International Swaps and Derivatives Association, Inc.

Disclosure Annex for Credit Derivative Transactions

This Annex will apply to Credit Transactions (as defined below) that are subject to:

- the 2003 ISDA Credit Derivatives Definitions as amended by the 2005 Matrix Supplement and the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement, and as may be supplemented by any other supplements specified in the Credit Transaction, in each case as published by ISDA (the "**2003 Credit Derivatives Definitions**") (such Credit Transactions, "**2003 Definitions Transactions**"); or

- the 2014 ISDA Credit Derivatives Definitions published by ISDA (the "**2014 Credit Derivatives Definitions**") (such Credit Transactions, "**2014 Definitions 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 YOU AND US OR ANY RELATED GOVERNING DOCUMENTATION. Accordingly, descriptions in this Annex of the operation of Credit Transactions and the consequences of various events are in all cases subject to the actual terms of a Credit Transaction executed between you and us and its governing documentation (whether or not such qualification is expressly stated).

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 such as index sponsors. Such terms may in turn be amended or customized pursuant to the terms of the Credit Transaction and its governing documentation. Terms incorporated by reference or otherwise relevant to a Credit Transaction may include:

- the definitions and provisions of the 2003 Credit Derivatives Definitions or the 2014 Credit Derivatives Definitions (together 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**");

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- with respect to 2014 Definitions Transactions only, the Standard Reference Obligation Rules, as published by ISDA and as amended and/or supplemented from time to time in accordance with the terms thereof (the "**SRO Rules**");
- with respect to 2014 Definitions Transactions only, the Package Observable Bond Rules, as published by ISDA and as amended and/or supplemented from time to time in accordance with the terms thereof (the "**POB 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 after the occurrence of such Credit Event; and
- subject to the terms thereof, any protocol to which you and we adhere, including the ISDA 2014 Credit Derivatives Definitions Protocol (the "**2014 CDD Protocol**").

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 contained herein of the documents referred to in the list above are summaries only and are qualified in their entirety by reference to the full text of such documents.

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**") occurs with respect to a Reference Entity. For example, if a 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 or more of the following, depending on the terms of the Credit Transaction: (i) to pay a cash amount determined as described below with respect to auction settlement under "Settlement Methods", (ii) to take delivery of a specified 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 terms of the Credit Transaction) of the outstanding principal balance or due and payable amount, as applicable, of such obligation(s) and/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 specified in the terms of the Credit Transaction 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 parties' obligations are based on the difference between the settlement amount under a credit default swap and a contractually-specified fixed recovery rate), either party could be "in-the-money" following a Credit Event and required to make payments or deliveries of the types described above.

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 during the term of the Credit Transaction.

ISDA 2014 Credit Derivatives Definitions Protocol

If both you and we adhere to the 2014 CDD Protocol, the 2014 CDD Protocol will have the effect of amending certain Credit Transactions between us that are "Protocol Covered Transactions" (as defined in the 2014 CDD Protocol). You should review the terms of the 2014 CDD Protocol before adhering and should ensure that you understand the amendments set out in the 2014 CDD Protocol as they apply to existing Credit Transactions between us. In particular, you should consider whether any existing Credit Transactions should be excluded from the scope of the 2014 CDD Protocol, and whether the effect of the 2014 CDD Protocol amendments on existing Credit Transactions may have consequential effects on your ability to hedge or manage the risk of such Credit Transactions.

Under the 2014 CDD Protocol, certain Credit Transactions that specify multiple Reference Entities will be amended such that they incorporate both the 2003 Credit Derivatives Definitions and the 2014 Credit Derivatives Definitions, with the 2003 Credit Derivatives Definitions applying to certain Reference Entities and the 2014 Credit Derivatives Definitions applying to other Reference Entities. Because such Credit Transactions incorporate both the 2003 Credit Derivatives Definitions and the 2014 Credit Derivatives Definitions, discussion in this Annex relating to "2003 Definitions Transactions" will be relevant for certain aspects of such Credit Transactions, and discussion in this Annex relating to the"2014 Definitions Transactions" will be relevant for other aspects of such Credit Transactions, and the remainder of this Annex should be construed accordingly.

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 and any guarantors or other supporters of its relevant obligations;
- 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 and any guarantees or other support that the Reference Entity has provided to other entities;
- 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 – "Credit risk of named counterparty (and any applicable guarantors or credit support providers), prime broker, clearing broker or clearinghouse" – 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 you and 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 has occurred, whether there is a Successor (as defined below) to the Reference Entity, which obligations of the Reference Entity are deliverable, the terms of an auction (as described below under "**Settlement Methods**") and, subject to the DC Rules, whether or not an auction will be held, and matters of contractual interpretation relevant to the credit derivatives market generally. The procedures of the Determinations Committees are set forth in the DC Rules. The DC Rules may be amended by a Determinations Committee in accordance with 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 may base their votes on information that is not available to you, and have no duty to research, investigate, supplement or verify the accuracy of information on which a determination is based. In addition, a Determinations Committee is not obligated to follow previous determinations or to apply principles of interpretation such as those that might guide a court in interpreting contractual provisions. Therefore, a Determinations Committee 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. In such capacity, we or our affiliate may vote and take other actions without regard to your interests under a Credit Transaction.

Determinations Committees are regional committees composed of significant participants in the credit default swap market in the applicable region. Determinations Committees are typically composed of both the largest dealers in credit default swaps as well as non-dealers, but dealers typically significantly outnumber non-dealers. 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. In addition, for certain 2014 Definitions Transactions, governmental intervention may apply. You should carefully review 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 provide any assurances regarding the likelihood that we or another dealer would be willing to enter into a Credit Transaction with you 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, currency, governing law and, in respect of certain 2003 Definitions Transactions only, non-contingency of principal payments). 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 or 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 or failure to take into account recent name changes or Successors;
- 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 or cease to meet requirements specified in the Credit Transaction relevant to either the occurrence of a Credit Event or the payments or deliveries to be made following a Credit Event;
- 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 or the aggregate amount of its obligations affected by the Credit Event is below the threshold designated in the Credit Transaction;
- adequate notice of a Credit Event or succession or, if applicable, a request to convene the Determinations Committee is not made within the requisite time period following the Credit Event or succession (as applicable); and
- the obligation you own is assumed by a different entity but the provisions relating to Successors (as described below under "Successor" 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 contractual 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, if any, 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 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 occurs but the requisite publicly available 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.

Successors

The Reference Entity may change or there may be additional Reference Entities following a determination of any Successor or Successors to the Reference Entity. "**Successor**" means, the entity or entities, if any, determined to have succeeded to a requisite amount of relevant obligations of the Reference Entity (or, in respect of 2003 Definitions Transactions where the Reference Entity is a sovereign, the entity or entities, if any, which become a direct or indirect successor to the Reference Entity by way of a succession, irrespective of whether any such Successor assumes any obligations of the predecessor Reference Entity).

In respect of 2003 Definitions Transactions only, the determination of a Successor to a Reference Entity that is not a sovereign requires the occurrence of an identifiable corporate event triggering the transfer of obligations to another entity, such as 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.

An entity may only be a Successor to a Reference Entity that is a sovereign, following the occurrence of certain events relating to the Reference Entity, such as an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other similar event.

If a Reference Entity (or, in respect of 2003 Definitions Transactions only, a Reference Entity that is not a sovereign) is determined to have more than one Successor, then the notional amount of the Credit Transaction will be split evenly among the Successors. As a result, the Credit Transaction may reference substantially different credit risks following the determination of one or more Successors. 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 determination of a Successor will not necessarily result in the assumption of that obligation by the Successor either at all or 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 relevant Determinations Committee or, if applicable, the effective date of certain notices required for settlement of the Credit Transaction.

A similar look-back period of 90 calendar days prior to the date of a request to convene the relevant Determinations Committee (or, if applicable, the effective date of a notice to the other party and the calculation agent that describes the relevant succession) is applicable for purposes of any Successor determination, and it is therefore possible that a Credit Transaction could be affected by a succession that occurred prior to the trade date.

In respect of 2014 Definitions Transactions only, where on or after January 1, 2014, an entity assumes all of the obligations (including at least one relevant obligation) of a Reference Entity which is not a sovereign, in circumstances where the Reference Entity has ceased to exist, or is in the process of being dissolved and has not issued or incurred any borrowed money obligation at any time since the legally effective date of the assumption (such entity, a "**Universal Successor**"), the look-back period of 90 calendar days will not apply.

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 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 any successor website). Even if a 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), 90 days (in the case of the determination of a Successor), or at any time (in the case of the determination of a Universal Successor) before the date of a request to convene such Determinations Committee to make the relevant determinations.

Operational Risks

Credit Transactions may 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 that describe a succession 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, determinations of a 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, but we can give no assurance that any such Determinations Committee action will occur. 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 the determination of a Successor, 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 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, in order to receive the physical settlement amount, 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 an amount determined in accordance with the terms of the Credit Transaction.

In respect of 2014 Definitions Transactions only, the calculation of the outstanding principal balance of a deliverable obligation is determined in accordance with the following three-step process: (i) firstly, all principal payment obligations of the Reference Entity need to be identified;

(ii) secondly, all or any portion of such principal payment obligations that are subject to a contingency (other than a permitted contingency) or prohibited action need to be disregarded, leaving an amount equal to the non-contingent amount; and (iii) finally, the amount of the claim that could be validly asserted against the Reference Entity in respect of such non-contingent amount if the obligation was redeemed or accelerated as of a particular day needs to be determined, and such amount will be the outstanding principal balance. If payments of principal are subject to a contingency, the outstanding principal balance (as defined in the Credit Derivatives Definitions) could be less than the principal balance (and depending upon the type of contingency, could be zero).

Permitted contingency means, with respect to an obligation, any reduction to the Reference Entity's payment obligations: (a) as a result of the application of: (i) any provisions allowing a transfer, pursuant to which another party may assume all of the payment obligations of the Reference Entity; (ii) provisions implementing the subordination of the obligation; (iii) provisions allowing for a transfer of a qualifying guarantee (or provisions allowing for the release of the Reference Entity from its payment obligations in the case of any other guarantees); (iv) any solvency capital provisions if "Subordinated European Insurance Terms" is specified as applicable in the related confirmation; or (v) if "Financial Reference Entity Terms" is specified as applicable to the Reference Entity in the related confirmation (such an entity, a "**Financial Reference Entity**"), provisions which permit the Financial Reference Entity's obligations to be altered, discharged, released or suspended in circumstances which would constitute a governmental intervention; or (b) which is within the control of the holders of the obligation or a third party acting on their behalf (such as an agent or trustee).

