



## Accelerated Return Notes® “ARNs®” Linked to an Equity Index

- ARNs are unsecured senior debt securities issued by International Finance Corporation (“**IFC**”). Any payments due on ARNs, including any repayment of principal, will be subject to the credit risk of IFC.
- ARNs do not guarantee the return of principal at maturity, and we will not pay interest on ARNs. Instead, the return on ARNs will be based on the performance of an underlying “**Market Measure**,” which will be an equity index.
- ARNs provide an opportunity to earn a multiple (which will be 3 times, unless otherwise set forth in the applicable term sheet) of the positive performance of the Market Measure, up to a specified cap (“**Capped Value**”), while exposing you to any negative performance of the Market Measure on a 1-to-1 basis.
- If the value of the Market Measure increases from the Starting Value to the Ending Value (each as defined below), you will receive at maturity a cash payment per unit (the “**Redemption Amount**”) that equals the principal amount plus a multiple of that increase, up to the Capped Value.
- If the value of the Market Measure decreases from the Starting Value to the Ending Value, you will be subject to 1-to-1 downside exposure to that decrease. In such case, you may lose all or a significant portion of the principal amount of your ARNs.
- This product supplement describes the general terms of ARNs, the risk factors to consider before investing, the general manner in which they may be offered and sold, and other relevant information.
- For each offering of ARNs, we will provide you with a pricing supplement (which we refer to as a “**term sheet**”) that will describe the specific terms of that offering, including the specific Market Measure, the Capped Value, and certain related risk factors. The term sheet will identify, if applicable, any additions or changes to the terms specified in this product supplement.
- ARNs will be issued in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The term sheet may also set forth a minimum number of units that you must purchase.
- Unless otherwise specified in the applicable term sheet, ARNs will not be listed on a securities exchange or quotation system.
- Merrill Lynch, Pierce, Fenner & Smith Incorporated (“**MLPF&S**”) and one or more of its affiliates may act as our agents to offer ARNs and will act in a principal capacity in such role.

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*ARNs are unsecured and are not savings accounts or insured deposits of a bank. ARNs are not obligations of, or guaranteed by, the International Bank for Reconstruction and Development or of any government or any other entity. ARNs are not insured by the U.S. Federal Deposit Insurance Corporation (the “**FDIC**”) or any other governmental agency of the United States or any other jurisdiction. Potential purchasers of ARNs should consider the information in “Risk Factors” beginning on page PS-6 of this product supplement and page 15 of the accompanying prospectus. **You may lose all or a significant portion of your investment in ARNs.***

*The ARNs are not required to be registered under the Securities Act of 1933, as amended. Accordingly, no registration statement has been filed with the Securities and Exchange Commission (the “**SEC**”).*

*None of the SEC, any state securities commission, or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this product supplement or the prospectus. Any representation to the contrary is a criminal offense.*

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ARNs® and “Accelerated Return Notes®” are registered service marks of Bank of America Corporation, the parent corporation of MLPF&S.

## SUMMARY

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

### Key Terms:

**General:** ARNs are unsecured senior debt securities issued by IFC, are not guaranteed or insured by the FDIC, and are not, either directly or indirectly, an obligation of any third party. They rank equally with all of our other unsecured senior debt from time to time outstanding. **Any payments due on ARNs, including any repayment of principal, are subject to our credit risk.**

The return on ARNs will be based on the performance of the Market Measure and there is no guaranteed return of principal at maturity. Therefore, you may lose all or a significant portion of your investment if the Ending Value is less than the Starting Value.

Each issue of ARNs will mature on the date set forth in the applicable term sheet. We cannot redeem ARNs at any earlier date. We will not make any payments on ARNs until maturity, and you will not receive interest payments.

**Market Measure:** The Market Measure may consist of one of the following:

- U.S. broad-based equity indices;
- U.S. sector or style-based equity indices; or
- non-U.S. or global equity indices.

**Market Measure Performance:** The performance of the Market Measure will be measured according to the percentage change of the Market Measure from the Starting Value to the Ending Value.

Unless otherwise specified in the applicable term sheet:

The “**Starting Value**” will equal the closing level of the Market Measure on the date when the ARNs are priced for initial sale to the public (the “**pricing date**”).

The “**Ending Value**” will equal the average of the closing levels of the Market Measure on each calculation day during the Maturity Valuation Period (each as defined below).

If a Market Disruption Event (as defined below) occurs and is continuing on a calculation day, or if certain other events occur, the calculation agent will determine the Ending Value as set forth in the section “Description of ARNs—The Starting Value and the Ending Value—Ending Value.”

**Participation Rate:** The rate at which investors participate in any increase in the value of the Market Measure, as calculated below. The Participation Rate will be 300% for ARNs, unless otherwise set forth in the applicable term sheet.

**Capped Value:** The maximum Redemption Amount. Your investment return is limited to the return represented by the Capped Value specified in the applicable term sheet. We will determine the applicable Capped Value on the pricing date of each issue of ARNs.

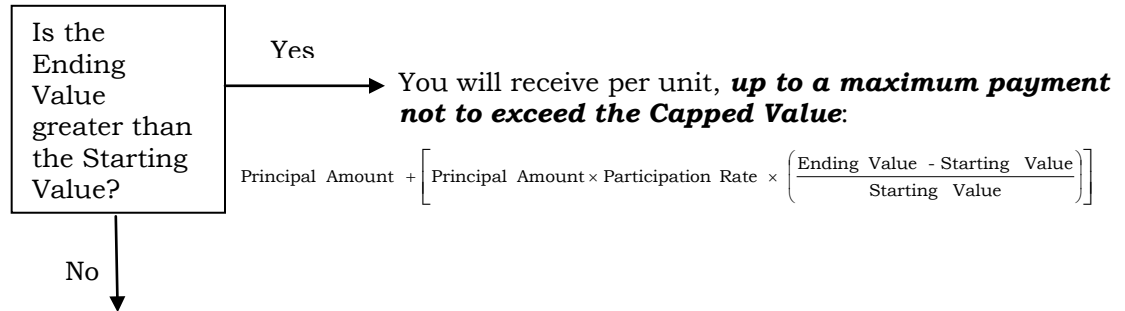
**Redemption Amount at** At maturity, you will receive a Redemption Amount that is greater than the principal amount if the value of the Market Measure increases from the Starting Value to the

**Maturity:**

Ending Value. However, in no event will the Redemption Amount exceed the Capped Value. If the value of the Market Measure decreases from the Starting Value to the Ending Value, you will be subject to 1-to-1 downside exposure to that decrease, and will receive a Redemption Amount that is less than the principal amount.

