

ISDA Disclosure Annex for Credit Derivative Transactions

This Annex supplements and should be read in conjunction with the General Disclosure Statement. NOTHING IN THIS ANNEX AMENDS OR SUPERSEDES THE EXPRESS TERMS OF ANY TRANSACTION BETWEEN US OR ANY RELATED GOVERNING DOCUMENTATION. Accordingly, descriptions in this Annex of the operation of Credit Transactions (as defined below) and the consequences of various events are in all cases subject to the actual terms of a Credit Transaction executed between us and its governing documentation.

As used in this Annex, the term “**Credit Transactions**” refers to Transactions in which the Underliers are prices, levels, rates or contingencies related to the credit risk – such as the failure by an entity to pay principal or interest when due under a bond or loan – of one or more specified corporate or sovereign entities (each, a “**Reference Entity**”).

The terms of your Credit Transaction may incorporate by reference standard definitions and various other market standard terms, such as settlement matrices, standard terms supplements and forms of confirmation, which may be published by the International Swaps and Derivatives Association, Inc. (“**ISDA**”) or other publishers. Terms incorporated by reference or otherwise relevant to a Credit Transaction may include:

- the definitions and provisions of the 2003 ISDA Credit Derivatives Definitions published by ISDA, or any updated form of Credit Derivatives Definitions published by ISDA, as amended by any supplements specified in the Credit Transaction including, without limitation, the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement published on 14 July 2009 (the “**Credit Derivatives Definitions**”);
- the Credit Derivatives Determinations Committee Rules, as published by ISDA and as amended and/or supplemented from time to time in accordance with the terms thereof (the “**DC Rules**”);
- the form of auction settlement terms published by ISDA and, in respect of any Reference Entity and a related Credit Event (as defined below), the specific auction settlement terms (if any) published by ISDA in respect of such Credit Event.

You should obtain and thoroughly understand any such materials as their content will materially affect your rights and obligations under the Credit Transaction, its value and its appropriateness for your particular objectives. Descriptions of the Credit Derivatives Definitions and DC Rules contained herein are summaries only and are qualified in their entirety by reference to the full text of the Credit Derivatives Definitions.

One of the most common types of Credit Transaction is a credit default swap. Under a credit default swap, one party agrees, in exchange for an upfront payment and/or series of periodic payments, to compensate the other party if a specified credit-related event (a “**Credit Event**”)

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occurs with respect to a Reference Entity. For example, if a the Credit Event occurs, the party that has agreed to take the risk of the occurrence (the “seller” of credit protection) may become obligated to do one of the following, depending on the terms of the Credit Transaction: (i) pay a cash amount determined as described below with respect to auction settlement under “Settlement Methods”, (ii) to take delivery of a specified principal amount of one or more obligations of the Reference Entity that satisfy certain deliverability requirements and are chosen by the other party (the “buyer” of credit protection) and pay 100% (or another percentage specified in the Credit Transaction) of the outstanding principal amount of such obligation(s) or (iii) to make an equivalent cash payment based on the market value (as determined under the Credit Transaction) of the selected obligation or obligations. A related type of Credit Transaction is a “fixed recovery” credit default swap, under which a fixed amount may become payable by the protection seller to the protection buyer if a Credit Event occurs. In other types of Credit Transactions, payment obligations of the parties may be defined by reference to the spread between the yield on a Reference Entity’s debt obligations and a risk-free rate. In some types of Credit Transactions, such as a “recovery lock” (in which a party concurrently enters into a fixed recovery credit default swap as protection buyer and a conventional credit default swap as the protection seller), either party could be ‘in-the-money’ following a Credit Event.

If the relevant credit-related events do not occur during the coverage period of a credit default swap or similar Credit Transaction, then, subject to the terms of the Credit Transaction, the protection buyer typically will not receive any further compensation from the protection seller and will not be entitled to a refund of amounts it has paid.