You should be aware that physical settlement may not be possible to accomplish under some circumstances, including where the protection buyer is unable to procure the specified or selected deliverable obligation(s) due to market dislocations or prior redemptions or refinancings by the Reference Entity, failure to receive necessary transfer consents (such as from a borrower or agent) or delays in receiving such consents (beyond timeframes specified in the Credit Transaction), 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, permit partial cash settlement subject to certain conditions or specify other fallback consequences, or the protection buyer may receive no recovery if it is unable to make a required delivery and fallback consequences permitting recovery do not apply. 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. You should be aware of the possibility that such obligations may no longer exist and no qualifying substitute obligations may have been identified, 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. The price of an obligation may be deemed to be zero in the event that no such quotations are available.

Asset Package Delivery for 2014 Definitions Transactions

In respect of certain 2014 Definitions Transactions only, the asset package delivery provisions in the 2014 Credit Derivatives Definitions, subject to certain criteria, may apply following the occurrence of any of the following events (such events, "**Asset Package Credit Events**"):

- in respect of a Financial Reference Entity, either (i) a governmental intervention has occurred or (ii) if "Restructuring" is an applicable Credit Event, a restructuring has occurred in respect of the reference obligation of a Financial Reference Entity, and such restructuring does not constitute a governmental intervention; or

- in respect of a sovereign Reference Entity, if "Restructuring" is an applicable Credit Event, a restructuring occurs.

Following a governmental intervention in respect of a Financial Reference Entity, provided that there was an existing obligation of the Reference Entity which, immediately prior to the relevant governmental intervention to which such obligation is subject, constituted a deliverable obligation (a "**Prior Deliverable Obligation**"), the assets which result from such Prior Deliverable Obligation can be used for purposes of settling the relevant Credit Transaction (such settlement "**Asset Package Delivery**").

Following a restructuring Credit Event in respect of a sovereign Reference Entity, if ISDA has identified and published on its website, according to criteria set out in the POB Rules, a certain number of deliverable bonds of the sovereign ("**Package Observable Bonds**"), then Asset Package Delivery may apply in respect of any Package Observable Bond that constituted a deliverable obligation immediately preceding the date on which the relevant Asset Package Credit Event was legally effective.

Asset Package Delivery may apply if an Asset Package Credit Event occurs unless (i) such Asset Package Credit Event occurs prior to the Credit Event Backstop Date determined in respect of the Credit Event that triggered settlement, or (ii) if the Reference Entity is a sovereign, no Package Observable Bond exists immediately prior to such Asset Package Credit Event.

Asset Package Delivery may apply in circumstances where the deliverable obligation has either been converted into something that does not constitute a deliverable obligation (e.g. equity), written-down in part (such that it becomes uneconomic to deliver) or written-down in full (such that it is uneconomic to deliver, but in any event, there is no obligation that can actually be delivered). If no assets are received by the protection buyer, the asset package is deemed to have a value of zero. The protection buyer may exercise its right to Asset Package Delivery by notifying the protection seller. For purposes of Asset Package Delivery, the asset package for any holder of the relevant Prior Deliverable Obligation or Package Observable Bond, as applicable, will consist of all of the assets in the proportion received or retained by such holder in connection with the Asset Package Credit Event. The relevant asset package must be delivered by the

protection buyer in the proportion received or retained by such a holder. There can be no assurance that the relevant asset package will settle on a delivery-versus-payment basis.

If the asset package is not capable of being transferred (excluding due to market conditions) to institutional investors or is not of the type typically traded in, or suitable for being traded in, financial markets, the asset shall be deemed to be an amount of cash equal to the market value thereof as determined by the calculation agent by reference to an appropriate specialist valuation or in accordance with the methodology determined by the Determinations Committee. In such case, Asset Package Delivery will occur by payment of such cash amount, subject to any applicable netting provisions set forth in the relevant ISDA Master Agreement.

Important Considerations regarding Auction Settlement

If auction settlement is specified as the applicable settlement method in a Credit Transaction, the relevant 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). 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 are conducted by the administrator(s) specified in the auction settlement terms.

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 the 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 customers) 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 may, subject to the terms of the Credit Transaction, do so without regard to your interests. Such participation may have a material adverse effect on the value of a Credit Transaction.

Cheapest-to-deliver Option

Subject to the terms of a Credit Transaction, the protection buyer may have discretion to choose the obligation(s) to be valued or delivered upon cash settlement or physical settlement of a Credit Transaction following a Credit Event in respect of the Reference Entity. In such cases, it is likely that the obligation or 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. Conversely, if outstanding Credit Transactions referencing the Reference Entity have an aggregate notional amount exceeding the outstanding principal amount of deliverable obligations, the relative scarcity of deliverable obligations may result in the protection buyer having to pay more to obtain them.

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 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 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 the determination of a Successor to the Reference Entity. In such cases, a Credit Transaction with respect to that Reference Entity may no longer have any deliverable obligations (a circumstance commonly referred to as an "orphan" Credit Transaction), which may result in significant losses for the protection buyer because it will be precluded from recovery under the Credit Transaction but may remain obligated to make fixed payments. In certain circumstances, e.g., redemption of a "reference obligation," the Credit Transaction may provide for designation of a substitute reference obligation by the calculation agent or the relevant Determinations Committee.

In respect of certain 2014 Definitions Transactions only, the reference obligation will be the obligation specified as the market standard reference obligation for the relevant Reference Entity for the relevant seniority level on a list to be published by ISDA (the "**Standard Reference Obligation**"). For these Reference Entities, parties will no longer need to specify a reference obligation. The rules outlining the selection and replacement of the Standard Reference Obligation are contained within the SRO Rules.

The Standard Reference Obligation will only be replaced by the Determinations Committee in certain circumstances (for example, if the Standard Reference Obligation matures, is redeemed, is no longer an obligation of the Reference Entity, or in the case of Financial Reference Entities where Mod R or Mod Mod R typically applies, if the Standard Reference Obligation has less than one year remaining maturity and a replacement Standard Reference Obligation is available in the first maturity bucket). After performing the necessary legal review, the Determinations Committee will select a replacement Standard Reference Obligation for the relevant Reference Entity and seniority level by a majority vote. In respect of 2014 Definitions Transactions, market participants will be able to specify that the provisions relating to the Standard Reference Obligation are not applicable in the related confirmation, in which case the parties must specify an alternative 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.

If the Reference Entity becomes an affiliate of the protection seller under a Credit Transaction, or one such entity merges with or makes a substantial asset transfer to the other, the value of the Credit Transaction to the protection buyer may be adversely affected because the credit risk of the protection seller after such event could become correlated or identical to that of the Reference Entity. Section 2.31 of the 2003 Credit Derivatives Definitions or Section 11.4 of the 2014 Credit Derivatives Definitions, as applicable, provides that a Credit Transaction may be terminated in such event, with the termination amount to be calculated and paid in accordance with applicable provisions set forth in the 2002 ISDA Master Agreement. You should be aware, however, that Section 2.31 of the 2003 Credit Derivatives Definitions or Section 11.4 of the 2014 Credit Derivatives Definitions, as applicable, (or a comparable provision) does not apply under the standard forms of confirmation for certain types of Credit Transactions, including certain index CDS.

A protection seller will not have the rights of a holder of a debt 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 a Reference Entity, such as voting rights or 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. If the protection buyer is the owner of one or more obligations of a Reference Entity, then, unless otherwise agreed, it may exercise its voting or control rights or otherwise act in its capacity as holder of such obligations without regard to the interests of the protection seller, and such actions could adversely affect the Transaction Economics from the perspective of the protection seller. Consequently, entering into a Credit Transaction as protection seller may be riskier than a direct investment in the obligations of a Reference Entity. Entry into a Credit Transaction differs from an offering of new obligations by a Reference Entity in that none of the money paid with respect to the 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 a Reference Entity, its affiliates and its competitors, including making loans to or equity investments in a Reference Entity, its affiliates and its competitors or providing it 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 or recapitalizations 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. Please see Section IV.A. —"Our financial market activities may adversely impact Transactions" — of the General Disclosure Statement.

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).

Public information with respect to issuers of Underliers may be inaccurate or incomplete

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, whether contained in filings with the applicable securities regulator(s) or otherwise. Furthermore, we cannot give any assurance that all events occurring prior to the trade date of a Credit Transaction, including events that would affect the accuracy or completeness of the public filings of Reference Entity or the value of the Underliers will have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning an issuer could adversely affect the value of the Credit Transaction, its usefulness for your intended purpose, the timing or amount of payments or deliveries or the likelihood that you will be able to exercise any elective rights. You should undertake an independent investigation of each Reference Entity and Underlier as in your and

your advisors' judgment is appropriate to make an informed decision with respect to entering into a Credit Transaction.

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 you and 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 governments and international organizations as 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 of 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.

An entity may only be a Successor to a Reference Entity that is a sovereign, following the occurrence of certain events relating to the Reference Entity, such as an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other similar event. In respect of 2003 Definitions Transactions only, this may be the case irrespective of whether any such Successor assumes any obligations of the predecessor Reference Entity. In respect of 2014 Definitions Transactions, in the case of sovereign Reference Entities, there is no pre-condition that there be some form of specified event before a Successor determination can be made.

In respect of 2014 Definitions Transactions only, if a restructuring Credit Event occurs in respect of a sovereign and "Restructuring" is an applicable Credit Event, Asset Package Delivery may apply in respect of any Package Observable Bond that meets the deliverability criteria immediately prior to the Asset Package Credit Event (as described above under "Asset Package Delivery for 2014 Definitions Transactions"). If a Package Observable Bond has been amended in such a way as to flaw its deliverability prior to the Asset Package Credit Event, then the asset package relating thereto will not be capable of delivery.

