DATED: January 30, 2015

HSBC BANK USA, NATIONAL ASSOCIATION
452 FIFTH AVENUE
NEW YORK, NY 10018

HSBC Interest-Bearing Certificates of Deposit Disclosure Statement

HSBC Bank USA, National Association (the "Bank") may from time to time offer certificates of deposit as described herein ("CDs"), including fixed rate CDs, floating rate CDs, fixed to floating rate CDs and other non-structured CDs as described in the term sheet. This Disclosure Statement sets forth certain terms and conditions that will apply generally to those CDs. The specific terms and conditions relating to any particular CD offering will be described in greater detail in the term sheet related to that offering. In the event of any inconsistency between this Disclosure Statement and the term sheet applicable to a specific offering of CDs, the term sheet will govern with respect to that CD offering. As used herein, references to the "Issuer", "we", "us" and "our" are to the Bank, and references to "you" and "your" are to the depositors of the CDs.

Purchase of the CDs involves risks. See the section entitled "Risk Factors" on page 10.

The CDs will be obligations of the Bank only, and not obligations of your broker or any agent or affiliate of the Bank, including without limitation, HSBC Securities (USA) Inc., HSBC USA Inc. and HSBC Holdings plc.

The principal amount of the CDs is insured by the Federal Deposit Insurance Corporation (the "FDIC") within the limits and to the extent described in the section entitled "FDIC Insurance" in this Disclosure Statement. A depositor purchasing a principal amount of CDs that is in excess of the applicable statutory insurance limit or which, together with other deposits that such depositor maintains at the Bank, in the same ownership capacity, is in excess of such limits will not have the benefit of deposit insurance with respect to such excess. In addition, any secondary market premium paid by a depositor above the principal amount of the CDs is not insured by the FDIC.

The CDs may be made available directly by the Bank, or through an affiliate of the Bank, HSBC Securities (USA) Inc., and/or certain other unaffiliated distributors of the CDs (the "Agents").

AVAILABLE INFORMATION

The Bank submits to the FDIC certain reports entitled “Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices” (each, a “Call Report” and collectively, the “Call Reports”). Each Call Report consists of a balance sheet, income statement, changes in equity capital and other supporting schedules as of the end of the period to which the Call Report relates. The Bank’s Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents and do not provide a complete range of financial disclosures about the Bank, the Call Reports nevertheless provide important information concerning the Bank’s financial condition. The publicly available portions of the Bank’s Call Reports and any amendments thereto are incorporated herein by reference. The publicly available portions of the Bank’s Call Reports are on file with, and publicly available at, the FDIC, 550 17th Street, N.W., Washington, D.C. 20429. The FDIC also maintains a website at http://www.fdic.gov that contains the publicly available portions of the Bank’s Call Reports.

The Bank is a direct wholly owned subsidiary of HSBC USA Inc. (“HSBC USA”), a Maryland corporation and a registered bank holding company. HSBC USA is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the “Commission”). All such reports and other information may be inspected and copied at the Commission’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. The Commission also maintains a website at http://www.sec.gov that contains reports and other information regarding registrants that file electronically with the Commission, including HSBC USA. HSBC USA also maintains a website at http://www.us.hsbc.com where information about HSBC USA and the Bank can be obtained. The information included on or linked from the website of HSBC USA has not been incorporated by reference into this Disclosure Statement, and you should not consider it to be part of this Disclosure Statement.

HSBC USA’s Annual Report on Form 10-K for the year ended December 31, 2013, its Quarterly Reports on Form 10-Q for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014, and its Current Reports on Form 8-K filed with the Commission after December 31, 2013 are incorporated by reference in this Disclosure Statement and made a part hereof. Each document or report filed by HSBC USA with the Commission pursuant to Section 13 or 15(d) of the Exchange Act subsequent to the date of this Disclosure Statement and prior to the termination of the offering of CDs is incorporated herein by reference. The CDs are not obligations of HSBC USA or any other affiliate or agent of the Bank.

Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Disclosure Statement to the extent that a statement contained herein or in any other subsequently filed document that is also incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Disclosure Statement.

Each person to whom a copy of this Disclosure Statement is delivered may request a copy of any or all of the documents incorporated by reference herein, at no cost, by writing to the following address:

HSBC Bank USA, National Association
Legal Department
Attn: General Counsel
452 Fifth Avenue, Tower 7
New York, NY 10018

HSBC BANK USA, NATIONAL ASSOCIATION AND HSBC USA INC.

HSBC Bank USA, National Association

The Bank is chartered as a national banking association under the laws of the United States and, as such, is regulated primarily by the Office of the Comptroller of the Currency. The CDs are deposits of the Bank and are insured by the FDIC as and to the extent described herein.

The Bank's domestic operations are primarily in New York State. The Bank also has banking branch offices and/or representative offices in California, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Texas, Virginia, Washington and the District of Columbia. In addition to its domestic offices, the Bank maintains foreign branch offices, including subsidiaries and/or representative offices in the Caribbean, Canada, Europe, Asia and Latin America.

As of September 30, 2014, the Bank represented approximately 96.2% of the consolidated assets of HSBC USA and had total assets of approximately $168.43 billion. The Bank had outstanding approximately $149.53 billion of total liabilities, including deposits totaling approximately $122.85 billion and approximately $6.895 billion of long-term debt. The Bank's main office is located in McLean, Virginia, and the telephone number at that office is (703) 883-8029. The Bank's principal executive offices are located at 452 Fifth Avenue, New York, New York.

HSBC USA Inc.

HSBC USA, incorporated under the laws of Maryland, is a New York State based bank holding company registered under the Bank Holding Company Act of 1956, as amended. HSBC USA's origin was in Buffalo, New York in 1850 as The Marine Trust Company, which later became Marine Midland Banks, Inc. ("Marine"). The Hongkong and Shanghai Banking Corporation acquired 51% of the common stock of Marine in 1980 and the remaining 49% of its common stock in 1987. The HSBC Group, which consists of HSBC USA and its affiliates organized under HSBC Holdings plc as the parent holding company, is one of the largest banking and financial services organizations in the world.

The principal offices of HSBC USA are located at 452 Fifth Avenue, New York, New York, 10018, and the telephone number at these offices is (212) 525-5000. As of September 30, 2014, HSBC USA had assets of approximately $175.012 billion.

The CDs are solely obligations of the Bank and are neither obligations of, nor guaranteed by, HSBC USA or HSBC Holdings plc.

DESCRIPTION OF THE CDS

Interest-Bearing CDs

Unless otherwise specified in the applicable term sheet, the CDs will bear interest as follows:

- A fixed rate CD will pay the same interest throughout the term of the CD, as specified in the applicable term sheet.
- A step-up CD will pay interest throughout the term of the CD at increasing rates, as specified in the applicable term sheet.
- A floating rate CD will pay interest on rates specified in the applicable term sheet and will be reset at specified intervals over the term of the CDs.
- A fixed to floating rate CD will pay a fixed rate of interest during the fixed interest rate period and a floating rate of interest during the floating interest rate period.

Fixed Rate CDs and Step-Up CDs

Each fixed rate CD will mature on the date specified in the applicable term sheet and will bear interest from the date of issuance at a stated interest rate, as specified in the applicable term sheet, until the principal is paid or made available for payment.

Each step-up CD will mature on the date specified in the applicable term sheet and bear interest from the date of issuance at a stated interest rate, which will increase over the term of the CDs, as specified in the applicable term sheet, until the principal is paid or made available for payment.

How Interest Is Calculated. Unless otherwise specified in the applicable term sheet, interest on fixed rate and step-up CDs will be computed on an actual/365 basis.

A "Business Day" means, with respect to fixed rate and step-up CDs, and during the fixed interest rate period of a fixed to floating rate CD, unless otherwise specified in the applicable term sheet, any day, other than a Saturday, Sunday or a day on which banking institutions in the City of New York, New York are generally authorized or obligated by law or executive order to close.

Floating Rate CDs

Each floating rate CD will mature on the date specified in the applicable term sheet and will bear interest at a floating rate determined by reference to an interest rate or interest rate formula (a "base rate") as specified in the applicable term sheet. We currently expect to issue floating rate CDs that bear interest at rates based on the London Interbank Offered Rate ("LIBOR").

We describe this base rate in further detail below. Your floating rate CDs may also bear interest at a different base rate that will be specified in the applicable term sheet.

Adjustments to the Interest Rate. In some cases, the base rate for a floating rate CD may be adjusted by:

- adding or subtracting a specified number of basis points, called the "spread", with one basis point being 0.01%; or
- multiplying the base rate by a specified percentage, called the "spread multiplier".

If you purchase a floating rate CD, your term sheet will specify whether a spread or spread multiplier will apply to your CDs and, if so, the amount of the applicable spread or spread multiplier.

Limitations on the Interest Rate. If set forth in the applicable term sheet, a floating rate CD may also have either or both of the following limitations on the interest rate:

- a maximum interest rate - a specified upper limit (or "ceiling" or "cap") that the rate of interest may not exceed; and/or

- a minimum interest rate - a specified lower limit (or “floor”) that the rate of interest that may not fall below.

If you purchase a floating rate CD, your term sheet will specify whether a maximum interest rate and/or a minimum interest rate will apply to your CDs and, if so, what those rates are.

Interest Reset Dates. The interest rate on floating rate CDs may be reset by the calculation agent daily, weekly, monthly, quarterly, semiannually or annually (each, an “interest reset period”), as provided in the applicable term sheet. The date on which the interest rate resets and the reset rate becomes effective is called the “interest reset date”. The base rate in effect from and including the date of issue (or any other date specified in the applicable term sheet on which interest begins to accrue) to but excluding the first interest reset date will be the “initial base rate”.

An interest reset date for any floating rate CD that falls on a day that is not a business day will not be postponed.

The rate of interest that goes into effect on any interest reset date will be determined by the calculation agent by reference to a particular date called an “interest determination date.” Unless otherwise specified in the applicable term sheet, the interest determination date relating to a particular interest reset date will be the second London business day (as defined herein) preceding the interest reset date.

If applicable, the “calculation date” pertaining to an interest determination date means the earlier of (i) the tenth calendar day after that interest determination date, or, if that day is not a business day, the next succeeding business day, and (ii) the business day immediately preceding the applicable interest payment date or maturity date or, for any principal amount to be redeemed or repaid, any redemption or repayment date.

How Interest Is Calculated. Interest on floating rate CDs will accrue from and including the most recent interest payment date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from and including the issue date or any other date specified in the applicable term sheet as the date on which interest begins to accrue. Interest will accrue to but excluding the next interest payment date or, if earlier, the date on which the principal has been paid or duly made available for payment, except as described below under “—If a Payment Date Is Not a Business Day.”

For a floating rate CD, accrued interest will be calculated by multiplying the principal amount of the floating rate CD by an accrued interest factor. Unless otherwise specified in the applicable term sheet, this accrued interest factor will be computed by adding the interest factors calculated for each day in the period for which interest is being paid. The interest factor for each day is computed on an actual/365 basis.