Valuation Factors

Factors that may influence the value of a Credit Transaction include:

- the actual or perceived creditworthiness and credit ratings of each Reference Entity;
- the degree of correlation between the creditworthiness of a Reference Entity and that of your counterparty under a Credit Transaction;
- expected rates of recovery on obligations of the Reference Entity;
- actions of a Reference Entity and its principal creditors;
- the nature of each Reference Entity’s outstanding indebtedness, including its maturity and subordination structure;
- the contractually specified credit-related events with respect to a Reference Entity that may trigger settlement of the Credit Transaction;
- optionality that a party has under the terms of the Credit Transaction, such as the ability to select the obligations of a Reference Entity that will be delivered or valued or to decide whether or not to trigger settlement;
- correlation among the credit spreads and/or default probabilities of the components of a basket or index, if applicable;
- market liquidity for a particular type of Credit Transaction;

- interest rates and the amount of any periodic fixed payments required to be made under the Credit Transaction;
- the time remaining to the maturity of the Credit Transaction; and
- economic, financial, political and regulatory or judicial events or conditions that affect any Reference Entity or its outstanding obligations, or the market for Credit Transactions or related financial markets, including credit spreads in the market, market liquidity of Credit Transactions relative to the liquidity of related cash instruments or related credit derivatives, and liquidity for secondary assignments of credit derivatives generally.

Counterparty credit exposure

Counterparty credit exposure under a Credit Transaction may change abruptly following announcements or events (including Credit Events) relating to a Reference Entity. You should take this fact into account in monitoring and managing counterparty credit risk. See Section III.E of the General Disclosure Statement.

Market liquidity

Various factors may affect the market liquidity for a particular type of Credit Transaction. Certain tenors of a type of Credit Transaction may be more liquid than others, and consequently market liquidity could vary during the term of a Credit Transaction. Future regulation of Credit Transactions could limit market liquidity. The market liquidity of Credit Transactions based on indices may vary significantly between the current series of the index and prior series. The market liquidity of Credit Transactions based on bespoke portfolios of Reference Entities will generally be less than that of Credit Transactions based on standardized indices. The market liquidity of a single-Reference Entity Credit Transaction may be affected by the Reference Entity's inclusion or exclusion from a standardized index, with exclusion from an index generally expected to result in diminished market liquidity. Market liquidity affects the value of Credit Transactions through its effect on bid-ask spreads and the ability of market participants to hedge exposures, among other factors. The existence of market liquidity does not necessarily mean that transfers, early termination or other sources of Transaction liquidity will be available to you with respect to a Credit Transaction between us. See Section III.B – “Transactions Involve Liquidity Risk” – of the General Disclosure Statement.

Interpretation of Transaction Terms

The Credit Derivatives Definitions and other terms applicable to Credit Transactions are subject to interpretation and further evolution. Past events have shown that the views of market participants may differ as to how the terms of Credit Transactions should be interpreted in the context of specific events, entities and obligations.

Role of the Credit Derivatives Determinations Committees

You should understand the role of the Credit Derivatives Determinations Committees (“**Determinations Committees**”) and how their determinations may affect your rights and

obligations under a Credit Transaction. If so provided under the terms of a Credit Transaction, a Determinations Committee will have the power to make binding decisions on critical issues such as whether a Credit Event or a Succession Event has occurred, which obligations of the Reference Entity are deliverable and whether an auction (as described below under “Settlement Methods”) should take place. The procedures of the Determinations Committees are set forth in the DC Rules. None of ISDA, the institutions serving on the Determinations Committees or any external reviewers owes any duty to you in such capacity, and you may be prevented from pursuing claims with respect to actions taken by such persons under the DC Rules. Institutions serving on a Determinations Committee have no duty to investigate or verify the accuracy of information on which a determination is based. In addition, a Determinations Committee is not obligated to follow previous determinations and, therefore, could reach a different determination on a similar set of facts. If we or an affiliate serve on a Determinations Committee, we may have an inherent conflict of interest in the outcome of any determinations. Further information about Determinations Committees may be found at <http://dc.isda.org> (or any successor website). If your Credit Transaction is governed by the determinations of a Determinations Committee, you should carefully monitor the matters under consideration by such committees and their determinations.

Specification of Credit Events

Examples of Credit Events that might apply to individual Credit Transactions include bankruptcy, failure to pay, restructuring, obligation acceleration, obligation default, and repudiation/moratorium. You should review carefully the applicable Credit Events and their definitions under each prospective Credit Transaction and independently evaluate their appropriateness to your objective for entering into the Credit Transaction.

There are established trading conventions, which generally depend on the type of Reference Entity and its geographical location, regarding applicable Credit Events, their detailed definitions and other terms of a Credit Transaction. You should be aware that Credit Transactions with terms that differ from these trading conventions may have substantially less market liquidity and price transparency. We cannot assure you that we or another dealer would be willing to enter into a Credit Transaction on terms that differ from these trading conventions.

