STRUCTURED INVESTMENTS

A Guide to Understanding

PRINCIPAL PROTECTED STRUCTURED INVESTMENTS

Table of Contents

Introduction

Many investors would like to share in the potential profits a particular asset class may offer, while at the same time limiting their exposure to a market downturn. Principal Protected Structured Investments can allow investors to achieve both objectives.

Principal Protected Structured Investments

Principal Protected Structured Investments combine the long-term growth potential of an asset or basket of assets with the safety and security of knowing that your full principal investment will be returned if the investment is held to maturity – often referred to as “Principal Protection”. Instead of paying a fixed rate of interest, a Principal Protected Structured Investment provides a return at maturity based on the appreciation of an underlying asset or basket of assets, such as a U.S. or international equity market index, one or more commodities, or virtually any other financial benchmark. While the interest the investor will receive is uncertain, and could be zero, the return of the initial investment amount at maturity is assured, subject to the credit quality of the issuer, regardless of the performance of the underlying asset(s).

Who Issues Principal Protected Structured Investments?

Domestic and foreign banks and corporations issue Principal Protected Structured Investments to help meet their funding needs. A section below addresses some of the differences between offerings of each of these types of issuers.

Who Should Consider Principal Protected Structured Investments?

Purchasers of Principal Protected Structured Investments are buy and hold investors seeking to participate in the appreciation of the underlying asset, while retaining protection against a decline in value. They should understand the product’s features and be able to bear the risks associated with investing in it. Investors should consult with their financial consultant to determine the appropriate asset allocation to any particular type of structured investment.

Principal Protected Structured Investments may not be suitable for all investors. The interest rate earned may be lower than the rate available on other investments with the same maturity and may be zero. Please read the disclosure materials provided by your financial consultant carefully before investing.

The Basic Structure

Computation of Interest

Interest on Principal Protected Structured Investments is calculated and paid based on a formula that may include some or all of the factors described below. ***Because Principal Protected Structured Investments can incorporate such a wide range of features and associated risks, it is important to read and understand the disclosure materials provided by your financial consultant carefully before investing.***

Value Dates

Computation of interest on Principal Protected Structured Investments begins with the percentage change in the value of the underlying asset between the "Initial Value Date" and the "Final Value Date" specified for the particular offering. The Initial Value Date is usually the issue date of the investment, while the Final Value Date is often one to three business days prior to the maturity date to allow time for the interest amount to be calculated and paid at maturity. The percentage change is simply the final value minus the initial value (i.e. the change in value), divided by the initial value. This basic structure is often referred to as "point-to-point", since it is based on the change in the closing price of the underlying asset between one date and another.

Participation Rate

Next a Participation Rate, which specifies the extent to which the investor will participate in the underlying asset's gain is applied to the percentage change in the underlying asset's value. A Participation Rate of 100% would provide the investor with a return exactly equal to the percent change in value of the underlying asset. Certain Principal Protected Structured Investments may have a Participation Rate of less than 100% (partial participation) or greater than 100% (leveraged participation).

Minimum or Maximum Interest Amount

Some Principal Protected Structured Investments also have specified Minimum and/or Maximum Interest Amounts that may be paid at maturity. If, at maturity, the result of the interest calculation is less than the stated minimum, then the interest amount paid to the investor will be the Minimum Interest Amount. Similarly, if the interest calculation results in a value greater than the stated maximum, the Maximum Interest Amount will be paid. The minimum interest amount cannot be less than zero. Therefore, even if the value of the underlying asset decreases, the investor's initial investment must be returned in full at maturity.

Example

The following table shows how interest would be computed on a Principal Protected Structured Investment with a 150% Participation Rate, a Minimum Interest Amount of 10% and a Maximum Interest Amount of 50% over a range of possible outcomes for the underlying asset.

Initial Value	Final Value	% Change	150% Participation	Interest Payment
100	90	-10%	-15%	10%
100	120	+20%	+30%	30%
100	150	+50%	+75%	50%

Callable Structures

Some Principal Protected Structured Investments have a call feature which allows them to be redeemed by the issuer prior to maturity. **It is important to note that the call is at the option of the <u>issuer only</u>.** The disclosure materials will specify whether a particular issue is callable and, if so, the dates and prices at which the call may be exercised. Call prices are expressed as a percentage of the initial investment amount. For example, an investment which matures in five years might have the following schedule of potential call dates:

Year	Call Price	Amount Paid per $1,000 Invested
1	110%	$1,100
2	120%	$1,200
3	130%	$1,300
4	140%	$1,400

The issuer would most likely call the Structured Investment when it's value is greater than the call price. The structure's value depends upon many unpredictable factors including, but not limited to, the current value of the underlying asset, time remaining to maturity, volatility and interest rates.

Averaging Structures

Some Principal Protected Structured Investments employ averaging to measure the percentage change in the value of the underlying asset, rather than the point-to-point calculation described above. An averaging structure will compare the Initial Value of the asset to the average of its value on a series of predetermined Value Dates listed in the disclosure materials. Value Dates typically occur either periodically throughout the life of the investment or only in the final year the investment is outstanding; in either case, averaging is designed to capture the general trend of the underlying asset's value, while reducing exposure to fluctuations that might affect its closing price on a single date.

Example

Assuming a hypothetical investment with four Value Dates, the following examples illustrate how averaging can produce materially different results when compared with the simpler point to point calculation method.