For these calculations, the interest rate in effect on any interest reset date will be the applicable rate as reset on that date. The interest rate applicable to any other day is the interest rate from the immediately preceding interest reset date or, if none, the initial base rate.

All percentages used in or resulting from any calculation of the rate of interest on a floating rate CD will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005% rounded up to 0.00001%), and all U.S. dollar amounts used in or resulting from these calculations on floating rate CDs will be rounded to the nearest cent (with one-half cent rounded upward).

A “Business Day” means, with respect to floating rate CDs, unless otherwise specified in the applicable term sheet, any day, other than a Saturday, Sunday or a day on which banking institutions in the City of New York, New York are generally authorized or obligated by law or executive order to close, and which day is also a London Business Day.

Fixed to Floating Rate CDs

Each fixed to floating rate CD will mature on the date specified in the applicable term sheet and will bear interest from the date of issuance at a fixed interest rate specified in the applicable term sheet (the “fixed interest rate period”) until the end of the fixed rate interest period. After the fixed rate interest period, the fixed to floating rate CD will bear interest at a floating rate specified in the applicable term sheet (the “floating interest rate period”) to but excluding the maturity date or date of early redemption. The applicable term sheet will specify the dates of the fixed interest rate and the floating interest rate periods, and the applicable interest rate for each period. The

provisions described above for floating rate CDs (spread, spread multiplier, cap, floor, interest reset dates, interest determination dates, calculation dates and rounding) apply to fixed to floating rate CDs during the floating rate interest period. The relevant provisions for the fixed interest rate and floating interest rate periods will be set forth in the applicable term sheet.

How Interest Is Calculated. Unless otherwise specified in the applicable term sheet, interest on fixed to floating rate CDs will be computed on the actual/365 basis.

With respect to the fixed interest rate period, "Business Day" has the same meaning as specified above under "—Fixed Rate CDs and Step-Up CDs." With respect to the floating interest rate period, "Business Day" has the same meaning as specified above under "—Floating Rate CDs."

Other Provisions Applicable to All CDs

When Interest Is Paid. Payments of interest on the CDs will be made on the interest payment dates specified in the applicable term sheet.

Interest Period. Interest on the CDs will accrue from and including the issue date or the most recent interest payment date on which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from and including the issue date or any other date specified in the applicable term sheet as the date on which interest begins to accrue, to but excluding the next interest payment date, the maturity date or the date of earlier redemption (each such period an "Interest Period"). The Interest Period will be specified in the applicable term sheet.

The "record date" for any interest payment date will be the fifth business day prior to that interest payment date.

If a Payment Date Is Not a Business Day. If any scheduled interest payment date, other than the maturity date or any earlier redemption date, for the CDs falls on a day that is not a business day, we will pay interest on the next business day, but interest on that payment will not accrue during the period from and after the scheduled interest payment date. If the scheduled maturity date or date of redemption is not a business day, we may pay interest, if any, and principal on the next succeeding business day, but interest on that payment will not accrue during the period from and after the scheduled maturity date or date of redemption.

Payment When Offices or Settlement Systems Are Closed. If any payment is due on the CDs on a day that would otherwise be a business day but is a day on which the office of a paying agent or a settlement system is closed, we will make the payment on the next business day when that paying agent or system is open. Any such payment will be deemed to have been made on the original due date, and no additional payment will be made on account of the delay.

LIBOR

"LIBOR", which is the London Interbank Offered Rate means, for any interest determination date, the offered rate that appears on the Designated LIBOR Page (as defined below) at approximately 11:00 a.m., London time, on that interest determination date, for deposits in the index currency having the index maturity designated in the applicable term sheet, commencing on the relevant interest reset date.

- If the rate described above does not so appear on the Designated LIBOR Page, then the calculation agent will request the principal London offices of each of four major reference banks in the London interbank market, which may include us and our affiliates, as selected by the calculation agent after consultation with us, to provide the calculation agent with its offered quotation for deposits in the index currency for the period of the index maturity specified in the applicable term sheet commencing on the interest reset date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that interest determination date and in a principal amount that is representative of a single transaction in that index currency in that market at that time. If at least two quotations are provided, LIBOR determined on that interest determination date will be the arithmetic mean of those quotations.
- If fewer than two quotations are so provided, LIBOR will be determined for the applicable interest reset date as the arithmetic mean of the rates quoted at approximately 11:00 a.m., or some other time specified in the applicable term sheet, in the applicable principal financial center for the country of the index currency on that

interest reset date, by three major banks in that principal financial center, which may include us and our affiliates, selected by the calculation agent, after consultation with us, for loans in the index currency to leading European banks, having the index maturity specified in the applicable term sheet and in a principal amount that is representative of a single transaction in that index currency in that market at that time.

- If the banks so selected by the calculation agent are not quoting as set forth above, LIBOR for that interest determination date will remain LIBOR for the immediately preceding interest reset period, or, if there was no interest reset period, the rate of interest payable will be the initial base rate. Notwithstanding the previous sentence, and solely with respect to the interest determination date for the first interest period during the floating rate interest period of a fixed to floating rate CD, if the banks so selected by the calculation agent are not quoting as set forth above, the calculation agent shall determine LIBOR in its reasonable discretion.

For any floating rate CD and with respect to the floating rate interest rate period of a fixed to floating rate CD, the "index maturity" means the period of maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable term sheet.

For any floating rate CD and with respect to the floating rate interest rate period of a fixed to floating rate CD, the "index currency" means the currency specified in the applicable term sheet as the currency for which LIBOR will be calculated. If that currency is not specified in the applicable term sheet, the index currency will be U.S. dollars.

"London business day" means, unless otherwise specified in the applicable term sheet, any day on which commercial banks are open for business, including dealings in the index currency, in London.

"Designated LIBOR Page" means the display on Bloomberg on page BBAM1, or any other page as may replace that page on that service, for the purpose of displaying the London interbank rates of major banks for the applicable index currency.

"Principal financial center" means the capital city of the country to which the index currency, if applicable, relates, except, in each case, that with respect to United States dollars, Australian dollars, Canadian dollars, euro, New Zealand dollars, South African rand and Swiss francs, the "principal financial center" shall be New York City, Sydney, Toronto, London, Wellington, Johannesburg and Zurich, respectively.

Early Redemptions

Depositor Redemption

It is unlikely that a secondary market for the CDs will develop. Although not obligated to do so, and subject to regulatory constraints, the Bank or any of its affiliates is generally willing to repurchase or purchase the CDs from depositors at any time for so long as the CDs are outstanding. A depositor may request early redemption of the CDs in whole, but not in part, by notifying the Agent from whom he or she bought the CDs (who must then notify the Bank). All early redemption requests (whether written or oral) are irrevocable. In the event that a depositor were able to redeem the CDs prior to the maturity date, the depositor would receive an early redemption amount and will not be entitled to any further interest payment on his or her CDs. The early redemption amount will reflect an early redemption fee, which will equal the current market value of the CD less the principal amount of the CD. As a result of the early redemption fee, the early redemption amount may be substantially less than the principal amount of the CDs. The current market value will be the bid price of a CD, as determined by the calculation agent based on its financial models and objective market factors.

A depositor, through the Agent from whom he or she bought the CDs, may obtain from the calculation agent an estimate of the early redemption amount, which will be provided for information purposes only. Neither the Bank nor the calculation agent will be bound by that estimate.

You should not purchase CDs based on an expectation that a secondary market for the CDs will exist or that the Bank or an affiliate of the Bank will be willing to repurchase or purchase the CDs and therefore you should be willing to hold your CDs until maturity. See "Risk Factors—The price at which depositors will be able to sell their CDs in any secondary market prior to maturity will depend on a number of factors, and may be substantially less than the amount a depositor had originally deposited" below.

Redemption upon the Death or Adjudication of Incompetence of a Depositor

Unless otherwise provided in the applicable term sheet, in the event of the death or adjudication of incompetence of any depositor of a CD, the Bank will allow a full withdrawal of the principal amount of the CDs of that depositor. In that event: (a) prior written notice of the proposed withdrawal must be given to the depositor's Agent and the Bank, together with appropriate documentation to support the request, each within 180 days of the death or adjudication of incompetence of such depositor; and (b) only a full withdrawal of the principal amount of those CDs will be permitted. The CDs so redeemed will not be entitled to any future interest or other similar amount not yet due and payable as of the date of our receipt of such written notice in respect of such redemption.

Any redemption requests made in accordance with the sections above entitled "Depositor Redemption" or "Redemption upon the Death or Adjudication of Incompetence of a Depositor" shall be made by the depositors through their brokers.

Bank Redemption

If so provided in the applicable term sheet, the Bank may be entitled to redeem (i.e., "call") the CDs prior to the maturity date. The Bank will be entitled to effect such redemption upon such notice, on such date or dates, upon such conditions and for payment of such early redemption price as may be described in the applicable term sheet. The CDs may also be subject to automatic redemption under certain circumstances if so provided in the applicable term sheet.

The CDs are most suitable for purchasing and holding to maturity. If your CD is callable by the Bank, you should be prepared to hold your CD according to its terms.

Redemption for Extraordinary Event

Unless otherwise provided in the applicable term sheet, if the calculation agent determines in good faith that the Bank or an affiliate of the Bank would incur an increased amount of tax, duty, expense, cost or fee (other than brokerage commissions) to acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) deemed necessary to hedge the market risk of entering into and performing its obligations under the CDs, then the Bank may redeem the CDs in whole, but not in part on the date indicated in the DTC Notice (as defined below). In such an event, the depositor will receive the greater of: (a) the then-current market value of the CDs, as determined by the calculation agent in good faith, based on its financial models and objective market factors and (b) the principal amount of the CDs. The CDs so redeemed will not be entitled to any future interest or other similar amounts in respect of the CDs not yet due and payable as of the date specified in the DTC Notice. The calculation agent will notify The Depository Trust Company ("DTC") of any redemption of the CDs under this provision (such notification, the "DTC Notice"). The calculation agent shall have no independent obligation to notify depositors directly. Depositors should expect to receive such notifications from their broker.

Evidence of the CDs

The CDs will be evidenced by one or more master certificates issued by us, each representing a number of individual CDs. These master certificates will be held by or on behalf of DTC, a sub-custodian which is in the business of performing such custodial services. No evidence of ownership, such as a passbook or a certificate, will be provided to you. Your Agent, as custodian, keeps records of the ownership of each CD and will provide you with a written confirmation (the "Confirmation") of your purchase. The Confirmation will also state the original principal amount of your CD, from which you can determine how much premium, if any, you paid for the CD. You should retain the Confirmation and the account statement(s) for your records. Each CD constitutes a direct obligation of the Bank and is not, either directly or indirectly, an obligation of any Agent or any of our affiliates. You will have the ability to enforce your rights in a CD directly against the Bank. No deposit relationship shall be deemed to exist prior to the receipt and acceptance of your funds by the Bank.

