

Product Supplement No. STOCK INCOME-1  
(To Prospectus dated March 5, 2015  
and Prospectus Supplement dated March 5, 2015)  
March 5, 2015



### Income Notes Linked to a Basket of Equity Securities

- The Income Notes (the “**notes**”) are senior unsecured debt securities issued by HSBC USA Inc. (“**HSBC**” or the “**Issuer**”). All payments due on the notes, including repayment of principal, will be subject to the credit risk of HSBC.
- We will make periodic payments (each, a “**Coupon Payment**”) on the notes under the circumstances described below. At maturity, we will pay the principal amount of the notes and the final Coupon Payment. However, if you sell your notes before maturity, you may incur a loss.
- The notes will be linked to a “**Basket**” of common equity securities of companies other than us, the agents and our respective affiliates (each, a “**Basket Stock**”). On each Coupon Payment Date, the notes will pay at least a minimum Coupon Payment (the “**Minimum Coupon Payment**”), which is expected to be greater than zero. If, however, the prices of the required number of Basket Stocks on the applicable Coupon Determination Date are greater than or equal to their respective prices on the pricing date, the notes will pay a maximum Coupon Payment (the “**Maximum Coupon Payment**”) on the applicable Coupon Payment Date.
- This product supplement describes the general terms of the notes, the risk factors to consider before investing, the general manner in which they may be offered and sold, and other relevant information.
- For each offering of the notes, we will provide you with a pricing supplement (which we refer to as a “**term sheet**”) that will describe the specific terms of that offering, including the relevant Basket Stocks, the Minimum Coupon Payment, the Maximum Coupon Payment, the Coupon Determination Dates, the Coupon Payment Dates and certain risk factors. The term sheet will identify, if applicable, any additions or changes to the terms specified in this product supplement.
- The notes will be issued in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The term sheet may also set forth a minimum number of units that you must purchase.
- Unless otherwise specified in the applicable term sheet, the notes will not be listed on a securities exchange or quotation system.
- Merrill Lynch, Pierce, Fenner & Smith Incorporated (“**MLPF&S**”) and one or more of its affiliates may act as our agents to offer the notes and will act in a principal capacity in such role.

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*The notes offered hereunder are not deposit liabilities or other obligations of a bank, are not insured by the Federal Deposit Insurance Corporation (the “**FDIC**”) or any other governmental agency of the United States, or any other jurisdiction, and carry investment risks, including possible loss of the amount invested due to the credit risk of HSBC. Potential purchasers of the notes should consider the information in “Risk Factors” beginning on page PS-6 of this product supplement, page S-1 of the accompanying prospectus supplement, and page 2 of the accompanying prospectus. **You may lose all or a significant portion of your investment in the notes.***

*Neither the U.S. Securities and Exchange Commission (the “**SEC**”), nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or the adequacy of this product supplement, the accompanying prospectus supplement or prospectus. Any representation to the contrary is a criminal offense.*

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**Merrill Lynch & Co.**

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## SUMMARY

The information in this “Summary” section is qualified in its entirety by the more detailed explanation set forth elsewhere in this product supplement, the prospectus supplement, and the prospectus, as well as the applicable term sheet. Neither we nor MLPF&S have authorized any other person to provide you with any information different from the information set forth in these documents. If anyone provides you with different or inconsistent information about the notes, you should not rely on it.

### Key Terms:

|                             |   |
|-----------------------------|---|
| <b>General:</b>             | <p>The notes are senior unsecured debt securities issued by HSBC, and are not guaranteed or insured by the FDIC, and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus supplement and prospectus, the notes will rank on par equally with all of the other unsecured and unsubordinated debt obligations of HSBC. <b>All payments to be made on the notes, including return of principal, depends on HSBC’s credit risk and the ability of HSBC to satisfy its obligations as they become due.</b></p> <p>The amount of each Coupon Payment will depend on the performance of the Basket Stocks on the applicable Coupon Determination Date. At maturity, you will receive the principal amount plus the final Coupon Payment.</p> <p>Each issue of the notes will mature on the date set forth in the applicable term sheet. We cannot redeem the notes at any earlier date, except under the limited circumstances set forth below.</p> |
| <b>Market Measure:</b>      | <p>A Basket of common equity securities (the “<b>Basket Stocks</b>”) of companies (the “<b>Underlying Companies</b>”) represented either by a class of equity securities registered under the Securities Exchange Act of 1934, as amended (the “<b>Exchange Act</b>”), or by American Depositary Receipts (“<b>ADRs</b>”) registered under the Exchange Act.</p>  |
| <b>Coupon Payments:</b>     | <p>On each “<b>Coupon Payment Date</b>” specified in the applicable term sheet, the Coupon Payment will be at least the Minimum Coupon Payment, regardless of the performance of the Basket Stocks. If, however, the Observation Values of at least a specified number of Basket Stocks, as set forth in the term sheet, are greater than or equal to their respective Starting Values (each as defined below), the Coupon Payment on the applicable Coupon Payment Date will be the Maximum Coupon Payment.</p> <p>The amount of the Minimum Coupon Payment and Maximum Coupon Payment will be specified in the term sheet. The Minimum Coupon Payment is expected to be greater than zero. The Coupon Payments may be payable quarterly, semi-annually, annually, or at other intervals, as specified in the applicable term sheet.</p>   |
| <b>Starting Value:</b>      | <p>For each Basket Stock, its Closing Market Price (as defined below) on the date when the notes are priced for initial sale to the public (the “<b>pricing date</b>”), determined as set forth in the applicable term sheet.</p>   |
| <b>Observation Value:</b>   | <p>For each Basket Stock, its Closing Market Price on the applicable Coupon Determination Date multiplied by its Price Multiplier (as defined below) on that day.</p>   |
| <b>Price Multiplier:</b>    | <p>Unless otherwise set forth in the term sheet, the “<b>Price Multiplier</b>” for each Basket Stock will be 1, and will be subject to adjustment for certain corporate events relating to a Basket Stock described below under “Description of the Notes—Anti-Dilution Adjustments.”</p>   |
| <b>Payment at Maturity:</b> | <p>At maturity, you will receive the principal amount and the final Coupon Payment.</p> <p><b>All payments due on the notes, including repayment of principal, are subject to our credit risk as Issuer of the notes.</b></p>   |

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|---------------------------|--|
| <b>Principal at Risk:</b> | If you sell your notes prior to maturity, the price you may receive may be less than the price that you paid for the notes.  |
| <b>Calculation Agent:</b> | The calculation agent will make all determinations associated with the notes. Unless otherwise set forth in the applicable term sheet, we or one or more of our affiliates, acting independently or jointly with MLPF&S, will act as the calculation agent, or we may appoint MLPF&S or one of its affiliates to act as calculation agent for the notes. See the section entitled “Description of the Notes—Role of the Calculation Agent.”  |
| <b>Agents:</b>            | MLPF&S and one or more of its affiliates will act as our agents, in a principal capacity, in connection with each offering of the notes and will receive an underwriting discount based on the number of units of the notes sold. None of the agents is your fiduciary or advisor solely as a result of the making of any offering of the notes, and you should not rely upon this product supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase the notes. |
| <b>Listing:</b>           | Unless otherwise specified in the applicable term sheet, the notes will not be listed on a securities exchange or quotation system.  |

This product supplement relates only to the notes and does not relate to any Basket Stock described in any term sheet. You should read carefully the entire prospectus, prospectus supplement, and product supplement, together with the applicable term sheet, to understand fully the terms of your notes, as well as the tax and other considerations important to you in making a decision about whether to invest in any notes. In particular, you should review carefully the sections in this product supplement and the accompanying prospectus supplement entitled “Risk Factors,” which highlight a number of risks of an investment in the notes, to determine whether an investment in the notes is appropriate for you. If information in this product supplement is inconsistent with the prospectus or prospectus supplement, this product supplement will supersede those documents. However, if information in any term sheet is inconsistent with this product supplement, that term sheet will supersede this product supplement.

None of us, the agents or our respective affiliates is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted.

Certain capitalized terms used and not defined in this product supplement have the meanings ascribed to them in the prospectus supplement and prospectus. Unless otherwise indicated or unless the context requires otherwise, all references in this product supplement to “we,” “us,” “our,” or similar references are to HSBC.

You are urged to consult with your own attorneys and business and tax advisors before making a decision to purchase any notes.

## RISK FACTORS

*You will be subject to significant risks not associated with conventional fixed-rate or floating-rate debt securities. You should understand the risks of investing in the notes and should reach an investment decision only after careful consideration with your advisors with respect to the notes in light of your particular financial and other circumstances and the information set forth in the relevant term sheet, this product supplement and the accompanying prospectus supplement and prospectus.*

### General Risks Relating to the Notes

**You may not receive any Coupon Payment beyond the specified Minimum Coupon Payment on one or more Coupon Payment Dates.** Other than the principal amount that you will receive on the maturity date, subject to our credit risk, the only return that you will receive on the notes will be the Coupon Payments. The amount of each Coupon Payment will depend on the Observation Values of the Basket Stocks on the applicable Coupon Determination Date. If the number of Basket Stocks having Observation Values greater than or equal to their respective Starting Values on a given Coupon Determination Date is less than the required number specified in the term sheet, you will not receive any Coupon Payment beyond the specified Minimum Coupon Payment on the corresponding Coupon Payment Date. It is possible that you will receive only the Minimum Coupon Payments during the entire term of the notes.

Unless otherwise set forth in the applicable term sheet, the calculation agent will compare only the Starting Value of each Basket Stock as of the pricing date to its Observation Value as of the applicable Coupon Determination Date. Therefore, if the Observation Values of enough Basket Stocks are below their respective Starting Values as of any Coupon Determination Date, it may be more likely that the prices of those Basket Stocks will not increase sufficiently for you to receive the Maximum Coupon Payment on any subsequent Coupon Payment Date.