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. In general, a different set of characteristics may apply for purposes of defining Credit Events than for defining which obligations may be delivered or valued in connection with settlement. 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 (such as an index), 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 (other than the most senior tranches) are leveraged instruments because a protection seller may incur losses on an accelerated basis relative to aggregate losses on the portfolio. A protection seller will not owe any payment for losses under a tranche CDS unless and until aggregate losses on the portfolio exceed the attachment point, but the protection seller will be required to make payments for losses equal to the entire notional amount of the tranche CDS if aggregate losses on the portfolio reach the detachment point. Therefore, the smaller the tranche size relative to the implied notional amount of the entire portfolio, the greater the degree of leverage (except with respect to the most senior tranches). For any given portfolio of Reference Entities, the lower the attachment point and the greater the leverage, the greater the risk for the protection seller. However, this does not mean that the most senior tranches present low risks for protection sellers.

The value of a tranche CDS will be influenced by the valuation factors described above in relation to Credit Transactions generally, such as expectations about the probability of a Credit Event occurring for each underlying Reference Entity during the term of the tranche CDS and the expected rates of recovery following a Credit Event. In addition, the value of a tranche CDS will be influenced by expectations about "default correlation," among other model-dependent factors. Default correlation refers to the likelihood of any given number of Reference Entities experiencing a Credit Event over any given time period. Changes in default correlation affect tranches of different seniority differently. In general, from the perspective of the protection seller, holding all other factors constant:

- a decrease in default correlation will decrease the value of the most junior tranche (i.e., the tranche with the lowest attachment point), because it will represent an increase in the expected probability of losses on that tranche;

- an increase in default correlation will decrease the value of the most senior tranche (i.e., the tranche with the highest attachment point), because it will represent an increase in the expected probability of losses on that tranche; and

- any increase or decrease in default correlation may either increase or decrease the value of mezzanine tranches (i.e., tranches between the most junior and most senior tranches), depending on a complex interplay of various factors.

The opposite relationships would hold from the perspective of the protection buyer.

The degree of default correlation among the Reference Entities in a given portfolio may be influenced by numerous factors, including whether the Reference Entities operate in similar industries or geographic regions and whether the Reference Entities have similar levels of leverage (i.e., debt relative to equity). Default correlation tends to increase during economic downturns and decrease during periods of economic growth. Accordingly, although the most senior tranches are generally less risky to a protection seller than the most junior tranches, the most senior tranches will tend to lose value from the perspective of the protection seller at a faster rate than the most junior tranches during an economic downturn. In a downturn that widely affects the Reference Entities in a portfolio, a protection seller under a senior tranche may incur losses equal to the entire notional amount, in which case the senior tranche will prove to have

been no less risky than junior tranches. Default correlation may change significantly, and in some cases abruptly, with changes in market conditions.

In the case of a tranche CDS referencing asset-backed securities, considerations similar to those described in the preceding paragraph apply, but with respect to the particular assets in question. Because tranche CDSs referencing asset-backed securities tend to reference assets of a particular type (for example, sub-prime mortgage-backed securities), the degree of correlation among the underlying reference obligations may be particularly high, especially in a broad downturn that widely affects the particular asset type. Accordingly, even senior tranches present significant risks. See the Disclosure Annex for Asset-Backed Security Derivative Transactions for more information about CDSs referencing asset-backed securities.

Default correlation is difficult to estimate, and different market participants may calculate it in different ways and may change the ways in which they calculate it over time. Accordingly, the valuation of a tranche CDS 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. Moreover, when we calculate the value of a tranche CDS for any purpose, including in the event of early termination, we will be required to exercise considerable judgment in doing so, and our interests will be adverse to yours. See IV.A.6 – "Conflicts of Interest and Material Incentives – Our financial market activities may adversely impact Transactions – Act as calculation agent, valuation agent, collateral agent, or determining party" – of the General Disclosure Statement. These risks are heightened in the case of a "bespoke tranche," which is a tranche CDS on a non-standardized portfolio of Reference Entities.

The terms of a tranche CDS may provide for changes in the constituents of a portfolio of Reference Entities upon the occurrence of certain events, such as the determination of a Successor. These changes may affect the level of default correlation among the Reference Entities in the portfolio and, therefore, the value of the tranche CDS.

Where auction settlement does not apply, 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.

For a tranche CDS on a CDS index, the characteristics and risks of an index CDS described below under "Index CDS" are also generally applicable.

Delivery of Loans; Loan CDS

To the extent you may attempt to deliver or be required to receive loans as deliverable obligations under a Credit Transaction, 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.

Some Credit Transactions, sometimes referred to as Loan CDS, do not allow the delivery of any obligations other than loans following a Credit Event, and even then may specify that only particular types of loans (for example, syndicated secured loans of a designated priority) are deliverable. Repayment or 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 to the 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.

Certain standard forms of Credit Transactions on loans provide for early cancellation should there cease to be deliverable loan obligations. You should be aware that this feature may make such Credit Transactions difficult to value. This valuation uncertainty, coupled with the migration of market participants to 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.

Index CDS

This section describes certain additional characteristics and risks of a Credit Transaction on an index of Reference Entities, excluding indices of asset-backed securities (an "**index CDS**").

General characteristics

An index CDS provides exposure to the credit of the portfolio of Reference Entities that constitute the underlying index. The parties to an index CDS typically have rights and obligations as though they had entered into separate Credit Transactions on each Reference Entity included in the underlying index, except that the parties may not be permitted to transfer or terminate the index CDS except as a whole (if they are otherwise entitled to do so).

It is important to understand the salient characteristics of the underlying Reference Entities included in an index CDS and of the reference obligations (or other deliverable obligations) that are specified with respect to each Reference Entity, as well as the risks associated with each. The Reference Entities included in an index CDS will typically have certain specified characteristics in common, such as type of obligor (e.g., corporate, municipal or sovereign); geographic region (e.g., North America, Europe, Asia or emerging markets); and/or credit rating category (e.g., investment grade or high yield). These characteristics may be relevant to the probability of a Credit Event occurring under an index CDS, as Credit Events may be more likely for Reference Entities with certain of these characteristics than for others. The reference obligations (or other deliverable obligations) associated with the Reference Entities included in an index CDS will also typically have certain specified characteristics in common, such as whether they are secured or unsecured or, in the case of municipal Reference Entities, whether they are backed by the full faith and credit of the municipal issuer, by a general fund or by a specified source of revenue. These characteristics may be relevant to the recovery rate following default because holders of certain types of obligations (such as secured obligations or, in the case of municipal Reference Entities, full faith and credit obligations) may recover a higher percentage for such obligations following default than holders of other obligations (such as unsecured obligations or, in the case of municipal Reference Entities, revenue obligations). The probability of default, the recovery rate following default and market expectations about those factors are significant drivers of the value and market price of an index CDS.

The Reference Entities underlying an index CDS are typically specified in an annex that is published by the publisher of the underlying index and incorporated into the terms of the index CDS, subject to any modifications that may be agreed between the parties to the index CDS. That annex also typically specifies each Reference Entity's weighting in the index and the reference obligation, if any, for each Reference Entity. A Reference Entity's weighting in the index determines the portion of the notional amount of the index CDS that is attributable to that Reference Entity. For a particular index, it is important to understand whether each Reference Entity is weighted equally, or whether some Reference Entities have greater weightings than others.

If a Credit Event occurs with respect to any underlying Reference Entity during the relevant period for an index CDS, the parties to the index CDS will settle their obligations with respect to that Reference Entity by reference to the portion of the notional amount of the index CDS that is attributable to that Reference Entity, and the index CDS will otherwise continue in effect with respect to each other Reference Entity until the termination of the index CDS (subject to the occurrence of a Credit Event with respect to those other Reference Entities). As a result of

settlement with respect to a Reference Entity following a Credit Event, the coupon payments will be smaller (reflecting a smaller overall notional amount of the index CDS).

Many index CDSs are standardized contracts published by the sponsors of the underlying indices. Certain standardized index CDSs provide for a standardized fixed coupon to be payable by the protection buyer during the term of the index CDS. For index CDSs with a standard coupon, an upfront payment is generally required from one party to the other upon entry into the index CDS to account for the present value of the difference between the standard coupon and the "spread" that the parties agree upon (or that is implied in an agreed upon price or other value) when they enter into the index CDS. Different market participants may quote spreads in different ways. If the parties to an index CDS transact on the basis of a so-called "conventional spread," then the amount of the upfront payment will be determined by reference to a standard model administered by Markit Group Limited (together with its affiliates, "**Markit**"). A calculator that may be used to translate a conventional spread into an upfront payment based on this standard model is available on Markit's website at www.markit.com. If the parties to an index CDS transact on the basis of some other spread, it is important to understand the manner in which the upfront payment will be calculated, which may be derived from the spread based on assumptions as to recovery rates and interest rates, among other things. A protection seller may also require an upfront payment ("points upfront") in lieu of some or all of the coupon payments otherwise owed by the protection buyer over the term of the index CDS. Additionally, if the index CDS is entered into between scheduled coupon payment dates, the upfront payment may also reflect an adjustment to account for the amount of the coupon accrued to the date the parties enter into the index CDS, since the protection buyer may be required to make the first coupon payment after entering into the index CDS in an amount covering the entire interest period to which such payment relates, which may potentially change which party is the payor and which is the receiver of the upfront payment. If the parties agree to close out the index CDS prior to the scheduled termination date, a payment similar to the upfront payment will generally be owed from one party to the other based on the spread at the time of close-out, but in the opposite direction of the upfront payment.

Please see section III.O of the General Disclosure Statement – "Index Underliers" – for certain additional considerations relevant to Credit Transactions in which an Underlier is an index.

General risks

There are significant risks associated with an index CDS, including the following:

- You may incur significant losses on an index CDS. Losses may result from changes in the market's perception of the credit quality of the underlying Reference Entities, or from payments that one party is required to make to the other under the index CDS. The market's perception of the credit quality of the underlying Reference Entities may be highly volatile and may change very rapidly following the availability of new information.