Clearing and Settlement

The CDs will be in book-entry form. The CDs will settle, and payments on the CDs will be made, through the facilities of DTC. Payments will be credited through DTC's procedures to participant firms and thereafter will be remitted to your Agent, so long as such Agent acts as your nominee, authorized representative, agent or custodian, and credited to your account with such Agent. If you choose to remove your Agent as your agent with respect to your CD, you may (i) transfer your CD to another agent; *provided*, that the agent is a member of DTC (most major brokerage firms are members; many FDIC-insured depositories are not) or (ii) request that your ownership of the CD be evidenced directly on our books, subject to applicable law and our terms and conditions, including those related to the manner of evidencing CD ownership.

Minimum Denominations

Unless otherwise provided in the related term sheet, each CD will be issued in denominations of $1,000 principal amount, with a minimum deposit amount per depositor of $1,000, or such greater minimum deposit amount as may be required by the Agent offering that CD, and in integral multiples of $1,000 principal amount in excess thereof.

Additions and Withdrawals

No additions are permitted to be made to any CD. When you purchase a CD, you agree with us to keep your funds on deposit for the term of the CD. Unless otherwise specified in the applicable term sheet, no early redemptions or withdrawals of CDs will be available under any circumstances.

Ratings

The CDs will not be rated by any rating agency.

Listing

The CDs will not be listed on any U.S. securities exchange or quotation system.

Governing Law

The CDs will be governed by and construed in accordance with the laws of the State of New York.

The Calculation Agent

Unless otherwise indicated in the applicable term sheet, the calculation agent for the CDs will be the Bank. All determinations made by the calculation agent will be in its sole discretion and will, in the absence of manifest error, be final for all purposes and be binding on the depositors of the CDs. In the event that the calculation agent is the Bank or an affiliate of the Bank, potential conflicts of interest may exist between the calculation agent and the depositors owning the CDs, including with respect to certain determinations and judgments that the calculation agent must make in arriving at amounts due to depositors in respect of the CDs. The calculation agent will carry out its duties and functions in good faith and in its sole discretion. The calculation agent will not be liable for any loss, liability, cost, claim, action, demand or expense (including, without limitation, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) arising out of or in relation to or in connection with its appointment or the exercise of its functions, except such as may result from its own willful default or gross negligence or that of its officers or agents. Nothing shall prevent the calculation agent or its affiliates from dealing in the CDs or from entering into any related transactions, including any swap or hedging transactions, with the Bank or any depositors in respect of CDs.

The calculation agent may resign at any time upon written notice to the Bank, and the Bank may remove the calculation agent at any time upon written notice to the calculation agent. Neither the resignation nor removal of the calculation agent will take effect until a successor calculation agent has been appointed.

RISK FACTORS

Prospective depositors of the CDs should understand the risks of purchasing the CDs and should reach their own decision to purchase CDs, only after careful consideration, with their advisers, of the suitability of the CDs in light of their particular financial circumstances, the following risk factors and the other information included or incorporated by reference in this Disclosure Statement.

Risks relating to the Bank's business

Please see the "Risk Factors" section in HSBC USA's most recent Annual Report on Form 10-K, along with the disclosure related to the risk factors contained in HSBC USA's subsequent Quarterly Reports on Form 10-Q, which are incorporated by reference in this Disclosure Statement, as updated by HSBC USA's future filings with the Commission. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Disclosure Statement.

The CDs may not be a suitable investment for all depositors

Each prospective depositor in the CDs must determine the suitability of that investment (either alone or with the help of a financial adviser) in light of his or her own circumstances. In particular, each prospective depositor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant CDs, the merits and risks of investing in the relevant CDs and the information contained or incorporated by reference in this Disclosure Statement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of his or her own particular financial situation, an investment in the relevant CDs and the impact such investment will have on his or her overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of a deposit in the CDs;
- thoroughly understand the terms of the relevant CDs and be familiar with the behavior of financial markets; and
- be able to evaluate possible scenarios for economic, interest rate and other factors that may affect his or her investment and his or her ability to bear the applicable risks.

Some CDs are complex financial instruments and may be purchased as a way to reduce risk or enhance yield by an understood, measured, appropriate addition of risk to an overall portfolio. A prospective depositor should not invest in CDs that are complex financial instruments unless he or she has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the CDs will perform under changing conditions, the resulting effect on the value of such CDs and the impact such investment will have on the prospective depositor's overall investment portfolio.

Certain built-in costs are likely to adversely affect the value of the CDs prior to maturity

The issue price of the CDs includes the Agent's fee and the estimated cost of the Bank hedging its obligations under the CDs. As a result, the price, if any, at which we or one or more of our affiliates will be willing to purchase the CDs from you in secondary market transactions, if at all, will likely be lower than the issue price, and any sale prior to the maturity date could result in a substantial loss to you. The CDs are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your CDs to maturity.

There may not be any secondary market for your CDs

Upon issuance, the CDs will not have an established trading market. We cannot assure you that a trading market for the CDs will develop or, if one develops, that it will be maintained. Even if there is a secondary market, it may not provide significant liquidity. In addition, the CDs will not be listed on any securities exchange. You therefore should be willing and able to hold the CDs until maturity. See "—The price at which depositors will be able to sell

their CDs in any secondary market prior to maturity will depend on a number of factors, and may be substantially less than the amount a depositor had originally deposited" below.

Your CDs may be subject to early redemption

Depending upon the terms of your CDs, we may have the right to redeem them, or the CDs may be automatically redeemable under some circumstances. If the CDs are redeemable at the Bank's option, this means that the Bank has the right, without the consent of depositors, to redeem or "call" all or a portion of the CDs at any time, as specified in the applicable term sheet. This does not mean that depositors have a similar right to require the Bank to repay the CDs. Where such a redemption right exists, the holding period over which a depositor may receive the interest payment amount would be substantially reduced, and a depositor may not be able to reinvest the redemption proceeds in a comparable instrument with a similar maturity, including those of the Bank, at an effective interest rate or with an effective return as high as the interest rate or return on the CDs being redeemed. Any such redemption right also may impair a depositor's ability to sell the CDs and/or the price at which the CDs could be sold, as the redemption date approaches. The ability to redeem the CDs may create a conflict of interest between the Bank and the depositors. Depositors should consult their own financial and legal advisers as to the risks of an investment in redeemable CDs. The calculation agent will notify DTC of any redemption of the CDs under this provision (such notification, the "DTC Notice"). The calculation agent shall have no independent obligation to notify depositors directly. Depositors should expect to receive such notifications from their broker.

The price at which depositors will be able to sell their CDs in any secondary market prior to maturity will depend on a number of factors, and may be substantially less than the amount a depositor had originally deposited

Depositors may be required to pay an additional amount per CD (as specified in the applicable term sheet) as a commission for services rendered by any of the Agents in connection with their initial purchase of the CDs. In addition, to the extent a depositor wishes to sell his or her CD prior to maturity and requests that an Agent execute a secondary market-making transaction for any of his or her CDs (and the Agent agrees to do so), the Agents may receive a fee in connection with such secondary market-making transaction. The price at which depositors will be able to sell their CDs in any secondary market prior to maturity will depend on a number of factors, and may be substantially less than the amount a depositor had originally deposited or the estimated price on the depositor's account statement. If a depositor wishes to liquidate his or her deposit prior to maturity, the only alternative would be to sell the CDs. At that time, there may be an illiquid market for the CDs or no market at all. Even if a depositor were able to sell his or her CDs, there are many factors outside of the Bank's control that may affect the value that such investor could realize from such a sale. The Bank believes that the value of a depositor's CDs will be affected by changes in interest rates, the supply of and demand for the CDs and a number of other factors. Some of these factors are interrelated in complex ways; as a result, the effect of any one factor may be offset or magnified by the effect of another factor. The following paragraphs describe the manner in which the Bank expects the market value of the CDs prior to maturity will be affected in the event of a change in a specific factor, assuming all other conditions remain constant.

- *Changes in the level of the base rate*. If a base rate is applicable to your CDs, the Bank expects that the market value of the CDs prior to maturity will depend substantially on the level of the base rate. In addition, the level of the base rate itself will be influenced by complex and interrelated political, economic, financial and other factors that can affect the money markets generally and the London interbank market in particular.

- *Volatility of the base rate*. Volatility is the term used to describe the size and frequency of market fluctuations. If the volatility of the base rate increases or decreases, the market value of the CDs may be adversely affected.

- *Interest rates.* The Bank expects that the market value of the CDs will be affected by changes in prevailing interest rates. In general, if interest rates increase, the market value of the CDs may decrease, and if interest rates decrease, the market value of the CDs may increase.

- *The Bank's credit ratings, financial condition and results of operations.* Actual or anticipated changes in the Bank's current credit ratings as well as the Bank's financial condition or results of operations may significantly affect the market value of the CDs. However, because the return on the CDs is dependent upon factors in

addition to the Bank's ability to pay its obligations under the CDs, such as the specific terms of the CDs, an improvement in the Bank's credit ratings, financial condition or results of operations is not expected to have a positive effect on the market value of the CDs.

- *Agent's compensation and cost of hedging.* The original issue price of the CDs may include the Agent's compensation and the cost of hedging our obligations under the CDs. Such cost includes the hedge provider's expected cost of providing such hedge and the profit the hedge provider expects to realize in consideration for assuming the risks inherent in providing such hedge. As a result, assuming no change in market conditions or any other relevant factors, the price, if any, at which the Agent will be willing to purchase CDs from a depositor in secondary market transactions prior to maturity will likely be lower than the original issue price and, accordingly, a depositor may need to be able and willing to hold the CDs to maturity. In addition, any such prices may differ from values determined by pricing models used by the Agent as a result of such compensation or other transaction costs.

The CDs will be offered at varying prices

The Agents will offer the CDs for sale at varying prices determined at the time of each sale. Accordingly, the price that you pay for the CDs may be higher than the prices paid by other depositors based on the date and time you made your purchase, from whom you purchased the CDs (*e.g.*, directly from the Bank or through an Agent), any related transaction costs (*e.g.*, any brokerage commission) and other factors beyond our control.

The calculation agent is expected to be the Bank and may have an adverse economic interest to depositors

The calculation agent is expected to be the Bank. The calculation agent will make certain determinations and judgments in relation to various calculations in connection with the CDs, such as the rate of interest that goes into effect on any interest reset date. In performing its duties, the calculation agent may have economic interests that are adverse to the interests of the depositors of the CDs. The determinations by the calculation agent will be final and binding absent manifest error.