**Your return on the notes may be less than the yield on a conventional fixed or floating rate debt security of comparable maturity.** The return that you receive on the notes, which could be limited to the Minimum Coupon Payments, may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in the notes may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

**Your investment return will be limited to the return represented by the Coupon Payments, which could be limited to the Minimum Coupon Payments, and may be less than a comparable investment directly in the Basket Stocks.** The appreciation potential of the notes is limited to the Coupon Payments. You will not receive a return greater than the Coupon Payments (and could receive only the Minimum Coupon Payments), regardless of any appreciation of the Basket Stocks. In contrast, a direct investment in the Basket Stocks would allow you to receive the full benefit of any appreciation in the prices of the Basket Stocks.

In addition, unless otherwise set forth in the applicable term sheet or in the event of an adjustment as described in this product supplement under “Description of the Notes—Anti-Dilution Adjustments,” the Observation Values will not reflect the value of dividends paid, or distributions made, on the Basket Stocks, or any other rights associated with any Basket Stock. Your return on the notes will not reflect the return you would realize if you actually owned shares of the Basket Stocks.

**Payments on the notes are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of the notes.** The notes are senior unsecured debt obligations of the Issuer, and are not, either directly or indirectly, an

obligation of any third party. As further described in the accompanying prospectus supplement and prospectus, the notes will rank on par with all of the other unsecured and unsubordinated debt obligations of HSBC. All payments to be made on the notes, including any return of principal at maturity, depend on the ability of HSBC to satisfy its obligations as they become due. As a result, the actual and perceived creditworthiness of HSBC may affect the market value of the notes and, in the event HSBC were to default on its obligations, you may not receive the amounts owed to you under the terms of the notes. Because your return on the notes depends upon factors in addition to HSBC's ability to pay its obligations, such as the prices of the Basket Stocks, an improvement in HSBC's credit ratings will not reduce the other investment risks related to the notes.

**The estimated initial value of the notes will be less than the public offering price and may differ from the market value of the notes in the secondary market, if any.** We will determine the estimated initial value of the notes, which will be set forth in the applicable term sheet, by reference to our or our affiliates' internal pricing models. These pricing models consider certain assumptions and variables, which can include volatility and interest rates. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect. Different pricing models and assumptions could provide valuations for the notes that are different from our estimated initial value. The estimated initial value will reflect our internal funding rate, which is the borrowing rate we use to issue market-linked notes, as well as the mid-market value of the hedging arrangements related to the notes (which may include call options, put options or other derivatives).

**Our internal funding rate for the issuance of these notes is lower than the rate we would use when we issue conventional fixed or floating rate debt securities.** This is one of the factors that may result in the market value of the notes being less than their estimated initial value. As a result of the difference between our internal funding rate and the rate we would use when we issue conventional fixed or floating rate debt securities, the estimated initial value of the notes may be lower if it were based on the levels at which our fixed or floating rate debt securities trade in the secondary market. In addition, if we were to use the rate we use for our conventional fixed or floating rate debt issuances, we would expect the economic terms of the notes to be more favorable to you.

**The price of your notes in the secondary market, if any, immediately after the pricing date will be less than the public offering price.** The public offering price takes into account certain costs, principally the underwriting discount, the expected hedging costs described in the applicable term sheet, and the costs associated with issuing the notes. The costs associated with issuing the notes will be used or retained by MLPF&S, us or one of our affiliates. If you were to sell your notes in the secondary market, if any, the price you would receive for your notes may be less than the price you paid for them.

**The estimated initial value does not represent a minimum price at which we, MLPF&S or any of our respective affiliates would be willing to purchase your notes in the secondary market (if any exists) at any time.** The price of your notes in the secondary market, if any, at any time after issuance will vary based on many factors, including the prices of the Basket Stocks and changes in market conditions, and cannot be predicted with accuracy. The notes are not designed to be short-term trading instruments, and you should, therefore, be able and willing to hold the notes to maturity. Any sale of the notes prior to maturity could result in a loss to you.

**We cannot assure you that there will be a trading market for your notes.** If a secondary market exists, we cannot predict how the notes will trade, or whether that market will be liquid or illiquid. The development of a trading market for the notes will depend on various factors, including our financial performance and changes in the prices of the Basket Stocks. The number of potential buyers of your notes in any secondary market may be limited.



There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

We anticipate that one or more of the agents will act as a market-maker for the notes, but none of them is required to do so and may cease to do so at any time. Any price at which an agent may bid for, offer, purchase, or sell any of the notes may be higher or lower than the applicable public offering price, and that price may differ from the values determined by pricing models that it may use, whether as a result of dealer discounts, mark-ups, or other transaction costs. These bids, offers, or transactions may affect the prices, if any, at which the notes might otherwise trade in the market. In addition, if at any time any agent were to cease acting as a market-maker for any issue of the notes, it is likely that there would be significantly less liquidity in that secondary market. In such a case, the price at which those notes could be sold likely would be lower than if an active market existed.

Unless otherwise stated in the term sheet, we will not list the notes on any securities exchange. Even if an application were made to list your notes, we cannot assure you that the application will be approved or that your notes will be listed and, if listed, that they will remain listed for their entire term. The listing of the notes on any securities exchange will not necessarily ensure that a trading market will develop, and if a trading market does develop, that there will be liquidity in the trading market.

**The amount of a Coupon Payment will not reflect changes in the prices of the Basket Stocks other than on the applicable Coupon Determination Date.** Changes in the prices of the Basket Stocks during the term of the notes other than on the applicable Coupon Determination Date will not be reflected in determining the related Coupon Payment. To make that determination or calculation, the calculation agent will compare only the applicable Observation Value of each Basket Stock to its Starting Value. No other prices of the Basket Stocks will be taken into account. As a result, even if the prices of the required number of Basket Stocks have increased at certain times during the term of the notes before or after decreasing to a value below their respective Starting Values on each Coupon Determination Date, you will only receive the Minimum Coupon Payment on each Coupon Payment Date.

**If you attempt to sell the notes prior to maturity, their market value, if any, will be affected by various factors that interrelate in complex ways, and their market value may be less than the principal amount.** You have no right to have your notes redeemed prior to maturity. If you wish to liquidate your investment in the notes prior to maturity, your only option would be to sell them. At that time, there may be an illiquid market for your notes or no market at all. Even if you were able to sell your notes, there are many factors outside of our control that may affect their market value, some of which, but not all, are stated below. The impact of any one factor may be offset or magnified by the effect of another factor. The following paragraphs describe a specific factor's expected impact on the market value of the notes, assuming all other conditions remain constant.

- **Prices of the Basket Stocks.** We anticipate that the market value of the notes prior to maturity generally will depend to a significant extent on the prices of the Basket Stocks. In general, it is expected that the market value of the notes will decrease as the prices of the Basket Stocks decrease, and increase as the prices of the Basket Stocks increase. However, as the prices of the Basket Stocks increase or decrease, the market value of the notes is not expected to increase or decrease at the same rate. If you sell your notes when the prices of the Basket Stocks are less than their respective Starting Values, then you may receive less than the principal amount of your notes.

In addition, we do not expect that the notes will trade in any secondary market at a price that is greater than the sum of the principal amount plus the remaining Maximum

## Coupon Payments.

- **Volatility of the Basket Stocks.** Volatility is the term used to describe the size and frequency of market fluctuations. Increases or decreases in the volatility of the Basket Stocks may have an adverse impact on the market value of the notes. Even if the prices of the Basket Stocks increase after the applicable pricing date, if you are able to sell your notes before their maturity date, you may receive substantially less than the sum of the principal amount and the Coupon Payments that would be payable on the remaining Coupon Payment Dates based on those prices because of the anticipation that the prices of the Basket Stocks will continue to fluctuate until the final Coupon Determination Date.
- **Economic and Other Conditions Generally.** The general economic conditions of the capital markets in the United States, as well as geopolitical conditions and other financial, political, regulatory, and judicial events and related uncertainties that affect stock markets generally, may adversely affect the prices of the Basket Stocks and the market value of the notes.
- **Interest Rates.** We expect that changes in interest rates will affect the market value of the notes. In general, if U.S. interest rates increase, we expect that the market value of the notes will decrease, and conversely, if U.S. interest rates decrease, we expect that the market value of the notes will increase. In general, we expect that the longer the amount of time that remains until maturity, the more significant the impact of these changes will be on the value of the notes. The level of interest rates also may affect the U.S. economy and any applicable market outside of the U.S., and, in turn, the prices of the Basket Stocks, and, thus, the market value of the notes may be adversely affected. If any Basket Stock is an ADR, the level of interest rates in the relevant foreign country may affect the economy of that foreign country and, in turn, the value of the ADR, and, thus, the market value of the notes may be adversely affected.
- **Dividend Yields.** In general, if the cumulative dividend yield on a Basket Stock increases, we anticipate that the market value of the notes will decrease; conversely, if that dividend yield decreases, we anticipate that the market value of your notes will increase.
- **Our Financial Condition and Creditworthiness.** Our perceived creditworthiness, including any increases in the spread between the yield on our securities and the yield on U.S. Treasury securities (the “**credit spread**”) and any actual or anticipated decreases in our credit ratings, may adversely affect the market value of the notes. In general, we expect the longer the amount of time that remains until maturity, the more significant the impact will be on the value of the notes. However, a decrease in our credit spreads or an improvement in our credit ratings will not necessarily increase the market value of the notes.
- **Time to Maturity.** There may be a disparity between the market value of the notes prior to maturity and their value at maturity. This disparity is often called a time “value,” “premium,” or “discount,” and reflects expectations concerning the prices of the Basket Stocks prior to the maturity date. As the time to maturity decreases, this disparity may decrease, such that the value of the notes will approach the principal amount plus the expected final Coupon Payment.