- The market for index CDSs has been subject to significant distortions from time to time in the past as a result of the actions of one or a small number of market participants that may take large positions in index CDS. These distortions have in the past led, and may in the future lead, to a high degree of volatility, as well as a wide and potentially unsustainable divergence between the market price of index CDSs and the price that would be expected based on the market price of CDSs on the underlying Reference Entities. Our trading

activities may represent a significant portion of the market for particular index CDSs and, accordingly, we may be a contributor to such volatility and distortions.

- There is no guarantee that there will be a liquid market for any particular index CDS. An index sponsor may publish a new series of an underlying index from time to time (for example, every six months). Market liquidity is often concentrated in the most recent series and may decline for a given index CDS when a new series of the index is published. In addition, if the index sponsor changes the index or the standardized index CDS contract in any way, that change may not be automatically incorporated into the terms of the index CDS. If the index sponsor changes the index or the standardized index CDS contract in any way and that change is not reflected in the index CDS, the index CDS will have different terms than other index CDSs and its liquidity may be adversely affected as a result. See "Valuation Factors – Market liquidity" above.

- You will have exposure to the credit of the Reference Entities underlying the index CDS. You should carefully review the list of Reference Entities that constitute the index underlying any index CDS you are contemplating entering into and evaluate for yourself whether you wish to gain exposure to the credit of those Reference Entities, as well as whether those Reference Entities are representative of the market to which you seek to gain exposure. The risks of an index CDS will vary depending on the characteristics of the underlying Reference Entities. In addition, you should understand that the Reference Entities in an index of investment grade Reference Entities may be investment grade rated only at inception of the index or relevant series of the index, and that such Reference Entities may be downgraded thereafter. Please also refer to "Public information with respect to issuers of Underliers may be inaccurate or incomplete" above.

- An index CDS provides exposure to the credit of a portfolio of Reference Entities selected by the applicable index sponsor. Accordingly, for most counterparties, an index CDS is unlikely to be a perfect hedge for any particular exposure such counterparties have. If your objective in entering into an index CDS is to hedge general credit exposure to a particular market, the Reference Entities underlying the index CDS may not be representative of that market. Even if those Reference Entities do prove to be representative of that market, such a general hedge may be ineffective as a hedge for the particular exposure you have. Any perceived historical correlation between a particular index CDS and some other exposure you have may not continue in the future. If your objective in entering into an index CDS is to hedge other exposure that you have, you should understand that the index CDS may have limited effectiveness for that purpose. See also "No assurance that you will achieve your hedging or other objectives" above.

- If you close out your position in an index CDS prior to its scheduled termination date, your Transaction Economics may be different than if you maintained your position for the full term of the index CDS. For example, a protection buyer that maintains its position for the full term of an index CDS would not incur a loss in excess of the fixed coupon payments it makes over the term of the index CDS (plus any upfront payment). By contrast, a protection buyer that closes out its position in an index CDS prior to its scheduled termination date may incur an overall loss that exceeds the amount of the fixed coupons and any upfront payment it paid because it may be required to pay an additional amount to close out the position. Similarly, a protection seller that maintains its position for the full

term of an index CDS would not incur an overall loss on the position unless a Credit Event occurs with respect to one or more Reference Entities and the protection seller's resulting payment obligations (together with any upfront payment paid by the protection seller) exceed the fixed coupon (together with any upfront payments received by the protection seller). By contrast, a protection seller that closes out its position in an index CDS prior to its scheduled termination date may incur an overall loss even if no Credit Event occurs, because the amount it may be required to pay to close out the index CDS (together with any upfront payment paid by the protection seller) may be greater than the fixed coupon (together with any upfront payments it received). Although these considerations are generally applicable to any Credit Transaction, they may be particularly relevant for index CDS because index sponsors periodically publish new series for their indices and parties may intend to continuously roll their index CDS to the most recent series in order to maintain a position in the most liquid contract.

- Although an index CDS is typically structured to be contractually similar to entering into separate CDS transactions with respect to each underlying Reference Entity, you should understand that entering into an index CDS may have different economics than entering into separate CDS transactions with respect to each underlying Reference Entity. The market price of an index CDS may differ from what would be expected based on the market prices of CDSs on each of the underlying Reference Entities (not all of which may be available). Moreover, the valuation methodology that we or any other person may use to determine a valuation for an index CDS for any purpose may result in a valuation that is different than if it were merely the weighted sum of the valuations of CDSs on the underlying Reference Entities.

- The spread or price that the index sponsor publishes for an index CDS is not necessarily indicative of the spread or price at which we or any other market participant would be willing to enter into, terminate or value an index CDS. The published spread or price may represent a mid-market spread or price, and any spread or price we or any other dealer may quote to you may include a bid-offer spread. Moreover, the published spread or price may be an average and, therefore, may not represent the spread or price at which any particular dealer, including us, would be willing to transact.

- The index sponsor may calculate the published spread or price for an index based on a poll of dealers. We may be one of the dealers polled by the index sponsor and, if so, our actions could affect the published spread or price. In addition, we may participate, together with other dealers, in the process by which the index sponsor determines the composition of the index and makes certain other determinations with respect to the index, including the removal of Reference Entities or reference obligations from the index. In taking any such actions, we have no obligation to consider your interests as our counterparty under an index CDS. Any such actions could affect the index and could adversely affect your Transaction Economics. See also "There may be additional conflicts of interest that arise from Credit Transactions" above.

- The terms of an index CDS will typically specify that Section 2.31 of the 2003 Credit Derivatives Definitions or Section 11.4 of the 2014 Credit Derivatives Definitions, as applicable, does not apply. If Section 2.31 of the 2003 Credit Derivatives Definitions or Section 11.4 of the 2014 Credit Derivatives Definitions, as applicable, does not apply to an

index CDS, then the protection buyer under the index CDS will not have the right to terminate the index CDS with respect to a Reference Entity in the event that the Reference Entity becomes an affiliate of the protection seller or one such entity merges with or makes a substantial asset transfer to the other. See "Actions of Reference Entities" above. A Reference Entity may also enter into CDSs with respect to itself or take other actions in the market for its CDSs that affect the value of its CDSs or an index CDS for which it is a Reference Entity.

- If we are one of the Reference Entities, we may take actions that are adverse to your interests as our counterparty under an index CDS. See "Actions of Reference Entities" above for examples of actions we may take. In addition, if we are one of the Reference Entities under an index CDS you enter into with us and we become subject to a bankruptcy proceeding, the treatment of the index CDS in the bankruptcy proceeding may be uncertain and may be adversely affected by our dual status as your counterparty under the index CDS and as Reference Entity.

The considerations described above under "Tranche CDS" apply to tranche CDS on an index. If you enter into a bespoke tranche CDS (i.e., a CDS on a non-standard portfolio of Reference Entities, rather than a standardized index), you should understand that there may be significantly less liquidity for such CDS than there is for standardized tranche CDS. In addition, valuation of bespoke tranche CDS may be more complex (and thus introduce greater model risk) than standardized tranche CDS.

Markit Indices

Markit publishes many of the most widely traded CDS indices. Unless otherwise agreed, an index CDS based on a Markit-published index will:

- have terms based on the most recent standard terms for that index CDS published by Markit;

- incorporate the most recent annex of Reference Entities for the latest series of that index published by Markit;

- have an effective date that is the effective date of the applicable series of that index (which may be referred to as an effective date or a roll date), as set forth in the applicable annex; and

- designate us as the calculation agent.

Important information about index CDSs linked to a Markit-published index may be found on Markit's website at www.markit.com. The information on Markit's website includes the standard terms supplement for the applicable index CDS, the most recent and archived annexes of Reference Entities for the applicable index and the rules of the applicable index.

Set forth below are brief descriptions of index CDSs on certain of the most widely traded Markit-published indices. For additional information about any particular index CDS, you should carefully review the terms of such index CDS together with the portions of the General Disclosure Statement and this Annex that are relevant in light of those terms. If any index CDS is cleared through a clearinghouse, the rules, by-laws and procedures of the clearinghouse will govern the

cleared Transaction and define its terms, which may differ from those described below or contained on Markit's website. See Section II.B. – "You should review carefully each Transaction's particular structure, including terms incorporated by reference" – of the General Disclosure Statement.

CDX North America

Markit publishes a number of CDS indices that are commonly referred to as CDX indices, including an index of investment-grade corporate Reference Entities in North America ("CDX.NA.IG"), an index of non-investment grade corporate Reference Entities in North America ("CDX.NA.HY") and various sub-indices. The reference obligations for CDX indices of North American corporate Reference Entities are generally senior unsecured bonds or loans. If a Credit Event occurs, the recovery rate for senior unsecured bonds or loans is typically significantly less than that for secured bonds or loans. The Credit Events for index CDSs based on CDX indices of North American corporate Reference Entities are typically bankruptcy and the failure of the Reference Entity to pay obligations for borrowed money when due in an aggregate amount equal to at least USD1 million after the expiration of any applicable grace period. The settlement method for these index CDSs is typically auction settlement, with a fallback of physical settlement. The terms of these index CDSs typically provide that all determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made exclusively by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question or, in the case of the designation of a Successor, the applicable annex of Reference Entities already reflects a Successor at the time of the Determinations Committee's determination. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

iTraxx Europe

Markit publishes a number of CDS indices that are commonly referred to as iTraxx indices, including an index of investment-grade corporate Reference Entities in Europe, an index of non-investment grade corporate Reference Entities in Europe and various sub-indices. The reference obligations for iTraxx indices of European corporate Reference Entities are unsecured bonds or loans. If a Credit Event occurs, the recovery rate for unsecured bonds or loans is typically significantly less than that for secured bonds or loans. The Credit Events for index CDSs based on iTraxx indices of European corporate Reference Entities are typically:

- bankruptcy;
- the failure of the Reference Entity to pay obligations for borrowed money when due in an aggregate amount equal to at least USD1 million (or its equivalent in the relevant obligation currency) after the expiration of any applicable grace period;
- restructuring of at least USD10 million (or its equivalent in the relevant obligation currency) in obligations. See "Specification of Credit Events—Restructuring Credit Events" above; and
- in respect of 2014 Definitions Transactions only, governmental intervention for Financial Reference Entities.