The repayment of the principal amount of the CDs is insured by the FDIC only within the limits and to the extent described in this Disclosure Statement; to the extent payments under the CDs are not insured by the FDIC, you can depend only on our creditworthiness for payment on the CDs

Payments on the CDs will be solely our obligations, except to the extent of FDIC insurance, and no other entity will have any obligation, contingent or otherwise, to make any payments in respect of the CDs. Our affiliates will have no obligation to pay any amount in respect of the CDs or to make any funds available for payment of the CDs. Accordingly, we will be dependent on our assets and earnings to generate the funds necessary to meet our obligations with respect to the CDs, including the payment of principal and any interest. If our assets and earnings are not adequate, we may be unable to make payments of principal or interest, if any, in respect of the CDs and you could lose that part of your deposit, if any, that is not covered by FDIC insurance.

The full principal amount of your CDs and certain interest payments may not be protected by deposit insurance

The CDs are insured by the FDIC only within the limits and to the extent described in this Disclosure Statement. As a general matter, the FDIC has taken the position that the amount of a "deposit" that is insured by the FDIC includes the principal amount of the deposit plus the ascertainable, accrued interest as of the date of the institution's failure, but does not include any "contingent" interest that has not yet been ascertained and become due as of the date of the institution's failure. Therefore, amounts in excess of the principal amount due at maturity, or interest payments that have not been calculated as of a particular determination date, may not be insured by the FDIC until finally determined and payable. In addition, a depositor purchasing a principal amount of CDs that is in excess of the applicable statutory insurance limit or which, together with other deposits that such depositor maintains at the Bank, in the same ownership capacity, is in excess of such limits will not have the benefit of deposit insurance with respect to such excess. In addition, any secondary market premium paid by a depositor above the principal amount of the CDs will not be insured by the FDIC.

As with all deposits, if it becomes necessary for FDIC insurance payments to be made on the CDs, there is no specific time period during which the FDIC must make these payments available. Accordingly, in such an event, you should be prepared for the possibility of an indeterminate delay in obtaining insurance payments.

Except to the extent insured by the FDIC as described in this Disclosure Statement, the CDs are not otherwise insured by any governmental agency or instrumentality or any other person.

FDIC deposit insurance regulations may change from time to time in a manner that could adversely affect your eligibility for deposit insurance. For more information, see “FDIC Insurance” in this Disclosure Statement.

The historical performance of the base rate is not an indication of its future performance

The historical performance of the base rate, which may be included in the applicable term sheet, should not be taken as an indication of its future performance. It is impossible to predict whether the level of the base rate will fall or rise over the term of the CDs. The level of the base rate will be influenced by complex and interrelated economic, financial, regulatory, geographic, judicial, political and other factors that can affect the level of the base rate and/or the market value of the CDs.

You must rely on your own evaluation of the merits of a purchase of the CDs

In connection with your purchase of the CDs, we urge you to consult your own financial, tax and legal advisers as to the risks entailed by a purchase of the CDs. You should make such investigation as you deem appropriate as to the merits of a purchase of the CDs.

Risks relating to Floating Rate CDs and Fixed to Floating Rate CDs During the Floating Interest Rate Period

The floating rate will be uncertain and could be as low as zero

Depending on the interest rate environment, CDs with floating rate may pay substantially less interest over the applicable term of the CDs than would be paid on fixed rate CDs of the same term. The interest rate during any interest period where a floating rate of interest is applicable is uncertain and could be as little as 0.0%. Depending on the terms of your CDs, you should, therefore, be prepared to realize no return at maturity over the principal amount of your CDs

Even if your return on the CDs is positive, and even if your CDs have a specified fixed rate of interest for one or more interest periods, your total yield may be less than the yield you would earn if you invested in fixed rate CDs of the Bank with the same maturity date. The return on the CDs may not compensate you for the opportunity cost when you take into account factors, such as inflation, that affect the time value of money.

A depositor’s gain, if any, on the CDs at maturity may be limited to the maximum rate, ceiling or cap

A floating rate may be subject to the maximum rate, ceiling or cap (collectively referred to herein as a “maximum rate”). In the event that the maximum rate is applicable, the maximum return on the CDs will be limited by the maximum rate, regardless of the positive percentage increase in the relevant base rate over the maximum rate.

The floating rate, if applicable, will not be linked to the base rate at any time other than on the interest determination date

The floating rate, if applicable, will be based on the base rate on the interest determination dates. Even if the level of the base rate increases during the term of the CDs on days other than the interest determination dates, but then decreases on one or more of the interest determination dates, the relevant interest payment amount will be less, and may be significantly less, than it would have been had the interest payment amounts been linked to the base rate prior to such decrease. Although the actual level of the base rate on the maturity date or at other times during the term of the CDs may be higher than its levels on the interest determination dates, the floating rate will be based solely on the base rate on each of the interest determination dates.

LIBOR may be volatile and will be affected by a number of factors

LIBOR is subject to volatility due to a variety of factors, including but not limited to:

- interest and yield rates in the market,
- changes in, or perceptions, about the future level of LIBOR,
- general economic conditions,
- policies of the Federal Reserve Board regarding interest rates,
- supply and demand among banks in London for U.S. dollar-denominated deposits with relevant term,
- sentiment regarding underlying strength in the U.S. and global economies,
- expectations regarding the level of price inflation,
- sentiment regarding credit quality in the U.S. and global credit markets,
- central bank policy regarding interest rates,
- inflation and expectations concerning inflation,
- performance of capital markets,
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect markets generally and that may affect LIBOR, and
- the time remaining to the maturity of the CDs.

The impact of any of the factors set forth above may enhance or offset some or any of the changes resulting from another factor or factors. Decreases in LIBOR may reduce the return on the CDs.

It is unclear how changes in the method for determining LIBOR may affect the value of the CDs

As a result of concerns about the accuracy of the calculation of the daily LIBOR, a number of British Bankers' Association (the "BBA") member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and there are ongoing investigations by regulators and governmental authorities in various jurisdictions. Following a review of LIBOR conducted at the request of the U.K. Government, on September 28, 2012, recommendations for reforming the setting and governing of LIBOR were released (the "Wheatley Review"). The Wheatley Review made a number of recommendations for changes with respect to LIBOR, including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the BBA to an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate-setting and a reduction in the number of currencies and tenors for which LIBOR is published. Based on the Wheatley Review and on a subsequent public and governmental consultation process, on March 25, 2013, the U.K. Financial Services Authority published final rules for the U.K. Financial Conduct Authority's regulation and supervision of LIBOR (the "FCA Rules"). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts of interest policy and appropriate systems and controls. The FCA Rules took effect on April 2, 2013. In addition, ICE Benchmark

Administrator Limited (the "ICE Administrator") has been appointed as the independent LIBOR Administrator, effective February 1, 2014. It is not possible to predict the effect of the FCA Rules, any changes in the methods pursuant to which LIBOR rates are determined and any other reforms to LIBOR that will be enacted in the U.K. and elsewhere, which may adversely affect the trading market for LIBOR-based instruments, such as the CDs. Further, it is unclear how the changes in the method for determining LIBOR may affect the value of the CDs, but decreases in LIBOR as a result of the changes of methodology would result in a corresponding decrease in the

interest payable on the CDs and may negatively affect the value of the CDs. In addition, any changes announced by the U.K. Financial Conduct Authority, the ICE Administrator or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the interest payable on the CDs may decrease and the value of the CDs may be negatively affected.

Please note, this Disclosure Statement does not describe all the risks of a purchase of the CDs. We urge you to consult your own financial and legal advisers as to the risks entailed by a purchase of the CDs.

USE OF PROCEEDS AND HEDGING

The net proceeds we receive from the sale of the CDs will be used for general corporate purposes and, in part, in connection with hedging our obligations under the CDs, potentially through one or more of our affiliates. The original issue price of the CDs includes the Agent's commissions (as disclosed in the applicable term sheet) paid with respect to the CDs and the cost of hedging our obligations thereunder. The cost of hedging includes the projected profit that our hedge providers (which may be our affiliates) expect to realize in consideration for assuming the risks inherent in managing the hedging transactions. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our affiliates' control, such hedging may result in a profit that is more or less than initially projected, or could result in a loss.

DISTRIBUTION OF THE CDs

The Agents will receive a placement fee from the Bank in connection with your purchase of a CD, which will be equal to the difference between the price to public and the net proceeds, as specified in the term sheet. In addition, other service providers may receive fees from the Agents or the Bank in connection with your purchase of a CD. Except for those amounts, you will not be charged any commissions in connection with your purchase of a CD. The Agents will offer the CDs at varying prices. See "Risk Factors—The CDs will be offered at varying prices."

If a secondary market were to develop for the CDs in the future, an Agent might redeem and resell the CDs in market-making transactions, with resales being made at prices related to prevailing market prices at the time of resale or at negotiated prices. However, the Agents will have no obligation to make a market or to purchase a CD at any price.

FDIC INSURANCE

The summary of FDIC deposit insurance laws and regulations contained herein is not intended to be a full restatement of applicable laws and FDIC regulations and interpretations. In addition, the applicable laws and FDIC regulations and interpretations may change from time to time and, in certain instances, additional terms and conditions may apply which are not described herein. Accordingly, the discussion herein is qualified in its entirety by applicable laws and the FDIC regulations and interpretations. The depositor is urged to discuss with his or her attorney the insurance coverage afforded to any CD that it may purchase.

The CDs are protected by federal deposit insurance provided by the Deposit Insurance Fund (the "DIF"), which is administered by the FDIC and backed by the full faith and credit of the U.S. Government, up to a maximum amount for all deposits held in the same ownership capacity per depository institution (the "Maximum Insured Amount"), which currently is $250,000. The maximum amount of deposit insurance available in the case of deposits in certain retirement accounts (the "Maximum Retirement Account Amount") also is $250,000 per participant per insured depository institution. The Maximum Insured Amount and the Maximum Retirement Account Amount may be adjusted for inflation beginning April 1, 2010 and each fifth year thereafter. Accordingly, holders of CDs whose principal amount plus any accrued interest payment amount that exceed the applicable federal deposit insurance limit will not be insured by the FDIC for the principal amount plus any accrued interest payment amount exceeding such limits. Any accounts or deposits a holder maintains directly with the Bank in the same ownership capacity as such holder maintains its CDs would be aggregated with such CDs for purposes of the Maximum Insured Amount or the Maximum Retirement Account Amount, as applicable.

You should not rely on the availability of FDIC insurance to the extent the principal amount of CDs and any unpaid return in excess of the principal amount which, together with any other deposits that you maintain with us in the same ownership capacity, is in excess of the applicable FDIC insurance limits. The FDIC has taken the position that any secondary market premium paid by you in excess of the principal amount is not covered by FDIC insurance. In addition, the FDIC may also take the position that no portion of the return in excess of the principal amount for any interest period is insured unless the total applicable return in excess of the principal amount for that interest period has been determined at the point that FDIC insurance payments become necessary.

You are responsible for determining and monitoring the FDIC insurance coverage limits that are applicable to you in purchasing any CDs. We do not undertake to determine or monitor the FDIC insurance coverage that may be available to you. You should make your own investment decision regarding the CDs and FDIC insurance coverage after consulting with your legal, tax, and other advisors. Please consult with your attorney or tax advisor to fully understand all of the legal consequences associated with any account ownership change you may be considering to maximize your deposit insurance coverage. Please also refer to www.fdic.gov for a full explanation and examples of deposit coverage for the account ownership types below, particularly for revocable trusts, and for other forms of ownership as the following information is a general summary and is not a complete statement of the FDIC insurance coverage limits.

