingdom

Each Agent has represented, warranted and agreed that:

(i) it has not offered or sold and, prior to the expiry of six months from the issue date of the CDs will not offer or sell any CDs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted in and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“*FSMA*”)) received by it in connection with the issue or sale of any CDs in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any CDs in, from or otherwise involving the United Kingdom.

ANNEX A
DESCRIPTION OF THE COMPONENTS

The S&P 500[®] Index

General

Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("Standard & Poors") publishes the S&P 500[®]. The S&P 500[®] is a capitalization weighted index and is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the S&P 500[®], discussed below in further detail, is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. As of April 27, 2007, 423 companies, or 85.5% of the constituents in the S&P 500[®], traded on the New York Stock Exchange (the "NYSE") and 77 companies, or 14.5% of the constituents in the S&P 500[®], traded on The Nasdaq Stock Market. Standard & Poor's chooses companies for inclusion in the S&P 500[®] with the aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of the NYSE, which Standard & Poor's uses as an assumed model for the composition of the total market. Relevant criteria employed by Standard & Poor's include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company's common stock is generally responsive to changes in the affairs of the respective industry and the market value and trading activity of the common stock of that company. Ten main groups of companies comprise the S&P 500[®] with the number of companies included in each group, as of May 2, 2007, indicated in parentheses: Industrials (52), Utilities (32), Telecommunication Services (9), Materials (28), Information Technology (74), Energy (33), Consumer Staples (39), Consumer Discretionary (89), Healthcare (54) and Financials (90). Changes in the S&P 500[®] are reported daily in the financial pages of many major newspapers, on the Bloomberg Financial Service under the symbol "SPX" and on Standard & Poor's website (<http://www.spglobal.com>). Information contained in the Standard & Poor's website is not incorporated by reference in, and should not be considered a part of, this Offering Memorandum Supplement. The S&P 500[®] does not reflect the payment of dividends on the stocks included in the S&P 500[®].

Computation of the S&P 500[®]

Standard & Poor's currently computes the S&P 500[®] as of a particular time as follows:

- (i) the product of the market price per share and the number of then outstanding shares of each component stock is determined as of that time (referred to as the "market value" of that stock);
- (ii) the market values of all component stocks as of that time are aggregated;
- (iii) the mean average of the market values as of each week in the base period of the years 1941 through 1943 of the common stock of each company in a group of 500 substantially similar companies is determined;
- (iv) the mean average market values of all these common stocks over the base period are aggregated (the aggregate amount being referred to as the "base value");
- (v) the current aggregate market value of all component stocks is divided by the base value; and
- (vi) the resulting quotient, expressed in decimals, is multiplied by ten.

While Standard & Poor's currently employs the above methodology to calculate the S&P 500[®], no assurance can be given that Standard & Poor's will not modify or change this methodology in a manner that may affect the Performance of the S&P 500[®].

Standard & Poor's adjusts the foregoing formula to offset the effects of changes in the market value of a component stock that are determined by Standard & Poor's to be arbitrary or not due to true market fluctuations.

These changes may result from causes such as:

- the issuance of stock dividends,
- the granting to shareholders of rights to purchase additional shares of stock,
- the purchase of shares by employees pursuant to employee benefit plans,
- consolidations and acquisitions,
- the granting to shareholders of rights to purchase other securities of the company,
- the substitution by Standard & Poor's of particular component stocks in the S&P 500[®], and
- other reasons.

In these cases, Standard & Poor's first recalculates the aggregate market value of all component stocks, after taking account of the new market price per share of the particular component stock or the new number of outstanding shares of that stock or both, as the case may be, and then determines the new base value in accordance with the following formula:

$$\text{Old Base Value} \times \frac{\text{New Market Value}}{\text{Old Market Value}} = \text{New Base Value}$$

The result is that the base value is adjusted in proportion to any change in the aggregate market value of all component stocks resulting from the causes referred to above to the extent necessary to negate the effects of these causes upon the S&P 500[®].

In addition, Standard & Poor's standard practice is to remove all closely held shares and shares held between corporations who are both in the calculations of the S&P 500[®] and an S&P 500[®] component's market value.

License Agreement with Standard & Poor's

Standard & Poor's and The Bear Stearns Companies Inc. have entered into a non-exclusive license agreement providing for the license to The Bear Stearns Companies Inc. and its affiliated and subsidiary companies (including the Bank), in exchange for a fee, of the right to use the S&P 500[®], which is owned and published by Standard & Poor's, in connection with certain products, including the CDs.

This license agreement provides that the following language must be set forth in this Supplement.

“The CDs are not sponsored, endorsed, sold or promoted by Standard & Poor's. Standard & Poor's makes no representation or warranty, express or implied, to the owners of the CDs or any member of the public regarding the advisability of investing in securities generally or in the CDs particularly. Standard & Poor's only relationship to the Bank is the licensing of certain trademarks, trade names and service marks of Standard & Poor's and of the Index, which is determined, composed and calculated by Standard

& Poor's without regard to the Bank or the CDs. Standard & Poor's has no obligation to take the Bank's needs or the needs of holders of the CDs into consideration in determining, composing, or calculating the Index. Standard & Poor's is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the CDs to be issued or in the determination or calculation of the alternative redemption amount. Standard & Poor's has no obligation or liability in connection with the administration, marketing, or trading of the CDs.

Standard & Poor's does not guarantee the accuracy and/or the completeness of the Index or any data included therein and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. Standard & Poor's makes no warranty, express or implied, as to results to be obtained by the Bank, owners of the CDs, or any other person or entity from the use of the Index or any data included therein. Standard & Poor's makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the Index or any data included therein. Without limiting any of the foregoing, in no event shall Standard & Poor's have any liability for any lost profits or indirect, punitive, special, or consequential damages or losses, even if notified of the possibility thereof. There are no third party beneficiaries or any agreements or arrangements between Standard & Poor's and the Bank.”

All disclosures contained in this pricing supplement regarding the S&P 500[®], including its make-up, method of calculation and changes in its components, are derived from publicly available information prepared by Standard & Poor's. The Bank assumes no responsibility for the accuracy or completeness of such information.

Historical Performance of the S&P 500[®]

The following table sets forth the quarterly high and low intraday levels, as well as end-of-quarter final levels, of the S&P 500[®] for each quarter in the period from January 1, 2002 through March 30, 2007 and for the period from April 2, 2007 through May 3, 2007. The final level of the S&P 500[®] on May 3, 2007 was 1502.39. The Bank obtained the data in the following table from Bloomberg Financial Service, without independent verification by the Bank. **Historical levels of the S&P 500[®] should not be taken as an indication of future performance and no assurance can be given that the level of the S&P 500[®] will increase relative to its initial index level during the term of the CDs.**

<u>Quarter Ending</u>	<u>Quarterly High</u>	<u>Quarterly Low</u>	<u>Quarterly Close</u>
December 31, 2001	1,173.62	1,026.76	1,148.08
March 29, 2002	1,176.97	1,074.36	1,147.39
June 28, 2002	1,147.84	952.92	989.82
September 30, 2002	994.46	775.68	815.28
December 31, 2002	954.28	768.63	879.82
March 31, 2003	935.05	788.90	848.18
June 30, 2003	1,015.33	847.85	974.50
September 30, 2003	1,040.29	960.84	995.97
December 31, 2003	1,112.56	995.97	1,111.92
March 31, 2004	1,163.23	1,087.06	1,126.21
June 30, 2004	1,150.57	1,076.32	1,140.84
September 30, 2004	1,140.84	1,060.72	1,114.58
December 31, 2004	1,217.33	1,090.19	1,211.92
March 31, 2005	1,229.11	1,163.69	1,180.59
June 30, 2005	1,219.59	1,136.15	1,191.33
September 30, 2005	1,245.86	1,183.55	1,228.81
December 30, 2005	1,275.80	1,168.20	1,248.29
March 31, 2006	1,310.88	1,245.74	1,294.83
June 30, 2006	1,326.70	1,219.29	1,270.20
September 30, 2006	1,340.28	1,224.54	1,335.85
December 29, 2006	1,431.81	1,327.10	1,418.30
March 30, 2007	1461.57	1363.98	1420.86
April 2, 2007 through May 9, 2007	1503.34	1416.37	1512.58

The Dow Jones EUROSTOXX 50SM Index

The Bank has derived all information relating to the DJ EUROSTOXX 50SM, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available sources. Such information reflects the policies of and is subject to change by, STOXX Limited. STOXX Limited has no obligation to continue to publish, and may discontinue publication of, the DJ EUROSTOXX 50SM. STOXX Limited is under no obligation to continue to publish, and may discontinue or suspend the publication of the DJ EUROSTOXX 50SM at any time.

