Structured Product Details

Name: SuperTrack Note linked to the iShares MSCI Emerging Markets Index Fund

Issue Size: $225,000
Issue Price: $1,000
Term: 18 Months
Annualized Coupon: 0.00%

Pricing Date: November 24, 2010
Issue Date: November 30, 2010
Valuation Date: May 24, 2012
Maturity Date: May 30, 2012

Issuer: Barclays
CDS Rate: 73.38 bps
Swap Rate: 0.76%

Reference Asset: iShares MSCI Emerging Markets Index Fund
Initial Level: $45.95
Dividend Rate: 1.29%
Implied Volatility: 28.56%
Delta: 0.71

Fair Price at Issue: $927.82
Realized Return: -12.95%
CUSIP: 06740PB47
SEC Link: www.sec.gov/Archives/edgar/data/312079/000119312510270006/d424b2.htm

Related Research

Research Papers:
www.slcg.com/research.php

- “Are Structured Products Suitable for Retail Investors?” December 2006.

Payoff Curve at Maturity

The payoff diagram shows the final payoff of this note given iShares MSCI Emerging Markets Index Fund’s share price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in iShares MSCI Emerging Markets Index Fund directly.
The contingent payoffs of this SuperTrack Note.

Analysis
This SuperTrack Note pays investors the increase in iShares MSCI Emerging Markets Index Fund multiplied by 2.0 capped at 27.00%, but if iShares MSCI Emerging Markets Index Fund declines over the term of the note, investors will suffer losses equal to the percentage decline in iShares MSCI Emerging Markets Index Fund. In addition, investors bear the credit risk of Barclays. Investors purchasing this SuperTrack Note effectively sell at-the-money put and out-of-the-money call options to Barclays, buy at-the-money call options, and a zero-coupon note from Barclays. This SuperTrack Note is fairly priced if and only if the market value of the options investors received from Barclays equals the market value of the options investors gave Barclays plus the interest investors would have received on Barclays’s straight debt.

Barclays’s Stock Price
The graph above shows the adjusted closing price of the issuer Barclays for the past several years. The stock price of the issuer is an indication of the financial strength of Barclays. The adjusted price shown above incorporates any stock splits, reverse stock splits, etc.
Barclays’s CDS Rate

Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Barclays. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Barclays’s debt, including outstanding SuperTrack Note. Fluctuations in Barclays’s CDS rate impact the market value of the notes in the secondary market.

iShares MSCI Emerging Markets Index Fund’s Share Price

The graph above shows the historical levels of iShares MSCI Emerging Markets Index Fund for the past several years. The final payoff of this note is determined by iShares MSCI Emerging Markets Index Fund’s share price at maturity. Higher fluctuations in iShares MSCI Emerging Markets Index Fund’s share price correspond to a greater uncertainty in the final payoff of this SuperTrack Note.

Realized Payoff

This note matured on May 30, 2012 and investors received $812.40 per note.
Reference Asset iShares MSCI Emerging Markets Index Fund’s Implied Volatility

The annualized implied volatility of iShares MSCI Emerging Markets Index Fund on November 24, 2010 was 28.56%, meaning that options contracts on iShares MSCI Emerging Markets Index Fund were trading at prices that reflect an expected annual volatility of 28.56%. The higher the implied volatility, the larger the expected fluctuations of iShares MSCI Emerging Markets Index Fund’s share price and of the Note’s market value during the life of the Notes.

Decomposition of this SuperTrack Note

1. Delta measures the sensitivity of the price of the note to the iShares MSCI Emerging Markets Index Fund’s share price on November 24, 2010.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the iShares MSCI Emerging Markets Index Fund on November 24, 2010.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.