

J.P. MORGAN RISK DISCLOSURE

THIS RISK DISCLOSURE DOES NOT PURPORT TO DISCLOSE OR DISCUSS ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE TRANSACTIONS DISCUSSED IN MORE DETAIL BELOW. YOU HAVE ADVISED ME TO, AND I SHALL, CONSULT WITH MY OWN LEGAL, TAX, FINANCIAL AND ACCOUNTING ADVISORS TO THE EXTENT I HAVE DEEMED NECESSARY. IN MAKING INVESTMENTS IN ANY OF THE TRANSACTIONS DESCRIBED BELOW, I SHALL RELY ON MY OWN EVALUATION OF INFORMATION THAT I RECEIVE.

■ OTC DERIVATIVES

Most OTC Derivatives take one of four basic forms, although the forms can be overlapping and one transaction can involve elements of all four forms. These basic forms are 1) swaps, 2) options, 3) forwards and 4) hybrid instruments (which are debt obligations with an embedded swap, option or forward). OTC Derivatives can be settled in cash or settled by physical delivery of property against cash. No matter what form is involved, a common feature of all OTC Derivatives is that the obligations of one or both of the parties are based on price movements in an underlying financial or commodity market from which the transaction is derived.

I acknowledge that I should not enter into an OTC Derivative unless I understand:

- the fundamentals of the market underlying such OTC Derivative;
- the legal terms and conditions of the documentation for such OTC derivative;
- the extent of the economic risk to which I am exposed as a result of such OTC Derivative (and determine that such risk is suitable for me in light of my financial circumstances and objectives);
- the income tax treatment of such OTC Derivative, which can be complex; and
- the regulatory treatment of such OTC Derivative.

The following specific points should be considered in deciding whether to enter into a particular OTC Derivative:

• **Market Risk.** To the extent my payments or receipts in an OTC Derivative are linked to prices in a particular market, I will be exposed to price volatility in that market.

• **Credit Risk.** JPMorgan Chase Bank will generally be my counterparty in an OTC Derivative arranged by any Morgan Affiliate, including J.P. Morgan Securities LLC. I will therefore be dependent upon the financial capacity of my counterparty, JPMorgan Chase Bank, to meet its obligations to me under each option contract prior to the expiration date, and will be an unsecured creditor of JPMorgan Chase Bank (as opposed to being a creditor of a central clearing corporation as would be the case with exchange-traded futures and options). An OTC Derivative with JPMorgan Chase Bank as my counterparty will not represent a deposit or savings account, and my claim against JPMorgan Chase Bank will not be insured by the FDIC or any other government entity.

• **Non-Transferability and Non-Marketability.** OTC Derivatives will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any state unless otherwise specified in writing. OTC Derivatives will ordinarily be sold and offered exempt from registration under the Securities Act by virtue of Section 4(2) of the Act and/or Regulation D thereunder. There will be no public market for OTC Derivatives. I will be required to represent that I am acquiring OTC Derivatives for investment purposes only and not with a view to resale or distribution. OTC Derivatives purchased from you or the Morgan Affiliate cannot be assigned or transferred without your prior written consent or that of the Morgan Affiliate. Further, I must bear the economic risk of my investment. An OTC Derivative generally cannot be assigned or transferred without the consent of the other party. If the OTC Option is an American Option, I may exercise it according to its terms and realize any intrinsic value it may have at any time. If it is a European Option, it may only be exercised at its expiration unless you agree to early termination. You may, but are not obligated to, consent to the early termination of any OTC Derivative prior to its scheduled maturity. It therefore may be impossible for me to liquidate any OTC Derivatives prior to maturity. Because OTC Derivatives are not standardized, engaging in an OTC Derivative transaction with another dealer to offset an OTC derivative I have entered into with you will not automatically close out those positions (as would be true in the case of equivalent exchange-traded futures and options) and will not necessarily function as a perfect hedge. I will continue to be obligated as the seller of an OTC Option unless it is exercised or sold back to you.