**Trading and hedging activities by us, the agents, and our respective affiliates may affect your return on the notes and their market value.** We, the agents, and our respective affiliates may buy or sell shares of any Basket Stock, futures or options contracts on any Basket Stock, or other listed or over-the counter derivative instruments linked to any Basket



Stock. We may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our obligations under the notes. These transactions could affect the price of a Basket Stock in a manner that could be adverse to your investment in the notes. On or before the applicable pricing date, any purchases by us, the agents, and our respective affiliates, or others on our or their behalf may increase the price of a Basket Stock. Consequently, the value of that Basket Stock may decrease subsequent to the pricing date of an issue of the notes, adversely affecting the-market value of the notes.

We, the agents, or one or more of our respective affiliates may also engage in hedging activities that could increase the price of a Basket Stock on the applicable pricing date. In addition, these activities may decrease the market value of your notes prior to maturity, including on the Coupon Determination Dates, and may reduce your return on the notes.

We, the agents, or one or more of our respective affiliates may purchase or otherwise acquire a long or short position in the notes, and may hold or resell the notes. For example, the agents may enter into these transactions in connection with any market making activities in which they engage. We cannot assure you that these activities will not adversely affect the price of any Basket Stock, the market value of your notes prior to maturity or the payments on the notes.

**Our trading, hedging and other business activities, and those of the agents, may create conflicts of interest with you.** We, the agents, or one or more of our respective affiliates may engage in trading activities related to the Basket Stocks that are not for your account or on your behalf. We, the agents, or one or more of our respective affiliates also may issue or underwrite other financial instruments with returns based upon the applicable Basket Stocks. These trading and other business activities may present a conflict of interest between your interest in the notes and the interests we, the agents, and our respective affiliates may have in our proprietary accounts, in facilitating transactions, including block trades, for our or their other customers, and in accounts under our or their management. These trading and other business activities, if they influence the prices of the Basket Stocks or secondary trading in your notes, could be adverse to your interests as a beneficial owner of the notes.

We, the agents, and our respective affiliates expect to enter into arrangements or adjust or close out existing transactions to hedge our obligations under the notes. We, the agents, or our respective affiliates also may enter into hedging transactions relating to other notes or instruments that we or they issue, some of which may have returns calculated in a manner related to that of a particular issue of the notes. We may enter into such hedging arrangements with one or more of our subsidiaries or affiliates, or with one or more of the agents or their affiliates. Such a party may enter into additional hedging transactions with other parties relating to the notes and the applicable Basket Stocks. This hedging activity is expected to result in a profit to those engaging in the hedging activity, which could be more or less than initially expected, but could also result in a loss. We, the agents, and our respective affiliates will price these hedging transactions with the intent to realize a profit, regardless of whether the value of the notes increases or decreases. Any profit in connection with such hedging activities will be in addition to any other compensation that we, the agents, and our respective affiliates receive for the sale of the notes, which creates an additional incentive to sell the notes to you.

**There may be potential conflicts of interest involving the calculation agent. We may appoint and remove the calculation agent.** We or one of our affiliates may be the calculation agent or act as joint calculation agent for the notes and, as such, will determine the Starting Values, the Observation Values and the Coupon Payments. Under some circumstances, these duties could result in a conflict of interest between our status as Issuer and our responsibilities as calculation agent. These conflicts could occur, for instance, in

connection with the calculation agent's determination as to whether a Market Disruption Event has occurred, or in connection with judgments that the calculation agent would be required to make if certain corporate events occur with respect to any Basket Stock. See the sections entitled "Description of the Notes—Market Disruption Events" and "—Anti-Dilution Adjustments." The calculation agent will be required to carry out its duties in good faith and use its reasonable judgment. However, because we may serve as the calculation agent, potential conflicts of interest could arise.

In addition, we may appoint MLPF&S or one of its affiliates to act as the calculation agent or as joint calculation agent for the notes. As the calculation agent or joint calculation agent, MLPF&S or one of its affiliates will have discretion in making various determinations that affect your notes. The exercise of this discretion by the calculation agent could adversely affect the value of your notes and may present the calculation agent with a conflict of interest of the kind described under "—Trading and hedging activities by us, the agents, and our respective affiliates may affect your return on the notes and their market value" and "—Our trading, hedging and other business activities, and those of the agents, may create conflicts of interest with you" above.

**The notes are not insured or guaranteed by any governmental agency of the United States or any other jurisdiction.** The notes are not deposit liabilities or other obligations of a bank and are not insured or guaranteed by the FDIC or any other governmental agency or program of the United States or any other jurisdiction. An investment in the notes is subject to the credit risk of HSBC, and in the event that HSBC is unable to pay its obligations as they become due, you may not receive the full payments due on the notes.

**The U.S. federal income tax consequences of an investment in the notes are uncertain, and may be adverse to a holder of the notes.** We intend to treat the notes, for U.S. federal income tax purposes, as debt instruments. Depending on the terms of the notes, we intend to treat the notes either as "variable rate debt instruments" or as "contingent payment debt instruments" for U.S. federal income tax purposes. You are urged to review the section entitled "U.S. Federal Income Tax Summary" and to consult your own tax advisor.

### **Risks Relating to a Basket Stock**

**You must rely on your own evaluation of the merits of an investment linked to the applicable Basket Stocks.** In the ordinary course of business, we, the agents, and our respective affiliates may have expressed views on expected movements in a Basket Stock, and may do so in the future. These views or reports may be communicated to our clients and clients of these entities. However, these views are subject to change from time to time. Moreover, other professionals who deal in markets relating to the Basket Stocks may at any time have significantly different views from our views and the views of these entities. For these reasons, you are encouraged to derive information concerning the Basket Stocks from multiple sources, and you should not rely on our views or the views expressed by these entities.

**You will have no rights as a security holder, you will have no rights to receive any shares of any Basket Stock, and you will not be entitled to dividends or other distributions by any Underlying Company.** The notes are our debt securities. They are not equity instruments, shares of stock, or securities of any other issuer. Investing in the notes will not make you a holder of any Basket Stock. You will not have any voting rights, any rights to receive dividends or other distributions, or any other rights with respect to any Basket Stock. As a result, the return on your notes may not reflect the return you would realize if you actually owned shares of any Basket Stock and received the dividends paid or other distributions made in connection with them. Your notes will be paid in cash and you have no right to receive delivery of shares of any Basket Stock.

**If shares of an Underlying Company are also listed on a foreign exchange, your return may be affected by factors affecting international securities markets.** The value of securities traded outside of the U.S. may be adversely affected by a variety of factors relating to the relevant securities markets. Factors which could affect those markets, and therefore the return on your notes, include:

- **Market Volatility.** The relevant foreign securities markets may be more volatile than U.S. or other securities markets and may be affected by market developments in different ways than U.S. or other securities markets.
- **Political, Economic, and Other Factors.** The prices and performance of securities of companies in foreign countries may be affected by political, economic, financial, and social factors in those regions. Direct or indirect government intervention to stabilize a particular securities market and cross-shareholdings in companies in the relevant foreign markets may affect prices and the volume of trading in those markets. In addition, recent or future changes in government, economic, and fiscal policies in the relevant jurisdictions, the possible imposition of, or changes in, currency exchange laws, or other laws or restrictions, and possible fluctuations in the rate of exchange between currencies, are factors that could negatively affect the relevant securities markets. The relevant foreign economies may differ from the U.S. economy in economic factors such as growth of gross national product, rate of inflation, capital reinvestment, resources, and self-sufficiency.

In particular, many emerging nations are undergoing rapid change involving the restructuring of economic, political, financial and legal systems. Regulatory and tax environments may be subject to change without review or appeal, and many emerging markets suffer from underdevelopment of capital markets and tax systems. In addition, in some of these nations, issuers of the relevant securities face the threat of expropriation of their assets and/or nationalization of their businesses. The economic and financial data about some of these countries may be unreliable.

**We and the agents do not control any Underlying Company and have not verified any disclosure made by any Underlying Company.** We, the agents, or our respective affiliates currently, or in the future, may engage in business with any Underlying Company, and we, the agents, or our respective affiliates may from time to time own securities of any Underlying Company. However, none of us, the agents, or any of our respective affiliates has the ability to control any actions of any Underlying Company or has undertaken any independent review of, or made any due diligence inquiry with respect to, any Underlying Company. You should make your own investigation into any Basket Stock.

**Our business activities and those of the agents relating to any Underlying Company or the notes may create conflicts of interest with you.** We, the agents, and our respective affiliates at the time of any offering of the notes or in the future, may engage in business with any Underlying Company, including making loans to, equity investments in, or providing investment banking, asset management, or other services to that company, its affiliates, and its competitors.

In connection with these activities, any of these entities may receive information about those companies that we will not divulge to you or other third parties. We, the agents, and our respective affiliates have published, and in the future may publish, research reports on one or more of these companies. The agents may also publish research reports relating to our or our affiliates' securities, including the notes. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding your notes. Any of these activities may adversely affect the price of any Basket Stock and, consequently, the market value of your notes. None of us, the agents, or our respective affiliates makes any representation to any purchasers of the notes regarding any matters whatsoever relating to any Underlying Company. Any prospective purchaser of the notes should undertake an independent investigation of any Underlying Company to the extent that, in its judgment, is appropriate to make an informed decision regarding an investment in the notes. The selection of a Basket Stock does not reflect any investment recommendations from us, the agents, or our respective affiliates.