The application of the federal deposit insurance limitation per depository institution in certain common factual situations is illustrated below. Please also refer to www.fdic.gov for a full explanation and examples of deposit coverage for the account ownership types below as the following information is a general summary and is not a complete statement of the FDIC insurance coverage limits.

- Revocable Trust Accounts. Funds owned by an individual and deposited into a deposit account with respect to which the individual evidences an intention that upon his/her death the funds will belong to one or more natural persons or certain charities or non-profits (each, a "Qualifying Beneficiary") are insured by FDIC deposit insurance up to the applicable maximum insured amount times the number of Qualifying Beneficiaries, separately from any other deposit accounts of the owner or any other Qualifying Beneficiary. However, if the amount in the account exceeds five times the applicable maximum insured amount, and there are more than five Qualifying Beneficiaries, then the amount of FDIC deposit insurance will equal the greater of five times the applicable maximum insured amount or the aggregate amount of all the Qualifying Beneficiaries' interests up to the applicable maximum insured amount per Qualifying Beneficiary. The owner's intention must be manifested in the title of the account, by using such terms as "in trust for" or "payable upon death to", and the Qualifying Beneficiaries must be named in the deposit account records of

the depository institution. A revocable trust account established by a husband and wife that names the husband and wife as sole beneficiaries will be treated as a joint account and insured as described under "Joint Accounts".

- Irrevocable Trust Accounts. Funds in an account for an irrevocable trust (as determined under applicable state law) will be insured by FDIC deposit insurance for up to the applicable maximum insured amount for the interest of each beneficiary, provided that the beneficiary's interest in the account is non-contingent (i.e., capable of determination without evaluation of contingencies) and certain other criteria are met. The FDIC treats Coverdell education savings accounts as irrevocable trust accounts for deposit insurance purposes. The FDIC deposit insurance of each beneficiary's interest is separate from the coverage provided for other accounts maintained by the beneficiary, the grantor, the trustee or beneficiaries. The interests of a beneficiary in all irrevocable trust accounts at the Bank created by the same grantor will be aggregated and insured up to the applicable maximum insured amount. When a bankruptcy trustee commingles the funds of two or more bankruptcy estates in the same trust account, the funds of each bankruptcy estate will receive separate pass-through coverage for up to the applicable maximum insured amount.

- Individual Customer Accounts. Funds owned by an individual and held in an account in the name of an agent or nominee of such individual (such as the CDs held in a brokerage account) are not treated as owned by the agent or nominee, but are added to other deposits of such individual held in the same legal capacity and are insured up to the Maximum Insured Amount in the aggregate.

- Custodial Accounts. Funds in accounts held by a custodian, guardian or conservator (for example, under the Uniform Gifts to Minors Act) are not treated as owned by the custodian, but are added to other deposits of the minor or other beneficiary held in the same legal capacity and are insured up to the Maximum Insured Amount in the aggregate.

- Joint Accounts. The interest of each co-owner in funds in an account held under any form of joint ownership valid under applicable state law may be insured up to the Maximum Insured Amount in the aggregate with other jointly held funds of such co-owner, separately and in addition to the Maximum Insured Amount allowed on other deposits individually owned by any of the co-owners of such account (hereinafter referred to as a "Joint Account"). Joint Accounts will be insured separately from such individually owned accounts only if each of the co-owners is an individual person, has a right of withdrawal on the same basis as the other co-owners and has signed the deposit account signature card (unless the account is a CD or is established by an agent, nominee, guardian, custodian, executor or conservator). If the Joint Account meets the foregoing criteria then it will be deemed to be jointly owned; as long as the account records of the Bank are clear and unambiguous as to the ownership of the account. However, if the account records are ambiguous or unclear as to the manner in which the account is owned, then the FDIC may consider evidence other than such account records to determine ownership. The names of two or more persons on a deposit account will be conclusive evidence that the account is a Joint Account unless the deposit records as a whole are ambiguous and some other evidence indicates that there is a contrary ownership capacity. In the event an individual has an interest in more than one Joint Account and different co-owners are involved, his or her interest in all of such Joint Accounts (subject to the limitation that such individual's insurable interest in any one account may not exceed the Maximum Insured Amount divided by the number of owners of such account) is then added together and insured up to the Maximum Insured Amount in the aggregate, with the result that no individual's insured interest in the joint account category can exceed the Maximum Insured Amount. For deposit insurance purposes, the co-owners of any Joint Account are deemed to have equal interests in the Joint Account unless otherwise stated in the Bank's records.

- Entity Accounts. The deposit accounts of any corporation, partnership or unincorporated association that is operated primarily for some purpose other than to increase deposit insurance are added together and insured up to the Maximum Insured Amount in the aggregate per depository institution.

- Retirement and Employee Benefit Plans and Accounts - Generally. You may have interests in various retirement and employee benefit plans and accounts that are holding deposits of the Bank. The amount of deposit insurance you will be entitled to will vary depending on the type of plan or account and on whether deposits held by the plan or account will be treated separately or aggregated with the deposits of the Bank held by other plans or accounts. It is therefore important to understand the type of plan or account holding

the CD. The following sections entitled "Pass-Through Deposit Insurance for Retirement and Employee Benefit Plan Deposits" and "Aggregation of Retirement and Employee Benefit Plans and Accounts" generally discuss the rules that apply to deposits of retirement and employee benefit plans and accounts.

- Pass-Through Deposit Insurance for Retirement and Employee Benefit Plan Deposits. Subject to the limitations discussed below, under FDIC regulations, an individual's non-contingent interest in the deposits of one depository institution held by certain types of employee benefit plans are eligible for insurance on a "pass-through" basis up to the applicable deposit insurance limits for that type of plan. This means that, instead of an employee benefit plan's deposits at one depository institution being entitled to deposit insurance based on its aggregated deposits in the Bank, each participant in the employee benefit plan is entitled to insurance of his or her interest in the employee benefit plan's deposits of up to the applicable deposit insurance limits per institution (subject to the aggregation of the participant's interests in different plans, as discussed below). The pass-through insurance provided to an individual as an employee benefit plan participant is in addition to the deposit insurance allowed on other deposits held by the individual at the issuing institution. However, pass-through insurance is aggregated across certain types of accounts. See the section entitled "Aggregation of Retirement and Employee Benefit Plans and Accounts."

    - A deposit held by an employee benefit plan that is eligible for pass-through insurance is not insured for an amount equal to the number of plan participants multiplied by the applicable deposit insurance limits. For example, assume an employee benefit plan that is a Qualified Retirement Account (defined below), *i.e.*, a plan that is eligible for deposit insurance coverage up to the Maximum Retirement Account Amount per qualified beneficiary, owns $500,000 in deposits at one institution and the plan has two participants, one with a vested non-contingent interest of $350,000 and one with a vested non-contingent interest of $150,000. In this case, the individual with the $350,000 interest would be insured up to the $250,000 Maximum Retirement Account Amount limit, and the individual with the $150,000 interest would be insured up to the full value of such interest.

    - Moreover, the contingent interests of employees in an employee benefit plan and overfunded amounts attributed to any employee defined benefit plan are not insured on a pass-through basis. Any interests of an employee in an employee benefit plan deposit which are not capable of evaluation in accordance with FDIC rules (*i.e.*, contingent interests) will be aggregated with the contingent interests of other participants and insured up to the applicable deposit insurance limits. Similarly, overfunded amounts are insured, in the aggregate for all participants, up to the applicable deposit insurance limits separately from the insurance provided for any other funds owned by or attributable to the employer or an employee benefit plan participant.

Aggregation of Retirement and Employee Benefit Plans and Accounts

- Self-Directed Retirement Accounts. The principal amount of deposits held in Qualified Retirement Accounts, plus the accrued and unpaid interest, if any, are protected by FDIC insurance up to a maximum of the Maximum Retirement Account Amount for all such deposits held by you at the issuing depository institution. "Qualified Retirement Accounts" consist of (i) any individual retirement account ("IRA"), (ii) any eligible deferred compensation plan described in section 457 of the Code, (iii) any individual account plan described in section 3(34) of ERISA, to the extent the participants and beneficiaries under such plans have the right to direct the investment of assets held in the accounts and (iv) any plan described in section 401(d) of the Code, to the extent the participants and beneficiaries under such plans have the right to direct the investment of assets held in the accounts. The FDIC sometimes generically refers to this group of accounts as "self-directed retirement accounts." Supplementary FDIC materials indicate that Roth IRAs, self-directed Keogh Accounts, Simplified Employee Pension plans, Savings Incentive Match Plans for Employees and self-directed defined contribution plans (such as 401(k) plans) are intended to be included within this group of Qualified Retirement Accounts. Coverdell education savings accounts, Health Savings Accounts, Medical Savings Accounts, accounts established under section 403(b) of the Code and defined-benefit plans are NOT Qualified Retirement Accounts and do NOT receive the Maximum Retirement Account Amount of federal deposit insurance.

- Other Employee Benefit Plans. Any employee benefit plan, as defined in Section 3(3) of ERISA, plan described in Section 401(d) of the Code, or eligible deferred compensation plan under section 457 of the Code, that does not constitute a Qualified Retirement Account – for example, certain employer-sponsored profit sharing plans -- can still satisfy the requirements for pass-through insurance with respect to non-contingent interests of individual plan participants, provided that FDIC requirements for recordkeeping and account titling are met ("Non-Qualifying Benefit Plans"). Defined contribution plan accounts and Keogh accounts that are not "self-directed" also generally would be treated as Non-Qualifying Benefit Plans. For Non-Qualifying Benefit Plans, the amount subject to federal deposit insurance is the Maximum Insured Amount. Under FDIC regulations, an individual's interests in Non-Qualifying Benefit Plans maintained by the same employer or employee organization (*e.g.*, a union) which are holding deposits at the same institution will be insured up to the Maximum Insured Amount in the aggregate, separate from other accounts held at the same depository institution in other ownership capacities.

This general rule regarding pass-through insurance is subject to the following limitations and exceptions:

- Total Coverage Might Not Equal the Maximum Retirement Account Amount Times the Number of Participants. Each deposit held by an employee benefit plan may not necessarily be insured for an amount equal to the number of participants multiplied by the Maximum Retirement Account Amount. For example, suppose an employee benefit plan owns $500,000 in CDs at one institution. Suppose, further, that the employee benefit plan has two participants, one with a vested non-contingent interest of $300,000 and one with a vested non-contingent interest of $200,000. The individual with the $300,000 interest would be insured up to the $250,000 Maximum Retirement Account Amount limit and the individual with the $200,000 interest would be insured up to the full value of such interest.