The settlement method for an index CDS based on an iTraxx index of European corporate Reference Entities is typically auction settlement, with a fallback of physical settlement or, if the notional amount attributable to the applicable Reference Entity is below a specified threshold, cash settlement. If cash settlement applies, we may determine the amount of the relevant payment under the terms of the index CDS based on quotes from dealers, which may include us, and we will have wide latitude both in determining when to obtain those quotes and in selecting the obligation (which may not be the reference obligation) that is the subject of those quotes. The terms of these index CDSs typically provide that determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

Payments under index CDSs based on iTraxx indices of European corporate Reference Entities are typically made in euros, and the obligations underlying these iTraxx indices are typically denominated in euros. Therefore, if you are a U.S. dollar investor, you will be subject to exchange rate risk with respect to the U.S. dollar-euro exchange rate by entering into such an index CDS. Please refer to the Disclosure Annex for Foreign Exchange Transactions for certain considerations related to Transactions with foreign exchange rate risk. In addition, please refer to "Credit Transactions With Non-U.S. Underliers" below for a discussion of certain risks that relate to non-U.S. Reference Entities.

iTraxx Asia-Pacific

Markit publishes a number of CDS indices that are commonly referred to as iTraxx indices, including an index of investment-grade corporate and sovereign Reference Entities in Asia (ex-Japan), an index of investment-grade corporate Reference Entities in Japan and an index of investment-grade corporate Reference Entities in Australia. The reference obligations for these iTraxx indices are unsecured bonds or loans. If a Credit Event occurs, the recovery rate for unsecured bonds or loans is typically significantly less than that for secured bonds or loans. For a Reference Entity that is organized in (or the sovereign of) a jurisdiction other than Japan, Australia or Singapore, the obligations that may be deliverable obligations typically must meet the following criteria:

- they must not be denominated in the currency of the jurisdiction in which the Reference Entity is organized (or of which the Reference Entity is the sovereign, if applicable);

- they must not be governed by the law of the jurisdiction in which the Reference Entity is organized (or of which the Reference Entity is the sovereign, if applicable); and

- they must have originally been intended to be offered for sale primarily outside of the domestic market of the Reference Entity.

The obligations for these Reference Entities that may trigger a Credit Event typically must meet the same criteria.

The Credit Events for index CDSs on these iTraxx indices are typically:

- bankruptcy for non-sovereign Reference Entities;

- the failure of the Reference Entity to pay obligations for borrowed money when due in an aggregate amount equal to at least USD1 million (or its equivalent in the relevant obligation currency) (or 100 million Japanese yen, in the case of an iTraxx index of Japanese corporate Reference Entities) after the expiration of any applicable grace period;

- restructuring of at least USD10 million (or its equivalent in the relevant obligation currency) (or 1 billion Japanese yen, in the case of an iTraxx index of Japanese corporate Reference Entities) in obligations (see "Specification of Credit Events—Restructuring Credit Events" above);

- repudiation/moratorium for sovereign Reference Entities; and

- in respect of 2014 Definitions Transactions only, governmental intervention for Financial Reference Entities.

The settlement method for an index CDS on these iTraxx indices is typically auction settlement, with a fallback of physical settlement or, if the notional amount attributable to the applicable Reference Entity is below a specified threshold, cash settlement. If cash settlement applies, we may determine the amount of the relevant payment under the terms of the index CDS based on quotes from dealers, which may include us, and we will have wide latitude both in determining when to obtain those quotes and in selecting the obligation (which may not be the reference obligation) that is the subject of those quotes. The terms of these index CDSs typically provide that determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question or, in the case of the designation of a Successor, the applicable annex of Reference Entities already reflects a Successor at the time of the Determinations Committee's determination. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

Payments under index CDSs based on iTraxx indices of Japanese corporate Reference Entities are typically made in Japanese yen, and the obligations underlying any iTraxx Asia-Pacific index are frequently denominated in a currency other than U.S. dollars. Therefore, if you are a U.S. dollar investor, you will be subject to exchange rate risk with respect to each applicable non-U.S. dollar currency when entering into an index CDS on an iTraxx Asia-Pacific index. Please refer to the Disclosure Annex for Foreign Exchange Transactions for certain considerations related to Transactions with foreign exchange rate risk. In addition, please refer to "Credit Transactions With Non-U.S. Underliers" below for a discussion of certain risks that relate to non-U.S. Reference Entities.

CDX Emerging Markets

Markit publishes a number of CDS indices of Reference Entities in emerging markets, which are commonly referred to as CDX emerging market indices. These include indices of sovereign Reference Entities and indices of corporate Reference Entities. The reference obligations are typically unsecured bonds (or loans, in the case of Reference Entities in Asia). If a Credit Event occurs, the recovery rate for unsecured bonds or loans is typically significantly less than that for secured bonds or loans. The obligations that may be deliverable obligations typically must meet the following criteria:

- they must not be denominated in the currency of the jurisdiction in which the Reference Entity is organized (or of which the Reference Entity is the sovereign, if applicable);

- they must not be governed by the law of the jurisdiction in which the Reference Entity is organized (or of which the Reference Entity is the sovereign, if applicable); and

- they must have originally been intended to be offered for sale primarily outside of the domestic market of the Reference Entity.

The obligations that may trigger a Credit Event typically must meet the same criteria.

The Credit Events for index CDSs on these CDX emerging market indices are typically:

- bankruptcy for non-sovereign Reference Entities;

- the failure of the Reference Entity to pay obligations for borrowed money when due in an aggregate amount equal to at least USD1 million (or its equivalent in the relevant obligation currency) after the expiration of any applicable grace period;

- for Reference Entities other than those organized in Asia, acceleration of at least USD10 million (or its equivalent in the relevant obligation currency) in obligations as a result of a default other than a payment default;

- restructuring of at least USD10 million (or its equivalent in the relevant obligation currency) in obligations (see "Specification of Credit Events—Restructuring Credit Events" above); and

- repudiation/moratorium.

The settlement method for an index CDS on these CDX emerging market indices is typically auction settlement, with physical settlement as a fallback. The terms of these index CDSs typically provide that all determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made exclusively by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question or, in the case of the designation of a Successor, the applicable annex of Reference Entities already reflects a Successor at the time of the Determinations Committee's determination. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

The obligations underlying CDX emerging market indices are frequently denominated in a currency other than U.S. dollars. Therefore, if you are a U.S. dollar investor, you will be subject to exchange rate risk with respect to each applicable non-U.S. dollar currency when entering into an index CDS on a CDX emerging market index. Please refer to the Disclosure Annex for Foreign Exchange Transactions for certain considerations related to Transactions with foreign exchange rate risk. In addition, please refer to "Credit Transactions With Non-U.S. Underliers" below for a discussion of certain risks that relate to non-U.S. Reference Entities.

MCDX

Markit publishes a CDS index of U.S. state and municipal Reference Entities commonly referred to as the MCDX index. The reference obligations may be full faith and credit obligation liabilities, general fund obligation liabilities or revenue obligation liabilities, as specified for each Reference Entity in the applicable annex. See "U.S. State and Municipal Reference Entities" above. The Credit Events and deliverable obligations for an index CDS based on the MCDX index are typically limited to the particular type of reference obligation specified for a given Reference Entity. Credit Events are typically (i) the failure of the Reference Entity to make payments owed under the relevant obligations when due in an aggregate amount equal to at least USD1 million after the expiration of any applicable grace period and (ii) the restructuring of at least USD10 million in relevant obligations. See "Specification of Credit Events—Restructuring Credit Events" above. The settlement method for an index CDS based on the MCDX index is typically auction settlement, with physical settlement as a fallback. The terms of these index CDSs typically provide that determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

iTraxx SovX

Markit publishes a number of CDS indices of sovereign Reference Entities commonly referred to as iTraxx SovX. The reference obligations and Credit Events for an index CDS based on an iTraxx SovX index will differ depending on the Reference Entity. Because the Reference Entities for an index CDS based on an iTraxx SovX index are sovereign entities, the index CDS will be subject to the risks described under "Sovereign Reference Entities" above. The settlement method for an index CDS on an iTraxx SovX index is typically auction settlement, with a fallback of physical settlement or, if the notional amount attributable to the applicable Reference Entity is below a specified threshold, cash settlement. If cash settlement applies, we may determine the amount of the relevant payment under the terms of the index CDS based on quotes from dealers, which may include us, and we will have wide latitude both in determining when to obtain those quotes and in selecting the obligation (which may not be the reference obligation) that is the subject of those quotes. The terms of these index CDSs typically provide that determinations as to the occurrence of a Credit Event or the designation of a Successor to a Reference Entity will be made by a Determinations Committee, unless the relevant Determinations Committee determines not to resolve the applicable question. See "Specification of Credit Events," "Settlement Methods" and "Role of the Credit Derivatives Determinations Committees" above.

LCDX

An index CDS commonly referred to as LCDX is published by Markit and specifies corporate Reference Entities in North America and reference obligations or other deliverable obligations that are first-lien syndicated secured loans.

LCDX transactions may differ from one another in the manner in which they address events that result in a Reference Entity ceasing to have any syndicated secured loans of the relevant designated priority outstanding. Examples of such events include the refinancing or other repayment by the Reference Entity of all of its syndicated secured loans of the designated priority; the release of collateral securing such loans as a result of the Reference Entity's credit rating being

upgraded to investment grade; or the refinancing of the Reference Entity's syndicated secured loans through debt incurred by an entity other than the Reference Entity. The discussion below includes references to the "Relevant Secured List," which is a list maintained by a specified publisher (generally, Markit or any appointed successor) that is intended to cover the outstanding loans of each Reference Entity that satisfy the relevant syndicated secured and designated priority characteristics.

- Under certain LCDX transactions, which we refer to as "**legacy LCDX**" transactions, if the Relevant Secured List for a Reference Entity is withdrawn, or if there is no Relevant Secured List for a Reference Entity because it is a Successor, the LCDX transaction will terminate with respect to the affected Reference Entity, and no further payments will be owed by either party, even though the LCDX transaction with respect to the applicable Reference Entity may be in-the-money to one party or the other at that time. If applicable, the possibility that a LCDX transaction may be terminated with respect to a Reference Entity in such an event may make it difficult to value the LCDX transaction, which may adversely affect liquidity with respect to such transaction. LCDX transactions with this termination provision may not provide for the designation of a Successor to the Reference Entity in the event of a refinancing of the original Reference Entity's syndicated secured loans by an entity other than the original Reference Entity, which would increase the likelihood that the termination provision will be triggered. In the case of a tranched LCDX transaction, the removal of a Reference Entity through this termination provision would typically reduce the size of the most senior tranche.