**An Underlying Company will have no obligations relating to the notes and we will not perform any due diligence procedures with respect to any Underlying Company.** An Underlying Company will not have any financial or legal obligation with respect to the notes or the amounts to be paid to you, including any obligation to take our needs or the needs of noteholders into consideration for any reason, including taking any corporate actions that might affect the value of any of the Basket Stocks or the value of the notes. An Underlying Company will not receive any of the proceeds from any offering of the notes, and will not be responsible for, or participate in, the offering of the notes. No Underlying Company will be responsible for, or participate in, the determination or calculation of the amounts receivable by holders of the notes.

None of us, the agents, or any of our respective affiliates will conduct any due diligence inquiry with respect to any Basket Stock in connection with an offering of the notes. None of us, the agents, or any of our respective affiliates has made any independent investigation as to the completeness or accuracy of publicly available information regarding any Underlying Company or as to the future performance of any Basket Stock. Any prospective purchaser of the notes should undertake such independent investigation of any Underlying Company as in its judgment is appropriate to make an informed decision with respect to an investment in the notes.

**The terms of the notes will not be adjusted for all corporate events that could affect an Underlying Company.** The Price Multipliers, the Observation Values, the Coupon Payments and other terms of the notes may be adjusted for the specified corporate events affecting any Basket Stock, as described in the section entitled "Description of the Notes—Anti-Dilution Adjustments." However, these adjustments do not cover all corporate events that could affect the market price of a Basket Stock, such as offerings of common shares for cash or in connection with certain acquisition transactions. The occurrence of any event that does not require the calculation agent to adjust the applicable Price Multiplier or any other terms of the notes may adversely affect the Closing Market Price of a Basket Stock, its Observation Values and the applicable Coupon Payments, and, as a result, the market value of the notes.

#### **Risks Relating to Basket Stocks that Are ADRs**

**The value of an ADR may not accurately track the value of the common shares of the related Underlying Company.** If a Basket Stock is an ADR, each ADR will represent shares of the relevant Underlying Company. Generally, the ADRs are issued under a deposit agreement that sets forth the rights and responsibilities of the depositary, the Underlying Company and the holders of the ADRs. The trading patterns of the ADRs will generally reflect the characteristics and valuations of the underlying common shares; however, the value of the

ADRs may not completely track the value of those shares. There are important differences between the rights of holders of ADRs and the rights of holders of the underlying common shares. In addition, trading volume and pricing on the applicable non-U.S. exchange may, but will not necessarily, have similar characteristics as the ADRs. For example, certain factors may increase or decrease the public float of the ADRs and, as a result, the ADRs may have less liquidity or lower market value than the underlying common shares.

**Exchange rate movements may adversely impact the price of a Basket Stock that is an ADR.** If a Basket Stock is an ADR, the market price of the Basket Stock will generally track the U.S. dollar value of the market price of the underlying common shares. Therefore, if the value of the related foreign currency in which the underlying common shares are traded decreases relative to the U.S. dollar, the market price of the Basket Stock may decrease while the market price of the underlying common shares remains stable or increases, or does not decrease to the same extent. As a result, changes in, and the volatility of, the exchange rates between the U.S. dollar and the relevant non-U.S. currency could have a negative impact on the price of the Basket Stock and consequently, the value of your notes and the amounts payable on the notes.

**Adverse trading conditions in the applicable non-U.S. market may negatively affect the price of a Basket Stock that is an ADR.** Holders of an Underlying Company's ADRs may usually surrender the ADRs in order to receive and trade the underlying common shares. This provision permits investors in the ADRs to take advantage of price differentials between markets. However, this provision may also cause the market prices of the applicable Basket Stock to more closely correspond with the prices of the common shares in the applicable non-U.S. markets. As a result, a market outside of the United States for the underlying common shares that is not liquid may also result in an illiquid market for the ADRs, which may negatively impact the value of such ADRs and, consequently, the value of your notes.

**Delisting of a Basket Stock that is an ADR may adversely affect the value of the notes.** If a Basket Stock that is an ADR is no longer listed or admitted to trading on a U.S. securities exchange registered under the Exchange Act or included in the OTC Bulletin Board Service operated by the Financial Industry Regulatory Authority, Inc. ("**FINRA**"), or if the ADR facility between the Underlying Company and the ADR depositary is terminated for any reason, that Basket Stock will be deemed to be the Underlying Company's common equity securities rather than the ADRs, and the calculation agent will determine the price of that Basket Stock by reference to those common shares, as described below under "Description of the Notes—Delisting of ADRs or Termination of ADR Facility." Replacing the original ADRs with the underlying common shares may adversely affect the value of the notes and the Coupon Payments.

#### **Other Risk Factors Relating to a Basket Stock**

The applicable term sheet may set forth additional risk factors as to a Basket Stock that you should review prior to purchasing the notes.

## **USE OF PROCEEDS**

We will use the net proceeds we receive from each sale of the notes for the purposes described in the accompanying prospectus supplement under “Use of Proceeds and Hedging.” In addition, we expect that we or our affiliates may use a portion of the net proceeds to hedge our obligations under the notes.



## DESCRIPTION OF THE NOTES

### General

Each issue of the notes will be part of a series of notes entitled “Notes, Series 1” that will be issued under the Senior Indenture, as amended and supplemented from time to time. The Senior Indenture is described more fully in the prospectus and prospectus supplement. The following description of the notes supplements and, to the extent it is inconsistent with, supersedes the description of the general terms and provisions of the notes and debt securities set forth under the headings “Description of Notes” in the prospectus supplement and “Description of Debt Securities” in the prospectus. These documents should be read in connection with the applicable term sheet.

The maturity date of the notes and the aggregate principal amount of each issue of notes will be stated in the term sheet. If any payment is due on a day that is not a business day, we will make the required payment on the next business day, and no additional interest will accrue as a result of such delay.

The notes will be payable only in U.S. dollars.

Prior to the maturity date, the notes are not redeemable by us, except under the limited circumstances set forth below, or repayable at the option of any holder. The notes are not subject to any sinking fund.

We will issue the notes in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The CUSIP number for each issue of the notes will be set forth in the applicable term sheet. You may transfer the notes only in whole units.

### Payment at Maturity

At maturity, subject to our credit risk as Issuer of the notes, you will receive the principal amount of the notes and the final Coupon Payment.

### Coupon Payments

On each “**Coupon Payment Date**” specified in the applicable term sheet, the Coupon Payment will be at least the Minimum Coupon Payment, which is payable regardless of the performance of the Basket Stocks. If, however, the Observation Values of the required number of Basket Stocks, as set forth in the term sheet, are greater than or equal to their respective Starting Values, the Coupon Payment on the applicable Coupon Payment Date will be the Maximum Coupon Payment.

The amount of the Minimum Coupon Payment and Maximum Coupon Payment will be specified in the term sheet. The Minimum Coupon Payment is expected to be greater than zero.

### The Starting Value and the Observation Value

#### Starting Value

The “**Starting Value**” of each Basket Stock will be its Closing Market Price on the pricing date, determined as set forth in the term sheet.

## **Observation Value**

The “**Observation Value**” of each Basket Stock will be its Closing Market Price on the applicable Coupon Determination Date, multiplied by its Price Multiplier on that day.

A “**Coupon Determination Date**” will be a trading day shortly before the applicable Coupon Payment Date. The Coupon Determination Dates will be set forth in the term sheet.

A “**business day**” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in the City of New York.

A “**trading day**” means a day on which trading is generally conducted (or was scheduled to have been generally conducted, but for the occurrence of a Market Disruption Event) on the New York Stock Exchange (the “**NYSE**”), The NASDAQ Stock Market (“**NASDAQ**”), the Chicago Board Options Exchange, and in the over-the-counter market for equity securities in the United States, or any successor exchange or market, or in the case of a security traded on one or more non-U.S. securities exchanges or markets, on the principal non-U.S. securities exchange or market for such security.

The “**Closing Market Price**” for one share of any Basket Stock (or one unit of any other security for which a Closing Market Price must be determined) on any trading day means any of the following:

- if the Basket Stock (or such other security) is listed or admitted to trading on a national securities exchange, the last reported sale price, regular way (or, in the case of NASDAQ, the official closing price), of the principal trading session on that day on the principal U.S. securities exchange registered under the Exchange Act on which the Basket Stock (or such other security) is listed or admitted to trading;
- if the Basket Stock (or such other security) is not listed or admitted to trading on any national securities exchange but is included in the OTC Bulletin Board, the last reported sale price of the principal trading session on the OTC Bulletin Board on that day;
- if the Basket Stock (or such other security) is issued by a foreign issuer and its closing price cannot be determined as set forth in the two bullet points above, and the Basket Stock (or such other security) is listed or admitted to trading on a non-U.S. securities exchange or market, the last reported sale price, regular way, of the principal trading session on that day on the primary non-U.S. securities exchange or market on which the Basket Stock (or such other security) is listed or admitted to trading (converted to U.S. dollars using such exchange rate as the calculation agent, in its sole discretion, determines to be commercially reasonable); or
- if the Closing Market Price cannot be determined as set forth in the prior bullets, the mean, as determined by the calculation agent, of the bid prices for the Basket Stock (or such other security) obtained from as many dealers in that security (which may include us, MLPF&S and/or any of our respective affiliates), but not exceeding three, as will make the bid prices available to the calculation agent. If no such bid price can be obtained, the Closing Market Price will be determined (or, if not determinable, estimated) by the calculation agent in its sole discretion in a commercially reasonable manner.