- Aggregation. An individual's non-contingent interests in funds deposited with the same depository institution by different employee benefit plans of the same employer or employee organization are aggregated for purposes of applying this pass-through Maximum Retirement Account Amount per participant deposit insurance limit, and are insured in aggregate only up to the Maximum Retirement Account Amount per participant.

- Contingent Interests/Overfunding. Any portion of an employee benefit plan's deposits that is not attributable to the non-contingent interests of employee benefit plan participants is not eligible for pass-through deposit insurance coverage, and is insured, in aggregate, only up to the Maximum Insured Amount.

To the extent that a CD purchaser expects its beneficial interest in the CDs to be fully covered by FDIC insurance, such purchaser, by purchasing a CD, is deemed to represent to the Bank and its broker that its beneficial interest (or if it is an agent, nominee, custodian or other person who is purchasing a CD for its beneficial owners, that each beneficial owner's beneficial interest) in other deposits in the Bank, when aggregated with the beneficial interest in the CD so purchased, to the extent that aggregation is required in determining insurance of accounts under the federal deposit insurance regulations, does not exceed the Maximum Insured Amount (or the Maximum Retirement Account Amount per participant in the case of certain retirement accounts as described above).

Payments Under Adverse Circumstances

- As with all deposits, if it becomes necessary for federal deposit insurance payments to be made on the CDs, there is no specific time period during which the FDIC must make insurance payments available. Accordingly, you should be prepared for the possibility of an indeterminate delay in obtaining insurance payments.

- As explained above, the deposit insurance limits apply to the principal and any interest that has been ascertained and become due on all CDs and other deposit accounts maintained by you at the Bank in the same legal ownership category. The records maintained by the Bank and your broker regarding ownership of CDs will be used to establish your eligibility for federal deposit insurance payments. In addition, you may be required to provide certain documentation to the FDIC and to your Broker before insurance payments are released to you. For example, if you hold CDs as trustee for the benefit of trust participants, you may also be required to furnish an affidavit to that effect; you may be required to furnish other affidavits and provide indemnities regarding an insurance payment.

- In the event that insurance payments become necessary for your CDs, the FDIC is required to pay the original principal amount and accrued interest payment amounts that have been ascertained and become due subject to the federal deposit insurance limits. No interest payment amounts will be earned on deposits from the time the Bank is closed until insurance payments are received.

- As an alternative to a direct deposit insurance payment from the FDIC, the FDIC may transfer the insured deposits of an insolvent institution to a healthy institution. Subject to insurance verification requirements and the limits on deposit insurance coverage, the healthy institution may assume the CDs under the original terms or offer you a choice between paying the CD off and maintaining the deposit at a different rate. Your Broker will advise you of your options in the event of a deposit transfer.

- Your broker will not be obligated to you for amounts not covered by deposit insurance nor will your broker be obligated to make any payments to you in satisfaction of a loss you might incur as a result of (i) a delay in insurance payouts applicable to your CD, (ii) your receipt of a decreased interest rate on an investment replacing your CD as a result of the payment of the principal of your CD prior to its stated maturity, or (iii) payment in cash of the principal of your CD prior to its stated maturity in connection with the liquidation of the Bank or the assumption of all or a portion of its deposit liabilities. In connection with the latter, the amount of a payment on a CD which had been purchased at a premium in the secondary market is based on the original principal amount and not on any premium amount. Therefore, you can lose up to the full amount of the premium as a result of such a payment. Also, your broker will not be obligated to credit your account with funds in advance of payments received from the FDIC.

FDIC Coverage of Deposits Assumed Pursuant to Merger or Consolidation

If the CDs or other deposits of a holder at the Bank are assumed by another depository institution pursuant to a merger or consolidation, such CDs or deposits will continue to be separately insured from the deposits that such holder might have established with the acquirer until (a) for assumed CDs and time deposits that mature within six months after the assumption but are renewed at the same dollar amount (either with or without accrued interest having been added to the principal amount) and for the same term as the original deposit, the renewed maturity date of the CDs or other time deposit, (b) for assumed CDs and time deposits that mature more than six months after the assumption, the maturity date of such CDs or other time deposits or (c) with respect to deposits which are not time deposits, the expiration of a six-month period from the date of the acquisition. Thereafter any assumed deposits will be aggregated with the existing deposits with the acquirer held in the same legal capacity for purposes of federal deposit insurance. Any deposit opened at the acquired institution after the acquisition will be aggregated with deposits established with the acquirer for purposes of federal deposit insurance.

A prospective depositor may wish to seek advice from his or her own attorney concerning FDIC insurance coverage of deposits held in more than one capacity. A prospective depositor may also obtain information by contacting the FDIC, Office of Consumer Affairs, by letter (550 17th Street, N.W., Washington, D.C. 20429), by phone (877-275-3342, 800-925-4618 (TDD) or 202-942-3100) or by e-mail (dcainternet@fdic.gov) or visiting the FDIC website at www.fdic.gov.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

Set forth below is a summary of certain U.S. federal income tax considerations relevant to the purchase, beneficial ownership, and disposition of a CD.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of a CD that is:

- an individual who is a citizen or a resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons, as defined for U.S. federal income tax purposes, have the authority to control all of its substantial decisions.

For purposes of this summary, a "Non-U.S. Holder" is a beneficial owner of a CD that is:

- a nonresident alien individual for U.S. federal income tax purposes;
- a foreign corporation for U.S. federal income tax purposes;
- an estate, the income of which is not subject to U.S. federal income tax on a net income basis; or
- a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons, as defined for U.S. federal income tax purposes, have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued there under, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the U.S. federal income tax consequences described herein. This summary addresses only holders that purchase CDs at initial issuance and beneficially own such CDs as capital assets and not as part of a "straddle," "hedge," "synthetic security" or a "conversion transaction" for U.S. federal income tax purposes, or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular depositors or to depositors subject to special treatment under the U.S. federal income tax laws (such as banks, thrifts, or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; mutual funds or real estate investment trusts; small business investment companies; S corporations; depositors that hold their CDs through a partnership or other entity treated as a partnership for U.S. federal tax purposes; depositors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities, or persons holding the CDs in tax-deferred or tax-advantaged accounts; or "controlled foreign corporations" or a "passive foreign investment companies" for U.S. federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder of CDs, or any state, local or foreign tax consequences of the purchase, ownership or disposition of the CDs. This summary assumes that the issue price of the CDs, as determined for U.S. federal income tax purposes, equals the principal amount thereof.

PROSPECTIVE PURCHASERS OF CDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF CDS.

General

We intend to treat the CDs as indebtedness for U.S. federal income tax purposes and any reports to the Internal Revenue Service (the "IRS") and holders will be consistent with such treatment, and each holder will agree to treat the CDs as indebtedness for U.S. federal income tax purposes. The discussion that follows is based on this approach.

U.S. Federal Income Tax Treatment of U.S. Holders

Taxation of Interest

The taxation of interest on a CD depends on whether the interest is "qualified stated interest" (as defined below). Interest that is qualified stated interest will generally be includible in a U.S. Holder's income as ordinary interest income when actually or constructively received (if such Holder uses the cash method of accounting for U.S. federal income tax purposes) or when accrued (if such Holder uses an accrual method of accounting for U.S. federal income tax purposes). Interest that is not qualified stated interest is includible in a U.S. Holder's income under the rules governing "original issue discount" described below, regardless of such U.S. Holder's regular method of tax accounting. Notwithstanding the foregoing, interest that is payable on a CD with a maturity of one year or less from its issue date, referred to as a "Short-Term CD," is included in a U.S. Holder's income under the rules described below under "—Short-Term CDs."

Definition of Qualified Stated Interest

Interest on a CD is "qualified stated interest" if the interest is unconditionally payable, or will be constructively received under Section 451 of the Code, in cash or in property (other than debt instruments of the Bank) at least annually at a single fixed rate (in the case of a fixed rate CD) or at a single "qualified floating rate" or "objective rate" (in the case of a floating rate CD that qualifies as a VRDI, as defined below). If a floating rate CD that qualifies as a VRDI provides for interest other than at a single qualified floating rate or single objective rate, special rules apply to determine the portion of such interest that constitutes qualified stated interest. See "—CDs that are VRDIs (Including Fixed to Floating Rate CDs)" below.

Definition of Variable Rate Debt Instrument (VRDI)

A floating rate CD will qualify as a variable rate debt instrument ("VRDI") if all four of the following conditions are met. First, the "issue price" (as defined under "Taxation of Original Issue Discount") of the floating rate CD must not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date (or, in the case of a floating rate CD that provides for payment of any amount other than qualified stated interest before maturity, its weighted average maturity) and (ii) 15% of the total noncontingent principal payments. A floating rate CD that does not provide for contingent principal will satisfy this requirement as long as it is not issued at a significant premium.

Second, except as provided in the preceding paragraph, the floating rate CD must not provide for any principal payments that are contingent.

Third, the floating rate CD must provide for stated interest (compounded or paid at least annually) at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate or (iv) a single fixed rate and a single objective rate that is a "qualified inverse floating rate" (as defined below).

Fourth, the floating rate CD must provide that a qualified floating rate or objective rate in effect at any time during the term of the floating rate CD is set at the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

Definition of a Qualified Floating Rate

Subject to certain exceptions, a variable rate of interest on a floating rate CD is a "qualified floating rate" if variations in the value of the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the floating rate CD is denominated. This definition includes a variable rate equal to (i) the product of an otherwise qualified floating rate and a fixed multiple that is greater than .65 but not more than 1.35 or (ii) an otherwise qualified floating rate plus or minus a spread. If the variable rate equals the product of an otherwise qualified floating rate and a single fixed multiple greater than 1.35 or less

than or equal to .65, however, such rate will generally be an objective rate. A variable rate will not be considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is not fixed throughout the term of the floating rate CD and is reasonably expected as of the issue date to cause the yield on the floating rate CD to be significantly more or less than the expected yield determined without the restriction.

Definition of an Objective Rate

Subject to certain exceptions, an "objective rate" is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information that is neither within the control of the Bank (or a related party) nor unique to the circumstances of the Bank (or a related party). A rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the floating rate CD's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the term. The IRS may designate rates other than those specified above that will be treated as objective rates. As of the date hereof, no such other rates have been designated. An objective rate is a "qualified inverse floating rate" if (i) the rate is equal to a fixed rate minus a qualified floating rate and (ii) the variations in the rate can reasonably be expected to reflect inversely contemporaneous variations in the cost of newly borrowed funds (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate).

If interest on a floating rate CD is stated at a fixed rate for an initial period of one year or less, followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate.