- Certain other LCDX transactions, commonly known as "**bullet LCDX**" transactions, do not automatically terminate in the event that the Relevant Secured List ceases to designate any loans for a Reference Entity. Such LCDX transactions typically contain provisions for the designation of a Successor to the Reference Entity within a specified time period following certain refinancing events that involve the incurrence of syndicated secured loans of the designated priority by an entity other than the Reference Entity (see the discussion relating to modified succession provisions under "Delivery of Loans; Loan CDS" above). However, even for bullet LCDX transactions with these broader successor provisions, it is still possible that events will occur as a result of which there will be no outstanding loans of the Reference Entity that meet the relevant syndicated secured and designated priority characteristics, in which case the protection buyer would not be entitled to any compensation from the protection seller following a Credit Event with respect to that Reference Entity unless the Reference Entity subsequently incurs such loans. If any such event occurs, the protection buyer under the LCDX transaction will be obligated to continue to make coupon payments with respect to the applicable Reference Entity even though the transaction with respect to that Reference Entity may have significantly lessened, or no, value to the protection buyer.

If so provided under the terms of a LCDX transaction, the determination of whether a loan satisfies the relevant syndicated secured and designated priority characteristics may be made by reference to a poll of dealers or, in some cases, by the sole determination of the calculation agent. If we are one of the dealers polled or if we are the calculation agent, we will have no obligation to consider your interests as our counterparty under the LCDX transaction in acting in such capacities. Our determinations in such capacities could affect the index and could adversely affect your Transaction Economics.

The Credit Events for a LCDX transaction are typically bankruptcy and failure of the Reference Entity to pay obligations for borrowed money when due in an aggregate amount equal to at least USD1 million after the expiration of any applicable grace period. See “Specification of Credit Events” above. Legacy LCDX transactions are typically not subject to Determinations Committee resolutions and instead may be triggered following a Credit Event by a Credit Event Notice, a Notice of Publicly Available Information and, if applicable, a Notice of Physical Settlement. LCDX transactions may be settled through a market settlement mechanism governed by rules developed by the index sponsor or any other document incorporated by reference in the LCDX. We may participate in that market settlement mechanism and, if we do, we may take actions that affect your interests without regard to your interests. If that market settlement mechanism does not cover the relevant Reference Entity or has failed, the LCDX terms will provide for a physical settlement. There are particular risks you should understand associated with the settlement of an index CDS in loans. See “Delivery of Loans; Loan CDS” above. The terms of some LCDX transactions may provide for the delivery of certain loans by reference to market practice, which may or may not be settled with respect to a particular loan following a Credit Event. Moreover, LCDX transactions typically provide for the ability to assign loans that could cause the protection seller to assume an outstanding funding commitment. In addition, LCDX transactions typically permit a protection buyer to deliver a participation in a loan that meets the relevant deliverable obligation criteria, without regard to the credit quality of the entity granting the participation.

If a Reference Entity is the subject of a bankruptcy petition, a court may in some circumstances permit proceeds of a post-petition financing called a “rollup debtor-in-possession” facility to be used to repay pre-petition loans of lenders that participate in the debtor-in-possession facility. Debtor-in-possession loans have super-senior priority in bankruptcy, which means that pre-petition loans that will be repaid with proceeds of debtor-in-possession loans may have a greater recovery—and, therefore, a greater value—than pre-petition loans that will not be so repaid. Because protection buyers will generally choose to deliver the cheapest-to-deliver deliverable obligations (see “Cheapest-to-deliver Option” above), the approval of a rollup debtor-in-possession facility may adversely affect the recovery rate on LCDX transactions.

Under legacy LCDX transactions, loans of entities other than the Reference Entity may not qualify as deliverable obligations. For such transactions, the existence of a collateral allocation mechanism (or “CAM exchange” provision) under the terms of the relevant credit agreement may adversely affect protection buyers if a Credit Event occurs. If a CAM exchange is triggered (which is likely if a Credit Event has occurred), loans that may have been made to different borrowers in an affiliated group will be combined into a single pool, and each lender will have a proportionate interest in that pool. This interest will represent an obligation of multiple borrowers, but only the portion that is attributable to the Reference Entity will count as a deliverable obligation under the LCDX transaction. As a result, a protection buyer that seeks to physically settle under the LCDX transaction (including by participating in an auction) will be required to deliver a greater principal amount of loans in order to have satisfied its obligation to deliver the relevant principal amount of deliverable obligations.

iTraxx LevX

Markit publishes a CDS index commonly referred to as iTraxx LevX, which specifies reference obligations that are first-lien secured loans of corporate Reference Entities in Europe. The reference obligations are defined as specified facilities under a specified credit agreement, together with any other tranche under the same credit agreement that is secured on a pari passu basis by security interests over the same assets as secure one or more of the designated facilities and benefits from the same guarantees as one or more of the designated facilities. The obligor under a given reference obligation at any given time is treated as the Reference Entity at that time. The Credit Events for an index CDS on the iTraxx LevX index are typically:

- bankruptcy of the Reference Entity;
- the failure of the Reference Entity to make payments on reference obligations in an aggregate amount equal to at least USD1 million (or its equivalent in the reference obligation currency) after the expiration of any applicable grace period; and
- restructuring of at least USD10 million (or its equivalent in the relevant obligation currency) in reference obligations. See "Specification of Credit Events—Restructuring Credit Events" above.

If a Credit Event occurs, the obligations that are deliverable obligations must either be reference obligations or obligations that are secured on a basis that is at least pari passu with reference obligations on the same collateral.

If the reference obligations are refinanced, the terms of an index CDS on the iTraxx LevX index typically contain provisions for the selection of substitute reference obligations if certain conditions are met. If all of the reference obligations are repaid or otherwise discharged, in connection with a refinancing or otherwise, and no substitute reference obligations are selected, then the index CDS will automatically terminate with respect to those reference obligations. The possibility of early termination in these circumstances may make valuation of index CDSs based on the iTraxx LevX index difficult and adversely affect their liquidity.

If the reference obligations cease to be secured but remain outstanding and no substitute reference obligations that are secured are selected, the original reference obligations will nevertheless remain reference obligations and will be deliverable obligations in the event of a Credit Event. Any unsecured reference obligations may have a lower value than secured reference obligations would have had.

Index CDSs based on the iTraxx LevX index are typically not subject to Determinations Committee resolutions and instead may be triggered following a Credit Event by a Credit Event Notice, a Notice of Publicly Available Information and, if applicable, a Notice of Physical Settlement. These index CDSs may be settled through a market settlement mechanism governed by rules developed by the index sponsor or any other document incorporated by reference in the index CDS. We may participate in that market settlement mechanism and, if we do, we may take actions that affect your interests without regard to your interests. If that market settlement mechanism does not cover the relevant reference obligations or has failed, the index CDS terms will provide for a physical settlement. There are particular risks you should understand associated with the settlement of an index CDS in loans. See "Delivery of Loans; Loan CDS" above. The terms of some of these index CDSs may provide for the delivery of certain loans by

reference to market practice, which may or may not be settled with respect to a particular loan following a Credit Event. Moreover, these index CDSs typically provide for the ability to assign loans that could cause the protection seller to assume an outstanding funding commitment.

The obligations underlying the iTraxx LevX index are typically denominated in euros. Therefore, if you are a U.S. dollar investor, you will be subject to exchange rate risk with respect to the U.S. dollar-euro exchange rate by entering into an index CDS on the iTraxx LevX index. Please refer to the Disclosure Annex for Foreign Exchange Transactions for certain considerations related to Transactions with foreign exchange rate risk. In addition, please refer to "Credit Transactions With Non-U.S. Underliers" below for a discussion of certain risks that relate to non-U.S. Reference Entities.

CDS Swaption

A CDS swaption is an option that provides one party with the right, but not the obligation, to enter into a specified CDS, such as a specified index CDS, with the other party at an agreed upon strike price on the specified future exercise date or dates. In a "payer" swaption, the holder of the swaption has the right to enter into a CDS as protection buyer, whereas in a "receiver" swaption, the holder has the right to enter into a CDS as protection seller. In either case, the writer of the swaption has the obligation to enter into the CDS upon exercise by the holder. Swaptions are options and have the risks and characteristics described in Section III.J – "Option Transactions present special considerations" – of the General Disclosure Statement. Common CDS swaptions include CDS swaptions on the Markit-published indices described above under "Index CDS—Markit Indices—CDX North America," "—iTraxx Europe," "—iTraxx Asia-Pacific" and "—iTraxx SovX," among others.

If a Credit Event occurs with respect to a Reference Entity after a CDS swaption referencing an index is entered into but prior to exercise of the CDS swaption, the terms of the CDS swaption may provide that, upon exercise of the CDS swaption and entry into the underlying index CDS, the parties will have settlement obligations under the index CDS as though they had entered into the index CDS at the time they entered into the CDS swaption. By contrast, in the case of a CDS swaption referencing a CDS in respect of a single Reference Entity, the occurrence of a Credit Event with respect to such Reference Entity prior to exercise of the CDS swaption will typically be a "knock-out" event that will result in the termination of the CDS swaption without value to the holder. If applicable, the exact dates that are relevant to determining whether a knock-out event occurs will be specified under the terms of the CDS swaption.

In some cases, you may decide to sell a CDS swaption. Selling a swaption may involve substantial risks analogous to entering into an uncovered option. See Section III.J – "Option Transactions present special considerations" – of the General Disclosure Statement. You should be aware that such strategies are inherently risky, depend on a confluence of factors that are difficult to predict and may result in substantial losses.