**Any payments due on the ARNs, including any repayment of principal, are subject to our credit risk as issuer of ARNs.**

The Redemption Amount, denominated in U.S. dollars, will be calculated as follows:



You will receive per unit:

$$\text{Principal Amount} \times \left( \frac{\text{Ending Value}}{\text{Starting Value}} \right)$$

**Principal at Risk:**

You may lose all or a significant portion of the principal amount of your ARNs. Further, if you sell your ARNs prior to maturity, you may find that the market value per ARN is less than the price that you paid for your ARNs.

**Calculation Agent:**

The calculation agent will make all determinations associated with the ARNs. Unless otherwise set forth in the applicable term sheet, we will appoint MLPF&S or one of its affiliates to act as calculation agent for the ARNs. See the section entitled “Description of ARNs—Role of the Calculation Agent.”

**Agents:**

MLPF&S and one or more of its affiliates will act as our agents in connection with each offering of ARNs and will receive an underwriting discount based on the number of units of ARNs sold. None of the agents is your fiduciary or advisor solely as a result of the making of any offering of ARNs, and you should not rely upon this product supplement, the term sheet, or the accompanying prospectus as investment advice or a recommendation to purchase ARNs.

**Listing:**

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

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

The ARNs are not required to be and have not been registered under the U.S. Securities Act of 1933. Neither we nor any agent is making an offer to sell ARNs in any jurisdiction where the offer or sale is not permitted.

IFC is subject to certain information requirements, promulgated by the SEC under the International Finance Corporation Act of 1955, as amended, and in accordance therewith files its unaudited quarterly and audited annual financial statements, its annual report and other information with the SEC. You may obtain these documents at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, these documents are available on the SEC's website at <http://www.sec.gov>. You may also get these documents and other documents that IFC has filed for free on the IFC's website at: [http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Finance/Investor+Information](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Finance/Investor+Information). The link to IFC's website is provided only for the purpose of accessing these documents. Other than as set forth in the applicable term sheet, IFC's website and the documents posted on that website are not incorporated by reference.

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

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

## RISK FACTORS

*Your investment in ARNs is subject to investment risks, many of which differ from those of a conventional debt security. Your decision to purchase ARNs should be made only after carefully considering the risks, including those discussed below, in light of your particular circumstances. ARNs are not an appropriate investment for you if you are not knowledgeable about the material terms of ARNs or investments in equity or equity-based securities in general.*

### **General Risks Relating to ARNs**

**Your investment may result in a loss; there is no guaranteed return of any principal.** There is no fixed principal repayment amount on ARNs at maturity. The return on ARNs will be based on the performance of the Market Measure and therefore, you may lose all or a significant portion of your investment if the value of the Market Measure decreases from the Starting Value to the Ending Value.

**Your return on the ARNs may be less than the yield on a conventional fixed or floating rate debt security of comparable maturity.** There will be no periodic interest payments on ARNs as there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. Any return that you receive on ARNs may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in ARNs may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

**Your investment return is limited to the return represented by the Capped Value and may be less than a comparable investment directly in the Market Measure.** The appreciation potential of ARNs is limited to the Capped Value. You will not receive a Redemption Amount greater than the Capped Value, regardless of the appreciation of the Market Measure. In contrast, a direct investment in the Market Measure (or the securities included in the Market Measure) would allow you to receive the full benefit of any appreciation in the value of the Market Measure (or those underlying securities).

In addition, unless otherwise set forth in the applicable term sheet, the Ending Value will not reflect the value of dividends paid, or distributions made, on the securities included in the Market Measure or any other rights associated with those securities. Thus, any return on the ARNs will not reflect the return you would realize if you actually owned the securities underlying the Market Measure.

Additionally, the Market Measure may consist of one or more equity indices that include components traded in a non-U.S. currency. If the value of that currency strengthens against the U.S. dollar during the term of your ARNs, you may not obtain the benefit of that increase, which you would have received if you had owned the securities included in the index or indices.

**Payments on ARNs are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of ARNs.** We are a supranational organization providing financing and financial services primarily to the private sector in developing countries that are our members. ARNs are our senior unsecured debt securities, and are not, either directly or indirectly, an obligation of any third party. As a result, your receipt of the Redemption Amount at maturity is dependent upon our ability to repay our obligations on the maturity date, regardless of whether the Ending Value is greater than the Starting Value. No assurance can be given as to what our financial condition will be on the maturity date. If we become unable to meet our financial obligations as they become due, you may not receive the amounts payable under the terms of the ARNs.

In addition, our credit ratings are an assessment by ratings agencies of our ability to pay our obligations. Consequently, our perceived creditworthiness and actual or anticipated decreases in our credit ratings or increases in the spread between the yield on our securities and the yield on U.S. Treasury securities (the “**credit spread**”) prior to the maturity date may adversely affect the market value of ARNs. However, because your return on ARNs depends upon factors in addition to our ability to pay our obligations, such as the value of the Market Measure, an improvement in our credit ratings will not reduce the other investment risks related to ARNs.

**The initial estimated value of the ARNs considers certain assumptions and variables and relies in part on certain forecasts about future events, which may prove to be incorrect.** The initial estimated value of the ARNs, which will be set forth in the applicable term sheet, is an estimate only, determined as of a particular point in time by reference to our pricing models. These pricing models consider certain assumptions and variables, including our credit spreads, our internal funding rate on the pricing date, mid-market terms on hedging transactions, expectations on interest rates and volatility, price-sensitivity analysis, and the expected term of the ARNs. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

**The public offering price you pay for the ARNs will exceed the initial estimated value.** If you attempt to sell the ARNs prior to maturity, their market value may be lower than the price you paid for them and lower than the initial estimated value. This is due to, among other things, changes in the value of the Market Measure, the internal funding rate we pay to issue market-linked notes, and the inclusion in the public offering price of the underwriting discount and an expected hedging related charge. These factors, together with various credit, market and economic factors over the term of the ARNs, are expected to reduce the price at which you may be able to sell the ARNs in any secondary market and will affect the value of the ARNs in complex and unpredictable ways.