Taxation of Original Issue Discount

U.S. Holders of CDs issued with original issue discount ("OID") will be subject to special tax accounting rules, as described in greater detail below. OID is the excess, if any, of a CD's "stated redemption price at maturity" over the CD's "issue price." A CD's "stated redemption price at maturity" is the sum of all payments provided by the CD (whether designated as interest or as principal) other than payments of qualified stated interest. The "issue price" of a CD is the first price at which a substantial amount of the CDs in the issuance that includes the CD is sold for money (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Holders of CDs with OID (other than Short-Term CDs, as defined below) generally will be required to include such OID in income as it accrues in accordance with the constant yield method described below, irrespective of the receipt of the related cash payments. A U.S. Holder's tax basis in a CD is increased by the amount of accrued OID and decreased by each payment other than a payment of qualified stated interest.

The amount of OID with respect to a CD will be treated as zero if the OID is less than an amount equal to .0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity (or, in the case of a CD that provides for payment of any amount other than qualified stated interest prior to maturity, the weighted average maturity of the CD). If the amount of OID is less than that amount, the OID that is not included in payments of stated interest is included in income as capital gain as principal payments are made. The amount includible with respect to a principal payment equals the product of the total amount of OID and a fraction, the numerator of which is the amount of such principal payment and the denominator of which is the stated principal amount of the CD.

Inclusion of OID in Income—Fixed Rate CDs

In the case of a fixed rate CD issued with OID, the amount of OID includible in the income of a U.S. Holder for any taxable year is determined under the constant yield method, as follows. First, the "yield to maturity" of the fixed rate CD is computed. The yield to maturity is the discount rate that, when used in computing the present value of all interest and principal payments to be made under the fixed rate CD (including payments of qualified stated interest), produces an amount equal to the issue price of the fixed rate CD. The yield to maturity is constant over the term of the fixed rate CD and, when expressed as a percentage, must be calculated to at least two decimal places.

Second, the term of the fixed rate CD is divided into "accrual periods." Accrual periods may be of any length and may vary in length over the term of the fixed rate CD, provided that each accrual period is no longer than one year

and that each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period.

Third, the total amount of OID on the fixed rate CD is allocated among accrual periods. In general, the OID allocable to an accrual period equals the product of the "adjusted issue price" of the fixed rate CD at the beginning of the accrual period and the yield to maturity of the fixed rate CD, less the amount of any qualified stated interest allocable to the accrual period. The adjusted issue price of a fixed rate CD at the beginning of the first accrual period is its issue price. Thereafter, the adjusted issue price of the fixed rate CD is its issue price, increased by the amount of OID previously includible in the gross income of any holder and decreased by the amount of any payment previously made on the fixed rate CD other than a payment of qualified stated interest.

Fourth, the "daily portions" of OID are determined by allocating to each day in an accrual period its ratable portion of the OID allocable to the accrual period.

A U.S. Holder includes in income in any taxable year the daily portions of OID for each day during the taxable year that such Holder held the fixed rate CD. Under the constant yield method described above, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Inclusion of OID in Income—Floating Rate CDs

The taxation of OID on a floating rate CD will depend on whether the floating rate CD is a VRDI, as that term is described above under "—Definition of Variable Rate Debt Instrument (VRDI)."

CDs that are VRDIs (Including Fixed to Floating Rate CDs)

In the case of a VRDI that provides for qualified stated interest (as defined above) the amount of qualified stated interest and OID, if any, includible in income during a taxable year is determined under the rules applicable to fixed rate CDs (described above) by assuming that the variable rate of interest is a fixed rate equal to (i) in the case of a qualified floating rate or a qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, and (ii) in the case of an objective rate (other than a qualified inverse floating rate), the rate that reflects the yield that is reasonably expected for the CD. Qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period.

If a CD that is a VRDI does not provide for qualified stated interest or provides for interest in addition to qualified stated interest, the amount of interest and OID accruals are determined by constructing an equivalent fixed rate debt instrument, as follows:

First, in the case of an instrument that provides for interest at a fixed rate, replace the fixed rate by a qualified floating rate (or qualified inverse floating rate, if applicable) such that the fair market value of the instrument as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate (or qualified inverse floating rate) rather than the fixed rate.

Second, determine the fixed rate substitute for each variable rate provided by the CD. The fixed rate substitute for each qualified floating rate provided by the CD is the value of that qualified floating rate on the issue date. If the CD provides for two or more qualified floating rates with different intervals between interest adjustment dates, the fixed rate substitutes are based on intervals that are equal in length. The fixed rate substitute for an objective rate that is a qualified inverse floating rate is the value of the qualified inverse floating rate on the issue date. The fixed rate substitute for an objective rate (other than a qualified inverse floating rate) is a fixed rate that reflects the yield that is reasonably expected for the CD.

Third, construct an equivalent fixed rate debt instrument that has terms that are identical to those provided under the CD, except that the equivalent fixed rate debt instrument provides for the fixed rate substitutes determined in the second step, in lieu of the qualified floating rates or objective rate provided by the CD.

Fourth, determine the amount of qualified stated interest and OID for the equivalent fixed rate debt instrument under the rules described above for fixed rate CDs. These amounts are taken into account as if the U.S. Holder held the equivalent fixed rate debt instrument. See "—Taxation of Interest," "—Taxation of Original Issue Discount" and "—Inclusion of OID in Income—Fixed Rate CDs" above.

Fifth, make appropriate adjustments for the actual values of the variable rates. In this step, qualified stated interest or OID allocable to an accrual period is increased (or decreased) if the interest actually accrued or paid

during the accrual period exceeds (or is less than) the interest assumed to be accrued or paid during the accrual period under the equivalent fixed rate debt instrument. In general, this increase or decrease is an adjustment to qualified stated interest for the accrual period if the equivalent fixed rate debt instrument constructed under the third step provides for qualified stated interest and the increase or decrease is reflected in the amount actually paid during the accrual period, and otherwise the increase or decrease is an adjustment to OID, if any, for the accrual period.

Contingent CDs

Floating rate CDs that are not VRDIs will generally be treated as "contingent payment debt instruments" ("Contingent CDs") and will be taxable under the rules applicable thereto (the "Contingent Debt Regulations") for U.S. federal income tax purposes. As a result, the Contingent CDs will generally be subject to the OID provisions of the Code and the Treasury Regulations thereunder, and a U.S. Holder will be required to accrue interest income on the Contingent CDs as set forth below.

At the time the Contingent CDs are issued, the Bank will be required to determine a "comparable yield" for the Contingent CDs. The comparable yield is the yield at which the Bank could issue a fixed rate debt instrument with terms and conditions similar to those of the Contingent CD (including the level of subordination, term, timing of payments and general market conditions, but not taking into consideration the riskiness of the contingencies or the liquidity of the Contingent CD), but is not less than the applicable federal rate (based on the overall maturity of the Contingent CD) announced monthly by the IRS (the "AFR") and in effect for the month in which the Contingent CD is issued. The comparable yield may be greater than or less than the stated interest rate, if any, with respect to the Contingent CDs. In certain cases where contingent payments with respect to Contingent CDs are not based on market information and where Contingent CDs are marketed or sold in substantial part to tax-exempt investors or other investors for whom the prescribed inclusion of interest is not expected to have a substantial effect on their U.S. tax liability, the comparable yield for the Contingent CD, without proper evidence to the contrary, is presumed to be the AFR.

Solely for purposes of determining the amount of interest income that a U.S. Holder will be required to accrue (and which the Bank will be required to report on an IRS Form 1099), the Bank will be required to construct a "projected payment schedule" for the Contingent CDs, determined under the Contingent Debt Regulations (the "Schedule"), representing a series of payments the amount and timing of which would produce a yield to maturity on the Contingent CDs equal to the comparable yield. The Schedule is determined as of the issue date and generally remains in place throughout the term of the Contingent CDs. The Schedule includes each noncontingent payment and an amount for each contingent payment as determined below. If a contingent payment is based on market information, the amount of the projected payment is the forward price of the contingent payment. If a contingent payment is not based on market information, the amount of the projected payment is the expected value if the contingent payment as of the issue date. The Schedule must produce the comparable yield determined as set forth above. Otherwise, the Schedule must be adjusted under the rules set forth in the Contingent Debt Regulations. Neither the comparable yield nor the projected payment schedule constitutes a representation by the Bank regarding the actual amounts, if any, that the Contingent CDs will pay.

The Bank is required to provide each U.S. Holder of a Contingent CD with the Schedule described above. If the Bank does not create a Schedule or the Schedule is unreasonable, a U.S. Holder must set its own projected payment schedule and explicitly disclose the use of the schedule and the reason therefor. Unless otherwise prescribed by the IRS, the U.S. Holder must make the disclosure on a statement attached to the U.S. Holder's timely filed U.S. federal income tax return for the taxable year in which the Contingent CD was acquired. A U.S. Holder of a Contingent CD, regardless of accounting method, will be required to accrue as OID the sum of the daily portions of interest on the Contingent CD for each day in the taxable year on which the U.S. Holder held the Contingent CD, calculated by reference to the comparable yield and adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments made on the Contingent CD as set forth below. The daily portions of interest in respect of a Contingent CD are determined by allocating to each day in an accrual period the ratable portion of interest on the Contingent CD that accrues in the accrual period. The amount of interest on a Contingent CD that accrues in an accrual period is determined by multiplying the comparable yield of the Contingent CD (adjusted for the length of the accrual period) by the Contingent CD’s adjusted issue price at the beginning of the accrual period. The adjusted issue price of a Contingent CD at the beginning of the first accrual period will equal its issue price and for any accrual period after the first accrual period will be (i) the sum of the issue price of the Contingent CD and any interest previously

accrued on the Contingent CD by a U.S. Holder, disregarding any positive or negative adjustments (as discussed below), minus (ii) the amount of any noncontingent payment and projected contingent payments on the Contingent CD for previous accrual periods.

A U.S. Holder will be required to recognize additional interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a Contingent CD for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a Contingent CD for a taxable year will first reduce the amount of interest in respect of the Contingent CD that a U.S. Holder would otherwise be required to include in income in the taxable year and, to the extent of any excess, will give rise to an ordinary loss equal to that portion of this excess as does not exceed the excess of the amount of all previous interest inclusions under the Contingent CD over the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the Contingent CD in prior taxable years. A net negative adjustment is not subject to the two percent floor limitation imposed on miscellaneous deductions under Section 67 of the Code. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the Contingent CD or to reduce the amount realized on a sale, exchange or retirement of the Contingent CD. Upon a sale, exchange or retirement of a Contingent CD, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the holder's adjusted tax basis in the Contingent CD. If the Bank delivers property, other than cash, to a holder in retirement of a Contingent CD, the amount realized will equal the fair market value of the property, determined at the time of retirement, plus the amount of cash, if any, received in lieu of property. A U.S. Holder's adjusted tax basis in a Contingent CD generally will equal the cost of the Contingent CD, increased by the amount of interest income previously accrued by the holder in respect of the Contingent CD, disregarding any positive or negative adjustments, and decreased by the amount of any noncontingent payments and all prior projected contingent payments previously made in respect of the Contingent CD. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions over the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss.