If there is a Market Disruption Event on a scheduled Coupon Determination Date with respect to any Basket Stock, the Coupon Determination Date for that Basket Stock will be the immediately succeeding trading day during which no Market Disruption Event occurs or is continuing; provided that the Closing Market Price of that Basket Stock will be determined (or, if not determinable, estimated) by the calculation agent in a commercially reasonable manner on a date no later than the second scheduled trading day prior to the corresponding Coupon Payment Date, regardless of the occurrence of a Market Disruption Event with respect to that Basket Stock on that day. The Observation Value of each Basket Stock that is not subject to a Market Disruption Event on a scheduled Coupon Determination Date will be determined on that day.

The initial “**Price Multiplier**” for a Basket Stock will be one, unless otherwise set forth in the term sheet. The Price Multiplier will be subject to adjustment for certain corporate events relating to a Basket Stock described below under “—Anti-Dilution Adjustments.”

### **Market Disruption Events**

As to any Basket Stock, a “**Market Disruption Event**” means any of the following events, as determined by the calculation agent in its sole discretion:

- (A) the suspension of or material limitation of trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, of the shares of the Basket Stock (or the successor to the Basket Stock) on the primary exchange where such shares trade, as determined by the calculation agent (without taking into account any extended or after-hours trading session);
- (B) the suspension of or material limitation of trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange that trades options contracts or futures contracts related to the shares of the Basket Stock (or successor to the Basket Stock) as determined by the calculation agent (without taking into account any extended or after-hours trading session), in options contracts or futures contracts related to the shares of the Basket Stock; or
- (C) the determination that a scheduled Coupon Determination Date is not a trading day by reason of an extraordinary event, occurrence, declaration, or otherwise.

For the purpose of determining whether a Market Disruption Event has occurred:

- (1) a limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange;
- (2) a decision to permanently discontinue trading in the shares of the Basket Stock (or successor Basket Stock) or the relevant futures or options contracts relating to such shares will not constitute a Market Disruption Event;
- (3) a suspension in trading in a futures or options contract on the shares of the Basket Stock (or successor Basket Stock), by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts, or (c) a disparity in bid and ask quotes relating to those contracts, will each constitute a suspension of or material limitation on trading in futures or options contracts relating to the Basket Stock;

- (4) subject to paragraph (3) above, a suspension of or material limitation on trading on the relevant exchange will not include any time when that exchange is closed for trading under ordinary circumstances; and
- (5) for the purpose of clause (A) above, any limitations on trading during significant market fluctuations under NYSE Rule 80B, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self-regulatory organization or the SEC of similar scope as determined by the calculation agent, will be considered “material.”

### **Anti-Dilution Adjustments**

As to any Basket Stock, the calculation agent, in its sole discretion, may adjust the Price Multiplier (and as a result, the Observation Values), and any other terms of the notes (such as the Starting Value), if an event described below occurs after the pricing date and on or before the final Coupon Determination Date and if the calculation agent determines that such an event has a diluting or concentrative effect on the theoretical value of the shares of the Basket Stock or successor Basket Stock.

The Price Multiplier resulting from any of the adjustments specified below will be rounded to the eighth decimal place with five one-billionths being rounded upward. No adjustments to the Price Multiplier will be required unless the adjustment would require a change of at least 0.1% in the Price Multiplier then in effect. Any adjustment that would require a change of less than 0.1% in the Price Multiplier which is not applied at the time of the event may be reflected at the time of any subsequent adjustment that would require a change of the Price Multiplier. The required adjustments specified below do not cover all events that could affect the Basket Stock.

No adjustments to the Price Multiplier or any other terms of the notes will be required other than those specified below. However, the calculation agent may, at its sole discretion, make additional adjustments to the Price Multiplier or any other terms of the notes to reflect changes to the Basket Stock if the calculation agent determines that the adjustment is appropriate to ensure an equitable result.

The calculation agent will be solely responsible for the determination of any adjustments to the Price Multiplier or any other terms of the notes and of any related determinations with respect to any distributions of stock, other securities or other property or assets, including cash, in connection with any corporate event described below; its determinations and calculations will be conclusive absent a determination of a manifest error.

No adjustments are required to be made for certain other events, such as offerings of common equity securities by the Underlying Company for cash or in connection with the occurrence of a partial tender or exchange offer for the Basket Stock by the Underlying Company.

Following an event that results in an adjustment to the Price Multiplier or any of the other terms of the notes, the calculation agent may (but is not required to) provide holders of the notes with information about that adjustment as it deems appropriate, depending on the nature of the adjustment. Upon written request by any holder of the notes, the calculation agent will provide that holder with information about such adjustment.

## **Anti-Dilution Adjustments to Basket Stocks that Are Common Equity**

The calculation agent, in its sole discretion and as it deems reasonable, may adjust the Price Multiplier of a Basket Stock and other terms of the notes, and hence its Observation Values, as a result of certain events related to that Basket Stock, which include, but are not limited to, the following:

*Stock Splits and Reverse Stock Splits.* If a Basket Stock is subject to a stock split or reverse stock split, then once such split has become effective, the Price Multiplier will be adjusted such that the new Price Multiplier will equal the product of:

- the prior Price Multiplier; and
- the number of shares that a holder of one share of the Basket Stock before the effective date of the stock split or reverse stock split would have owned immediately following the applicable effective date.

For example, a two-for-one stock split would ordinarily change a Price Multiplier of one into a Price Multiplier of two. In contrast, a one-for-two reverse stock split would ordinarily change a Price Multiplier of one into a Price Multiplier of one-half.

*Stock Dividends.* If a Basket Stock is subject to (i) a stock dividend (i.e., an issuance of additional shares of the Basket Stock) that is given ratably to all holders of the Basket Stock or (ii) a distribution of additional shares of the Basket Stock as a result of the triggering of any provision of the organizational documents of the Underlying Company, then, once the dividend has become effective and the Basket Stock is trading ex-dividend, the Price Multiplier will be adjusted on the ex-dividend date such that the new Price Multiplier will equal the prior Price Multiplier *plus* the product of:

- the prior Price Multiplier; and
- the number of additional shares issued in the stock dividend with respect to one share of the Basket Stock;

provided that no adjustment will be made for a stock dividend for which the number of shares of the Basket Stock paid or distributed is based on a fixed cash equivalent value, unless such distribution is an Extraordinary Dividend (as defined below).

For example, a stock dividend of one new share for each share held would ordinarily change a Price Multiplier of one into a Price multiplier of two.

*Extraordinary Dividends.* There will be no adjustments to the Price Multiplier to reflect any cash dividends or cash distributions paid with respect to a Basket Stock other than Extraordinary Dividends, as described below, and distributions described under the section entitled “—Reorganization Events” below.

An “**Extraordinary Dividend**” means, with respect to a cash dividend or other distribution with respect to a Basket Stock, a dividend or other distribution that the calculation agent determines, in its sole discretion, is not declared or otherwise made according to the Underlying Company’s then existing policy or practice of paying such dividends on a quarterly or other regular basis. If an Extraordinary Dividend occurs, the Price Multiplier will be adjusted on the ex-dividend date so that the new Price Multiplier will equal the product of:

- the prior Price Multiplier; and

- a fraction, the numerator of which is the Closing Market Price per share of the Basket Stock on the trading day preceding the ex-dividend date and the denominator of which is the amount by which the Closing Market Price per share of the Basket Stock on that preceding trading day exceeds the Extraordinary Dividend Amount.

The “**Extraordinary Dividend Amount**” with respect to an Extraordinary Dividend will equal:

- in the case of cash dividends or other distributions that constitute regular dividends, the amount per share of the Basket Stock of that Extraordinary Dividend minus the amount per share of the immediately preceding non-Extraordinary Dividend for that share; or
- in the case of cash dividends or other distributions that do not constitute regular dividends, the amount per share of the Basket Stock of that Extraordinary Dividend.

To the extent an Extraordinary Dividend is not paid in cash, the value of the non-cash component will be determined by the calculation agent, whose determination will be conclusive. A distribution on the Basket Stock described in the section “—Issuance of Transferable Rights or Warrants” or clause (a), (d) or (e) of the section entitled “—Reorganization Events” below that also constitutes an Extraordinary Dividend will only cause an adjustment under those respective sections.

*Issuance of Transferable Rights or Warrants.* If an Underlying Company issues transferable rights or warrants to all holders of record of the Basket Stock to subscribe for or purchase the Basket Stock, including new or existing rights to purchase the Basket Stock under a shareholder rights plan or arrangement, then the Price Multiplier will be adjusted on the trading day immediately following the issuance of those transferable rights or warrants so that the new Price Multiplier will equal the prior Price Multiplier plus the product of:

- the prior Price Multiplier; and
- the number of shares of the Basket Stock that can be purchased with the cash value of those warrants or rights distributed on one share of the Basket Stock.

The number of shares that can be purchased will be based on the Closing Market Price of the Basket Stock on the date the new Price Multiplier is determined. The cash value of those warrants or rights, if the warrants or rights are traded on a registered national securities exchange, will equal the closing price of that warrant or right. If the warrants or rights are not traded on a registered national securities exchange, the cash value will be determined by the calculation agent and will equal the average of the bid prices obtained from three dealers at 3:00 p.m., New York time on the date the new Price Multiplier is determined, provided that if only two of those bid prices are available, then the cash value of those warrants or rights will equal the average of those bids and if only one of those bids is available, then the cash value of those warrants or rights will equal that bid.