The DJ EUROSTOXX 50SM was created by STOXX Limited, a joint venture between Deutsche Börse AG, Dow Jones & Company and SWX Group. Publication of the DJ EUROSTOXX 50SM began on February 28, 1998, based on an initial DJ EUROSTOXX 50SM value of 1,000 at December 31, 1991. The DJ EUROSTOXX 50SM is reported daily in the financial pages of many major newspapers, on the Bloomberg Financial Service under the symbol “SX5E” and on the STOXX Limited website: <http://www.stoxx.com>. Information contained in the STOXX Limited website is not incorporated by reference in, and should not be considered a part of, this free writing prospectus.

Computation of the DJ EUROSTOXX 50SM

The DJ EUROSTOXX 50SM is composed of 50 component stocks of market sector leaders from within the Dow Jones EURO STOXX 50SM Index, which includes stocks selected from the Eurozone. The component stocks have a high degree of liquidity and represent the largest companies across all market sectors defined by the Dow Jones Global Classification Standard. The composition of the DJ EUROSTOXX 50SM is reviewed annually in September, based on the closing stock data on the last trading day in August. The component stocks are announced the first trading day in September. Changes to the component stocks are implemented on the third Friday in September and are effective the following trading day. Changes in the composition of the DJ EUROSTOXX 50SM are made to ensure that the DJ EUROSTOXX 50SM includes the 50 market sector leaders from within the Dow Jones EUROSTOXX 50SM Index.

The DJ EUROSTOXX 50SM is calculated with the “Laspeyres formula”, which measures the aggregate price changes in the component stocks against a fixed base quantity weight. The formula for calculating the DJ EUROSTOXX 50SM value can be expressed as follows:

$$\text{Index} = \frac{\text{free float market capitalization of the SX5E}}{\text{adjusted base date market capitalization of the SX5E}} \times 1,000$$

Each component’s weight is capped at 10% of the DJ EUROSTOXX 50SM’s total free-float market capitalization. Weights are reviewed quarterly. Within each of the DJ EUROSTOXX 50SM market sector indices, the component stocks are ranked by free-float market capitalization. The largest stocks are added to the selection list until the coverage is close to, but still less than, 60% of the free-float market capitalization of the corresponding DJ EUROSTOXX 50SM market sector index. If the next-ranked stock brings the coverage closer to 60% in absolute terms, then it is also added to the selection list. Any remaining stocks that are current DJ EUROSTOXX 50SM components are added to the selection list. The stocks on the selection list are ranked by free-float market capitalization. In exceptional cases, the STOXX Limited Supervisory Board may make additions and deletions to the selection list.

The 40 largest stocks on the selection list are chosen as components. Any remaining current components of the DJ EUROSTOXX 50SM ranked between 41 and 60 are added as index components. If the

component number is still below 50, then the largest stocks on the selection list are added until the index contains 50 stocks.

The divisor of the aforementioned formula is adjusted to maintain the continuity of the DJ EUROSTOXX 50SM value across changes due to corporate actions such as the issuance of dividends, the occurrence of stock splits, stock repurchase by the issuer and other reasons.

License Agreement with STOXX Limited

The Bank has entered into a nonexclusive license agreement providing for the license to the Bank, in exchange for a fee, of the right to use certain indices owned and published by STOXX Limited in connection with some securities, including the CDs.

The CDs are not sponsored, endorsed, sold or promoted by STOXX Limited (including its affiliates) (collectively referred to as "STOXX Limited"). STOXX Limited has not passed on the legality or appropriateness of, or the accuracy or adequacy of descriptions and disclosures relating to the CDs. STOXX Limited makes no representation or warranty, express or implied to the owners of the CDs or any member of the public regarding the advisability of investing in securities generally or in the CDs particularly, or the ability of the DJ EUROSTOXX 50SM to track general stock market performance. STOXX Limited has no relationship to the Bank other than the licensing of the DJ EUROSTOXX 50SM and the related trademarks for use in connection with the CDs, which index is determined, composed and calculated by STOXX Limited without regard to the Bank or the CDs. STOXX Limited has no obligation to take the Bank's needs or the needs of the owners of the CDs into consideration in determining, composing or calculating the DJ EUROSTOXX 50SM. STOXX Limited is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the CDs to be issued or in the determination or calculation of the equation by which the CDs are to be converted into cash. STOXX Limited has no liability in connection with the administration, marketing or trading of the CDs.

STOXX LIMITED DOES NOT GUARANTY THE ACCURACY AND/OR THE COMPLETENESS OF THE DJ EUROSTOXX 50SM OR ANY DATA INCLUDED THEREIN AND STOXX LIMITED SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS OR INTERRUPTIONS THEREIN. STOXX LIMITED MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE BEAR STEARNS COMPANIES INC., HOLDERS OF THE CDS, OR ANY OTHER PERSON OR ENTITY IN CONNECTION WITH THE U.S.E OF THE DJ EUROSTOXX 50SM OR ANY DATA INCLUDED THEREIN. STOXX LIMITED MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR U.S.E WITH RESPECT TO THE DJ EUROSTOXX 50SM OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL STOXX LIMITED HAVE ANY LIABILITY FOR ANY LOST PROFITS OR SPECIAL, INCIDENTAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES, EVEN IF NOTIFIED OF THE POSSIBILITY THEREOF. THE LICENSING AGREEMENT BETWEEN THE BEAR STEARNS COMPANIES INC. AND STOXX LIMITED IS SOLELY FOR THEIR BENEFIT AND NOT FOR THE BENEFIT OF THE OWNERS OF THE CDS OR ANY THIRD PARTIES.

STOXX Limited and Dow Jones have no relationship to the Bear Stearns Companies Inc., other than the licensing of the Dow Jones EUROSTOXX 50SM and the related trademarks for use in connection with the CDs.

STOXX Limited and Dow Jones do not:

- Sponsor, endorse, sell or promote the CDs.

- Recommend that any person invest in the CDs or any other securities.
- Have any responsibility or liability for or make any decisions about the timing, amount or pricing of the CDs.
- Have any responsibility or liability for the administration, management or marketing of the CDs.
- Consider the needs of the CDs or the owners of the CDs in determining, composing or calculating the Dow Jones EUROSTOXX 50SM or have any obligation to do so.

STOXX Limited and Dow Jones will not have any liability in connection with the CDs. Specifically,

- STOXX Limited and Dow Jones do not make any warranty, express or implied and disclaim any and all warranty about:
 - The results to be obtained by the CDs, the owner of the CDs or any other person in connection with the use of the Dow Jones EUROSTOXX 50SM and the data included in the Dow Jones EUROSTOXX 50SM;
 - The accuracy or completeness of the Dow Jones EUROSTOXX 50SM and its data;
 - The merchantability and the fitness for a particular purpose or use of the Dow Jones EUROSTOXX 50SM and its data;
- STOXX Limited and Dow Jones will have no liability for any errors, omissions or interruptions in the Dow Jones EUROSTOXX 50SM and its data;
- Under no circumstances will STOXX Limited or Dow Jones be liable for any lost profits or indirect, punitive, special or consequential damages or losses, even if STOXX Limited or Dow Jones knows that they might occur.

The licensing agreement between STOXX Limited and the Bank is solely for their benefit and not for the benefit of the owners of the CDs or any other third parties.

THE DOW JONES EUROSTOXX 50SM INDEX IS PROPRIETARY AND COPYRIGHTED MATERIAL. THE DOW JONES EUROSTOXX 50SM INDEX AND THE RELATED TRADEMARKS HAVE BEEN LICENSED FOR CERTAIN PURPOSES BY THE BEAR STEARNS COMPANIES INC. NEITHER STOXX LIMITED NOR DOW JONES & COMPANY, INC. SPONSORS, ENDORSES OR PROMOTES THE CDS BASED ON THE DOW JONES EUROSTOXX 50SM INDEX.