Whereas bankruptcy is a Credit Event that relates to the Reference Entity itself, other Credit Events, such as failure to pay or restructuring, relate to obligations of the Reference Entity that fall within a specified category (e.g., bonds, loans, borrowed money) and have specified characteristics (e.g., subordination, non-contingency of principal payments, currency, governing law). Depending on the terms of a Credit Transaction, obligations for which the Reference Entity acts in a capacity other than direct obligor (for example as a guarantor or insurer) may not be within the class of obligations that is relevant for purposes of determining whether a Credit Event has occurred.

You should be aware that a Reference Entity may decide to default on or restructure only certain classes of its obligations and such a selective default or restructuring may not result in a Credit Event for the classes of obligations that are relevant for a particular Credit Transaction.

No assurance that you will achieve your hedging or other objectives

Credit Events are expressly defined under the terms of a Credit Transaction and may not

encompass all of the circumstances in which you may suffer credit-related losses on an obligation of a Reference Entity. If you intend to hedge your exposure to the credit risk of owning an obligation of a Reference Entity, you must evaluate carefully whether the Credit Transaction will serve as an effective hedge. Some of the reasons why recovery under a Credit Transaction may not be available despite the deteriorating creditworthiness of a Reference Entity include:

- the obligor on the obligation you own is not correctly identified as the Reference Entity under the Credit Transaction, for example, due to confusion among similarly named entities within a corporate group;
- the obligor on the obligation you own is acting in a different capacity – such as direct obligor, guarantor or insurer – than is specified in the Credit Transaction;
- the characteristics of the obligation you own – such as whether it is senior or subordinated, freely transferrable, secured or unsecured, a bond, loan or a payment obligation not related to borrowed money – do not meet requirements specified in the Credit Transaction;
- the scheduled termination date of the Credit Transaction precedes the maturity date of the obligation being hedged;
- the amount of a Reference Entity's payment failure is below the threshold designated in the Credit Transaction;
- adequate notice of a Credit Event or, if applicable, a request to convene the Credit Derivatives Determinations Committee is not made within the requisite time period following the Credit Event; and
- the obligation you own is assumed by a different entity but the Succession Event provisions (as described below under "Succession Events" and "Operational Risks") governing your Credit Transaction do not result in a corresponding change in the Reference Entity with respect to the appropriate notional amount.

Restructuring Credit Events

Some entities that experience credit difficulties do not file for bankruptcy or default on payments on all of their obligations. Instead they may enter into work-out or restructuring arrangements with their creditors. Unless a Credit Transaction expressly provides for a "restructuring" Credit Event -- and the actual event falls within the agreed definition of that Credit Event, the protection buyer may not receive any compensation if such a workout or other restructuring occurs. You should ascertain whether a prospective Credit Transaction includes a restructuring Credit Event and ensure that you understand the applicable definition of "restructuring", the requirements and conditions for you and your counterparty to trigger settlement following the occurrence of a restructuring, the maturity and other limitations that apply to deliverable obligations and the considerations that will inform each party's decision as to whether to exercise such rights. For example, in some circumstances it may be beneficial for the protection seller to trigger settlement following a restructuring in order to preclude the possibility of having to make a greater payment should a subsequent Credit Event occur.

Requirement for Publicly Available Information

Credit Transactions may specify that only publicly available information regarding a relevant event may be used to trigger or modify (such as with respect to a Succession Event) the transaction. The Credit Derivatives Definitions contain standards as to what constitutes publicly

available information for Credit Transactions governed by those definitions. If a Credit Event or Succession Event occurs but the requisite public information about the event (as specified in the Credit Transaction) is not available within the applicable time periods, then the event will not take effect under the Credit Transaction.

Succession Events

Succession Events may result in different or additional Reference Entities. Following certain corporate events relating to a Reference Entity, such as (in the case of a non-sovereign entity) a merger, consolidation, amalgamation, transfer of assets or liabilities, spin-off or other similar event in which an entity succeeds to the obligations of another entity, whether by operation of law or pursuant to any agreement, the Reference Entity may change. We refer to such events as “Succession Events”. Based on the proportion of the relevant obligations of a non-sovereign Reference Entity assumed by other entities in connection with a Succession Event, one or more entities (which may include the original Reference Entity) may be designated as successor Reference Entities. The Credit Derivatives Definitions provide that if a non-sovereign Reference Entity has more than one successor entity as the result of such an event, then the notional amount of the Credit Transaction will be split evenly among the successor entities. As a result, the Credit Transaction may reference substantially different credit risks following the occurrence of Succession Events with respect to a Reference Entity. These credit risks could potentially be greater or lesser than the credit risk of the original Reference Entity, which could adversely impact the value of the transaction to the protection seller (if the credit risk increases) or the protection buyer (if the credit risk reduces). If you entered into a Credit Transaction to hedge an obligation you own, you should be aware that the Succession Event will not necessarily result in the assumption of that obligation by the successor Reference Entities either at all in the same proportion as the allocation of the notional amount of the original Credit Transaction, in either case resulting in an ineffective hedge.