The initial estimated value does not represent a minimum or maximum price at which we, MLPF&S or any of its affiliates would be willing to purchase your ARNs in any secondary market (if any exists) at any time. The value of your ARNs at any time after issuance will vary based on many factors that cannot be predicted with accuracy, including the performance of the Market Measure, our creditworthiness and changes in market conditions.

**We cannot assure you that there will be a trading market for your ARNs.** If a secondary market exists, we cannot predict how the ARNs will trade, or whether that market will be liquid or illiquid. The development of a trading market for ARNs will depend on various factors, including our financial performance and changes in the value of the Market Measure. The number of potential buyers of your ARNs in any secondary market may be limited. There is no assurance that any party will be willing to purchase your ARNs at any price in any secondary market.

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

Unless otherwise stated in the term sheet, we will not list ARNs on any securities exchange. Even if an application were made to list your ARNs, we cannot assure you that the

application will be approved or that your ARNs will be listed and, if listed, that they will remain listed for their entire term. The listing of ARNs on any securities exchange will not necessarily ensure that a trading market will develop, and if a trading market does develop, that there will be liquidity in the trading market.

**The Redemption Amount will not reflect changes in the value of the Market Measure other than during the Maturity Valuation Period.** Changes in the value of the Market Measure during the term of ARNs other than during the Maturity Valuation Period will not be reflected in the calculation of the Redemption Amount. To calculate the Redemption Amount, the calculation agent will compare only the Ending Value to the Starting Value. No other values of the Market Measure will be taken into account. As a result, even if the value of the Market Measure has increased at certain times during the term of the ARNs, you will receive a Redemption Amount that is less than the principal amount if the Ending Value is less than the Starting Value.

**The respective publishers of the applicable indices may adjust those indices in a way that affects their levels, and these publishers have no obligation to consider your interests.** Unless otherwise specified in the term sheet, we have no affiliation with any publisher of any index to which your ARNs are linked (each, an “**Index Publisher**”) and no Index Publisher will be involved in any offerings of ARNs in any way. None of our proceeds from any issuance of ARNs will be delivered to any Index Publisher, except to the extent that we are required to pay an Index Publisher licensing fees with respect to an index included in the Market Measure.

Consequently, we have no control over the actions of any Index Publisher, including any actions of the type that would require the calculation agent to make adjustments to the level of the index. No Index Publisher will have any obligation of any sort with respect to ARNs. Thus, no Index Publisher has any obligation to take your interests into consideration for any reason, including in taking any actions that may affect the value of your ARNs. For example, the Index Publisher can add, delete, or substitute the components included in that index or make other methodological changes that could change its level. A new security included in an index may perform significantly better or worse than the replaced security, and the performance will impact the level of the applicable index. Additionally, an Index Publisher may alter, discontinue, or suspend calculation or dissemination of an index. Any of these actions could adversely affect the value of your ARNs.

**Exchange rate movements may impact the value of ARNs.** If any security included in the Market Measure is traded in a currency other than U.S. dollars and, for purposes of the applicable index, is converted into U.S. dollars, then the value of the Market Measure may depend in part on the relevant exchange rates. If the value of the U.S. dollar strengthens against the currencies of that index, the level of the applicable index may be adversely affected and the Redemption Amount may be reduced. Exchange rate movements may be particularly impacted by existing and expected rates of inflation and interest rate levels, political, civil or military unrest, the balance of payments between countries, and the extent of governmental surpluses or deficits in the countries relevant to the applicable index and the United States. All of these factors are in turn sensitive to the monetary, fiscal, and trade policies pursued by the governments of those countries and the United States and other countries important to international trade and finance.

**If you attempt to sell ARNs prior to maturity, their market value, if any, will be affected by various factors that interrelate in complex ways, and their market value may be less than the principal amount.** You have no right to have your ARNs redeemed prior to maturity. If you wish to liquidate your investment in ARNs prior to maturity, your only option would be to sell them. At that time, there may be an illiquid market for your ARNs or no market at all. Even if you were able to sell your ARNs, there are many factors outside of our



control that may affect their market value, some of which, but not all, are stated below. The impact of any one factor may be offset or magnified by the effect of another factor. The following paragraphs describe a specific factor's expected impact on the market value of ARNs, *assuming all other conditions remain constant.*

- **Value of the Market Measure.** We anticipate that the market value of ARNs prior to maturity generally will depend to a significant extent on the value of the Market Measure. In general, it is expected that the market value of ARNs will decrease as the value of the Market Measure decreases, and increase as the value of the Market Measure increases. However, as the **value** of the Market Measure increases or decreases, the market value of ARNs is not expected to increase or decrease at the same rate. If you sell your ARNs when the value of the Market Measure is less than, or not sufficiently above the applicable Starting Value, then you may receive less than the principal amount of your ARNs.

In addition, because the Redemption Amount will not exceed the applicable Capped Value, we do not expect that the ARNs will trade in any secondary market at a price that is greater than the Capped Value.

- **Volatility of the Market Measure.** Volatility is the term used to describe the size and frequency of market fluctuations. Increases or decreases in the volatility of the Market Measure may have an adverse impact on the market value of ARNs. Even if the value of the Market Measure increases after the applicable pricing date, if you are able to sell your ARNs before their maturity date, you may receive substantially less than the amount that would be payable at maturity based on that value because of the anticipation that the value of the Market Measure will continue to fluctuate until the Ending Value is determined.
- **Economic and Other Conditions Generally.** The general economic conditions of the capital markets in the United States, as well as geopolitical conditions and other financial, political, regulatory, and judicial events and related uncertainties that affect stock markets generally, may adversely affect the value of the Market Measure and the market value of ARNs. If the Market Measure is an index that is calculated based upon securities prices in one or more non-U.S. markets (a "**non-U.S. Market Measure**"), the value of your ARNs may also be adversely affected by similar events in the markets of the relevant foreign countries.
- **Interest Rates.** We expect that changes in interest rates will affect the market value of ARNs. In general, if U.S. interest rates increase, we expect that the market value of ARNs will decrease, and conversely, if U.S. interest rates decrease, we expect that the market value of ARNs will increase. In general, we expect that the longer the amount of time that remains until maturity, the more significant the impact of these changes will be on the value of the ARNs. In the case of a non-U.S. Market Measure, the level of interest rates in the relevant foreign countries may also affect their economies and in turn the value of the non-U.S. Market Measure, and, thus, the market value of the ARNs may be adversely affected.
- **Dividend Yields.** In general, if cumulative dividend yields on the securities included in the Market Measure increase, we anticipate that the market value of ARNs will decrease; conversely, if those dividend yields decrease, we anticipate that the market value of your ARNs will increase.
- **Exchange Rate Movements and Volatility.** If the Market Measure of your ARNs is a non-U.S. Market Measure, changes in, and the volatility of, the exchange rates between the U.S. dollar and the relevant non-U.S. currency or currencies could have a negative

impact on the value of your ARNs, and the Redemption Amount may depend in part on the relevant exchange rates. In addition, the correlation between the relevant exchange rate and any applicable non-U.S. Market Measure reflects the extent to which a percentage change in that exchange rate corresponds to a percentage change in the applicable non-U.S. Market Measure, and changes in these correlations may have a negative impact on the value of your ARNs.