Historical Performance of the DJ EUROSTOXX 50SM

The following table sets forth the quarterly high and low intraday levels, as well as end-of-quarter final levels, of the DJ EUROSTOXX 50SM for each quarter in the period from January 1, 2002 through March 30, 2007 and for the period from April 2, 2007 through May 3, 2007. The final level of the DJ EUROSTOXX 50SM on May 3, 2007 was 4427.32. The Bank obtained the data in the following table from Bloomberg Financial Service, without independent verification by the Bank. **Historical levels of the DJ EUROSTOXX 50SM should not be taken as an indication of future performance, and no assurance can be given that the level of the DJ EUROSTOXX 50SM will increase relative to the Initial Level during the term of the CDs.**

<u>Quarter Ending</u>	<u>Quarterly High</u>	<u>Quarterly Low</u>	<u>Quarterly Close</u>
December 31, 2001	3,865.40	3,147.43	3,806.13
March 29, 2002	3,864.08	3,401.68	3,784.05
June 28, 2002	3,788.94	2,827.79	3,133.39
September 30, 2002	3,193.50	2,119.35	2,204.39
December 31, 2002	2,728.84	2,115.32	2,386.41
March 31, 2003	2,551.47	1,847.62	2,036.86
June 30, 2003	2,536.77	2,033.12	2,419.51
September 30, 2003	2,654.30	2,359.44	2,395.87
December 31, 2003	2,771.51	2,382.76	2,760.66
March 31, 2004	2,965.15	2,680.04	2,787.49
June 30, 2004	2,919.57	2,630.21	2,811.08
September 30, 2004	2,842.81	2,559.88	2,726.30
December 31, 2004	2,960.97	2,727.76	2,951.24
March 31, 2005	3,117.77	2,914.00	3,055.73
June 30, 2005	3,198.89	2,911.48	3,181.54
September 30, 2005	3,438.76	3,079.89	3,428.51
December 30, 2005	3,621.89	3,212.07	3,578.93
March 31, 2006	3,881.69	3,515.07	3,853.74
June 30, 2006	3,897.40	3,379.66	3,648.92
September 30, 2006	3,921.15	3,462.77	3,899.41
December 29, 2006	4,147.38	3,858.87	4,119.94
March 30, 2007	4278.22	3906.15	4181.03
April 2, 2007 through May 9, 2007	4434.06	4163.77	4425.03

The AMEX Hong Kong 30 Index

All information regarding the AMEX Hong Kong 30 Index set forth herein, including, without limitation, its make-up, method of calculation, and changes in its components, has been derived from publicly available information. Such information reflects the policies of, and is subject to change by, the American Stock Exchange LLC (“AMEX” or the “*American Stock Exchange*”). The AMEX Hong Kong 30 Index is calculated, maintained and published by the American Stock Exchange. The Bank makes no representation or warranty as to the accuracy or completeness of such information.

The AMEX Hong Kong 30 Index is reported by Bloomberg Financial Markets under the ticker symbol “HKX.”

AMEX Hong Kong 30 Index Composition and Maintenance

The AMEX Hong Kong 30 Index is a capitalization weighted stock index that measures the market value performance (share price times the number of shares outstanding) of selected stocks listed on The Stock Exchange of Hong Kong Ltd. (the “*HKSE*”). The AMEX Hong Kong 30 Index currently is based on the capitalization of 30 stocks actively traded on the HKSE and is designed to represent a substantial segment of the Hong Kong stock market. The primary trading market for all of these stocks is either Hong Kong or London.

The AMEX Hong Kong 30 Index will contain at least 30 stocks at all times. In addition, the stocks must meet certain listing and maintenance standards as discussed below. The American Stock Exchange may change the composition of the AMEX Hong Kong 30 Index at any time in order to more accurately reflect the composition and track the movement of the Hong Kong stock market. Any replacement stock must also meet the stock listing and maintenance standards as discussed below. Further, the American Stock Exchange may replace stocks in the event of certain corporate events, such as takeovers or mergers that change the nature of the security. The American Stock Exchange selects stocks composing the AMEX Hong Kong 30 Index on the basis of their market weight, trading liquidity and representation of the business industries reflected on the HKSE. The American Stock Exchange requires that each stock be one issued by an entity with major business interests in Hong Kong, be listed for trading on the HKSE and have its primary trading market located in a country with which the American Stock Exchange has an effective surveillance sharing agreement. The American Stock Exchange will remove any stock failing to meet the above listing and maintenance criteria within 30 days after such failure occurs. Additional qualification criteria for the inclusion and maintenance of stocks include the following standards: all stocks selected for inclusion in the AMEX Hong Kong 30 Index must have, and thereafter maintain, (1) an average daily capitalization, as calculated by the total number of shares outstanding times the latest price per share (in Hong Kong dollars), measured over the prior 6-month period, of at least H.K.\$3,000,000,000; (2) an average daily closing price, measured over the prior 6-month period, not lower than H.K.\$2.50; (3) an average daily trading volume, measured over the prior 6-month period, of more than 1,000,000 shares per day, although up to, but no more than, three stocks may have an average daily trading volume, measured over the prior 6-month period, of less than 1,000,000 shares per day, but in no event less than 500,000 shares per day; and (4) a minimum “free float” value (total freely tradable outstanding shares minus insider holdings), based on a monthly average measured over the prior 3-month period, of U.S.\$238,000,000, although up to, but no more than, three stocks may have a free float value of less than U.S.\$238,000,000 but in no event less than U.S.\$150,000,000, measured over the same period.

The American Stock Exchange reviews and applies the above qualification criteria relating to the stocks comprising the AMEX Hong Kong 30 Index on a quarterly basis, conducted on the last business day in January, April, July and October. Any stock failing to meet the above listing and maintenance criteria will

be reviewed on the second Friday of the second month following the quarterly review to again determine compliance with the above criteria. Any stock failing this second review will be replaced by a “qualified” stock effective upon the close of business on the following Friday, provided, however, that if such Friday is not a business day in The City of New York, the replacement will be effective at the close of business on the first preceding business day in The City of New York. The American Stock Exchange will notify its membership immediately after it determines to replace a stock.

AMEX Hong Kong 30 Index Calculation

The AMEX Hong Kong 30 Index is a capitalization-weighted index. A company’s market capitalization is calculated by multiplying the number of shares outstanding by the company’s current share price (in Hong Kong dollars). For valuation purposes, one AMEX Hong Kong 30 Index unit (1.0) is assigned a fixed value of one U.S. dollar. The AMEX Hong Kong 30 Index measures the average changes in price of the stocks comprising the AMEX Hong Kong 30 Index, weighted according to the respective market capitalizations, so that the effect of a percentage price change in a stock will be greater the larger the stock’s market capitalization. The AMEX Hong Kong 30 Index was established by the American Stock Exchange on June 25, 1993, on which date the AMEX Hong Kong 30 Index value was set at 350.00.

The AMEX Hong Kong 30 Index is calculated by (i) aggregating the market capitalization of each stock comprising the AMEX Hong Kong 30 Index and (ii) dividing such sum by an adjusted base market capitalization or divisor. On June 25, 1993, the market value of the underlying stocks was approximately H.K.\$1,152,829,149,500 and the divisor used to calculate the AMEX Hong Kong 30 Index was 3,293,797,570. The American Stock Exchange selected that particular divisor number in order, among other things, to ensure that the AMEX Hong Kong 30 Index was set at a general price level consistent with other well recognized stock market indices. The divisor is subject to periodic adjustments as set forth below. The AMEX Hong Kong 30 Index is calculated once each day by the American Stock Exchange based on the most recent official closing prices of each of the stocks comprising the AMEX Hong Kong 30 Index reported by the HKSE. Pricing of the AMEX Hong Kong 30 Index is disseminated before the opening of trading via the Consolidated Tape Authority Network-B and continuously during each business day in The City of New York. The dissemination value, however, will remain the same throughout the trading day because the trading hours of the HKSE do not overlap with trading hours in The City of New York. Accordingly, updated price information will be unavailable.

In order to maintain continuity in the level of the AMEX Hong Kong 30 Index in the event of certain changes due to non-market factors affecting the stocks comprising the AMEX-Hong Kong 30 Index, such as the addition or deletion of stocks, substitution of stocks, stock dividends, stock splits, distributions of assets to stockholders or other capitalization events, the divisor used in calculating the AMEX Hong Kong 30 Index is adjusted in a manner designed to prevent any instantaneous change or discontinuity in the level of the AMEX Hong Kong 30 Index and in order that the value of the AMEX Hong Kong 30 Index immediately after such change will equal the level of the AMEX Hong Kong 30 Index immediately prior to the change. Thereafter, the divisor remains at the new value until a further adjustment is necessary as the result of another change. Nevertheless, changes in the identities and characteristics of the stocks comprising the AMEX Hong Kong 30 Index may significantly affect the behavior of the AMEX Hong Kong 30 Index over time.

The Stock Exchange of Hong Kong Ltd.

Trading on HKSE is fully electronic through an Automatic Order Matching and Execution System. The system is an electronic order book in which orders are matched and executed instantaneously if there are matching orders in the book, and on the basis of time/price priority. On-line real-time order entry and execution have eliminated the previous limitations of telephone-based trading. Trading takes place through trading terminals on the trading floor. There are no market-makers on the HKSE, but exchange

dealers may act as dual capacity broker-dealers. Trading is undertaken from 10:00 a.m. to 12:30 p.m. and then from 2:30 p.m. to 3:55 p.m. (Hong Kong time) every Hong Kong day except Saturdays, Sundays and other days on which the HKSE is closed. Hong Kong time is 12 hours ahead of Eastern Daylight Savings Time and 13 hours ahead of Eastern Standard Time. Settlement of trade is required within 48 hours and is conducted by electronic book-entry delivery through the Central Clearing and Settlement System.