Short-Term CDs

In the case of a CD that matures one year or less from its date of issuance (a "Short-Term CD"), a cash method U.S. Holder generally is not required to accrue OID for U.S. federal income tax purposes unless such Holder elects to do so. U.S. Holders who make such an election, U.S. Holders who report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders, including banks and dealers in securities, are required to include OID in income on such Short-Term CDs as it accrues on a straight-line basis, unless an election is made to accrue the OID according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required, and does not elect, to include the OID in income currently, stated interest will generally be taxable at the time it is received and any gain realized on the sale, exchange or other disposition of the Short-Term CD will be ordinary income to the extent of the OID accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or other disposition (generally reduced by prior payments of interest, if any). In addition, such Holders will be required to defer deductions for all or a portion of any interest paid on indebtedness incurred to purchase or carry Short-Term CDs in an amount not exceeding the accrued OID not previously included in income.

Callable Step-Up CDs

A callable step-up CD is a step-up CD that is callable by the Issuer on any date in which the interest rate increases. To determine whether a debt instrument (such as a CD) is issued with OID for tax purposes, the Treasury Regulations generally deem an issuer to exercise a call option in a manner that minimizes the yield on the debt instrument. Our yield would be minimized if we exercise our call with respect to the CDs on the first applicable date on which the CD may be called (the “call date”). This assumption is made solely for federal income tax purposes and is not an indication of our intention regarding whether or not to call the CDs at any time. In this case, the CDs would be treated as bearing interest at the interest rate applicable prior to the first call date and maturing on the first call date, and would not be treated as issued with OID. If we do not call the CDs prior to the increase in the interest rate on the call date, then, solely for purposes of calculating OID, the CDs will be deemed to be reissued at their adjusted issue price on the call date and, as a result, generally would not be treated as issued with OID. This deemed issuance should not give rise to taxable gain or loss to holders. The same analysis should apply to each subsequent date in which the interest rate increases. Under this approach,

the interest paid on a CD 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 (regardless of whether we exercise our call on the CDs).

The tax treatment described in the preceding paragraph assumes that the Issuer will have the right to call the CD at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, step-up CDs may be treated as issued with OID, in which case the CDs generally would be subject to the rules discussed above under the headings "—Taxation of Original Issue Discount" and "— Inclusion of OID in Income—Fixed Rate CDs."

Sale, Exchange, Redemption, Repayment or Other Disposition of the CDs (Other than Contingent CDs)

Upon the disposition of a CD (other than a Contingent CD) by sale, exchange, redemption, repayment or other disposition, a U.S. Holder will generally recognize taxable gain or loss equal to the difference, if any, between (i) the amount realized on the disposition (other than amounts attributable to accrued but unpaid interest, which would be treated as such) and (ii) the U.S. Holder's adjusted tax basis in the CD. A U.S. Holder's adjusted tax basis in a CD generally will equal the cost of the CD (net of accrued interest) to the U.S. Holder increased by any OID previously included in income with respect to the CD and decreased by the amount of any payment (other than a payment of QSI) received in respect of a CD. Capital gain of individual taxpayers from the sale, exchange, redemption, repayment or other disposition of a CD 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, redemption, repayment or other disposition of a CD is subject to limitations.

Additional Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). Net investment income generally includes passive income such as interest and capital gains. Holders are urged to consult their tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of their investment in the CDs.

U.S. Federal Income Tax Treatment of Non-U.S. Holders

Taxation of Interest and Disposition of the CDs

In general, Non-U.S. Holders will not be subject to any U.S. federal income or withholding tax on any interest income from a CD so long as the income or gain is not effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States. Additionally, Non-U.S. Holders will not be subject to any U.S. federal income or withholding tax on any gain on the sale, early withdrawal, maturity or other dispositions of a CD so long as the income or gain is not effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States and the Non-U.S. Holder is not an individual present in the United States for 183 days or more in the taxable year in which the gain is recognized.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders

CDs held (or treated as held) by an individual who is a Non-U.S. Holder at the time of his or her death will not be subject to U.S. federal estate tax, provided that the individual would not be subject to any U.S. federal income or withholding tax with respect to income or gain on the CDs.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires "information reporting" annually to the IRS and to each holder of the CDs, and "backup withholding" with respect to certain payments made on or with respect to the CDs. Information reporting and backup withholding generally will not apply to U.S. Holders that are corporations or certain other "exempt recipients" if the U.S. Holder provides the Issuer with a properly completed IRS Form W-9, and will not apply to a Non-U.S. Holder if the Non-U.S. Holder provides the Issuer with a properly completed IRS Form W-8BEN or IRS Form W-8BEN-E, as the case may be. Interest paid to a Non-U.S. Holder who is an individual may be reported on IRS Form 1042-S that is filed with the IRS and sent to the Non-U.S. Holder.

Backup withholding is not an additional tax and may be refunded (or credited against a depositor's U.S. federal income tax liability, if any), if certain required information is furnished.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") will impose a 30% U.S. withholding tax on certain U.S. source payments, including interest (and OID), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S. source interest or dividends ("Withholdable Payments"), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the Treasury Department to collect and provide to the Treasury Department certain information regarding U.S. financial account holders, including certain account holders that are foreign entities with U.S. owners, with such institution, or otherwise complies with FATCA. FATCA also generally imposes a withholding tax of 30% on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

These withholding and reporting requirements generally apply to U.S. source periodic payments made after June 30, 2014 and to payments of gross proceeds from a sale or redemption made after December 31, 2016. If the Issuer determines withholding is appropriate with respect to the CDs, the Issuer will withhold tax at the applicable statutory rate, and the Issuer will not pay any additional amounts in respect of such withholding. Prospective depositors are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the CDs.

The preceding discussion is only a summary of certain of the tax implications of purchasing the CDs. Prospective depositors are urged to consult with their own tax advisors prior to purchasing to determine the tax implications of a purchase in light of that depositor's particular circumstances.

CERTAIN ERISA CONSIDERATIONS

Section 4975 of the Code prohibits the borrowing of money, the sale of property and certain other transactions involving the assets of plans that are qualified under the Code ("Qualified Plans") or individual retirement accounts ("IRAs") and persons who have certain specified relationships to them. Section 406 of ERISA prohibits similar transactions involving employee benefit plans that are subject to ERISA ("ERISA Plans"). Certain governmental and other plans may be subject to provisions materially similar to the foregoing provisions of ERISA and the Code ("Similar Law") (such plans are referred to as "Similar Law Plans"). Qualified Plans, IRAs and ERISA Plans are referred to as "Plans".

Persons who have such specified relationships are referred to as "parties in interest" under ERISA and as "disqualified persons" under the Code. "Parties in interest" and "disqualified persons" encompass a wide range of persons, including any fiduciary (for example, investment manager, trustee or custodian), any person providing services (for example, a broker), the Plan sponsor, an employee organization any of whose members are covered by the Plan, and certain persons related to or affiliated with any of the foregoing.

The purchase and/or holding of the CDs by a Plan with respect to which the Bank is a fiduciary and/or a service provider (or otherwise is a "party in interest" or "disqualified person") might constitute or result in a prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless such CDs are acquired or held pursuant to and in accordance with an applicable statutory or administrative exemption. The Bank and several of its affiliates are each considered to be a "disqualified person" under the Code or a "party in interest" under ERISA with respect to many Plans.

Applicable exemptions may include certain prohibited transaction class exemptions and statutory exemptions (for example, Prohibited Transaction Class Exemption ("PTCE") 84-14 relating to qualified professional asset managers, PTCE 96-23 relating to certain in-house asset managers, PTCE 91-38 relating to bank collective investment funds, PTCE 90-1 relating to insurance company separate accounts, PTCE 95-60 relating to insurance company general accounts and ERISA Section 408(b)(17) relating to transaction with persons providing services to a Plan, other than fiduciaries, provided that the Plan receives no less than and pays no more than "adequate consideration"). In view of the fact that the CDs represent deposits with the Bank, fiduciaries should take into account the prohibited transaction exemption described in ERISA Section 408(b)(4), relating to the investment of plan assets in deposits bearing a reasonable rate of interest in a financial institution supervised by the United States or a state, and/or Part IV of PTCE 81-8, relating to transactions involving short-term investments, specifically certificates of deposit. A fiduciary of a Plan or a Similar Law Plan purchasing the CDs, or in the case of certain IRAs, the grantor or other person directing the purchase of the CDs for the IRA, shall be deemed to represent that its purchase, holding, and disposition of the CDs will not constitute a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or Similar Law. A fiduciary who causes an ERISA Plan to engage in a non-exempt prohibited transaction may be subject to civil liability and a penalty under ERISA. Code Section 4975 generally imposes an excise tax on disqualified persons who engage, directly or indirectly, in similar types of transactions with the assets of Plans subject to such Section. In addition, in the case of an IRA, a non-exempt prohibited transaction could result in disqualification of the IRA.

In accordance with ERISA's general fiduciary requirement or any applicable general fiduciary requirement under Similar Law, a fiduciary with respect to any ERISA Plan or Similar Law Plan who is considering the purchase of the CDs on behalf of such plan should determine whether such purchase is permitted under the governing plan document and is prudent and appropriate for the ERISA Plan or Similar Law Plan in view of its overall investment policy and the composition and diversification of its portfolio. Plans established with, or for which services are provided by, the Bank should consult with counsel prior to making any such acquisition.

The sale of any CD to a Plan or a Similar Plan is in no respect a representation by the Bank or any of its affiliates that such a deposit meets all relevant legal requirements with respect to investments by Plans or Similar Plans generally or any particular Plan or Similar Plan, or that such a deposit is appropriate for a Plan or Similar Plan generally or any particular Plan or Similar Plan.

In addition, any purchaser that is a Plan or that is acquiring the CDs on behalf of a Plan, including any fiduciary purchasing on behalf of a Plan, will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the CDs that (a) neither the Bank, nor any underwriter, dealer or agent, nor any of

their affiliates (collectively the “Seller”) 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 Law) with respect to the acquisition, holding or disposition of the CDs, or as a result of any exercise by the Seller of any rights in connection with the CDs, (b) no advice provided by the Seller has formed a primary basis for any investment decision by or on behalf of such purchaser in connection with the CDs and the transactions contemplated with respect to the CDs, and (c) such purchaser recognizes and agrees that any communication from the Seller to the purchaser with respect to the CDs is not intended by the Seller to be impartial investment advice and is rendered in its capacity as a seller of such CDs and not a fiduciary to such purchaser.

The discussion of ERISA and Section 4975 of the Code contained herein is, of necessity, general and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

ANY PERSON CONSIDERING AN INVESTMENT IN A CD THAT IS, OR IS ACTING ON BEHALF OF, A PLAN OR A SIMILAR PLAN IS STRONGLY URGED TO CONSULT ITS OWN LEGAL, TAX AND ERISA ADVISERS REGARDING THE CONSEQUENCES OF SUCH AN INVESTMENT AND THE ABILITY TO MAKE THE REPRESENTATION DESCRIBED ABOVE.