A payer CDS swaption generally increases in value to the holder as the market spread for the underlying index CDS increases, assuming other relevant factors remain unchanged. The converse is true for a receiver CDS swaption. As with other options, the price of a CDS swaption will reflect both an intrinsic value component, which may be zero, and a time premium component. See Section III.J – "Option Transactions present special considerations" – of the General Disclosure Statement. In addition to the factors that affect the value of the underlying CDS, the

value of a CDS Swaption will be affected significantly by the volatility of the underlying index CDS.

An upfront payment may be required from one party to the other upon entry into a CDS in connection with exercise of a CDS swaption. When the parties enter into a CDS upon exercise of a CDS swaption, the upfront payment may be determined by a methodology specified under the terms of the CDS swaption. This methodology may include certain assumptions about discount rates, probability of default and the recovery rate upon default that may have a significant effect on the amount of the upfront payment.

As with other options, a CDS swaption has an exercise style, which may be European, American or Bermudan, and exercise may be subject to various conditions. CDS swaptions on Markit-published indices typically have a European exercise style. You should review and understand the conditions and requirements for exercising a swaption and the consequences of exercise, as described generally in Section III.J – "Option Transactions present special considerations" – of the General Disclosure Statement.

Nth-to-Default CDS

An "nth-to-default" CDS is a CDS on a basket of Reference Entities under which the protection seller will be required to make a payment to the protection buyer only with respect to the Reference Entity that, of all the Reference Entities in the basket, is the specified chronological occurrence ("n") to default. For example, if "n" is five, then the protection seller will be obligated to make a payment to the protection buyer only after a Credit Event has occurred with respect to five of the Reference Entities in the basket, and then only with respect to that fifth Reference Entity.

The likelihood of a Credit Event occurring with respect to "n" Reference Entities is affected significantly by the default correlation among the Reference Entities. Accordingly, the value of an nth-to-default CDS at any time will depend significantly on expectations about default correlation at that time, in addition to the valuation factors described above in relation to Credit Transactions generally. Moreover, because of the difficulty of predicting the likelihood that a given number of Reference Entities will default, the value of an nth-to-default swap is subject to "model risk" – i.e., the risk that the model used by a party will fail to accurately predict the likelihood that the applicable number of Reference Entities default, causing hedging or arbitrage strategies based on these models to be unsuccessful and potentially result in significant losses. See "Tranche CDS" above for further discussion of the risks associated with default correlation.

You should carefully review the terms of a proposed CDS relating to: (i) whether and how substitution of a Reference Entity occurs upon certain events such as the determination of a Successor resulting in repetition of a Reference Entity in the basket of Reference Entities or upon an event that results in the protection seller becoming a Reference Entity or an affiliate of a Reference Entity or acquiring all or substantially all of the assets of a Reference Entity; (ii) how events that result in two or more Successors are addressed; and (iii) the manner and order in which defaulting Reference Entities are counted. These terms, as well as the provisions relating to the designation of a Successor, may affect the correlation among the Reference Entities and the number and timing of defaults that are deemed to have occurred.

Credit Transactions With Non-U.S. Underliers

A Credit Transaction may reference non-U.S. Reference Entities or underlying obligations that are issued by non-U.S. issuers, are governed by the law of a non-U.S. jurisdiction and/or are denominated in a different currency than the notional amount of the Credit Transaction. In any such case, the Credit Transaction will be subject to certain additional risks.

If a Credit Transaction references non-U.S. Reference Entities or underlying obligations that are issued by non-U.S. issuers, the Credit Transaction will be subject to a number of risks, including risks that affect economic conditions generally in the applicable countries. There is generally less publicly available information about non-U.S. issuers that are not subject to the reporting requirements of the Securities and Exchange Commission than there is about U.S. reporting companies, and non-U.S. issuers are subject to accounting, auditing and financial reporting standards and requirements that may differ from those applicable to U.S. reporting companies. These factors may make it more difficult to make an accurate assessment of the creditworthiness of non-U.S. issuers. It is also important to understand the relevant ways in which the legal regime of a non-U.S. jurisdiction differs from that of the United States. These differences may have a significant effect on the recovery on an underlying debt obligation in the event of bankruptcy or reorganization of an issuer. For example, once a bankruptcy or insolvency proceeding has commenced under the laws of certain jurisdictions, it may not be permissible to trade or accelerate the debt of the relevant issuer. Moreover, it may be more difficult to enforce legal rights against a non-U.S. issuer than against a U.S. issuer, as that enforcement may be required to take place in non-U.S. courts.

Conventions relating to Credit Events and deliverable obligations with respect to non-U.S. issuers may be different than conventions with respect to U.S. issuers. For example, CDSs with respect to European corporate Reference Entities typically specify restructuring as a Credit Event but include limitations on the tenor of restructured debt that may qualify as a deliverable obligation. In addition, the terms of the deliverable obligations of non-U.S. issuers may not be standard, and holders of that debt may therefore incur losses that are not reflected in auction settlement. As a result, upon the occurrence of a Credit Event, the payment to a protection buyer under a CDS based on the obligations of a non-U.S. issuer may not fully compensate the protection buyer for the loss in value incurred on any actual debt obligations of that issuer held by the protection buyer.

Furthermore, if a non-U.S. issuer is organized in an emerging market, the Credit Transaction will be subject to the risks described in Section III.M – "Emerging Market Jurisdictions" – of the General Disclosure Statement. If the non-U.S. issuer is a sovereign government, the Credit Transaction will be subject to the risks described above under "Sovereign Reference Entities."

If the notional amount of a Credit Transaction is in a different currency than one or more of the underlying obligations referenced by the Credit Transaction, the currency of the applicable obligation may or may not be converted into the currency of the notional amount for purposes of determining payments under the Credit Transaction. If there is no such currency conversion, currency gains or losses will not be part of the payoff on the Credit Transaction, although disruption events related to the applicable currency may affect the Credit Transaction. If there is such a currency conversion, or if payments under the Credit Transaction are made in a currency other than your principal currency, then the Credit Transaction will have foreign exchange rate risk in addition to the other risks of the Credit Transaction. Delivery of an underlying obligation denominated in a currency that is different from the notional amount of the Credit Transaction will have effects similar to a currency conversion. Please refer to the Disclosure Annex for

Foreign Exchange Transactions for certain considerations related to Transactions with foreign exchange rate risk.

Contingent CDS

A contingent CDS ("**CCDS**") on a single Reference Entity is a Credit Transaction where, if a Credit Event occurs with respect to the Reference Entity during the relevant time period, the protection seller will make a payment or payments to the protection buyer based on one or more hypothetical derivative transactions (each, a "**Reference Derivative**") with hypothetical terms specified in the CCDS. A protection buyer under a CCDS generally uses CCDS to hedge counterparty exposure under actual derivative transactions it has entered into by specifying Reference Derivatives with terms substantially similar to those actual derivatives and the actual counterparty to those actual derivatives as the Reference Entity. However, CCDS do not relate to actual derivatives entered into by a protection buyer and may specify entirely notional Reference Derivatives, or a Reference Entity that has no derivative transactions with that protection buyer. If your objective in entering into a CCDS is to hedge counterparty exposure under actual derivative transactions you have entered into with the Reference Entity, you should understand the limitations of a CCDS for that purpose, including the fact that the failure of the Reference Entity to make one or more payments under those actual derivative transactions may not, by itself, constitute a Credit Event under the CCDS. See "No assurance that you will achieve your hedging or other objectives" above.

Settlement of the CCDS following a Credit Event is typically based on a valuation of the Reference Derivatives and the amount that would be payable to the party identified as the "Exposed Party" (e.g., the floating rate payer under an interest rate swap) by the party identified as the "Other Party" (e.g., the fixed rate payer under an interest rate swap), if positive, or vice versa, if negative, as if all the Reference Derivatives were terminated and a termination payment were owed pursuant to the terms of the Reference Derivative. The determination of that valuation will typically be based on, unless the parties otherwise agree, mid-market quotations (generally disregarding credit risk) provided by leading dealers in the relevant market for the Reference Derivative (which may include us) or, in some cases, by the sole determination of the calculation agent (which may be us). You should understand that there may be little or no liquidity, and therefore willingness to provide quotations, for the Reference Derivatives, and the Reference Derivative, just like any other Covered Derivative, may be difficult to value. See "III. Material Risks – B. Transactions involve liquidity risks" and "I. It may be difficult or impossible to establish the value of a Transaction" in the General Disclosure Statement. A CCDS is described as "contingent" because it will have value to the protection buyer upon the occurrence of a Credit Event only if the Reference Derivative has a positive value from the perspective of the Exposed Party at that time.

The value of a CCDS will depend on a number of complex and potentially interrelated factors, including the actual or perceived creditworthiness of the Reference Entity and the valuation of the underlying Reference Derivatives. For example, it is possible that the Reference Derivatives have interest rate Underliers, which may make those Reference Derivatives more or less valuable depending on whether interest rates are increasing or decreasing. It is possible that an increasing or decreasing interest rate environment may mean that certain types of Reference Entities, such as financial institutions, become more or less creditworthy, which could offset or exacerbate any losses or gains on the CCDS attributable to the Reference Derivatives. If there is a correlation

between the value of the Reference Derivatives and the Reference Entity, the CCDS valuation will be affected by that correlation.

CCDS involve a number of important risks you should understand, including:

- There may be material conflicts of interest in valuing the Reference Derivatives. We may use CCDS to hedge our counterparty exposure under actual derivatives we have entered into with other market participants. If our counterparty defaults on those derivatives, our recovery will depend on (i) the valuation of those actual derivatives and (ii) the recovery rate generally against our counterparty and particularly under those derivatives. As a result, we will be motivated to maximize the valuation of the Reference Derivative following a Credit Event and, unlike other Credit Transactions, there may be no market-based auction to provide a market-tested basis for settlement. In addition, our exposure under any actual derivatives we have entered into may be secured, in which case we may be able to recover some or all of the losses we incur under those derivatives, in addition to the settlement payments under the CCDS we collect for the Reference Derivatives.

- Reference Derivatives may be illiquid or difficult to value. Unlike an auction settlement for other Credit Transactions, where the settlement payment following a Credit Event is based upon a market-wide auction, Reference Derivatives are typically valued on a limited dealer poll. In some cases, the valuation of those Reference Derivatives may be based solely on the discretion of the calculation agent (which may be us). If the Reference Derivatives are not liquid or simple to value, a dealer poll or the calculation agent may not provide an accurate valuation of those Reference Derivatives and therefore could result in greater losses to you upon settlement of the CCDS.