Due to the time differences between New York City and Hong Kong, on any normal trading day, trading on the HKSE, as of the date of this product supplement, will cease at 12:30 a.m. or 3:55 a.m., Eastern Daylight Savings Time. Using the last reported closing prices of the stocks underlying the AMEX Hong Kong 30 Index on the HKSE, the closing level of the AMEX Hong Kong 30 Index on any such trading day generally will be calculated, published and disseminated by the American Stock Exchange in the United States shortly before the opening of trading on the American Stock Exchange in New York on the same calendar day.

The HKSE has adopted certain measures intended to prevent any extreme short-term price fluctuations resulting from order imbalances or market volatility. Where the HKSE considers it necessary for the protection of the investor or the maintenance of an orderly market, it may at any time suspend dealings in any securities or cancel the listing of any securities in such circumstances and subject to such conditions as it thinks fit, whether requested by the listed issuer or not. The HKSE may also do so where: (1) an issuer fails, in a manner which the HKSE considers material, to comply with the HKSE Listing Rules or its Listing Agreements; (2) the HKSE considers there are insufficient securities in the hands of the public; (3) the HKSE considers that the listed issuer does not have a sufficient level of operations or sufficient assets to warrant the continued listing of the issuer's securities; or (4) the HKSE considers that the issuer or its business is no longer appropriate for listing. Investors should also be aware that the HKSE may suspend the trading of individual stocks in certain limited and extraordinary circumstances, until certain price-sensitive information has been disclosed to the public. Trading will not be resumed until a formal announcement has been made. Trading of a company's shares may also be suspended if there is unusual trading activity in such shares.

An issuer may apply for suspension of its own accord. A suspension request will normally only be acceded to in the following circumstances: (1) where, for a reason acceptable to the HKSE, price-sensitive information cannot at that time be disclosed; (2) where the issuer is subject to an offer, but only where terms have been agreed in principle and require discussion with, and agreement by, one or more major shareholders (suspensions will only normally be appropriate where no previous announcement has been made); (3) to maintain an orderly market; (4) where there is an occurrence of certain levels of notifiable transactions, such as substantial changes in the nature, control or structure of the issuer, where publication of full details is necessary to permit a realistic valuation to be made of the securities concerned, or the approval of shareholders is required; (5) where the issuer is no longer appropriate for listing, or becomes a "cash" company; or (6) for issuers going into receivership or liquidation. As a result of the foregoing, variations in the AMEX Hong Kong 30 Index may be limited by suspension of trading of individual stocks which comprise the AMEX Hong Kong 30 Index which may, in turn, adversely affect the value of the CDs.

License Agreement with the American Stock Exchange

The Bank has entered or expects to enter into a non-exclusive license agreement with The American Stock Exchange, whereby the Bank and certain of its affiliates, in exchange for a fee, will be permitted to use the AMEX Hong Kong 30 Index, which is owned and published by AMEX, in connection with certain securities, including the CDs.

The CDs are not sponsored, endorsed, sold or promoted by the AMEX (including its affiliates). The American Stock Exchange has not passed on the legality or appropriateness of, or the accuracy or

adequacy of descriptions and disclosures relating to the CDs. The American Stock Exchange makes no representation or warranty, express or implied to the owners of the CDs or any member of the public regarding the advisability of investing in securities generally or in the CDs particularly, or the ability of the AMEX Hong Kong 30 Index to track general stock market performance. The American Stock Exchange has no relationship to The Bear Stearns Companies, Inc. other than the licensing of the AMEX Hong Kong 30 Index and the related trademarks for use in connection with the CDs, which index is determined, composed and calculated by the American Stock Exchange without regard to The Bear Stearns Companies, Inc. or the CDs. The American Stock Exchange has no obligation to take the needs of The Bear Stearns Companies, Inc. or the owners of the CDs into consideration in determining, composing or calculating the AMEX Hong Kong 30 Index. The American Stock Exchange is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the CDs to be issued or in the determination or calculation of the equation by which the CDs are to be converted into cash. The American Stock Exchange has no liability in connection with the administration, marketing or trading of the CDs.

The American Stock Exchange is under no obligation to continue the calculation and dissemination of the AMEX Hong Kong 30 Index and the method by which the AMEX Hong Kong 30 Index is calculated and the name "AMEX Hong Kong 30 Index" may be changed at the discretion of the American Stock Exchange. No inference should be drawn from the information contained in this product supplement that the American Stock Exchange makes any representation or warranty, implied or express, to you or any member of the public regarding the advisability of investing in securities generally or in the CDs in particular or the ability of the AMEX Hong Kong 30 Index to track general stock market performance. The American Stock Exchange has no obligation to take into account your interest, or that of anyone else having an interest in determining, composing or calculating the AMEX Hong Kong 30 Index. The American Stock Exchange is not responsible for, and has not participated in the determination of the timing of, prices for or quantities of, the CDs or in the determination or calculation of the equation by which the CDs are to be settled in cash. The American Stock Exchange has no obligation or liability in connection with the administration, marketing or trading of the CDs. The use of and reference to the AMEX Hong Kong 30 Index in connection with the CDs have been consented to by the American Stock Exchange.

The American Stock Exchange disclaims all responsibility for any inaccuracies in the data on which the AMEX Hong Kong 30 Index is based, or any mistakes or errors or omissions in the calculation or dissemination of the AMEX Hong Kong 30 Index.

Historical Performance of the AMEX Hong Kong 30

The following table sets forth the quarterly high and low intraday levels, as well as end-of-quarter final levels, of the AMEX Hong Kong 30 for each quarter in the period from January 1, 2002 through March 30, 2007 and for the period from April 2, 2007 through May 3, 2007. The final level of the AMEX Hong Kong 30 on May 3, 2007 was 1021.19. The Bank obtained the data in the following table from Bloomberg Financial Service, without independent verification by the Bank. **Historical levels of the AMEX Hong Kong 30 should not be taken as an indication of future performance, and no assurance can be given that the level of the AMEX Hong Kong 30 will increase relative to the Initial Level during the term of the CDs.**

<u>Quarter Ending</u>	<u>Quarterly High</u>	<u>Quarterly Low</u>	<u>Quarterly Close</u>
December 31, 2001	587.96	484.72	565.55
March 29, 2002	588.38	513.26	540.66
June 28, 2002	589.04	510.37	522.32
September 30, 2002	534.59	448.52	448.52
December 31, 2002	505.87	440.39	460.73
March 31, 2003	486.24	424.70	424.70
June 30, 2003	495.07	414.52	471.82
September 30, 2003	559.50	471.82	555.32
December 31, 2003	624.90	555.32	624.90
March 31, 2004	690.26	617.90	630.17
June 30, 2004	645.77	548.19	610.37
September 30, 2004	660.24	588.04	652.38
December 31, 2004	713.69	638.11	711.09
March 31, 2005	711.49	666.91	671.52
June 30, 2005	711.45	664.51	706.91
September 30, 2005	771.43	695.78	769.12
December 30, 2005	767.13	709.78	744.57
March 31, 2006	797.63	746.96	791.11
June 30, 2006	863.12	764.15	812.44
September 30, 2006	881.26	802.35	877.91
December 29, 2006	969.07	877.91	969.07
March 30, 2007	1023.00	924.04	974.58
April 2, 2007 through May 9, 2007	1021.19	974.29	1025.84

The information contained in this Disclosure Statement may not be modified by any oral representation made prior or subsequent to the purchase of your Certificate of Deposit.

CERTIFICATE OF DEPOSIT
DISCLOSURE STATEMENT

The broker-dealer distributing this Disclosure Statement (the "Firm") is making certificates of deposit ("CDs") available to its customers. The CDs are made available pursuant to an arrangement between the Firm and another broker-dealer. Each CD is a deposit obligation of a depository institution domiciled in the U.S. or one of its territories (an "Issuer"), the deposits and accounts of which are insured by the Federal Deposit Insurance Corporation (the "FDIC") within the limits described below. Each CD constitutes a direct obligation of the Issuer and is not, either directly or indirectly, an obligation of the Firm. CDs may be purchased both upon issuance (the "primary market") and in the secondary market. If purchased in the primary market, the Firm will advise you of the date on which your CD will be established with the Issuer (the "Settlement Date").

The Firm will advise you of the names of Issuers currently making CDs available. Upon request, you will be provided with financial information concerning the Issuer of a CD that you would receive upon request if you established a deposit account directly with the Issuer. The Firm does not guarantee in any way the financial condition of any Issuer or the accuracy of any financial information provided by the Issuer.

The Issuer may use proceeds from the sale of the CDs for any purpose permitted by law and its charter, including making loans to eligible borrowers and investing in permissible financial products. The Firm or one of its affiliates may from time to time act as a broker or dealer in the sale of permissible financial products to the Issuer.