The occurrence of certain events prior to the trade date of a Credit Transaction may affect its value.

Under the Credit Derivatives Definitions, the relevant period for Credit Events that may trigger settlement of a Credit Transaction begins on the “Credit Event Backstop Date” (as defined in the Credit Derivatives Definitions), which may be prior to the trade date. In broad terms, the Credit Event Backstop Date refers to the start of a rolling look-back period of 60 calendar days prior to the date of a request (accompanied by the requisite publicly available information) to convene the Credit Derivatives Determinations Committee or, if applicable, the effective date of certain notices required for settlement of the Credit Transaction. For Succession Events, a similar look-back period of 90 calendar days applies, and it is therefore possible that a Credit Transaction could be affected by a Succession Event that took place prior to the trade date.

You should conduct your own review of any recent developments with respect to a Reference Entity by consulting publicly available information. If, prior to the trade date, a request to convene a Credit Derivatives Determinations Committee has been delivered to determine whether a Credit Event has occurred with respect to a Reference Entity, details of such request may be found on the ISDA website at <http://dc.isda.org> or a successor website. Even if a Credit Derivatives Determinations Committee has not been convened to determine such matter as of the trade date, one may still be convened after the trade date in respect of an event which occurs up to

60 days (in the case of a Credit Event) or 90 days (in the case of a Succession Event) before the date of a request to convene such Credit Derivatives Determinations Committee.

Operational Risks

Credit Transactions can be more operationally intensive than other Transactions, and you must be prepared to deal with all of the operational aspects of Credit Transactions that you enter into. Credit Transactions may require that certain notices be given in order to exercise rights, realize value or protect and preserve interests under the transaction, including but not limited to notices of: the occurrence of a Credit Event or Succession Event together with supporting information; the choice of obligations to be delivered or valued; the exercise of buy-in rights in connection with physical settlement; certain potential Credit Events; and the exercise of the right to utilize parallel auctions (i.e., to move your Credit Transaction to a different “maturity bucket”) in the case of certain restructuring Credit Events. In some cases, actions of the Determinations Committee may substitute for a required notice, modify the effect of a previously delivered notice or alter the period during which a notice may be delivered. You should have arrangements for delivering and receiving such notices and monitoring the actions of the relevant Determinations Committees, and be prepared to take the necessary or appropriate steps when you receive such notices or learn of such actions. Failure to act within the requisite time periods (e.g., the 60 or 90 day look-back periods described above with respect to Credit Events and Succession Events, respectively) could adversely affect your interests under a Credit Transaction.

Settlement Methods

The ultimate outcome of a Credit Transaction (following the occurrence of a Credit Event and satisfaction of all conditions to settlement, if applicable) will be affected by the settlement method applicable to the transaction. The settlement methods below may apply directly to a Credit Transaction or, in the case of physical settlement or cash settlement, as fallback settlement methods in the event that auction settlement is the primary settlement method but an auction is not held.

Auction settlement

If so provided, a Credit Transaction may be cash settled by reference to the price of certain deliverable obligations of the Reference Entity determined in an auction conducted pursuant to terms published by the Credit Derivatives Determinations Committee (“auction settlement”). Although, based on experience to date, auctions generally can be expected to be held for Credit Transactions of Reference Entities that are widely traded in the credit markets, there can be no assurance that an auction will be held for future Credit Events or that, if held, the auction will result in the determination of a final price. If an auction is not held or fails to result in the determination of a final price (as might occur if an auction is cancelled by the Credit Derivatives Determinations Committee due, for example, to an inability to obtain the requisite number of initial bids), the fallback settlement method specified under the Credit Transaction (generally either physical settlement or cash settlement pursuant to a valuation mechanism administered by one of the parties) would apply. If a Credit Transaction does not provide for auction settlement, it will generally specify either physical or cash settlement as the primary settlement method.