### **Reorganization Events**

If after the pricing date and on or prior to the final Coupon Determination Date, as to any Basket Stock:

- (a) there occurs any reclassification or change of the Basket Stock, including, without limitation, as a result of the issuance of tracking stock by the Underlying



Company;

- (b) the Underlying Company, or any surviving entity or subsequent surviving entity of the Underlying Company (a “**Successor Entity**”), has been subject to a merger, combination, or consolidation and is not the surviving entity;
- (c) any statutory exchange of securities of the Underlying Company or any Successor Entity with another corporation occurs, other than under clause (b) above;
- (d) the Underlying Company is liquidated or is subject to a proceeding under any applicable bankruptcy, insolvency, or other similar law;
- (e) the Underlying Company issues to all of its shareholders securities of an issuer other than the Underlying Company, including equity securities of an affiliate of the Underlying Company, other than in a transaction described in clauses (b), (c), or (d) above;
- (f) a tender or exchange offer or going-private transaction is consummated for all the outstanding shares of the Underlying Company;
- (g) there occurs any reclassification or change of the Basket Stock that results in a transfer or an irrevocable commitment to transfer all such outstanding shares of the Basket Stock to another entity or person;
- (h) the Underlying Company or any Successor Entity is the surviving entity of a merger, combination, or consolidation, that results in the outstanding Basket Stock (other than Basket Stock owned or controlled by the other party to such transaction) immediately prior to such event collectively representing less than 50% of the outstanding Basket Stock immediately following such event; or
- (i) the Underlying Company ceases to file the financial and other information with the SEC in accordance with Section 13(a) of the Exchange Act (an event in clauses (a) through (i), a “**Reorganization Event**”),

then, on or after the date of the occurrence of a Reorganization Event, the calculation agent shall, in its sole discretion, make an adjustment to the Price Multiplier or any other terms of the notes as the calculation agent, in its sole discretion, determines appropriate to account for the economic effect on the notes of that Reorganization Event (including adjustments to account for changes in volatility, expected dividends, stock loan rate, or liquidity relevant to the Basket Stock or to the notes), which may, but need not, be determined by reference to the adjustment(s) made in respect of such Reorganization Event by an options exchange to options on the relevant Basket Stock traded on that options exchange and determine the effective date of that adjustment. If the calculation agent determines that no adjustment that it could make will produce a commercially reasonable result, then the calculation agent may cause the maturity date of the notes to be accelerated to the fifth business day following the date of that determination and the amount payable to you will equal the principal amount plus an accelerated Coupon Payment, which will be calculated as indicated above under “—Coupon Payments” (and prorated for the completed portion of the applicable coupon period through the date of acceleration), as if the date of early repayment were the stated maturity date of the notes and as though the final Coupon Determination Date were the fifth trading day prior to the date of acceleration.

If the Underlying Company ceases to file the financial and other information with the SEC in accordance with Section 13(a) of the Exchange Act, as contemplated by clause (i) above,

and the calculation agent determines in its sole discretion that sufficiently similar information is not otherwise available to you, then the calculation agent may cause the maturity date of the notes to be accelerated to the fifth business day following the date of that determination and the amount payable to you will be calculated (and prorated) as though the date of early repayment were the stated maturity date of the notes, and as though the final Coupon Determination Date were the fifth trading day prior to the date of acceleration. If the calculation agent determines that sufficiently similar information is available to you, the Reorganization Event will be deemed to have not occurred.

### **Alternative Anti-Dilution and Reorganization Adjustments**

The calculation agent may elect at its discretion to not make any of the adjustments to the Price Multiplier or to the other terms of the notes described in this section, but may instead make adjustments, in its discretion, to the Price Multiplier or any other terms of the notes (such as the Starting Value) that will reflect the adjustments to the extent practicable made by the Options Clearing Corporation on options contracts on a Basket Stock or any successor common stock. For example, if the Basket Stock is subject to a two-for-one stock split, and the Options Clearing Corporation adjusts the strike prices of the options contract on the Basket Stock by dividing the strike price by two, then the calculation agent may also elect to divide the Starting Value by two. In this case, the Price Multiplier will remain one. This adjustment would have the same economic effect on holders of the notes as if the Price Multiplier had been adjusted.

### **Anti-Dilution Adjustments to Basket Stocks that Are ADRs**

For purposes of the anti-dilution adjustments set forth above, if a Basket Stock is an ADR (an **“Underlying ADR”**), the calculation agent will consider the effect of any of the relevant events on the Underlying ADR, and adjustments will be made as if the Underlying ADR was the Basket Stock described above. For example, if the common share represented by the Underlying ADR is subject to a two-for-one stock split, and assuming an initial Price Multiplier of 1, the Price Multiplier for the Underlying ADR would be adjusted so that it equals two. Unless otherwise specified in the applicable term sheet, with respect to the notes linked to an Underlying ADR (or a Basket Stock issued by a non-U.S. Underlying Company), the term “dividend” means the dividends paid to holders of the Underlying ADR (or the Basket Stock issued by the non-U.S. Underlying Company), and such dividends may reflect the netting of any applicable foreign withholding or similar taxes that may be due on dividends paid to a U.S. person.

The calculation agent may determine not to make an adjustment if:

- (A) holders of the Underlying ADR are not eligible to participate in any of the events that would otherwise require anti-dilution adjustments as set forth above if the notes had been linked directly to the common shares of the Underlying Company represented by the Underlying ADR; or
- (B) to the extent that the calculation agent determines that the Underlying Company or the depositary for the Underlying ADRs has adjusted the number of common shares of the Underlying Company represented by each share of the Underlying ADR, so that the market price of the Underlying ADR would not be affected by the corporate event.

If the Underlying Company or the depositary for the Underlying ADRs, in the absence of any of the events described above, elects to adjust the number of common shares of the Underlying Company represented by each share of the Underlying ADR, then the calculation

agent may make the appropriate anti-dilution adjustments to reflect such change. The depositary for the Underlying ADRs may also make adjustments in respect of the Underlying ADRs for share distributions, rights distributions, cash distributions and distributions other than shares, rights, and cash. Upon any such adjustment by the depositary, the calculation agent may adjust the Price Multiplier or other terms of the notes as the calculation agent determines commercially reasonable to account for that event.

### **Delisting of ADRs or Termination of ADR Facility**

If an Underlying ADR is no longer listed or admitted to trading on a U.S. securities exchange registered under the Exchange Act or included in the OTC Bulletin Board Service operated by FINRA, or if the ADR facility between the Underlying Company and the ADR depositary is terminated for any reason, then, on and after the date that the Underlying ADR is no longer so listed or admitted to trading or the date of such termination, as applicable (the **“termination date”**), that Basket Stock will be deemed to be the Underlying Company’s common equity securities rather than the Underlying ADR. The calculation agent will determine the price of the Basket Stock by reference to those common shares. Under such circumstances, the calculation agent may modify any terms of the notes as it deems necessary, in its sole discretion, to ensure an equitable result. On and after the termination date, for all purposes, the Closing Market Price of the Underlying Company’s common shares on their primary exchange will be converted to U.S. dollars using such exchange rate as the calculation agent, in its sole discretion, determines to be commercially reasonable.

### **The Basket Stocks**

The term sheet will set forth information as to the specific Basket Stocks, including information as to the historical prices of the Basket Stocks. However, historical prices of any Basket Stock are not indicative of its future performance or the performance of your notes.

An investment in the notes does not entitle you to any ownership interest, including any voting rights, in any Basket Stock, nor dividends paid or other distributions made, by any Underlying Company.

Any information regarding the Basket Stocks or the Underlying Companies will be derived from publicly available documents. Each Basket Stock will be registered under the Exchange Act. Information provided to or filed with the SEC by an Underlying Company can be located at the SEC’s facilities or through the SEC’s website, [www.sec.gov](http://www.sec.gov). None of us, the agents, or any of our respective affiliates will have independently verified the accuracy or completeness of any of the information or reports of any Underlying Company.

The selection of a Basket Stock is not a recommendation to buy or sell the Basket Stock. Neither we nor any of our subsidiaries or affiliates makes any representation to any purchaser of the notes as to the performance of any Basket Stock.

### **Role of the Calculation Agent**

The calculation agent has the sole discretion to make all determinations regarding the notes as described in this product supplement, including determinations regarding the Starting Values, the Observation Values, the Price Multipliers, the Closing Market Prices, the Coupon Payments, any Market Disruption Events, a successor Basket Stock, business days and trading days. Absent manifest error, all determinations of the calculation agent will be conclusive for all purposes and final and binding on you and us, without any liability on the part of the calculation agent.

We or one of our affiliates may act as the calculation agent, or we may appoint MLPF&S or one of its affiliates to act as the calculation agent for the notes. Alternatively, we and MLPF&S or one of its affiliates may act as joint calculation agents for the notes. When we refer to a “calculation agent” in this product supplement or in any term sheet, we are referring to the applicable calculation agent or joint calculation agents, as the case may be. We may change the calculation agent at any time without notifying you. The identity of the calculation agent will be set forth in the applicable term sheet.

### **Same-Day Settlement and Payment**

The notes will be delivered in book-entry form only through The Depository Trust Company against payment by purchasers of the notes in immediately available funds. We will make all payments on the notes in immediately available funds so long as the notes are maintained in book-entry form.

### **Events of Default and Acceleration**

Events of default are defined in the prospectus. If such an event occurs and is continuing, unless otherwise stated in the term sheet, the amount payable to a holder of the notes upon any acceleration permitted under the Senior Indenture will be equal to the principal amount of the notes plus accrued and unpaid interest, if any, through the acceleration date. This accelerated Coupon Payment will be determined as indicated above under “Description of the Notes—Coupon Payments,” as if the date of acceleration was the final Coupon Payment Date and as though the fifth trading day prior to the date of acceleration was the final Coupon Determination Date. The accelerated Coupon Payment will be prorated to reflect the completed portion of the relevant coupon period through the date of acceleration. If the notes have become immediately due and payable following an event of default, you will not be entitled to any additional payments with respect to the notes. For more information, see “Description of Debt Securities—Senior Debt Securities—Events of Default” in the prospectus.