The extent of, and limitations on, federal deposit insurance are discussed below in the sections headed "Deposit Insurance" and "Deposit Insurance for CDs Purchased by Retirement Plans and Accounts."

Terms of CDs

The maturities, rates of interest and interest payment terms of CDs available through the Firm will vary. Both interest-bearing and zero-coupon CDs may be available. You should review carefully the trade confirmation and any supplement to this Disclosure Statement for a description of the terms of the CD. You should also review the investment considerations discussed below in "Important Investment Considerations."

The CDs will mature on the date indicated on the trade confirmation. The CDs will not be automatically renewed or rolled over and interest on the CDs will not continue to accrue or (in the case of zero-coupon CDs) accrete after maturity. At maturity the CD balances will be remitted by the Issuer to the Firm and credited to your account with the Firm. If the maturity date is not a business day, the CD balances will be paid on the next succeeding business day. A "business day" shall be a day on which the Firm and the banks in both the Issuer's domicile and New York are open for business.

Interest-Bearing CDs. Interest-bearing CDs pay interest at either a fixed rate or at a variable rate. A fixed rate CD will pay the same interest rate throughout the life of the CD. The interest rate on variable rate CDs may increase or decrease from the initial rate at pre-determined time periods ("step-rates") or may be re-set at specified times based upon the change in a specific index or indices ("floating rates"). The dates on which the rates on step-rate CDs will change or the rates on floating rate CDs will re-set, as well as

a description of the basis on which the rate will be re-set, will be set forth on the trade confirmation or any supplement to this Disclosure Statement.

Interest-bearing CDs are offered in a wide range of maturities and are made available in minimum denominations and increments of \$1,000. The aggregate amount of CDs of any one Issuer held through the Firm by an individual purchaser in one capacity (e.g., individual, Individual Retirement Account, etc.) may not exceed \$100,000 in principal and interest.

Unless otherwise specified in the trade confirmation or any supplement to this Disclosure Statement, interest earned on interest-bearing CDs with original maturities of one year or less will be paid at the maturity of such CDs and interest earned on interest-bearing CDs with original maturities of more than one year will be paid monthly, quarterly, semiannually or annually and at maturity. Interest on variable rate CDs will be re-set periodically and interest will be paid monthly, quarterly, semiannually or annually and at maturity as specified on the trade confirmation or any supplement to this Disclosure Statement.

Interest payments on interest-bearing CDs are automatically credited to your account with the Firm. Interest will accrue up to, but not including, the interest payment date, the maturity date or any call date. If an interest payment date falls on a day that is not a business day, interest will be paid on the first business day following the interest payment date. For specific rate information for any interest period, please contact the Firm.

Interest on CDs is not compounded. Interest on CDs in the primary market is calculated on the basis of the actual number of days elapsed over a 365 day year. However, the amount of interest on CDs that are purchased in the secondary market may be based on other interest rate calculations. Please contact the Firm with questions concerning the interest rate calculation on a secondary market CD.

Zero-Coupon CDs. Zero-coupon CDs do not bear interest, but rather are issued at a substantial discount from the face or par amount, the minimum amount of which is \$1,000. The par amount of zero-coupon CDs of any one Issuer held through the Firm by an individual purchaser in one capacity may not exceed \$100,000. Interest on the CD will "accrete" at an established rate and the holder will be paid the par amount at maturity.

Call Provisions. Some CDs may be subject to redemption on a specified date or dates at the sole discretion of the Issuer (a "call"). If the CD is called, you will be paid the outstanding principal amount and interest accrued or accreted up to, but not including, the call date. The dates on which the CD may be called will be specified in the trade confirmation or any supplement to this Disclosure Statement.

Your Relationship with the Firm and the Issuer

You will not receive a passbook, certificate or other evidence of ownership of the CD from the Issuer. The CDs are evidenced by one or more master certificates issued by the Issuer, each representing a number of individual CDs. These master certificates are held by The Depository Trust Company ("DTC"), a sub-custodian which is in the business of performing such custodial services. The Firm, as custodian, keeps records of the ownership of each CD and will provide you with a written confirmation of your purchase. You will also be provided with a periodic account statement from the Firm which will reflect your CD ownership. You should retain the trade confirmation and the account

statement(s) for your records. The purchase of a CD is not recommended for persons who wish to take actual possession of a certificate.

Your account statement from the Firm may provide an estimate of the price you might receive on some or all of your CDs if you were able to sell them prior to maturity. Any prices on your statement are estimates and are not based on actual market prices. You should ask the Firm to explain its statement pricing policies. Your deposit insurance coverage and, if your CD is callable, the amount you would receive if your CD is called will be determined based on the outstanding principal amount of your CD, or the accreted value in the case of a zero-coupon CD, not the estimated price. See the sections headed "Deposit Insurance" and "Secondary Market."

Each CD constitutes a direct obligation of the Issuer and is not, either directly or indirectly, an obligation of the Firm. No deposit relationship shall be deemed to exist prior to the receipt and acceptance of your funds by the Issuer.

If you choose to remove the Firm as your agent with respect to your CD, you may (i) transfer your CD to another agent, provided that the agent is a member of DTC (most major brokerage firms are members; many banks and savings associations are not); or (ii) request that your ownership of the CD be evidenced directly on the books of the Issuer, subject to applicable law and the Issuer's terms and conditions, including those related to the manner of evidencing CD ownership. If you choose to remove the Firm as your agent, the Firm will have no further responsibility for payments made with respect to your CD. If you establish your CD on the books of the Issuer, you will have the ability to enforce your rights in the CD directly against the Issuer.

Important Investment Considerations

Buy and Hold

CDs are most suitable for purchasing and holding to maturity and you should be prepared to hold your CD to maturity. If your CD is callable by the Issuer, you should be prepared to hold it according to its terms. Though not obligated to do so, the Firm may maintain a secondary market in CDs after their Settlement Date. If you are able to sell your CD, the price you receive will reflect prevailing market conditions and your sales proceeds may be less than the amount you paid for your CD. If you wish to dispose of your CD prior to maturity, you should read with special care the sections headed "Additions or Withdrawals" and "Secondary Market."

Compare Features

You should compare the rates of return and other features of the CDs to other available investments before deciding to purchase a CD. The rates paid with respect to the CDs may be higher or lower than the rates on deposits or other instruments available directly from the Issuer or through the Firm.

Information About Callable CDs

- Callable CDs present different investment considerations than CDs not subject to call by the Issuer and may not be appropriate for every investor. You should carefully review any supplement to this Disclosure Statement and your trade confirmation for the terms of the CD including the time periods when the Issuer may call the CD.
- The Issuer decides in its sole discretion whether to call a CD before maturity in accordance with the CD's terms. The Issuer is not obligated to call the CDs. The Firm does not control or influence whether or when an Issuer decides to exercise a call. You should be aware that the Issuer will call the CDs, if at all, when it is most

advantageous for the Issuer to do so without reference to your investment needs. The Issuer is most likely to call the CDs when interest rates on comparable deposit obligations are lower than the interest rate paid on the CDs.

- Depending on the terms of the CDs, you may face the risk that:
 - (i) the CD may be paid off prior to maturity as a result of a call by the Issuer and your return would be less than the yield which the CD would have earned had it been held to maturity;
 - (ii) if the CD is called by the Issuer, you may be unable to reinvest your funds at the same rate as the original CD; or
 - (iii) the CD may not be called and you may be required to hold the CD until maturity.
- The Firm is not responsible to you for any losses you may incur as a result of an Issuer's decision to exercise or not exercise a call. You do not have the right to redeem the CDs (except for the limited early withdrawal rights described in this Disclosure Statement).

Variable Rate CDs

Variable rate CDs present different investment considerations than fixed rate CDs. Depending upon the type of variable rate CD (step-rate or floating rate) and the interest rate environment, the CD may pay substantially more or substantially less interest over the term of the CD than would be paid on a fixed rate CD of the same maturity (and a step-rate CD may pay substantially more or substantially less interest over the term of the CD than would be paid on a floating rate CD of the same maturity). Furthermore, if the CD is subject to call by the Issuer, (i) you may not receive the benefits of any anticipated increase in rates paid on a variable rate CD if the CD is called or (ii) you may be required to hold the CD at a lower rate than prevailing market interest rates if the CD is not called. You should carefully review any supplement to this Disclosure Statement that describes the step-rate or the basis for re-setting a floating rate and, if the CD is subject to call by the Issuer, the time periods at which the Issuer may call the CD.

Insolvency of the Issuer

In the event the Issuer approaches insolvency or becomes insolvent, the Issuer may be placed in regulatory conservatorship or receivership with the FDIC typically appointed the conservator or receiver. The FDIC may thereafter pay off the CDs prior to maturity or transfer the CDs to another depository institution. If the CDs are transferred to another institution, you may be offered a choice of retaining the CDs at a lower interest rate or having the CDs paid off. See the sections headed "Deposit Insurance" and "Payments Under Adverse Circumstances."