Physical settlement

If physical settlement applies to a Credit Transaction, the protection buyer must select (if the terms of the Credit Transaction provide the protection buyer a choice) an obligation or obligations of the Reference Entity that satisfy specified deliverability criteria and deliver those obligations to the protection seller in the amount specified in the Credit Transaction. You should be aware that physical settlement may not be possible to accomplish under some circumstances, such as inability to procure a deliverable obligation due to market dislocations or prior redemptions or refinancing by the Reference Entity, or court orders prohibiting transfers of an obligation. In such event, the terms of the Credit Transaction may provide the protection seller with buy-in rights or specify other fallback consequences, including partial cash settlement, or the protection buyer may receive no recovery if it is unable to make a required delivery. If you are the party to which obligations will be delivered under a Credit Transaction, you should understand any applicable restrictions on your ability to take delivery of a deliverable obligation, including under the terms of the obligation and applicable securities laws. The party making a delivery may be deemed to make certain representations and give certain indemnities in connection with a delivery.

Cash settlement

If cash settlement applies, the calculation agent or one of the parties may be required to seek quotations for selected obligations of the Reference Entity. Such quotations may not be available, or the level of such quotations may be substantially reduced as a result of illiquidity in the relevant markets or as a result of factors other than the credit risk of the Reference Entity (for example, liquidity constraints affecting market dealers). Moreover, the market value of a Reference Entity's obligations may be highly volatile in the period following a Credit Event. Accordingly, any quotations so obtained may differ significantly from the value of the relevant obligation which would be determined by reference to the present value of related cashflows, or the value that a party to a Credit Transaction could obtain if it controlled the disposition of the obligations. Quotations may be deemed to be zero in the event that no such quotations are available.

Important Considerations regarding Auction Settlement

If auction settlement is specified in a Credit Transaction, the Credit Derivatives Determinations Committee publishes auction settlement terms in respect of the Reference Entity and an auction final price determination date occurs, settlement of the Credit Transaction will be based on the auction final price determined according to an auction procedure set out in the relevant Credit Derivatives Auction Settlement Terms, available on ISDA's website at www.isda.org (or any successor website thereto). Credit losses determined pursuant to a market auction process may be greater or less than the losses which would have been determined in the absence of the auction. In particular, the auction process may be affected by technical factors or operational errors which would not otherwise apply or may be the subject of actual or attempted manipulation. Auctions may be conducted by ISDA or by a relevant third party.

The Determinations Committee may amend the form of auction settlement terms for a particular auction. The DC Rules provide for certain amendments by resolution of a convened Determinations Committee. Other amendments may be made subject to a public comment period; however, the DC Rules permit the Determinations Committee to forego a public comment period by supermajority action. Accordingly, there can be no assurance that the Credit Derivatives Auction Settlement Terms for a particular auction will be on similar terms to the form of auction settlement terms or the terms of previous auctions.

Where the only relevant Credit Event is a Restructuring, several concurrent but separate auctions may occur with respect to such Reference Entity and such Credit Event. The auction settlement amount may be based on the price of one or more obligations of the Reference Entity having a final maturity date different from the restructured obligation.

If we or one of our affiliates acts as a participating bidder in an Auction, then we or it may take certain actions that influence the auction final price, including (i) submitting bids, offers and physical settlement requests (on our own behalf or on behalf of counterparties) with respect to the representative auction settled transaction and (ii) providing rates of conversion to determine the applicable currency conversion rates to be used to convert any obligations that are not denominated in the auction currency into such currency for purposes of the auction. In deciding whether to take any such action (or whether to act as a participating bidder in any auction), we or our affiliate will do so without regard to your interests. Such participation may have a material adverse effect on the value of your Credit Transaction.

Cheapest-to-deliver Option

The protection buyer may have discretion to choose the portfolio of obligations to be valued or delivered following a Credit Event in respect of the Reference Entity. In such cases, it is likely that the portfolio of obligations selected will be obligations of the Reference Entity with the lowest market value that are eligible for selection pursuant to the terms of the Credit Transaction. Obligations of differing maturities, currencies or payment priority (either contractual or under applicable insolvency law), among other characteristics, may diverge considerably in market value. This circumstance, which may occur for example when the Credit Event is a restructuring or the Reference Entity is a monoline insurer, would likely result in greater losses for the protection seller. Similar considerations apply under auction settlement because the representative transaction that is priced in an auction generally allows a choice of deliverable obligations from a final list established by the Credit Derivatives Determinations Committee. In addition, wide divergences in expected recovery values among deliverable obligations could make it more difficult to conduct an auction. The class of deliverable obligations is determined under the terms of a Credit Transaction through the specification of categories and characteristics similar to those described above under "Specification of Credit Events." A Credit Transaction may designate an obligation of the Reference Entity as a "reference obligation" for purposes of determining whether other obligations of that entity meet a criterion that deliverable obligations not be subordinated to the reference obligation.