### **Listing**

Unless otherwise specified in the applicable term sheet, the notes will not be listed on a securities exchange or quotation system.

## SUPPLEMENTAL PLAN OF DISTRIBUTION

MLPF&S and one or more of its affiliates may act as our agents for any offering of the notes. The agents may act on either a principal basis or an agency basis, as set forth in the applicable term sheet. Each agent will be a party to a distribution agreement with us.

Each agent will receive an underwriting discount that is a percentage of the aggregate principal amount of the notes sold through its efforts, which will be set forth in the applicable term sheet. You must have an account with the applicable agent in order to purchase the notes.

None of the agents is acting as your fiduciary or advisor solely as a result of the making of any offering of the notes, and you should not rely upon this product supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase any notes. You should make your own investment decision regarding the notes after consulting with your legal, tax, and other advisors.

We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments made in respect of those liabilities. We have also agreed to reimburse the agents for specified expenses.

MLPF&S and its affiliates may use this product supplement, the prospectus supplement, and the prospectus, together with the applicable term sheet, in market-making transactions for any notes after their initial sale solely for the purpose of providing investors with the description of the terms of the notes that were made available to investors in connection with the initial distribution of the notes. Secondary market investors should not, and will not be authorized to rely on these documents for information regarding HSBC or for any purpose other than that described in the immediately preceding sentence.

### Selling Restrictions

#### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), MLPF&S has represented and agreed, and each further dealer appointed under the program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in that Relevant Member State:

- (a) if an offer of those notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final offering document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final offering document, as applicable, and the issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of each dealer or dealers nominated by the issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,
  - (i) provided that no such offer of the notes referred to in (b) to (d) above shall require the issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the notes to the public”, in relation to any notes in any Relevant Member State, means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## **United Kingdom**

MLPF&S has represented and agreed that:

- (a) in relation to any notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage, or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.



## **Argentina**

The notes are not and will not be marketed in Argentina by means of a public offer of securities, as such term is defined under Sections 2 and 83 of the Argentine Capital Markets Law No. 26,831, as securities. No application has been or will be made with the Argentine Comisión Nacional de Valores, the Argentine securities governmental authority, to offer the notes in Argentina.

## **Brazil**

The information contained in this product supplement and in the accompanying prospectus supplement and prospectus does not constitute a public offering or distribution of securities in Brazil and no registration or filing with respect to any securities or financial products described in these documents has been made with the Comissão de Valores Mobiliários (the “**CVM**”). No public offer of securities or financial products described in this product supplement or in the accompanying prospectus supplement and prospectus should be made in Brazil without the applicable registration at the CVM.

## **The People’s Republic of China**

These offering documents have not been filed with or approved by the People’s Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan) authorities, and is not an offer of securities (whether public offering or private placement) within the meaning of the Securities Law or other pertinent laws and regulations of the People’s Republic of China. These offering documents shall not be delivered to any party who is not an intended recipient or offered to the general public if used within the People’s Republic of China, and the notes so offered cannot be sold to anyone that is not a qualified purchaser of the People’s Republic of China. MLPF&S has represented, warranted and agreed that the notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China, except under circumstances that will result in compliance with applicable laws and regulations.

## **France**

The offering documents have not been approved by the Autorité des marchés financiers (“**AMF**”).

Offers of the notes (a) have only been made and will only be made to the public (offre au public) in France or an admission of the notes to trading on a regulated market in France in the period beginning (i) when a prospectus in relation to those notes has been approved by the AMF, on the date of such publication or, (ii) when a prospectus in relation to those notes has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF and, in either case, when the formalities required by French laws and regulations have been carried out, and ending at the latest on the date which is 12 months after the date of the approval of the prospectus, all in accordance with articles L.412-1 and L.621-8 to L.621-8-3 of the French Code monétaire et financier and the Règlement général of the AMF, or (b) have only been made and will only be made to the public in France or an admission of the notes to trading on a regulated market in France in circumstances which do not require the publication by the offeror of a prospectus pursuant to the French Code monétaire et financier and the Règlement général of the Autorité des marchés financiers.

The notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France, and have not been distributed or caused to be distributed and the offering documents, or any other offering material relating to the notes, will not be distributed or caused to be distributed to the public in France, and such offers, sales and distributions have been and will be made in France only to (i) providers of the investment service of portfolio management for the account of third parties, and/or (ii) qualified investors (investisseurs qualifiés) other than individuals, acting for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1 to D.411-3, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier. The direct or indirect resale of the notes to the public in France may be made only as provided by, and in accordance with, articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code monétaire et financier.

In addition, the notes, the offering documents and any other offering material relating to the notes, have not been and will not be distributed or caused to be distributed in France, other than to investors to whom offers and sales of the notes in France may be made as described above.

### **Mexico**

The notes have not been and will not be registered in the National Securities Registry (Registro Nacional de Valores). Therefore, the notes may not be offered or sold in the United Mexican States ("Mexico") by any means except in circumstances which constitute a private offering (oferta privada) pursuant to Article 8 of the Securities Market Law (Ley del Mercado de Valores) and its regulations. All applicable provisions of the Securities Market Law must be complied with in respect to anything done in relation to the notes in, from or otherwise involving Mexico.

### **Netherlands**

Each agent has represented and agreed that it has not made and will not make an offer of the notes to the public in the Netherlands other than to qualified investors (gekwalficeerde beleggers), provided that no such offer of the notes will require us or any agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

### **New Zealand**

No offeree of the notes shall directly or indirectly offer, sell or deliver any notes, or distribute the offering documents or any advertisement in relation to any offer of the notes, in New Zealand other than to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money, or who are each required to pay a minimum subscription price of at least NZ\$500,000 for the notes (excluding any amounts lent by the issuer or any of its affiliates) before the allotment of those notes, or who in all the circumstances can properly be regarded as having been selected otherwise than as members of the public, or in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand.

### **Philippines**

**THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE PHILIPPINES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.**

## **Switzerland**

The notes may not be offered, sold or advertised directly or indirectly into or in Switzerland except in a manner which will not result in a public offering within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations ("CO"). Neither this prospectus supplement and the accompanying prospectus nor any other offering or marketing materials relating to the notes have been prepared with regard to the disclosure standards for prospectuses under article 652a or 1156 CO, and therefore do not constitute a prospectus within the meaning of article 652a or 1156 CO. Neither this prospectus supplement and the accompanying prospectus nor any other offering or marketing materials relating to the notes may be distributed, published or otherwise made available in Switzerland except in a manner which will not constitute a public offering of the notes into or in Switzerland.

## **Taiwan**

The notes may be made available for purchase outside Taiwan by investors residing in Taiwan (either directly or through properly licensed Taiwan intermediaries acting on behalf of such investors) but may not be offered or sold in Taiwan.

## **Uruguay**

The notes have not been registered under Law No. 18.627 of December 2, 2009 with the Central Bank of Uruguay. The notes are not available publicly in Uruguay and are offered only on a private basis. No action may be taken in Uruguay that would render any offering of the notes a public offering in Uruguay. No Uruguayan regulatory authority has approved the notes or passed on our solvency. In addition, any resale of the notes must be made in a manner that will not constitute a public offering in Uruguay.

*Los valores no han sido registrados bajo la Ley de Mercado de Valores de la República Oriental del Uruguay o registrados ante el Banco Central del Uruguay. Los valores no son ofrecidos en forma pública en Uruguay y lo son únicamente en forma privada. Ninguna acción puede ser adoptada en Uruguay en relación a estos valores que resulte en que esta oferta de valores sea una oferta pública de valores en Uruguay. Ninguna autoridad regulatoria del Uruguay ha aprobado estos valores o se ha manifestado sobre nuestra solvencia. Adicionalmente, cualquier reventa de estos valores debe ser realizada en forma tal que no constituya oferta pública de valores en el Uruguay.*

## U.S. FEDERAL INCOME TAX SUMMARY

The following discussion supplements, and to the extent inconsistent supersedes, the discussion under “U.S. Federal Income Tax Considerations” in the accompanying prospectus supplement and is not exhaustive of all possible tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the “**Code**”), regulations promulgated under the Code by the U.S. Treasury Department (“**Treasury**”) (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (“**IRS**”), and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. This summary does not include any description of the tax laws of any state or local governments, or of any foreign government, that may be applicable to a particular holder. If the tax consequences associated with the notes are different than those described below, they will be described in the applicable term sheet.

This summary is directed solely to U.S. holders and non-U.S. holders that, except as otherwise specifically noted, will purchase the notes upon original issuance and will hold the notes as capital assets within the meaning of Section 1221 of the Code, which generally means property held for investment, and that are not excluded from the discussion under “U.S. Federal Income Tax Considerations” in the accompanying prospectus. This summary assumes that the issue price of the notes, as determined for U.S. federal income tax purposes, equals the principal amount thereof. The following summary applies to notes that have a term of more than one year. The U.S. federal income tax treatment of notes with a term of one year or less will be set forth in the applicable term sheet.

*You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.*

### General

No statutory, judicial, or administrative authority directly addresses the characterization of the notes or securities similar to the notes for U.S. federal income tax purposes. As a result, certain aspects of the U.S. federal income tax consequences of an investment in the notes are not certain. We intend to treat the notes as debt instruments for U.S. federal income tax purposes. Depending on the terms of the notes, we intend to treat the notes either as “variable rate debt instruments” or “contingent payment debt instruments” for U.S. federal income tax purposes.

