

Counterparty

Subject: Validation and Verification of Netting Agreements

The purpose of this memo is to describe the status related to validation of the legal enforceability of netting agreements and verification that netting agreements are filed and current. Work on these efforts will continue to progress in conjunction with integration activities. The attached PDF contains counterparty exposure management and reporting processes related to the Bank Charter Consolidation which occurs on March 20.

The Counterparty Risk team Netting Specialist to focus on netting data and processes. The Netting Specialist works with the Credit Risk, Legal, Front Office, Global Derivatives Documentation, Collateral Risk Management and Finance teams to independently ensure the information required to net counterparty exposure is correct in Adaptiv, resulting in accurate netted exposure values. Credit reserve amounts and Basel capital allocations are highly reliant upon this information being valid.

***Validation of legal enforceability of netting agreements***

A full review of legacy East and West counterparty agreements and netting provisions is occurring in conjunction with Bank Charter Consolidation. This involves reviewing all governing ISDA agreements (Master, Schedule and CSA if applicable) and subsequent recording of data to Adaptiv to reflect the applicable terms that will affect exposure aggregation. Counterparties with overlapping ISDA agreements are being consolidated and will be reviewed by the Netting Specialist and submitted to Legal for Netting or Collateral Netting Enforceability Opinions. These Opinions supersede any previous opinion and are effective upon the Bank Charter Consolidation

The Netting Specialist is included in the ongoing consolidation meetings and is copied on any updates or changes to Counterparty information.

There are upwards of 200 overlapping Counterparties between East and West. Approximately 100 Counterparties (primarily dealers with larger exposures) have been consolidated and will be recorded to Adaptiv with (if applicable) netting rules/opinions. The consolidation process is ongoing and timing of execution is dependent on the Counterparty response. Currently we maintain an inventory of more than 200, primarily legacy East netting opinions, which is growing. The focus has been on Dealer and larger Counterparty exposures. A review of Counterparties (upwards of 600) has been occurring as consolidation efforts continue and products are transitioned to Adaptiv.

Overlapping Counterparties who are not consolidated under an ISDA agreement, will remain under their current legacy ISDA agreement until such consolidation occurs. If netting is applicable

it will remain in effect for these Counterparty exposures within Adaptiv. Currently OTC interest rate, currency, foreign exchange, commodity, equity and credit derivative transactions are considered for netting purposes unless explicitly excluded under the ISDA agreement.

***Verification that all netting agreements are filed & current***

As part of the Bank Charter Consolidation process, the Netting Specialist has been provided Counterparty reports by product (Commodity, Interest Rate, FX) to use as a foundation to build out data on Adaptiv and to determine Netting Opinion request priorities. This will help ensure all netting rules applied to their exposure. Post consolidation, the Netting Specialist will review for the inclusion of the legacy

The ongoing process requires that netting requests for opinions are first sent to the Netting Specialist who reviews the inquiry, exposure, trade activity and Counterparty ISDA documentation. All requests are documented and tracked and submitted to Legal for drafting. Completed Opinions are maintained on the Master Agreements Legal Opinion SharePoint site and working towards a goal of having Finance, Risk and Front Office all working from this single repository of Legal opinion information. The repository is being further organized and reconciled to reflect the combined and growing firm. The Netting Specialist ensures Netting and Collateral enforceability opinions issued by Legal are unqualified before setting aggregation methodology. The Netting Specialist and Legal have a weekly meeting to discuss any pertinent information or developments.

While the Netting Specialist is the central hub for ensuring that netting and collateral terms in Master Agreements are appropriately applied to counterparty-level exposure calculations, reliance is placed on the Derivative Counterparty Documentation team's ISDA process for the applicable netting provisions. The Netting Specialist works directly with the teams to ensure the ISDA agreements are on file and are current. This also includes FX Netting Authorizations and OTC Agreements.