- **Our Financial Condition and Creditworthiness.** Our perceived creditworthiness, including any increases in our credit spreads and any actual or anticipated decreases in our credit ratings, may adversely affect the market value of the ARNs. In general, we expect the longer the amount of time that remains until maturity, the more significant the impact will be on the value of the ARNs. However, a decrease in our credit spreads or an improvement in our credit ratings will not necessarily increase the market value of ARNs.
- **Time to Maturity.** There may be a disparity between the market value of the ARNs prior to maturity and their value at maturity. This disparity is often called a time “value,” “premium,” or “discount,” and reflects expectations concerning the value of the Market Measure prior to the maturity date. As the time to maturity decreases, this disparity may decrease, such that the value of the ARNs will approach the expected Redemption Amount to be paid at maturity.

**Trading and hedging activities by us, the agents, or their affiliates may affect your return on the ARNs and their market value.** We, the agents, or their affiliates may buy or sell the securities included in the Market Measure, futures or options contracts on the Market Measure or its component securities, or other listed or over the counter derivative instruments linked to the Market Measure or its component securities. We, the agents, or their affiliates may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our or their obligations under ARNs. These transactions could adversely affect the value of these securities and, in turn, the value of the Market Measure in a manner that could be adverse to your investment in ARNs. On or before the applicable pricing date, any purchases or sales by us, the agents, or their affiliates, or others on our or their behalf may increase the value of the Market Measure or its component securities. Consequently, the value of the Market Measure or the securities included in the Market Measure may decrease subsequent to the pricing date of an issue of ARNs, adversely affecting the market value of ARNs.

We, the agents, or their affiliates may also engage in hedging activities that could increase the value of the Market Measure on the applicable pricing date. In addition, these activities may decrease the market value of your ARNs prior to maturity, including during the Maturity Valuation Period, and may reduce the Redemption Amount. We, the agents, or their affiliates may purchase or otherwise acquire a long or short position in ARNs, and may hold or resell ARNs. For example, the agents may enter into these transactions in connection with any market making activities in which they engage. We cannot assure you that these activities will not adversely affect the value of the Market Measure, the market value of your ARNs prior to maturity or the Redemption Amount.

**Our trading, hedging and other business activities, or those of the agents, may create conflicts of interest with you.** We, the agents, or their affiliates may engage in trading activities related to the Market Measure and to securities included in the Market Measure that are not for your account or on your behalf. We, the agents, or their affiliates also may issue or underwrite other financial instruments with returns based upon the Market Measure. These trading and other business activities may present a conflict of interest between your interest in ARNs and the interests we, the agents or their affiliates may have in our or their proprietary accounts, in facilitating transactions, including block trades, for our or their other customers, and in accounts under our or their management. These trading and

other business activities, if they influence the value of the Market Measure or secondary trading in your ARNs, could be adverse to your interests as a beneficial owner of ARNs.

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

**There may be potential conflicts of interest involving the calculation agent. We have the right to appoint and remove the calculation agent.** We expect to appoint MLPF&S or one of its affiliates as the calculation agent for ARNs and, as such, it will determine the Starting Value, the Ending Value, and the Redemption Amount. As the calculation agent, MLPF&S or one of its affiliates will have discretion in making various determinations that affect your ARNs. The exercise of this discretion by the calculation agent could adversely affect the value of your ARNs and may present the calculation agent with a conflict of interest of the kind described under “—Trading and hedging activities by us, the agents, or their affiliates may affect your return on the ARNs and their market value” and “—Our trading, hedging and other business activities, and those of the agents, may create conflicts of interest with you” above.

**Each beneficial owner of the ARNs must act independently in exercising any remedies.** The ARNs will not be issued under an indenture. Therefore, the beneficial owners of the ARNs will not be represented by a trustee, and they will not receive the benefits provided by the Trust Indenture Act of 1939, as amended. As a result, each owner of a beneficial interest in the ARNs will be responsible for acting independently with respect to certain matters affecting that beneficial owner’s ARNs, including, where applicable, accelerating the maturity upon the occurrence of an event of default, enforcing any covenants and responding to any requests for consents, waivers or amendments.

**The U.S. federal income tax consequences of an investment in ARNs are uncertain, and may be adverse to a holder of ARNs.** No statutory, judicial, or administrative authority directly addresses the characterization of ARNs or securities similar to ARNs for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in ARNs are not certain. Under the terms of ARNs, you may be required to treat ARNs as pre-paid cash settled derivative contracts, as described under “Supplemental Discussion of U.S. Federal Income Tax Consequences—U.S. Holders.” If the Internal Revenue Service (the “IRS”) were successful in asserting an alternative characterization for ARNs, the timing and character of gain or loss with respect to ARNs may differ. No ruling will be requested from the IRS with respect to ARNs and no assurance can be given that the IRS will agree with the statements made in the section entitled “Supplemental Discussion of U.S. Federal Income Tax Consequences.”