Actions of Reference Entities

Actions of Reference Entities (for example, merger or demerger or the repayment or transfer of indebtedness) may adversely affect the value of Credit Transactions. The views of market participants and/or legal counsel may differ as to how the terms of Credit Transactions should be interpreted in the context of such actions, or such terms may operate in a manner contrary to the expectations of market participants and/or adversely to the interests of parties to Credit Transactions. No Reference Entity will have any obligation to consider your interest (as a party to a Credit Transaction) as to any corporate or sovereign actions that might affect the value of the Credit Transaction. A Reference Entity may have an incentive to structure a corporate transaction to produce a particular result under Credit Transactions, for example, in order to induce holders of its debt obligations to take certain actions.

In some cases, a Reference Entity may repay its outstanding liabilities or assign them to a different entity in a manner that does not give rise to a Succession Event or a successor Reference Entity. In such cases, a Credit Transaction with respect to that Reference Entity may no longer have deliverable obligations (a circumstance commonly referred to as an “orphan” Credit Transaction), which may result in significant losses for the protection buyer. In certain circumstances, e.g., redemption of a “reference obligation”, the Credit Transaction may provide for designation by the calculation agent of a substitute reference obligation.

Some actions by a Reference Entity and holders of its obligations may have the effect of writing down the principal amount of its obligations, such as the addition of below-par redemption rights or an exchange of old bonds for new bonds in a lesser principal amount. Such modified or new obligations may trade at a higher percentage of their written-down principal amount than did the Reference Entity’s obligations prior to the write down. If the terms of an auction or other cash-settlement mechanism for a Credit Transaction determine the market value of the Reference Entity’s obligations by reference to the written-down principal amount, then the protection buyer’s recovery could be diminished or eliminated.

The Credit Derivatives Definitions provide that a Credit Transaction will be terminated and termination amounts will be calculated and paid in accordance with applicable provisions set forth in the 2002 ISDA Master Agreement if a Reference Entity becomes an affiliate of the protection seller, with amounts being payable as set forth under the Credit Derivatives Definitions.

A protection seller will not have the rights of a direct obligor of any obligation (e.g., voting, participation in restructuring)

Unless otherwise agreed between the parties, the protection seller will not have rights equivalent to those of a holder of debt obligations of any or all of the Reference Entities, such as voting rights, rights to receive consent fees or other distributions from a Reference Entity. For example, if a restructuring occurs with respect to a Reference Entity, the protection seller, unlike a holder of a Reference Entity’s Obligations, will have no right to challenge or participate in any element of the restructuring. Consequently, entering into a Credit Transaction as protection seller may be riskier than a direct investment in the obligations of a Reference Entity. None of the money you pay with respect to a Credit Transaction will go to a Reference Entity.

There may be additional conflicts of interest that arise from Credit Transactions

We or our affiliates may, now or in the future, engage in business with one or more Reference Entities, their affiliates and their competitors, including making loans to or equity investments in one or more Reference Entities, their affiliates and their competitors or providing them with investment banking, asset management or other advisory services, including merger and acquisition or bankruptcy-related advisory services. We or our affiliates may also participate in loan restructurings that may affect Credit Transactions, Reference Entities and any reference obligations. We or our affiliates may have an interest in data sources that publish credit indices and may participate in dealer votes to determine changes in the composition of indices. These activities may present a conflict between our or our affiliates’ obligations and your interests as a party to a Credit Transaction.

We may have information about Reference Entities that we cannot share with you

We and our affiliates may, whether by virtue of the types of relationships described above or otherwise, at any time, be in possession of information in relation to a Reference Entity or any of its affiliates that is or may be material in the context of a Credit Transaction and that may or may not be publicly available or known to a party to a credit derivative transaction. Unless we expressly agree otherwise, the terms of a Credit Transaction do not create any obligation on our part to disclose to you any such relationship or information (whether or not confidential).

Neither this risk disclosure statement nor any additional term sheet or disclosure statement is intended to provide information with respect to any Reference Entity, or any financial or other risks relating to the business or operations of any Reference Entity in general, or to the obligations of any Reference Entity in particular. You, as a party to a Credit Transaction, should make your own investigation into any Reference Entity. We make no endorsement, representation or warranty regarding the accuracy or completeness of the information publicly disclosed by a Reference Entity.