Reinvestment Risk

If your CD is paid off prior to maturity as a result of the Issuer's insolvency, exercise by the Issuer of any right to call the CD or a voluntary early withdrawal (see "Additions or Withdrawals") you may be unable to reinvest your funds at the same rate as the original CD. The Firm is not responsible to you for any losses you may incur as a result of a lower interest rate on an investment replacing your CD.

SEC Investor Tips

The Securities and Exchange Commission periodically publishes tips for investors in various financial products, including CDs, on its website. You may access these investor tips at www.sec.gov, by looking under the heading "Investor Information" and clicking on "Online Publications".

Deposit Insurance

Your CDs are insured by the FDIC, an independent agency of the U.S. Government, to a maximum amount of \$100,000 (including principal and interest) for all deposits held in the same capacity per Issuer. Generally, any accounts or deposits that you may maintain directly with a particular Issuer, or through any other intermediary in the same capacity in which the CDs are maintained, would be aggregated with the CDs for purposes of the \$100,000 limit. In the event an Issuer fails, interest-bearing CDs are insured, up to the \$100,000 limit, for principal and interest accrued to the date the Issuer is closed. Zero-coupon CDs are insured to the extent of the original offering price plus interest at the rate quoted to the depositor on the original offering, accreted to the date of the closing of the Issuer. Interest is determined for insurance purposes in accordance with federal law and regulations. The original offering price of a zero-coupon CD plus accreted interest is hereafter called the "accreted value."

Under certain circumstances, if you become the owner of CDs or other deposits at an Issuer because another depositor dies, beginning six months after the death of the depositor the FDIC will aggregate those deposits for purposes of the \$100,000 limit with any other CDs or deposits that you own in the same capacity at the Issuer. Examples of accounts that may be subject to this FDIC policy include joint accounts, "payable on death" accounts and certain trust accounts. The FDIC provides the six month "grace period" to permit you to restructure your deposits to obtain the maximum amount of deposit insurance for which you are eligible.

You are responsible for monitoring the total amount of deposits that you hold with one Issuer in order for you to determine the extent of deposit insurance coverage available to you on your deposits, including the CDs. The Firm is not responsible for any insured or uninsured portion of the CDs or any other deposits.

BY YOUR PURCHASE OF A CD YOU ARE DEEMED TO REPRESENT TO THE ISSUER AND THE FIRM THAT TO THE BEST OF YOUR KNOWLEDGE YOUR DEPOSITS WITH THE ISSUER (OR IF YOU ARE ACTING AS A CUSTODIAN, THE DEPOSITS OF THE BENEFICIARIES), INCLUDING THE CD, WHEN AGGREGATED IN ACCORDANCE WITH FDIC REGULATIONS, ARE WITHIN THE APPLICABLE DEPOSIT INSURANCE LIMITS.

If your CDs or other deposits at the Issuer are assumed by another depository institution pursuant to a merger or consolidation, such CDs or deposits will continue to be separately insured from the deposits that you might have established with the acquirer until (i) the maturity date of the CDs or other time deposits which were assumed, or (ii) with respect to deposits which are not time deposits, the expiration of a six month period from the date of the acquisition. Thereafter, any assumed deposits will be aggregated with your existing deposits with the acquirer held in the same capacity for purposes of federal deposit insurance. Any deposit opened at the Issuer after the acquisition will be aggregated with deposits established with the acquirer for purposes of federal deposit insurance.

In the event that you purchase a CD in the secondary market at a premium over the par amount (or accreted value in the case of a zero-coupon CD), that premium is not insured. Similarly, you are not insured for any premium reflected in the estimated market value of your CD on your account statement. If deposit insurance payments become necessary for the Issuer, you can

lose the premium paid for your CD and will not receive any premium shown on your account statement. See the section headed "Secondary Market."

The application of the \$100,000 federal deposit insurance limitation is illustrated by several common factual situations discussed below.

Individual Customer Accounts. Funds owned by an individual and held in an account in the name of an agent or nominee of such individual (such as the CDs held in a Firm account) are not treated as owned by the agent or nominee, but are added to other deposits of such individual held in the same capacity (including funds held in a sole proprietorship) and are insured up to \$100,000 in the aggregate.

Custodial Accounts. Funds in accounts held by a custodian (for example, under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act) are not treated as owned by the custodian, but are added to other deposits of the minor or other beneficiary held in the same capacity and are insured up to \$100,000 in the aggregate.

Corporate, Partnership and Unincorporated Association Accounts. Funds in accounts owned by corporations (including Subchapter S corporations), partnerships and unincorporated associations, operated for a purpose other than to increase deposit insurance, are added together with other deposits owned by such corporation, partnership and unincorporated association, respectively, and are insured up to \$100,000 in the aggregate.

Joint Accounts. An individual's interest in funds in all accounts held under any form of joint ownership valid under applicable state law may be insured up to \$100,000 in the aggregate, separately and in addition to the \$100,000 allowed on other deposits individually owned by any of the co-owners of such accounts (hereinafter referred to as a "Joint Account"). For example, a Joint Account owned by two persons would be eligible for insurance coverage of up to \$200,000 (\$100,000 for each person), subject to aggregation with each owner's interests in other Joint Accounts at the same depository institution. Joint Accounts will be insured separately from individually owned accounts only if each of the co-owners is an individual person and has a right of withdrawal on the same basis as the other co-owners.

Revocable Trust Accounts. General Rule. Funds held in an account in which the owner evidences an intent that at his or her death the funds shall belong to one or more individuals (frequently referred to as a "Totten trust" account, "payable upon death" account or other type of revocable trust account (as determined under applicable state law)) will be aggregated with other funds of the owner held in an individual capacity at the Issuer and insured up to a maximum of \$100,000. Special Rule. Revocable trust accounts will be insured as to each named beneficiary, separately from another account of the owner or the beneficiary, provided that: (i) the Firm's account records evidence an intention that upon the death of the owner the funds will belong to the owner's spouse, or to one or more parents, siblings, children or grandchildren and (ii) the beneficiaries of the revocable trust are specifically named in the Firm's account records. However, a revocable trust account established by a husband and wife that names the husband and wife as sole beneficiaries will be treated as a joint account, and will be aggregated with other joint accounts subject to the rules described above under "Joint Accounts."

Irrevocable Trust Accounts. Funds in an account established pursuant to one or more irrevocable trust agreements created by the same grantor (as determined under applicable state law) will be insured for up to \$100,000 for the interest of each beneficiary provided that the beneficiary's interest in the account is non-contingent (i.e., capable of determination without evaluation of contingencies). The deposit insurance of each beneficiary's interest is separate from the coverage provided for other accounts maintained by the beneficiary, the grantor, the trustee or

other beneficiaries. The interest of a beneficiary in irrevocable trust accounts at an Issuer created by the same grantor will be aggregated and insured up to \$100,000.

Deposit Insurance for CDs Purchased by Retirement Plans and Accounts

Retirement Plans and Accounts - Generally. You may have interests in various retirement plans and accounts that are holding the CDs of one Issuer. The amount of deposit insurance you will be entitled to, including whether CDs held by the plan or account will be considered separately or aggregated with the CDs of the same Issuer held by other plans or accounts, will vary depending on the type of plan or account. It is therefore important to understand the type of plan or account holding the CD. The following sections entitled "Individual Retirement Accounts," "Pass-Through Deposit Insurance for Employee Benefit Plan Deposits" and "Aggregation of Retirement Plan and Account Deposits" generally discuss the rules that apply to deposits of retirement plans and accounts.

Individual Retirement Accounts. The CDs of one Issuer held in an individual retirement account (an "IRA") are insured up to \$100,000 in the aggregate. However, the CDs of one Issuer acquired by an IRA will be aggregated with the CDs of the same Issuer held by certain employee benefit plans in which the owner of the IRA has an interest. (See "Aggregation of Retirement Plan and Account Deposits.") Thus, the owner of an IRA will only be entitled to insurance of \$100,000 for CDs of the same Issuer held in plans and accounts that are subject to aggregation.

Pass-Through Deposit Insurance for Employee Benefit Plan Deposits. Subject to the limitations discussed below, under FDIC regulations an individual's non-contingent interests of up to \$100,000 in the deposits of one Issuer held by many types of plans are eligible for insurance on a "pass-through" basis. This means that instead of an employee benefit plan's deposits at one Issuer being entitled to only \$100,000 of insurance in total per Issuer, each participant in the employee benefit plan is entitled to insurance of his or her interest in the employee benefit plan's deposits of up to \$100,000 per Issuer (subject to the aggregation of the participant's interests in different plans, as discussed below). The pass-through insurance provided to an individual as an employee benefit plan participant is in addition to the \$100,000 deposit insurance allowed on other deposits held by an individual with the Issuer.