- Because the CCDS value will be based on both the value of the Reference Derivative and the actual or perceived creditworthiness of the Reference Entities, CCDS may be difficult to value. There may be complex correlations between the underlying Reference Derivatives and the relevant Underliers and the Reference Entities themselves. Valuation of the CCDS for purposes of any early termination of the CCDS, or periodic posting of margin or collateral, may be difficult or impossible to establish. Accordingly, we may have the ability to make valuation decisions you may not agree with which could result in losses or funding risk to you.

A CCDS on an index is comparable to a CDS on the relevant index (see the description above under “Index CDS”), except that the typical settlement procedures for an index CDS following a Credit Event with respect to an underlying Reference Entity will not apply and, instead, the protection buyer under the index CCDS will typically have the option to enter into the Reference Derivative with the protection seller with a notional amount equal to the amount that the protection seller would have had to pay under an index CDS following auction settlement. Therefore, an index CCDS may be thought of as a basket of contingent swaptions on the Reference Derivative, with a Credit Event with respect to an underlying Reference Entity as a trigger to exercise. If the protection buyer exercises its option and the parties enter into the Reference Derivative, each party will be required to pay to the other any amounts that would have become due under the Reference Derivative between a deemed determination date for the Credit Event and the date of entry into the Reference Derivative, but no other amounts that previously became due under the Reference Derivative will be owed by either party. The fallback settlement mechanism for an index CCDS is typically settlement in the manner described above for a CCDS

on a single Reference Entity. The protection buyer under an index CCDS typically pays the entire amount owed by it under the index CCDS upon entry into the transaction (other than any amounts owed under the Reference Derivative if it enters into the Reference Derivative) and does not pay any periodic coupon.

An index CCDS will be subject to the risks described above for an index CDS under "Index CDS," as well as the risks described above for a CCDS on a single Reference Entity. If your objective in entering into an index CCDS is to hedge counterparty risks under actual derivative transactions you have entered into, the caveat stated above about the effectiveness of that hedge with respect to a single Reference Entity applies with even more force in the case of an index CCDS, because the exposure represented by the underlying index is likely to be an inexact approximation, at best, of any actual exposure you may have.

Preferred CDS

Preferred CDSs are CDSs that include preferred securities within the obligations covered by the CDS and specify reference obligations that are preferred securities. Preferred securities are typically defined to include preferred equity securities as well as hybrid instruments in the form of subordinated debt securities that provide for the deferral of interest and meet rating agency criteria for at least partial treatment as equity. The preferred securities may be issued directly by the Reference Entity or by a related trust preferred issuer, and Credit Events may include failure to pay a relevant obligation by the Reference Entity or by such related trust preferred issuer. Furthermore, the obligations of a related trust preferred issuer may qualify as deliverable obligations. Because preferred securities are subordinate in right of payment to senior debt obligations and, if applicable, subordinated debt obligations, the recovery rate in the event of a Credit Event for preferred CDS may be very low and may be zero.

In addition to failure to pay and bankruptcy, preferred CDS typically specify a "deferral of payment" Credit Event, which may be triggered if, following the expiration of any applicable grace period, the Reference Entity or any related trust preferred issuer fails to pay a dividend or other distribution exceeding a specified threshold amount on the scheduled payment date, or pays such dividend or distribution in additional securities rather than cash. A deferral of payment Credit Event may occur even if the issuer of the preferred securities has the legal right not to make the relevant payment on the scheduled payment date or to make such payment in securities rather than cash.

Preferred CDSs are typically physically settled. See the discussion under "Settlement Methods – Physical settlement" above regarding the potential difficulty in obtaining the relevant deliverable obligation for purposes of physical settlement, which may be heightened in the case of preferred securities. If a Credit Event occurs and the protection buyer is unable to deliver a preferred security, including because the Reference Entity or related trust preferred issuer has no preferred securities outstanding, the protection buyer may be required to deliver an obligation with a higher priority (and, therefore, higher market price) than a preferred security.

Index Skew Credit Transaction

An index skew Credit Transaction is a combination of (i) an index CDS and (ii) individual CDSs on the Reference Entities included in the index underlying the index CDS (the "**component CDSs**"). The party that is the protection seller under the index CDS is the protection buyer under

the component CDSs, and vice versa. The value of the combined positions reflects the difference (the "**skew**") between the value of the index CDS and the aggregate value of its component CDSs.

The value of an index CDS may differ from the aggregate value of its component CDSs for several reasons, including:

- differences in liquidity and other characteristics in the markets for the index CDS the component CDSs;
- differences in relevant terms of the index CDS and its component CDSs;
- factors that affect the activities of arbitrageurs; and
- changes in the default correlation among the Reference Entities included in the index (see "Tranche CDS" above for a discussion of default correlation).

Liquidity differences may make a greater contribution to skew during periods of heightened volatility, as the value of the more liquid instrument(s) may change more quickly than the value of the less liquid instrument(s). Furthermore, during periods when transaction costs (such as funding costs and bid-ask spreads) to market participants increase, skew may become greater, as the increased transaction costs may reduce the activities of arbitrageurs. Arbitrageurs are market participants that seek to profit from the skew and, in the process, tend to reduce it.

See "Index CDS" above for a discussion of certain characteristics and risks of an index CDS and Section III.N of the General Disclosure Statement – "Combination Transactions" for a discussion of certain risks associated with entering into a combination of Transactions, such as an index skew Credit Transaction.

Total Return Swap

A total return swap ("**TRS**") on an Underlier that is a bond, loan or index of bonds or loans is a Credit Transaction that transfers the return on a specified Underlier from one party (the "**seller**") to the other (the "**buyer**"). The return is generally determined based on changes in the price or level of the Underlier from an initial price or level (as defined under the terms of the TRS) to a price or level observed on one or more valuation dates. Payments under this "Underlier leg" of the TRS are made by the seller if the return is positive and by the buyer if the return is negative. Such payments may be due only once upon the termination of the TRS (if there is only a single, final valuation date), or periodically during the term of the TRS following each interim valuation date. In addition, a TRS generally will include a "financing leg" under which the buyer will make periodic payments to the seller at a specified fixed or floating rate (which may be specified as the sum of a spread plus a benchmark rate, such as a LIBOR rate, that is reset periodically). If the financing leg is based on a floating rate, the buyer will have exposure to fluctuations in that rate in addition to fluctuations in the price or level of the Underlier. The words "total return" indicate that the TRS passes through 100% of the percentage change in the price or level of the Underlier, but not necessarily that the Underlier leg will match the economics of direct ownership of the Underlier or its constituents. For example, if the Underlier is a price return index, it will reflect only the price performance of its constituents and will not reflect coupon payments or reinvestment of redemptions.

Payments under the TRS will be determined by reference to a specified notional amount. The notional amount may or may not be reset on interim valuation dates.

Please refer to the Disclosure Annex for Interest Rate Transactions for certain considerations relevant to the financing leg of a TRS. You should note whether payment dates under the Underlier leg and the financing leg of a proposed TRS coincide and consider the possibility that differences may arise due to business day conventions and disruption events. The interest rate paid or payable under the financing leg may differ from the rate at which either of the parties to the TRS may fund itself.

The TRS may provide that one or both of the parties has an optional early termination right. Early termination will result in the designation of a final valuation date, which will be used to determine the final payment. The terms of the TRS may specify that a break fee is payable upon early termination. In evaluating a TRS in which your counterparty has an optional early termination right, you should assess the potential magnitude of termination payments and your ability to pay them at the appropriate time.

Please refer to Section II.F of the General Disclosure Statement – "The economic return of a Transaction may not be the same as owning the Underlier".

Certain events may occur with respect to the Underlier that may result in the price or level of the Underlier being determined, for purposes of calculating one or more payments on the TRS, on a different date or in an alternative manner than expected or may result in early termination of the TRS. Such events may include cancellation of an Underlier that is an index by the index sponsor or failure of the price or level of the Underlier to be published on a valuation date. Upon the occurrence of certain events with respect to an Underlier, if the terms of the swap so provide, the price or level of the Underlier on a relevant valuation date may be determined based on a poll of certain specified dealers ("primary dealers") or pursuant to an auction in which these primary dealers are participants. If an Underlier that is an index is cancelled, in certain circumstances a successor index may be substituted for the original index. If so provided under the terms of the TRS, the selection of a successor index may be subject to the agreement of certain primary dealers.

Prices of bonds and loans are typically not as readily observable as prices of equity securities traded on an exchange. Any published price of bonds or loans or published level of a bond or loan index may be based on a poll of major dealers.

We may be a primary dealer under the TRS and, in that capacity, may take actions that affect certain determinations under the TRS, as described above. Moreover, we may be one of the market participants polled for purposes of calculating the price or level of the Underlier, and we may be a member of a committee governing the rules by which an Underlier that is an index is composed and calculated. In acting in these capacities, we will have no obligation to consider your interests as our counterparty under the TRS. Our determinations in these capacities could affect the price or level of the Underlier and could adversely affect your Transaction Economics.

The constituents of an Underlier that is an index may be subject to rebalancing on a periodic basis. The rules governing the index may specify how the index level is calculated if any of the underlying bonds or loans are redeemed, repaid, accelerated or defaulted upon between

rebalancing dates. It is important to understand these rules, as they may have an effect on the return of the index.

In some cases, two TRSs may be combined into a single Credit Transaction. Such a Credit Transaction will have two Underlier legs, where one party is the seller of one Underlier leg and the buyer of the other Underlier leg, and vice versa. Under such a Credit Transaction, the financing legs may partially or completely cancel each other out. If the financing legs do not completely cancel each other out, one party will owe the remaining element of the financing leg to the other. Such a Credit Transaction is effectively a basis transaction, where the payoff will depend on the difference between the performances of the applicable Underliers, net of the residual financing element. The risks of such a Credit Transaction depend on factors that affect the relationship between the Underliers.

Please see section III.O of the General Disclosure Statement – "Index Underliers" – for certain considerations relevant to Credit Transactions in which an Underlier is an index.