Additional Considerations for Specific Product Types

The following is a discussion of certain material risks, terms and characteristics of some common types of Credit Transactions. The categories employed below are illustrative only, and are intended to assist you in understanding key features of certain prospective Credit Transactions. The discussion should not be viewed as a comprehensive description of any particular Credit Transaction that may be under discussion between us. Because nomenclature is neither standardized nor sufficiently descriptive to capture all important transaction features and variations, a particular Credit Transaction may have additional or different risks, terms and characteristics than described below, even if it is referred to by one of the following category names.

Sovereign Reference Entities

There is no common set of rules or practices that governs the manner in which a sovereign government, faced with deterioration in its fiscal position or the performance of its economy, may attempt to reach resolution with holders of its debt obligations. Due to, among other factors, the role of official creditors, the ability of a sovereign to enact legislation that may affect holders of its debt obligations, and the role played by other governments, including those of the jurisdictions in which private creditors are located, the development of events is inherently unpredictable. As a result, the caveat noted above that specified Credit Events may not encompass all the circumstances in which holders of a Reference Entity's obligations may suffer credit-related losses applies with even greater force in the case of sovereign Reference Entities.

Certain provisions of the Credit Derivatives Definitions operate differently in the case sovereign Reference Entities. In particular, the obligations that are deliverable following a restructuring Credit Event may be determined based on characteristics of the obligation on the date immediately preceding the effective date of the restructuring. Additionally, events such as an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other events that result in any direct or indirect successor(s) may constitute Succession Events, and the Reference Entity of a Credit Transaction may change, irrespective of whether any successor assumes the

obligations of the predecessor sovereign Reference Entity.

Under the trading conventions applicable to many Credit Transactions on sovereign Reference Entities, long-tenor obligations may be deliverable following a restructuring Credit Event. As a result, it is possible that there will be a wide dispersion in values among deliverable obligations, and interest rates and the maturity structure of the sovereign Reference Entity's deliverable obligations will be an important factor in determining the auction or cash settlement amount under such Credit Transactions.

U.S. State and Municipal Reference Entities

Municipal debt securities are issued by U.S. states, counties, cities, special tax districts, and special agencies and authorities (such as a transport or electric power authority) of state and local governments. Municipal debt securities are classified according to whether they are backed by the full faith and credit of the Reference Entity or are payable from ad valorem taxes required to be levied on all taxable property within the taxing jurisdiction of the Reference Entity ("full faith and credit obligation liabilities"), payable from the general fund of the Reference Entity ("general fund obligation liabilities"), payable from a specified source of revenue (e.g., transportation fees) ("revenue obligation liabilities") or their payment is contingent on appropriations being made ("moral obligation liabilities"). This classification is relevant under Credit Transactions for determining whether an obligation-specific Credit Event has been triggered and which obligations are deliverable.

Obligations of the same Reference Entity can have materially different credit characteristics depending on their classification. Accordingly, it is important that you review and understand the consequences of the specified obligation characteristics under each prospective Credit Transaction as they may materially affect your rights and obligations under the Credit Transaction, its value and its appropriateness for your particular objectives. See "Specification of Credit Events" and "Cheapest-to-deliver Option" above.

Under the trading conventions applicable to Credit Transactions on U.S. municipal Reference Entities, bankruptcy is typically not specified as a Credit Event. You should be aware that municipalities may be eligible to be debtors under Chapter 9 of the U.S. Bankruptcy Code, subject to authorization under State law and certain other conditions. In the absence of a bankruptcy Credit Event, the filing of a petition or commencement of a case under Chapter 9 with respect to a municipality may not trigger settlement of a Credit Transaction, unless the surrounding circumstances also constitute one of the Credit Events that have been specified as applicable. Under applicable trading conventions, long-tenor obligations may be deliverable following a restructuring Credit Event with respect to a State or municipal Reference Entity. As a result, it is possible that there will be a wide dispersion in values among deliverable obligations, and interest rates and the maturity structure of the Reference Entity's deliverable obligations will be an important factor in determining the auction or cash settlement amount under such Credit Transactions.