**ARNs linked to a Market Measure with constituent U.S. securities may be subject to U.S. withholding taxes imposed on “dividend equivalent” payments.** The U.S. Hiring Incentives to Restore Employment Act introduced Section 871(m) of the U.S. Internal Revenue Code of 1986 (the “Code”), which treats a “dividend equivalent” payment as a dividend from sources within the United States for U.S. federal income tax purposes. Such payments

generally would be subject to a 30 per cent. U.S. withholding tax that may be reduced by an applicable tax treaty, eligible for credit against other U.S. tax liabilities or refunded, provided that the beneficial owner timely claims a credit or refund from the IRS. A “dividend equivalent” payment is (i) a substitute dividend payment made pursuant to a securities lending or a sale-repurchase transaction that (directly or indirectly) is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States, (ii) a payment made pursuant to a “specified notional principal contract” that (directly or indirectly) is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States, and (iii) any other payment determined by the IRS to be substantially similar to a payment described in (i) and (ii). Recently published final U.S. Treasury regulations issued under Section 871(m) (the “**Section 871(m) Regulations**”) will, when effective, require withholding on certain non-U.S. holders of equity-linked instruments with respect to amounts treated as attributable to dividends from certain U.S. securities. Under the Section 871(m) Regulations, only an equity-linked instrument that has an expected economic return sufficiently similar to that of an underlying U.S. security (including an underlying U.S. security that is a constituent stock of the relevant Market Measure), as determined on the equity-linked instrument's issue date based on tests set forth in the Section 871(m) Regulations, will be subject to the Section 871(m) withholding regime. We do not expect to have any obligation to withhold on payments under the ARNs in respect of Section 871(m). We can provide no assurances, however, that no broker, custodian or other intermediary in the payment chain will be required to so withhold. In the event that withholding under Section 871(m) is required by an entity in the payment chain, no person will be required to pay any additional amounts with respect to amounts so withheld.

**You are urged to consult with your own tax advisor regarding all aspects of the U.S. federal income tax consequences of investing in ARNs.**

#### **Risks Relating to the Market Measure**

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

**You will have no rights as a security holder, you will have no rights to receive any of the securities represented by the Market Measure, and you will not be entitled to dividends or other distributions by the issuers of these securities.** ARNs are our debt securities. They are not equity instruments, shares of stock, or securities of any other issuer. Investing in ARNs will not make you a holder of any of the securities represented by the Market Measure. You will not have any voting rights, any rights to receive dividends or other distributions, or any other rights with respect to those securities. As a result, the return on your ARNs may not reflect the return you would realize if you actually owned those securities and received the dividends paid or other distributions made in connection with them. Additionally, the levels of certain indices reflect only the prices of the securities included in that index and do not take into consideration the value of dividends paid on those securities. Your ARNs will be paid in cash and you have no right to receive delivery of any of these securities.

**If the Market Measure to which your ARNs are linked includes equity securities traded on foreign exchanges, your return may be affected by factors affecting**

**international securities markets.** The value of securities traded outside of the U.S. may be adversely affected by a variety of factors relating to the relevant securities markets. Factors which could affect those markets, and therefore the return on your ARNs, include:

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

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

- **Publicly Available Information.** There is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the SEC. In addition, accounting, auditing, and financial reporting standards and requirements in foreign countries differ from those applicable to U.S. reporting companies.

**Unless otherwise set forth in the applicable term sheet, we and the agents do not control any company included in any Market Measure and have not verified any disclosure made by any other company.** We, the agents, or their affiliates currently, or in the future, may engage in business with companies included in a Market Measure, and we, the agents, or their affiliates may from time to time own securities of companies included in a Market Measure. However, none of us, the agents, or any of their affiliates has the ability to control the actions of any of these companies or has undertaken any independent review of, or made any due diligence inquiry with respect to, any of these companies, unless (and only to the extent that) the securities of us, the agents, or their affiliates are represented by that Market Measure. In addition, unless otherwise set forth in the applicable term sheet, none of us, the agents, or any of their affiliates is responsible for the calculation of any index represented by a Market Measure. You should make your own investigation into the Market Measure.

Unless otherwise set forth in the applicable term sheet, none of the companies included in the Market Measure will be involved in any offering of ARNs or will have any obligation of any sort with respect to ARNs. As a result, none of those companies will have any obligation to take your interests as holders of ARNs into consideration for any reason, including taking any corporate actions that might adversely affect the value of the securities represented by the Market Measure or the value of ARNs.

**Our business activities and those of the agents relating to the companies represented by a Market Measure or the ARNs may create conflicts of interest with you.**

We, the agents, or their affiliates, at the time of any offering of ARNs or in the future, may engage in business with the companies represented by the Market Measure, including, where applicable, making loans to, equity investments in, providing guarantees on behalf of, (and solely in the case of the agents and their affiliates, providing investment banking or asset management services to), or other services to those companies, their affiliates, and their competitors.

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

**General Risks Relating to the Global Medium Term Note Program**

**The conditions of the ARNs contain provisions which may permit their modification without the consent of all investors.** The conditions of the ARNs set forth under the heading “Terms and Conditions of the Notes” in the prospectus contain provisions for calling meetings of ARN holders, to consider matters affecting their interests generally. These provisions permit defined majorities to bind all ARN holders, including ARN holders who did not attend and vote at the relevant meeting and ARN holders who voted in a manner contrary to the majority. At such a meeting, a certain majority of ARN holders can, among other things, approve amendments to the maturity date of ARNs, reduce their nominal amount or redemption amount, amend the dates of payment of interest or the interest rates, if any, and vary the currency or currencies of payment or denomination of the ARNs.

**Changes in creditworthiness of our clients may affect our financial condition.** As described in more detail in our Information Statement, we are an experienced supranational organization providing financing and financial services primarily to the private sector in developing countries that are our members. Our investment products include, among others, loans, equity and quasi-equity investments, guarantees and partial credit guarantees, and client risk management products. Our disbursed investment portfolio is diversified by country, region, industry, sector and project type, and it operates under a comprehensive enterprise risk management framework. The value of our investments, and the financial returns on them, are subject to the risk of adverse changes in the financial condition of our clients, which may arise from factors specific to a particular client or industry or from changes in the macroeconomic environment or the financial markets in the countries in which a client operates. Moreover, an increase in financial market volatility and adverse changes in the liquidity of its assets could impair our ability to value certain of its assets and exposures or result in significant changes in the fair values of these assets and exposures, which could be materially different from the current or estimated fair value. Any of these factors could require us to recognize write-downs or realize impairment charges, any of which may adversely affect our financial condition.

**Other Risk Factors Relating to the Applicable Market Measure**

The applicable term sheet may set forth additional risk factors as to the Market Measure that you should review prior to purchasing ARNs.

## **USE OF PROCEEDS**

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



## DESCRIPTION OF ARNS

### General

Each issue of ARNs will be part of a series of global medium-term notes issued under the Global Medium-Term Note Program, as described in the accompanying prospectus. The following description of ARNs supplements and, to the extent it is inconsistent with, supersedes the general terms and conditions of the notes and debt securities set forth under the heading “Terms and Conditions of the Notes” in the prospectus. These documents should be read in connection with the applicable Final Terms (as this term is used in the “Terms and Conditions of the Notes” in the prospectus), which includes the applicable term sheet and the Annex A included therein. Notwithstanding the foregoing, in the event of any inconsistency between the Final Terms and any other document (including, without limitation, the following description of ARNs), the applicable Final Terms shall prevail.