A deposit held by an employee benefit plan that is eligible for pass-through insurance is not insured for an amount equal to the number of plan participants multiplied by \$100,000. For example, an employee benefit plan owns \$200,000 in CDs at one Issuer. The employee benefit plan has two participants, one with a vested non-contingent interest of \$170,000 and one with a vested non-contingent interest of \$30,000. In this case, the employee benefit plan's deposit would be insured up to only \$130,000; the individual with the \$170,000 interest would be insured up to the \$100,000 limit and the individual with the \$30,000 interest would be insured up to the full value of such interest.

The contingent interests of employees in an employee benefit plan and overfunded amounts attributed to any employee benefit plan are not insured on a pass-through basis. Contingent interests of an employee in an employee benefit plan deposit are interests that are not capable of evaluation in accordance with FDIC rules, and are aggregated and insured up to \$100,000. Similarly, overfunded amounts are insured, in the aggregate for all participants, up to \$100,000 separately from the insurance provided for any other funds owned by or attributable to the employer or an employee benefit plan participant.

Under federal law, whether an employee benefit plan deposit is entitled to pass-through deposit insurance coverage is based, in part, on (i) the type of employee benefit plan involved and (ii) the

capital status of the Issuer at the time each deposit is made. These factors are discussed in detail below.

Types of Employee Benefit Plans. The types of plans for which deposits may receive "pass-through" treatment are employee benefit plans, as defined in section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including "Keogh Plans" of owner-employees described in section 401(d) of the Internal Revenue Code of 1986, as amended, whether or not they are technically "employee benefit plans" under ERISA) ("ERISA Plans") and deferred compensation plans for certain employees of state or local governments or tax-exempt organizations ("Section 457 Plans"). (Collectively, ERISA Plans and Section 457 Plans are referred to herein as "Plans.") Plans eligible for pass-through treatment include a tax-qualified pension, profit-sharing or stock bonus plan, a governmental plan or a church plan.

Capital Status of the Issuing Depository Institution. Pass-through coverage is not provided if, at the time a Plan deposit is accepted by an Issuer, the Issuer may not accept brokered deposits (i.e. deposits such as the CDs that are placed by an intermediary) under the applicable provisions of FDIC regulations. In general, whether an Issuer may accept brokered deposits depends upon the Issuer's capital level. The federal banking regulators have established categories to reflect an Issuer's capital level. If an Issuer's capital category is either "well capitalized," or is "adequately capitalized" and the Issuer has received the necessary brokered deposit waiver from the FDIC, then the Issuer may accept brokered deposits. If an Issuer is either "adequately capitalized" without a waiver from the FDIC or is in a capital category below "adequately capitalized," then the Issuer may not accept brokered deposits.

FDIC regulations provide an exception from this general rule on the availability of pass-through insurance coverage for employee benefit plan deposits when, although an Issuer is not permitted to accept brokered deposits, the Issuer is "adequately capitalized" and the depositor receives a written statement from the Issuer indicating that such deposits are eligible for insurance coverage on a pass-through basis.

Written Statement. In order to assist Plans in determining the availability of pass-through deposit insurance, FDIC regulations require an Issuer to provide a written statement to persons administering or managing a Plan that includes both the Issuer's capital category and a representation regarding the availability of pass-through deposit insurance. The broker-dealer that has arranged with the Firm to offer the CDs will obtain the written statement from each Issuer at the time the deposit is made.

In the event that an Issuer fails, the FDIC could elect to deny pass-through deposit insurance for Plan deposits if the representations of an Issuer were false at the time the Plan deposit was made. If the requirements for pass-through deposit insurance are not met, coverage will be limited to \$100,000 per Plan, rather than per Plan participant. If a denial of pass-through treatment would be significant for a Plan, the Plan may wish to limit its deposits in one depository institution to \$100,000.

Aggregation of Retirement Plan and Account Deposits. Under FDIC regulations, an individual's interests in Plans maintained by the same employer or employee organization (e.g., a union) which are holding deposits of the same Issuer will be insured for \$100,000 in the aggregate. In addition, under FDIC regulations an individual's interest in the CDs of one Issuer held by (i) IRAs, (ii) Section 457 Plans, (iii) self-directed Keogh Plans and (iv) self-directed defined contribution plans that are acquired by these plans and accounts will be insured for \$100,000 in the aggregate whether or not maintained by the same employer or employee organization.

Questions About FDIC Deposit Insurance Coverage

If you have questions about basic FDIC insurance coverage, please contact the Firm. You may wish to seek advice from your own attorney concerning FDIC insurance coverage of deposits held in more than one capacity. You may also obtain information by contacting the FDIC, Office of Consumer Affairs, by letter (550 17th Street, N.W., Washington, D.C. 20429), by phone (877-275-3342, 800-925-4618 (TDD) or 202-942-3100) or by e-mail (dcaineternet@fdic.gov) or by visiting the FDIC website at www.fdic.gov.

Payments under Adverse Circumstances

As with all deposits, if it becomes necessary for federal deposit insurance payments to be made on the CDs, there is no specific time period during which the FDIC must make insurance payments available. Accordingly, you should be prepared for the possibility of an indeterminate delay in obtaining insurance payments.

As explained above, the maximum \$100,000 deposit insurance coverage applies to the principal and accrued interest on all CDs and other deposit accounts maintained by you at the Issuer in the same capacity. The records maintained by the Issuer and the Firm regarding ownership of CDs would be used to establish your eligibility for federal deposit insurance payments. In addition, you may be required to provide certain documentation to the FDIC and to the Firm before insurance payments are released to you. For example, if you hold CDs as trustee for the benefit of trust participants, you may also be required to furnish an affidavit to that effect; you may be required to furnish other affidavits and provide indemnities regarding an insurance payment.

In the event that deposit insurance payments become necessary for your CDs, the FDIC is required to pay the original par amount plus accrued interest (or the accreted value in the case of zero-coupon CDs) to the date of the closing of the relevant Issuer, as prescribed by law, and subject to the \$100,000 limitation. No interest or accreted value is earned on deposits from the time an Issuer is closed until insurance payments are received.

As an alternative to a direct deposit insurance payment from the FDIC, the FDIC may transfer the insured deposits of an insolvent institution to a healthy institution. Subject to insurance verification requirements and the limits on deposit insurance coverage, the healthy institution may assume the CDs under the original terms or offer you a choice between paying the CD off and maintaining the deposit at a different rate. The Firm will advise you of your options in the event of a deposit transfer.

The Firm will not be obligated to you for amounts not covered by deposit insurance nor will the Firm be obligated to make any payments to you in satisfaction of a loss you might incur as a result of (i) a delay in insurance payouts applicable to your CD, or (ii) your receipt of a decreased interest rate on an investment replacing your CD as a result of the payment of the principal and accrued interest or the accreted value of a CD prior to its scheduled maturity or (iii) payment in cash of the principal and accrued interest or the accreted value of your CDs prior to maturity in connection with the liquidation of an Issuer or the assumption of all or a portion of its deposit liabilities. In connection with the latter, the amount of a payment on a CD which had been purchased at a premium in the secondary market is based on the original par amount (or, in the case of a zero-coupon CD, its accreted value) and not on any premium amount. Therefore, you can lose up to the full amount of the premium as a result of such a payment. Also, the Firm will not be obligated to credit your account with funds in advance of payments received from the FDIC.

Additions or Withdrawals

No additions are permitted to be made to any CD. When you purchase a CD, you agree with the Issuer to keep your funds on deposit for the term of the CD. Accordingly, except as set forth below, no early withdrawals of interest-bearing CDs will be available. The early withdrawal provisions, if any, applicable to your CD may be more or less advantageous than the provisions applicable to other deposits available from the Issuer.

In the event of death or the adjudication of incompetence of the owner of a CD, early withdrawal of the entire CD will generally be permitted without penalty. Withdrawal of a portion of the owner's interest will not be permitted. Written verification acceptable to the Issuer will generally be required to permit early withdrawal under these circumstances.

Pursuant to the Internal Revenue Code, the beneficiary of an IRA (but not a Roth IRA) must begin making withdrawals from the IRA after age 70-1/2. CDs held in an IRA are not eligible for early withdrawal simply because the beneficiary must begin making mandatory withdrawals from the IRA. IRA beneficiaries should purchase CDs with maturities that correspond to the mandatory withdrawal requirements or look to the secondary market for liquidity. See the Section headed "Secondary Market."

In the event that a customer wishes to make an early withdrawal, and such withdrawal is permitted, the Firm endeavors to obtain funds for the customer as soon as possible. However, the Firm will not advance funds in connection with early withdrawals and can give no assurances that payment pursuant to early withdrawals will be made by a specified date.