Tranche CDS

A tranche CDS is a type of Credit Transaction on a portfolio of Reference Entities, under which the losses arising from Credit Events are transferred to the protection seller only to the extent that aggregate losses exceed the “attachment point” but remain less than the “detachment point” of the tranche. The likelihood that the protection seller will incur losses on a tranche CDS is greater for more subordinated tranches (i.e., those with a lower attachment point in relation to portfolio size). Tranche CDSs are leveraged instruments because the notional amount of a particular tranche is less than (and may be significantly less than) the notional amount of the entire portfolio of Reference Entities.

The value of a tranche CDS may be influenced by the correlation of changes in the creditworthiness of the Reference Entities in the portfolio, as well as by the valuation factors described above in relation to Credit Transactions generally. The weight of the probability distribution of portfolio losses that overlaps with a tranche is affected by correlation, expected spreads and other model-dependent factors. As a result, the allocation of the credit spread of the portfolio among tranches may change significantly, and in some cases abruptly, with market conditions. For example, an increase in idiosyncratic credit risks affecting only a few Reference Entities may tend to affect lower tranches disproportionately. Moreover, the valuation of CDS tranches is subject to “model risk” (i.e., the risk that a valuation model does not accurately depict the value of a tranche or the relationship between tranche values). Consequently, hedging or arbitrage strategies based on modeled relations between the values of tranches may break down, resulting in significant losses.

Unless auction settlement applies, settlement of tranche CDSs is typically through a combination of cash and physical settlement. This combined settlement procedure may occur irrespective of whether aggregate losses have reached the tranche attachment point. Under this combined settlement mechanism, physical settlement typically is at a market value determined by a dealer poll following delivery of the selected deliverable obligations. Due to the later determination of the market value payment, settlement risk will be present for the protection buyer, although it may be mitigated if the Credit Transaction provides for delivery-versus-payment (“DVP”) settlement based on an estimate of the market price.

Loan CDS

If you enter into a Credit Transaction under which the deliverable obligations may include loans, you should be familiar with the documentation and settlement practices of the relevant secondary loan trading markets and applicable laws and regulations (including the legal consequences of furnishing or receiving non-public information regarding a Reference Entity). Considerations relevant to physical settlement include the representations and indemnities given under governing transfer documentation, the allocation between the parties of the risk of upstream title defects and, if settlement may occur through a participation or sub-participation, credit and other risks with respect to the participation grantor and any upstream grantors.

Provisions of the Reference Entity’s credit agreements may affect your ability to deliver or receive loans, the economic consequences of doing so and whether loans that you hold meet deliverability criteria. Accordingly, you should review such agreements carefully, including the provisions

governing assignments, any collateral allocation mechanisms (i.e., a mandatory exchange of obligations for other obligations under a credit agreement, not all of which may be deliverable, depending on the terms of a Credit Transaction), and provisions that may require or entitle a lender to advance funds.

Refinancing of a loan or release of the lenders' security interest in collateral (such as may occur following an improvement in the obligor's credit ratings) may result in a lack of deliverable obligations. See "Actions of Reference Entities" above. In the case of a loan refinancing, the obligor under a new credit agreement may not assume loans before their repayment (or the available public information may be insufficient to establish that such assumption has occurred). If the succession provisions in a Credit Transaction require such assumption, they may not result in the designation of a successor Reference Entity in such cases. Certain forms of published documentation contain modified succession provisions that may encompass a broader range of refinancing events. Before entering into a Credit Transaction on loans, you should review the succession provisions carefully and understand how they may operate in a range of refinancing scenarios. If a Credit Transaction is governed by the "Continuity Procedures for Bullet LCDS", published by ISDA, binding determinations regarding succession may be made by a designated law firm in accordance with procedures set forth in that document.

If a Credit Transaction provides for optional early cancellation should there cease to be deliverable loan obligations, you should be aware that this feature may make the Credit Transaction difficult to value. This valuation uncertainty, coupled with the possible adoption by market participants of new standard terms that do not contain such cancellation provisions, may result in diminished secondary market liquidity for Credit Transactions with such cancellation provisions. See the discussion of market liquidity under "Valuation Factors" above.

A Credit Transaction may provide that the identification of loans that satisfy the 'syndicated secured' deliverability characteristic and have the relevant lien priority is made through a dealer poll and that certain other decisions, such as whether to hold an auction and which obligations are deliverable, will be made by dealers rather than a Determinations Committee. The documentation governing such Credit Transactions generally contains waivers of claims against the third parties making or administering determinations and provides that they have no duty to investigate or verify the accuracy of information on which a determination is based. If we or an affiliate participate as a dealer in making any determinations, we may have an inherent conflict of interest in the outcome of such determinations.