Initial Value: 100

Value Date	**Scenario 1 Asset Value**	**Scenario 2 Asset Value**
1	110	110
2	120	130
3	130	160
4 (maturity)	140	120
Average	*125*	*130*
Point to Point Change in Value	(140 / 100) – 100% **= 40%**	(120 / 100) – 100% **= 20%**
Averaging Change in Value	(125 / 100) – 100% **= 25%**	(130 / 100) – 100% **= 30%**

Digital Payout Structures

Principal Protected Structured Investments with a "Digital Payout" are very similar to the basic point-to-point structures with one very important difference. At maturity this structure pays a "Contingent Minimum Interest Amount" provided that value of the underlying asset is equal to or greater than its initial value on the Final Value Date. In addition, if the value of the underlying asset increases by more than this amount, the investor will participate in that upside performance as well. If the value of the underlying asset has declined on the Final Value Date, the Contingent Minimum Interest Amount is not paid, but the investor's initial investment is returned in full.

Example

The following example illustrates the potential performance of a Digital Payout Structure with a 45% Contingent Minimum Interest Amount and a Participation Rate of 100%:

- If, at maturity, the value of the underlying asset has increased between 0% and 45%, the investor will receive a full 45% Contingent Minimum Interest Amount plus the return of the original principal investment.
- If, at maturity, the value of the underlying asset has increased more than 45%, the investor will participate in 100% of the upside performance, paid as a coupon at maturity, plus the return of the original principal investment.
- If, at maturity, the value of the underlying asset has decreased, the investor's initial investment is returned with no interest.

Tax Implications

Although holders of Principal Protected Structured Investments receive no interest until maturity (or the call date, if called) they may be subject to annual income tax on the interest rate for investments of comparable term at the time of issuance. The comparable rate to be used for tax reporting purposes, if applicable, is included in the disclosure materials. The interest declared each year increases an investor's cost basis, thereby reducing ordinary tax consequences at maturity.

Investors should consult their tax advisors in applying Principal Protected Structured Investments to their particular situation for U.S. Federal income tax, as well as state, local, foreign or other taxes.

Investment Risks

Because the interest paid on a Principal Protected Structured Investment is tied to the performance of the underlying asset, its return may be less than the rate currently available on other comparable fixed income investments, and could be as low as 0%. Due to the effect of factors such as Averaging, the Participation Rate and the Maximum Interest Amount, the return may also be less than that of a direct investment in the underlying asset(s).

Any degree of Principal Protection is available only at maturity and is subject to the credit quality of the issuer. Like any debt instrument, Principal Protected Structured Investments are subject to the risk that the issuer will be unable to make scheduled interest or principal payments. For FDIC-insured Certificates of Deposit (see page 6) this risk is minimal. For corporate notes, you should consider the information in the disclosure materials provided by your financial consultant regarding the issuer's financial soundness before investing. In addition, rating agencies such as Moody's Investors Service, Standard & Poor's Corporation and Fitch Ratings assign ratings to corporate debt based upon their analysis of the issuer's financial condition.

Most Principal Protected Structured Investments will not be listed on any securities exchange. Accordingly, there may be little or no secondary market for the investments and information regarding independent market pricing of the investments may be limited. If Principal Protected Structured Investments are sold in the secondary market, their value will be subject to many unpredictable factors including, but not limited to, the value of the underlying asset, time remaining to maturity, volatility and interest rates, and may include a transaction charge. The proceeds of such sale may be more or less than the original amount invested.

Types of Offerings

Principal Protected Structured Investments may be issued in one of three forms:

Registered Securities – These are issued by U.S. and foreign corporations, including some foreign banks. Each issuer is required to file a registration statement with the Securities and Exchange Commission ("SEC"). A prospectus and related supplements will provide the details of each offering.

Non-Registered Securities – These securities, often issued by foreign banks which have one or more branches in the U.S., are exempt from registration with the SEC. The document that describes the offering is referred to as an offering circular rather than a prospectus.

Certificates of Deposit ("CDs") – Issued by U.S. banks, these are not securities at all, but rather FDIC-insured[1] bank deposits. The details of each offering will be described in a disclosure statement prepared by the issuing bank. Structured CDs provide certain unique features which are described below.

Regardless of the type of offering, prospective investors should request the related disclosure materials and any supplement(s) from their financial consultant and read them carefully and, in particular, the risk factors set forth within before making an investment decision.

Structured CD Features

FDIC Insurance

Like other bank deposits, Structured CDs are insured by the Federal Deposit Insurance Corporation ("FDIC") to a maximum of $100,000 per depositor ($250,000 for certain retirement accounts). However, because interest is not calculated or accrued until the maturity date, only the initial deposit amount will be insured.

Estate Feature

Structured CDs also include an estate feature, commonly referred to as a survivor's option. This provision allows for the full withdrawal of the principal, without interest, in the event of the death or the adjudication of incompetence of the beneficial owner of a Structured CD.

Early Redemption

Most Structured CDs offer an early redemption opportunity, allowing holders the option to redeem prior to maturity on specific Early Redemption Dates according to procedures in the disclosure statement. Early redemption prices for Structured CDs are subject to many factors, and may be more or less than the initial deposit amount. Only Structured CDs held to maturity are entitled to full return of the deposit amount.

1. For additional information on FDIC insurance and maximizing insured accounts, please refer to the website fdic.gov and/or the FDIC brochure "Insuring Your Deposits".

Summary

Principal Protected Structured Investments can offer investors the opportunity to diversify a portfolio in terms of both risk and market exposure by combining exposure to a wide variety of asset classes with the safety of principal protection when held to maturity.

Call your financial consultant
and ask how Principal Protected Investments
can be part of your investment future today.