The maturity date of the ARNs and the aggregate principal amount of each issue of ARNs will be stated in the term sheet. If the scheduled maturity date is not a Business Day, we will make the required payment on the next Business Day, and no interest will accrue as a result of such delay.

We will not pay interest on ARNs. ARNs do not guarantee the return of principal at maturity. ARNs will be payable only in U.S. dollars.

Prior to the maturity date, ARNs are not redeemable by us or repayable at the option of any holder. ARNs are not subject to any sinking fund.

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

### Payment at Maturity

At maturity, subject to our credit risk as issuer of ARNs, you will receive a Redemption Amount, denominated in U.S. dollars. The “**Redemption Amount**” will be calculated as follows:

- If the Ending Value is greater than the Starting Value, then the Redemption Amount will equal:

$$\text{Principal Amount} + \left[ \text{Principal Amount} \times \text{Participation Rate} \times \left( \frac{\text{Ending Value} - \text{Starting Value}}{\text{Starting Value}} \right) \right]$$

The Redemption Amount will not exceed a “**Capped Value**” set forth in the term sheet.

- If the Ending Value is less than or equal to the Starting Value, then the Redemption Amount will equal:

$$\text{Principal Amount} \times \left( \frac{\text{Ending Value}}{\text{Starting Value}} \right)$$

The Redemption Amount will not be less than zero.

Your participation in any upside potential of the Market Measure underlying your ARNs will also be impacted by the Participation Rate. The “**Participation Rate**” will be 300% for ARNs unless otherwise set forth in the term sheet.

Each term sheet will provide examples of Redemption Amounts based on a range of hypothetical Ending Values.

If specified in the term sheet, your ARNs may be “**Relative Value ARNs**,” the return on which will be determined based on the relative performance of two or more indices. The specific terms of any Relative Value ARNs will be set forth in the term sheet.

The term sheet will set forth information as to the specific Market Measure, including information as to the historical values of the Market Measure. However, historical values of the Market Measure are not indicative of the future performance of the Market Measure or the performance of your ARNs.

An investment in ARNs does not entitle you to any ownership interest, including any voting rights, dividends paid, interest payments, or other distributions, in the securities of any of the companies included in a Market Measure.

## **The Starting Value and the Ending Value**

### **Starting Value**

Unless otherwise specified in the term sheet, the “**Starting Value**” will equal the closing level of the Market Measure on the pricing date.

### **Ending Value**

Unless otherwise specified in the term sheet, the “**Ending Value**” will equal the average of the closing levels of the Market Measure determined on each calculation day during the Maturity Valuation Period.

The “**Maturity Valuation Period**” means the period consisting of one or more calculation days shortly before the maturity date. The timing and length of the period will be set forth in the term sheet.

A “**calculation day**” means any Market Measure Business Day during the Maturity Valuation Period.

Unless otherwise specified in the applicable term sheet, a “**Market Measure Business Day**” means a day on which (1) the New York Stock Exchange (the “**NYSE**”) and The NASDAQ Stock Market, or their successors, are scheduled to be open for trading and (2) the Market Measure or any successor is scheduled to be calculated and published.

If (i) a Market Disruption Event occurs on a scheduled calculation day during the Maturity Valuation Period or (ii) any scheduled calculation day is determined by the calculation agent not to be a Market Measure Business Day by reason of an extraordinary event, occurrence, declaration, or otherwise (any such day in either (i) or (ii) being a “**non-calculation day**”), the closing level of the Market Measure for the applicable non-calculation day will be the closing level of the Market Measure on the next calculation day that occurs during the Maturity Valuation Period. For example, if the first and second scheduled calculation days during the Maturity Valuation Period are non-calculation days, then the closing level of the Market Measure on the next calculation day will also be the closing level for the Market Measure on the first and second scheduled calculation days during the Maturity Valuation Period. If no

further calculation days occur after a non-calculation day, or if every scheduled calculation day during the Maturity Valuation Period is a non-calculation day, then the closing level of the Market Measure for each following non-calculation day (or for all the scheduled calculation days during the Maturity Valuation Period, if applicable) will be determined (or, if not determinable, estimated) by the calculation agent in a commercially reasonable manner on the last scheduled calculation day during the Maturity Valuation Period, regardless of the occurrence of a Market Disruption Event on that last scheduled calculation day.

### **Market Disruption Events**

For an index, a “**Market Disruption Event**” means any of the following events, as determined by the calculation agent in its sole discretion:

- (A) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange where the securities included in an index trade (without taking into account any extended or after-hours trading session), in 20% or more of the securities which then compose the index or any successor index; and
- (B) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange that trades options contracts or futures contracts related to the index (without taking into account any extended or after-hours trading session), whether by reason of movements in price otherwise exceeding levels permitted by the relevant exchange or otherwise, in options contracts or futures contracts related to the index, or any successor index.

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

- (1) a limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange;
- (2) a decision to permanently discontinue trading in the relevant futures or options contracts related to the index, or any successor index, will not constitute a Market Disruption Event;
- (3) a suspension in trading in a futures or options contract on the index, or any successor index, by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts, or (c) a disparity in bid and ask quotes relating to those contracts will constitute a suspension of or material limitation on trading in futures or options contracts related to the index;
- (4) a suspension of or material limitation on trading on the relevant exchange will not include any time when that exchange is closed for trading under ordinary circumstances; and
- (5) if applicable to indices with component securities listed on the NYSE, for the purpose of clause (A) above, any limitations on trading during significant market fluctuations under NYSE Rule 80B, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self-regulatory organization or the SEC of similar scope as determined by the calculation agent, will be considered “material.”

## **Adjustments to an Index**

After the applicable pricing date, an Index Publisher may make a material change in the method of calculating an index or in another way that changes the index such that it does not, in the opinion of the calculation agent, fairly represent the level of the index had those changes or modifications not been made. In this case, the calculation agent will, at the close of business in New York, New York, on each date that the closing level is to be calculated, make adjustments to the index. Those adjustments will be made in good faith as necessary to arrive at a calculation of a level of the index as if those changes or modifications had not been made, and calculate the closing level of the index, as so adjusted.