Whether the notes are properly treated as variable rate debt instruments or contingent payment debt instruments may depend, among others, upon whether the interest payable on the notes is front- or back-loaded. More specifically, interest will be treated as front- or back-loaded if it is reasonably expected that the average value of the interest rate during the first half of the notes’ term will be either significantly less than or significantly greater than the average value of the interest rate during the final half of the notes’ term. If the notes are not treated as front- or back-loaded, we intend to treat such notes as variable rate debt instruments subject to the rules discussed below under “—Notes Treated as Variable Rate Debt Instruments” and if the notes are treated as front- or back-loaded, we intend to treat such notes as debt instruments subject to the special rules governing contingent payment debt instruments for U.S. federal income tax purposes, which are discussed below under “—Notes Treated as Contingent Payment Debt Instruments.”

The applicable term sheet will specify whether we intend to treat the notes as variable rate debt instruments or contingent payment debt instruments for U.S. federal income tax purposes, or if another treatment applies. The U.S. federal income tax treatment of the notes, however, may not be clear and there is a risk that the IRS could seek to treat the notes differently from our intended treatment. For example, if we intend to treat an offering of notes as variable rate debt instruments, the IRS could seek to treat the notes as contingent payment debt instruments, and vice versa, which, if the IRS were successful, could have adverse U.S. federal income tax consequences to you.

We will not attempt to ascertain whether the issuer of any Basket Stock would be treated as a “passive foreign investment company” (“**PFIC**”), within the meaning of Section 1297 of the Code, or a United States real property holding corporation, within the meaning of Section 897(c) of the Code. If any Basket Stock were so treated, certain adverse U.S. federal income tax consequences could possibly apply to a holder of the notes. You should refer to information filed with the SEC by the issuers of the Basket Stocks and consult your tax advisor regarding the possible consequences to you, if any, if the issuer of any Basket Stock is or becomes a PFIC or is or becomes a United States real property holding corporation.

## **U.S. Holders**

*Notes Treated as Variable Rate Debt Instruments.* If the notes are properly characterized as variable rate debt instruments, interest on a note will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder’s normal method of accounting for tax purposes.

Upon the disposition of a note by sale, exchange, redemption, repayment of principal at maturity or other taxable disposition, a U.S. holder will generally recognize taxable gain or loss equal to the difference between (i) the amount realized on the disposition (other than amounts attributable to accrued but untaxed interest) and (ii) the U.S. holder’s adjusted tax basis in the note. A U.S. holder’s adjusted tax basis in a note generally will equal the cost of the note (net of accrued interest) to the U.S. holder.

Because the note is held as a capital asset, such gain or loss (except to the extent that the market discount rules or the rules relating to short-term debt instruments otherwise provide) will generally constitute capital gain or loss. Capital gains of individual taxpayers from the sale, exchange or other disposition of a note held for more than one year may be eligible for reduced rates of taxation. The deductibility of a capital loss realized on the sale, exchange, or other disposition of a note is subject to limitations.

*Notes Treated as Contingent Payment Debt Instruments.* If the notes are properly characterized as contingent payment debt instruments for U.S. federal income tax purposes, such notes generally will be subject to Treasury regulations governing contingent payment debt instruments. Under those regulations, and as further described under “U.S. Federal Income Tax Considerations — Tax Treatment of U.S. Holders — U.S. Federal Income Tax Treatment of the Notes as Indebtedness for U.S. Federal Income Tax Purposes—Contingent Notes” in the accompanying prospectus supplement, a U.S. holder will be required to report original issue discount or interest income based on a “comparable yield” and a “projected payment schedule,” established by us for determining interest accruals and adjustments with respect to the notes. A U.S. holder of the notes generally will be required to include in income original issue discount in excess of actual cash payments received for certain taxable years.

We expect that the applicable term sheet will include a table that sets forth the following information with respect to the principal amount of the notes for each of the applicable accrual periods through the maturity date of the notes: (i) the amount of interest

deemed to have accrued during the accrual period, and (ii) the total amount of interest deemed to have accrued from the original issue date through the end of the accrual period. The table will be based upon a projected payment schedule and a comparable yield. The comparable yield will be determined based upon market conditions as of the date of the applicable term sheet. Please note that the comparable yield is likely to change between the date of any preliminary term sheet and the date of the related final term sheet. Therefore, the projected payment schedule included in any preliminary term sheet will be subject to change. We will determine the actual projected payment schedule and the actual comparable yield on the pricing date. Any tax accrual table included in a preliminary term sheet will be revised, and the revised table will be set forth in the final term sheet prepared in connection with the initial sale of the notes.

Upon a sale, exchange, retirement, or other disposition of the notes, a U.S. holder generally will recognize taxable gain or loss equal to the difference between the amount realized and that holder's tax basis in the notes. A U.S. holder's tax basis in the notes generally will equal the cost of the notes, increased by the amount of OID previously accrued by the holder for the notes and reduced by any projected payments for previous periods on the notes. A U.S. holder generally will treat any gain as interest income, and will treat any loss as ordinary loss to the extent of the excess of previous interest inclusions over the total negative adjustments previously taken into account as ordinary losses, and the balance as long-term or short-term capital loss depending upon the U.S. holder's holding period for the notes. The deductibility of capital losses by a U.S. holder is subject to limitations.

### **Non-U.S. Holders**

Please see the discussion under "U.S. Federal Income Tax Considerations—Tax Treatment of Non-U.S. Holders" in the accompanying prospectus supplement for the material U.S. federal income tax consequences that will apply to non-U.S. holders of the notes.

*U.S. Federal Estate Tax.* Under current law, the notes should generally not be includible in the estate of a non-U.S. holder unless the individual actually or constructively owns 10% or more of the total combined voting power of all classes of our stock entitled to vote or, at the time of the individual's death, payments in respect of the notes would have been effectively connected with the conduct by the individual of a trade or business in the United States.

### **Backup Withholding and Information Reporting**

Please see the discussion under "U.S. Federal Income Tax Considerations — Information Reporting and Backup Withholding" in the accompanying prospectus supplement for a description of the applicability of the backup withholding and information reporting rules to payments made on the notes.



## ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing, or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (“**ERISA**”) (a “**Plan**”), should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we, the agents and certain of our respective subsidiaries and affiliates may be each considered a party in interest within the meaning of ERISA, or a disqualified person (within the meaning of the Code), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also “**Plans**”). Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the notes are acquired by or with the assets of a Plan with respect to which we or any of our affiliates is a party in interest, unless the notes are acquired under an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions (“**PTCEs**”) issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding, or disposition of the notes. Those exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain arm’s-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the “**Service Provider Exemption**”).

Because we may be considered a party in interest with respect to many Plans, the notes may not be purchased, held, or disposed of by any Plan, any entity whose underlying assets include plan assets by reason of any Plan’s investment in the entity (a “**Plan Asset Entity**”) or any person investing plan assets of any Plan, unless such purchase, holding, or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding, or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such notes on behalf of or with plan assets of any Plan or any plan subject to similar laws or (b) its purchase, holding, and disposition are eligible for exemptive relief or such purchase, holding, and disposition are not prohibited by ERISA or Section 4975 of the Code or similar laws.

Further, any person acquiring or holding the notes on behalf of any plan or with any plan assets shall be deemed to represent on behalf of itself and such plan that (x) the plan is paying no more than, and is receiving no less than, adequate consideration within the meaning of Section 408(b)(17) of ERISA in connection with the transaction or any redemption of the notes, (y) none of us, MLPF&S, or any other agent directly or indirectly exercises any discretionary authority or control or renders investment advice or otherwise acts in a fiduciary capacity with respect to the assets of the plan within the meaning of ERISA and (z) in making the foregoing representations and warranties, such person has applied sound business

principles in determining whether fair market value will be paid, and has made such determination acting in good faith.

The fiduciary investment considerations summarized above generally apply to employee benefit plans maintained by private-sector employers and to individual retirement accounts and other arrangements subject to Section 4975 of the Code, but generally do not apply to governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA). However, these other plans may be subject to similar provisions under applicable federal, state, local, foreign, or other regulations, rules, or laws ("**similar laws**"). The fiduciaries of plans subject to similar laws should also consider the foregoing issues in general terms as well as any further issues arising under the applicable similar laws.

In addition, any purchaser, that is a Plan or a Plan Asset Entity or that is acquiring the notes on behalf of a Plan or a Plan Asset Entity, including any fiduciary purchasing on behalf of a Plan or Plan Asset entity, will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the notes that (a) none of us, MLPF&S, or any of our respective affiliates is a "**fiduciary**" (under Section 3(21) of ERISA, or under any final or proposed regulations thereunder, or with respect to a governmental, church, or foreign plan under any similar laws) with respect to the acquisition, holding or disposition of the notes, or as a result of any exercise by us or our affiliates of any rights in connection with the notes, (b) no advice provided by us or any of our affiliates has formed a primary basis for any investment decision by or on behalf of such purchaser in connection with the notes and the transactions contemplated with respect to the notes, and (c) such purchaser recognizes and agrees that any communication from us or any of our affiliates to the purchaser with respect to the notes is not intended by us or any of our affiliates to be impartial investment advice and is rendered in its capacity as a seller of such notes and not a fiduciary to such purchaser. Purchasers of the notes have exclusive responsibility for ensuring that their purchase, holding, and disposition of the notes do not violate the prohibited transaction rules of ERISA or the Code or any similar regulations applicable to governmental or church plans, as described above.

This discussion is a general summary of some of the rules which apply to benefit plans and their related investment vehicles. This summary does not include all of the investment considerations relevant to Plans and other benefit plan investors such as governmental, church, and foreign plans and should not be construed as legal advice or a legal opinion. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of or with "**plan assets**" of any Plan or other benefit plan investor consult with their legal counsel prior to directing any such purchase.