Secondary Market

The Firm, though not obligated to do so, may maintain a secondary market in the CDs after their Settlement Date. If you wish to sell your CD prior to maturity and the Firm does not maintain a secondary market, the Firm may attempt to sell your CD in a secondary market maintained by another broker-dealer. The Firm cannot provide assurance that you will be able to sell your CDs prior to their maturity. In addition, a secondary market for the CDs may be discontinued at any time without notice. Therefore, you should not rely on any such ability to sell your CDs for any benefits, including achieving trading profits, limiting trading or other losses, realizing income prior to maturity, or having access to proceeds prior to maturity.

In the event that a buyer is available at a time you attempt to sell your CD prior to its maturity, the price at which your CD is sold may result in a return to you which may differ from the yield which the CD would have earned had it been held to maturity, since the selling price for a CD in such circumstances will likely be based on a number of factors such as interest rate movements, time remaining until maturity, and other market conditions. Also, the price at which a CD may be sold if a secondary market is available will reflect a mark-down retained by the Firm. Similarly, the price you may pay for any CD purchased in the secondary market will include a mark-up established by the Firm. In the event you choose to sell a CD in the secondary market, you may receive less in sale proceeds than the original principal (par) amount of the CD or the estimated price on your account statement.

In the event that a CD is purchased in the secondary market at a premium over the par amount (or accreted value in the case of a zero-coupon CD), the premium is not insured. Therefore, if deposit insurance payments become necessary for the Issuer, the owner of a CD purchased in the secondary market can incur a loss of up to the amount of the premium paid for the CD. (Also see the section headed "Deposit Insurance.")

The uninsured premium being paid for an interest bearing CD can be determined from the price set forth on your trade confirmation. Price on CDs is expressed in relation to par (100.00). Any amount over 100.00 represents the premium. For example, if your trade confirmation states that the price for a CD purchased in the secondary market is 100.25, there is a premium that will not be insured by the FDIC. A price of 99.75 would not include a premium. The trade confirmation will also inform you if the CD has accrued interest, which will be insured as long as the par amount of CDs held by you in one capacity at the Issuer plus the accrued interest does not exceed \$100,000.

In the case of a zero-coupon CD purchased in the secondary market, the uninsured premium can initially be calculated by subtracting the accreted value from the "Gross Amount" paid. This uninsured premium does, however, decline over time. The accreted value of a zero-coupon CD, which is based upon the original issue yield and price, can be obtained at the time of purchase from the Firm.

If you purchase a callable CD in the secondary market at a premium, you will receive only the par amount if the CD is called.

Fees

The Firm and the broker-dealer arranging for the CD to be offered will receive a fee from the Issuer in connection with your purchase of a CD. Except for the mark-up or mark-down discussed above in connection with secondary market transactions and a handling fee, if any, disclosed on your trade confirmation, you will not be charged any commissions in connection with your purchase of a CD.

Federal Income Tax Consequences

The following is a summary of the principal United States federal income tax consequences of the ownership of the CDs. The discussion below does not purport to deal with all of the federal income tax consequences applicable to all potential CD owners and does not deal with owners of CDs other than original purchasers. Persons considering the purchase of the CDs should consult their own tax advisors and federal, state, local and any other income and estate tax laws relevant to their particular situations as well as any other taxing jurisdiction. The Firm will, if applicable, provide you with an annual statement containing certain information relevant to the determination of the amount of interest or discount income with respect to your CDs upon which you will be taxed for the preceding year.

As used herein, the term "United States Holder" means a beneficial owner of a CD that is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, (iv) a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and (B) one or more United States persons have the authority to control all substantial decisions of the trust, or (v) a person otherwise subject to United States federal income taxation on a net basis in respect of such holder's ownership of a CD.

United States Holders

Zero-Coupon CDs

Zero-coupon CDs will be treated as having been issued with original issue discount ("OID"). A portion of the discount from face value of a zero-coupon CD may be taxable to the holder of the CD each year as ordinary interest income, even though the cash attributable to this discount is not received by the holder until the maturity of the CD.

Zero-Coupon CDs with a Maturity of One Year or Less. In general, an individual or other holder that uses the cash method of accounting is not required to accrue OID on a zero-coupon CD with a maturity of one year. Any gain realized upon the sale, maturity, or other disposition of the zero-coupon CD will be treated as ordinary income to the extent of the holder's share of the OID inherent in such CD, calculated on a straight-line basis (or, if elected, under a constant yield method based on daily compounding). Holders that use the accrual method of accounting are required to accrue OID on a straight-line basis unless an election is made to accrue the OID under a constant yield method based on daily compounding.

Zero-Coupon CDs with a Maturity of More Than One Year. A holder of a zero-coupon CD with a maturity of more than one year will be required to include OID on the CD as interest income during each taxable year that the holder owns the CD, regardless of whether the holder uses the cash or accrual method of accounting. A holder will realize gain or loss on the sale, early withdrawal, maturity or other disposition of such CD equal to the difference between (i) the amount received by the holder on the disposition of the CD and (ii) the amount the holder paid to acquire the CD with such amount paid being increased by the amount of OID previously taxed to the holder with respect to the CD.

Fixed Rate Interest-Bearing CDs

Interest paid on a fixed rate interest-bearing CD is generally taxable each year as ordinary income to the holder in accordance with the holder's method of accounting. A holder will realize gain or loss on the sale, early withdrawal, maturity or other disposition of a CD equal to the difference between (i) the amount received by the holder on the disposition of the CD and (ii) the amount the holder paid to acquire the CD. For this purpose, the amount received does not include any amount attributable to accrued and unpaid interest on the CD, which amount is treated as interest income. Gain or loss generally will be long-term capital gain or loss if the CD were held for more than one year.

Variable Rate CDs

Variable rate CDs may be treated as issued with OID. Accordingly, a holder of a variable rate CD may be required to include OID on the CD as interest income during each taxable year that the holder owns the CD, regardless of whether the holder uses the cash or accrual method of accounting and whether the current receipt of cash from the CD equals the OID included in income for such year.

IRAs and Keogh Plans

Notwithstanding the general rules set forth above, the tax liability on interest paid or OID accrued, as the case may be, on CDs held by traditional IRAs and Keogh Plans generally is postponed until actual distribution of the interest or OID accrued, as the case may be, to the beneficiaries of these plans. Interest income generally accumulates in a Roth IRA tax-free, and if certain criteria are met, distributions from the Roth IRA will not be taxed.

Backup Withholding

Certain non-corporate holders of the CDs may be subject to backup withholding at a rate of 31% or information reporting requirements on payments of principal and interest on, and the proceeds of disposition of, the CDs. Backup withholding will apply only if (i) under certain circumstances, the holder fails to certify (on an Internal Revenue Service Form W-9 or substantially similar form), under penalty of perjury, that it has furnished a correct Taxpayer Identification Number ("TIN") and has not been notified by the Internal Revenue Service that it is subject to backup withholding for failure to report dividend or interest payments, (ii) the holder has been notified by the Internal Revenue Service that it has failed to properly report payments of dividends and interest, (iii) the holder fails to furnish its TIN, or (iv) the holder furnishes an incorrect TIN. Any amounts withheld from a payment to a holder under the backup

withholding rules will be allowed as a credit against such holder's United States federal income tax liability and may entitle such holder to a refund.

Non-United States Holders

Interest or discount income, as the case may be, paid on CDs owned by a non-resident alien or foreign corporation is not subject to any United States federal income or withholding tax, provided that this income is not effectively connected with the conduct by such foreign purchaser of a CD of a trade or business within the United States. Such interest or discount income and payment of the proceeds on the disposition of a CD generally will also be exempt from any United States information reporting or backup withholding requirements if the foreign purchaser provides the Firm (either directly or indirectly through a financial institution holding a CD as nominee for the foreign purchaser) with a Form W-8BEN (or a substitute statement in a form substantially similar to the Form W-8BEN) in which the foreign purchaser states his or its name and address and certifies, under penalty of perjury, that he or it is the beneficial owner of the CD and is not an individual citizen or resident of the United States or an entity formed in the United States, as the case may be. Any gain or income realized by a non-resident alien or foreign corporation upon the sale, early withdrawal, maturity or other disposition of a CD will not be subject to U.S. federal income or withholding tax, if (i) such gain or income is not effectively connected with a trade or business of the foreign purchaser in the United States, and (ii) in the case of a foreign purchaser who is a non-resident alien, the non-resident alien is not present in the United States for 183 days or more in the taxable year of the disposition. Special rules apply to CDs owned by foreign partnerships or foreign trusts. Prospective purchasers of the CDs should consult their own tax advisors concerning the tax consequences of ownership of a CD in their particular situations.