## **Discontinuance of an Index**

After the pricing date, an Index Publisher may discontinue publication of an index to which an issue of ARNs is linked. The Index Publisher or another entity may then publish a substitute index that the calculation agent determines, in its sole discretion, to be comparable to the original index (a “**successor index**”). If this occurs, the calculation agent will substitute the successor index as calculated by the relevant Index Publisher or any other entity and calculate the Ending Value as described under “—The Starting Value and the Ending Value”. If the calculation agent selects a successor index, the calculation agent will give written notice of the selection to the Global Agent, to us and to the holders of the ARNs.

If an Index Publisher discontinues publication of the index before the end of the Maturity Valuation Period and the calculation agent does not select a successor index, then on each day that would have been a calculation day, until the earlier to occur of:

- the determination of the Ending Value; and
- a determination by the calculation agent that a successor index is available,

the calculation agent will compute a substitute level for the index in accordance with the procedures last used to calculate the index before any discontinuance as if that day were a calculation day. The calculation agent will make available to holders of the ARNs information regarding those levels by means of Bloomberg L.P., Thomson Reuters, a website, or any other means selected by the calculation agent in its reasonable discretion.

If a successor index is selected or the calculation agent calculates a level as a substitute for an index, the successor index or level will be used as a substitute for all purposes, including for the purpose of determining whether a Market Disruption Event exists.

Notwithstanding these alternative arrangements, any modification or discontinuance of the publication of any index to which your ARNs are linked may adversely affect trading in the ARNs.

## **Role of the Calculation Agent**

The calculation agent has the sole discretion to make all determinations regarding ARNs as described in this product supplement, including determinations regarding the Starting Value, the Ending Value, the Market Measure, the Redemption Amount, any Market Disruption Events, a successor index, Market Measure Business Days, Business Days, calculation days, non-calculation days, and calculations related to the discontinuance of any index. Absent manifest error, all determinations of the calculation agent will be conclusive for all purposes and final and binding on you and us, without any liability on the part of the calculation agent.

We expect to appoint MLPF&S or one of its affiliates as the calculation agent for each issue of ARNs. However, we may change the calculation agent at any time without notifying you. The identity of the calculation agent will be set forth in the applicable term sheet.

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

ARNs will be delivered in book-entry form only through The Depository Trust Company (“DTC”) against payment by purchasers of ARNs in immediately available funds. We will pay the Redemption Amount in immediately available funds so long as the ARNs are maintained in book-entry form.

### **Holders of Record for ARNs**

We will register a global certificate representing each issue of ARNs in the name of Cede & Co., or other nominee of DTC. Accordingly, Cede & Co. will be the “holder” of such ARNs. Beneficial interests in a global certificate will be represented, and transfers thereof will be effected, only through book-entry accounts of financial institutions acting on behalf of the beneficial owners of that global certificate, as a direct or indirect participant in the clearing system for that global certificate. We and the Global Agent may treat the holder as the absolute owner of ARNs represented by a global certificate for the purpose of making payments and for all other purposes. Owners of beneficial interest in a global certificate are not the owners or holders of that global certificate and, except under limited circumstances, are not entitled to have ARNs registered in their names or to receive definitive ARNs. Accordingly, any beneficial owner must rely on the procedures of the participant through which the beneficial owner owns its interest, to exercise any rights of a holder of the global certificate. See “Form of Notes and Provisions Relating to the Notes while in Global Form—Registered Notes” and “Clearance and Settlement” in the prospectus.

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

Events of default are defined in the prospectus. If such an event occurs and is continuing, unless otherwise stated in the term sheet, the amount payable to a holder of ARNs upon any acceleration permitted under the prospectus will be equal to the Redemption Amount described under the caption “—Payment at Maturity,” determined as if the ARNs matured on the date of acceleration. In case of a default in payment of ARNs, whether at their maturity or upon acceleration, they will not bear a default interest rate. For additional discussion of these matters, please see the discussion in the prospectus under the heading “Terms and Conditions of the Notes— Events of Default” beginning on page 36.

### **Governing Law**

The ARNs will be governed by the laws of the state of New York.

### **Listing**

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

## **SUPPLEMENTAL PLAN OF DISTRIBUTION**

MLPF&S and one or more of its affiliates may act as our agents for any offering of the ARNs. The agents may act on either a principal basis or an agency basis, as set forth in the applicable term sheet.

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

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

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

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

## **SUPPLEMENTAL DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES**

*The following is a general description of certain U.S. tax considerations relating to the ARNs. It does not purport to be a complete analysis of all tax considerations relating to the ARNs. Prospective purchasers of the ARNs should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United States of acquiring, holding and disposing of the ARNs and receiving payments under the ARNs. This summary is based upon the law as in effect on the date of this product supplement and is subject to any change in law that may take effect after such date. For additional information, see "Tax Matters" in the prospectus.*

### **Supplemental U.S. Tax Considerations**

The following disclosure has been prepared without regard to any particular ARN that you may purchase and, therefore, is provided solely as a matter of general information. You should not rely upon the following disclosure or the disclosure under "Tax Matters" in the prospectus with regard to an investment in any particular ARN because they do not take into account the terms of any particular ARN or the tax consequences of investing in or holding any particular ARN unless the pricing supplement applicable to your ARNs expressly indicates that you may rely on those disclosures. Any ARN that you purchase may have terms that would result in a tax treatment that is significantly different from the treatment described below. For example, the discussion below assumes that an investor in the ARNs will be subject to a significant risk that it will lose a significant amount of its investment in the ARNs. If an investor in the ARNs is not subject to a significant risk that it will lose a significant amount of its investment in the ARNs, the tax treatment of that ARN may differ substantially from that described in the discussion below. There may be other features or terms of your ARNs that will cause this tax section to be inapplicable to your ARNs.

Consequently, any tax disclosure relevant to any ARN you may purchase will be set forth only in the pricing supplement relating to your ARN, and, unless the pricing supplement indicates otherwise, you should not rely on the tax disclosure below or in the prospectus in deciding whether to invest in any ARN. Moreover, in all cases, you should consult with your own tax advisor concerning the consequences of investing in and holding any particular ARN you propose to purchase.