• **Trade Execution & Price Transparency.** JPMorgan Chase Bank or one of its affiliates will be my only counterparty in an OTC Derivative. Terms and pricing of OTC Derivatives are individually negotiated, and there is no central source for obtaining prices. As similar transactions may be priced differently, you do not represent that your prices will always be the best prices available to me.

• **Option Risk.** Option transactions can be very risky. The risk of selling (writing) options is considerably greater than the risk involved in buying options. If I buy an option, I cannot lose more than my premium. If I sell (write) an option, the risk can be unlimited. For example, if I sell a call to you, I will give up the rights to any appreciation of the call above the strike price. The risk can be reduced if I own a position in the asset underlying the option. I am aware that fluctuations in currency exchange rates may affect the value of any OTC Option on securities trading in or denominated in a foreign currency, as well as the value of any payment or delivery of securities in connection with such OTC Option. I also understand that fluctuations in currency exchange rates may affect the value of any payment or delivery of securities in connection with such OTC Option.

• **Documentation.** To ensure that I clearly understand the terms and conditions of OTC Derivatives entered into by me, my counsel and I should review carefully the documentation for any OTC Derivative.

• **Collateral.** You may require that I provide collateral at special levels to support my obligations under OTC Derivatives with you. I may be required to deliver additional Collateral to meet Collateral requirements. You will not provide collateral to me.

You strongly suggest that I review all materials pertaining to the risks associated with OTC Derivatives. Accordingly, when I enter into OTC Derivatives with you, you assume that I understand the characteristics and risk associated with such transactions.

■ UNCOVERED OPTIONS

There are special risks associated with uncovered option writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all clients approved for options transactions.

The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.

As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially **substantial** losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, you may liquidate stock or options positions in the investor's account, with little or no prior notice in accordance with the investor's margin agreement.

For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.

If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.

The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period.

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NOTE: It is expected that I will read the booklet entitled *Characteristics and Risks of Standardized Options* available from my account representative. In particular, I will direct my attention to the chapter entitled *Risks of Buying and Writing Options*. This statement is not intended to enumerate all of the risks entailed in writing uncovered options. You understand that by my entering into an option contract, I thereby confirm that I have received and read the aforementioned booklet.

■ EMERGING MARKETS

I understand that emerging markets Securities and other transactions involving emerging markets Securities are subject to substantial risk relating to a number of factors, including, but not limited to: (1) economic and political instability in the region(s) where issuers of emerging markets Securities conduct business; (2) significant volatility in the markets for emerging markets Securities and the currencies in which they may be denominated; and (3) the potential for loss of my entire investment as a result of insolvency, market or government action, or other similar factors which could render the Securities valueless.

I am also aware that generally less information is publicly available with respect to emerging markets issuers and obligors than is available with respect to United States companies, and that many emerging markets companies are not subject to the uniform accounting and financial reporting requirements applicable to issuers and obligors in the United States; additionally, accounting, auditing, financial and other reporting standards in emerging markets jurisdictions are often not equivalent to the standards established in the United States, and therefore disclosure of certain material information may not be made.

There may exist only small markets for certain emerging markets Securities, resulting in low or non-existent volumes of trading in such assets, and therefore a lack of liquidity and price volatility of such assets. Settlement periods for transactions of emerging markets Securities may also be longer than settlement times for assets of United States issuers, and settlement systems may be unreliable. This may also affect the liquidity and price volatility of emerging markets Securities.

I understand the risks are significantly more pronounced in derivative instruments (options, swaps, futures, etc.) on emerging markets Securities. I assume responsibility for the risks as they relate to my investment decisions in derivative instruments on emerging markets Securities.

I understand that you are acting solely upon my instructions and I acknowledge that neither you nor any Morgan Affiliate has made any representation or warranty, express or implied, as to the purchase or sale of emerging markets Securities or any information relating thereto, and I assume responsibility for all risks relating to my investments in emerging markets transactions.