### **U.S. Holders**

The following section supplements the discussion of U.S. federal income taxation in the prospectus with respect to U.S. Holders (as defined in the prospectus) that purchase their ARNs in an initial offering. Except as otherwise noted under "Non-U.S. Holders" below, it applies only to those U.S. Holders who are not excluded from the discussion of U.S. federal income taxation in the prospectus.

NO STATUTORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE ARNS SHOULD BE TREATED FOR U.S. FEDERAL INCOME TAX PURPOSES. AS A RESULT, THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE ARNS ARE UNCERTAIN. BECAUSE OF THE UNCERTAINTY, YOU SHOULD CONSULT YOUR TAX ADVISOR IN DETERMINING THE U.S. FEDERAL INCOME TAX AND OTHER TAX CONSEQUENCES OF YOUR INVESTMENT IN THE ARNS, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

Depending on the terms of the ARNs you may actually purchase, it may be reasonable to treat a ARN with terms described in this product supplement as a pre-paid cash-settled derivative contract in respect of the Market Measure for U.S. federal income tax purposes, and

the terms of the ARNs may require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the ARNs for all tax purposes in accordance with such characterization. If the ARNs are so treated, a U.S. Holder should generally recognize capital gain or loss upon the sale or maturity of the ARNs in an amount equal to the difference between the amount a holder receives at such time and the holder's tax basis in the ARNs. In general, a U.S. Holder's tax basis in the ARNs will be equal to the price the holder paid for the ARNs. Capital gain recognized by an individual U.S. Holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations. The holding period for ARNs of a U.S. Holder who acquires the ARNs upon issuance will generally begin on the date after the issue date (i.e., the settlement date) of the ARNs. If the ARNs are held by the same U.S. Holder until maturity, that holder's holding period will generally include the maturity date. It is possible that the Internal Revenue Service could assert that a U.S. Holder's holding period in respect of the ARNs should end on the date on which the amount the holder is entitled to receive upon the maturity of the ARNs is determined, even though the holder will not receive any amounts from us in respect of the ARNs prior to the maturity of the ARNs. In such case, a U.S. Holder may be treated as having a holding period in respect of the ARNs that is one year or less even if the holder receives cash upon maturity of the ARNs at a time that is more than one year after the beginning of its holding period.

#### *Alternative Treatments.*

Alternative tax treatments of the ARNs are also possible and the Internal Revenue Service might assert that a treatment other than that described above is more appropriate. For example, it may be possible to treat the ARNs, and the Internal Revenue Service might assert that the ARNs should be treated, as a single debt instrument. If the ARNs have a term that exceeds one year, such a debt instrument may be subject to the special tax rules governing contingent payment debt instruments. If the ARNs have a term of one year or less, the rules applicable to short-term debt securities may apply.

If the Market Measure is an index that periodically rebalances, it is possible that the ARNs could be treated as a series of derivative contracts, each of which matures on the next rebalancing date. If the ARNs were properly characterized in such a manner, a holder would be treated as disposing of the ARNs on each rebalancing date in return for new derivative contracts that mature on the next rebalancing date, and a holder would accordingly likely recognize capital gain or loss on each rebalancing date equal to the difference between the holder's basis in the ARNs (which would be adjusted to take into account any prior recognition of gain or loss) and the fair market value of the ARNs on such date.

Because of the absence of authority regarding the appropriate tax characterization of the ARNs, it is also possible that the Internal Revenue Service could seek to characterize the ARNs in a manner that results in tax consequences that are different from those described above. For example, the Internal Revenue Service could possibly assert that any gain or loss that a holder may recognize upon the sale or maturity of the ARNs should be treated as ordinary gain or loss.

The Internal Revenue Service has released a notice that may affect the taxation of holders of the ARNs. According to the notice, the Internal Revenue Service and the Treasury Department are actively considering whether the holder of an instrument such as the ARNs should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the ARNs will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The Internal Revenue Service and the Treasury Department are also



considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital and whether the special “constructive ownership rules” of Section 1260 of the Code might be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. Unless stated otherwise in the relevant pricing supplement, we intend to treat the ARNs for U.S. federal income tax purposes in accordance with the treatment described in this product supplement unless and until such time as the Treasury Department and Internal Revenue Service determine that some other treatment is more appropriate.

#### *Information With Respect to Foreign Financial Assets*

Certain holders that own “specified foreign financial assets” that meet certain U.S. dollar value thresholds will generally be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stock or securities issued by non-United States persons, (ii) financial instruments and contracts held for investment that have non-United States issuers or counterparties, and (iii) interests in foreign entities. The ARNs may be subject to these rules. U.S. Holders are urged to consult their tax advisors regarding the application of this legislation to their ownership of the ARNs.

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

The following discussion applies to Non-U.S. Holders of the ARNs. A Non-U.S. Holder is a beneficial owner of an ARN that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation, or a foreign estate or trust.

A Non-U.S. Holder will generally not be subject to U.S. federal income or withholding tax for amounts paid in respect of the ARNs, provided that (i) the holder complies with any applicable certification requirements, (ii) the payment is not effectively connected with the conduct by the holder of a U.S. trade or business, and (iii), if the holder is a non-resident alien individual, such holder is not present in the United States for 183 days or more during the taxable year of the sale or maturity of the ARNs. In the case of clause (ii) above, the holder generally would be subject to U.S. federal income tax with respect to any income or gain in the same manner as if the holder were a U.S. Holder and, in the case of a holder that is a corporation, the holder may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable U.S. income tax treaty) of a portion of its earnings and profits for the taxable year that are effectively connected with its conduct of a trade or business in the United States, subject to certain adjustments.

#### *Additional Information for Non-U.S. Holders*

Non-U.S. Holders should also review the discussion in “—United States Federal Estate Tax” under “Tax Matters” in the prospectus.

#### ***United States Information Reporting and Backup Withholding***

We are not subject to the reporting requirements that generally are imposed by U.S. law with respect to certain payments of interest or principal on debt obligations, nor are we subject to backup withholding obligations imposed in certain circumstances by U.S. law with respect to such payments.

Additionally, while U.S. Treasury regulations confirm that the backup withholding requirements do not apply to any of our paying agents with respect to the ARNs, payments in respect of the ARNs by other U.S. intermediaries will be reported to the Internal Revenue

Service and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding may apply to these payments by other U.S. intermediaries if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to otherwise comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of an ARN.

Non-U.S. Holders may be required to comply with applicable certification requirements to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

## ERISA CONSIDERATIONS

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

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

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

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

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

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

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

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

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