

Blueknight Energy Partners, L.P.
Form 424B2
September 16, 2014
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Registration No. 333-197796

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 16, 2014

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated September 12, 2014)

Blueknight Energy Partners, L.P.

8,500,000 Common Units

Representing Limited Partner Interests

We are offering 8,500,000 common units representing limited partner interests in Blueknight Energy Partners, L.P. Our common units trade on the Nasdaq Global Market (Nasdaq) under the symbol **BKEP**. The last reported trading price of our common units on Nasdaq on September 15, 2014 was \$8.45 per common unit. Our Series A preferred units trade on the Nasdaq under the symbol **BKEPP**. The last reported trading price of our Series A preferred units on Nasdaq on September 15, 2014 was \$9.93 per Series A preferred unit.

Investing in our common units involves risks. See Risk Factors on page S-10 of this prospectus supplement and page 3 of the accompanying base prospectus.

Per Common Unit Total

Public Offering Price	\$	\$
Underwriting Discounts and Commissions	\$	\$
Proceeds, Before Expenses, to Blueknight Energy Partners, L.P.	\$	\$

We have granted the underwriters a 30-day option to purchase up to an additional 1,275,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 8,500,000 common units in this offering.

None of the Securities and Exchange Commission, any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying base prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units on or about _____, 2014.

Wells Fargo Securities

RBC Capital Markets

BofA Merrill Lynch

Stephens Inc.

Prospectus Supplement dated

**SunTrust Robinson Humphrey
, 2014.**

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**IMPORTANT INFORMATION IN THIS PROSPECTUS SUPPLEMENT
AND THE ACCOMPANYING PROSPECTUS**

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of common units. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to this offering of common units. Generally, when we refer only to the prospectus, we are referring to both parts combined. If the information about the common unit offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Please read **Information Incorporated by Reference** on page S-22 of this prospectus supplement.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying base prospectus and any free writing prospectus prepared by or on behalf of us relating to this offering of common units. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the common units, and seeking offers to buy the common units, only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus supplement, the accompanying base prospectus or any free writing prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference herein is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

None of Blueknight Energy Partners, L.P., the underwriters or any of their respective representatives is making any representation to you regarding the legality of an investment in our common units by you under applicable laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of an investment in our common units.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus supplement and the documents we incorporate by reference herein contain forward-looking statements. Statements included in this prospectus supplement and the documents we incorporate by reference herein that are not historical facts (including any statements regarding plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements can be identified by the use of forward-looking terminology including may, will, should, believe, expect, intend, anticipate, estimate, continue, or other similar words. The discussion of future expectations, contain projections of results of operations or of financial condition, or state other forward-looking information. We and our representatives may from time to time make other oral or written statements that are also forward-looking statements. All forward-looking statements are made based on information currently available to us.

Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other

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things, those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013 as well as the following risks and uncertainties:

dependence on certain key customers for a portion of our revenues;

our exposure to credit risk of our third-party customers;

uncertainties relating to our debt levels and restrictions in our credit facility;

access to capital and anticipated liquidity;

the timing and extent of changes in commodity prices, interest rates and demand for our services;

the level of crude oil production around our assets;

competition within our industry;

our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets;

changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;

general economic, market and business conditions; and

the risks described elsewhere in this prospectus supplement and in the documents incorporated by reference herein.

Before you invest, you should be aware that the occurrence of any of the events described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013 could substantially harm our business, results of operations and financial condition. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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SUMMARY

*This summary highlights information contained elsewhere in or incorporated by reference into this prospectus supplement and the accompanying base prospectus. It does not contain all of the information that you should consider before making an investment decision. You should read this entire prospectus supplement, the accompanying base prospectus and the documents incorporated herein by reference for a more complete understanding of this offering of common units. Please read **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2013 for information regarding risks you should consider before investing in our common units. Unless the context otherwise indicates, the information included in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units.*

*Throughout this prospectus supplement, when we use the terms **we**, **us**, **our** or **the Partnership**, we are referring either to Blueknight Energy Partners, L.P. in its individual capacity or to Blueknight Energy Partners, L.P. and its operating subsidiaries collectively, as the context requires. References in this prospectus supplement to our **general partner** refer to Blueknight Energy Partners G.P., L.L.C. References in this prospectus supplement to **Vitol** refer collectively to Vitol Holding B.V. and its affiliates (other than our general partner, us and our affiliates), and references to **Charlesbank** refer collectively to Charlesbank Capital Partners, LLC and its affiliates (other than our general partner, us and our affiliates).*

Overview

Blueknight Energy Partners, L.P. is a publicly traded master limited partnership with operations in twenty-two states. We provide integrated terminalling, storage, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and liquid asphalt cement. We manage our operations through four operating segments: (i) crude oil terminalling and storage services; (ii) crude oil pipeline services; (iii) crude oil trucking and producer field services; and (iv) asphalt services.

Crude Oil Terminalling and Storage Services. With approximately 7.8 million barrels of above-ground crude oil terminalling facilities and storage tanks, we are able to provide our customers the ability to effectively manage their crude oil inventories and enhance flexibility in their marketing and operating activities. Our crude oil terminalling and storage assets are located throughout our core operating areas with the majority of our crude oil terminalling and storage strategically located at the Cushing Interchange in Cushing, Oklahoma. Our crude oil terminals and storage assets receive crude oil products from pipelines, including those owned by us, and distribute these products to interstate common carrier pipelines and regional independent refiners, among other third parties. Our crude oil terminals derive most of their revenues from terminalling services fees charged to customers.

Crude Oil Pipeline Services. We own and operate a crude oil gathering and transportation system in the Mid-Continent region of the United States with a combined length of approximately 510 miles and a 210-mile crude oil gathering and transportation pipeline in the Longview, Texas area. In addition, we own and operate the Eagle North Pipeline System in the Mid-Continent region of the United States with a length of approximately 200 miles. The Eagle North Pipeline System was placed in service in December of 2010.

Crude Oil Trucking and Producer Field Services. To complement our pipeline gathering and transportation business, we use our approximately 170 owned or leased tanker trucks, which have an average tank size of approximately 200 barrels, to move crude oil to aggregation points, pipeline injection stations and storage facilities. Several of our trucking services operating areas are not currently served by our gathering and transportation pipeline systems. In these areas, our trucking operations extend our ability to gather and aggregate crude oil on our systems.

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We provide a number of producer field services including gathering condensates by way of bobtail trucks for natural gas companies, hauling produced water to disposal wells, providing hot and cold fresh water, chemical and down-hole well treating, wet oil clean up and building and maintaining separation facilities. Our producer service fleet consists of approximately 130 trucks in a number of different sizes.

Asphalt Services. With approximately 7.0 million barrels of total asphalt product and residual fuel oil storage capacity, we are able to provide our customers the ability to effectively manage their asphalt product storage and processing and marketing activities. Our 42 terminals are located in 21 states and as such are well positioned to provide asphalt services in the market areas they serve throughout the continental United States. We serve the asphalt industry by providing our customers access to their market areas through a combination of the leasing of certain of our asphalt facilities and the provision of storage and processing services at other of our asphalt and residual fuel oil facilities. In our asphalt services segment, we generate revenues by charging a fee for the lease of a facility or for services provided as asphalt products are terminalled, stored and/or processed in our facilities. We do not take title to, or have marketing responsibility for, the liquid asphalt product that we terminal, store and/or process. As a result, our asphalt operations have minimal direct exposure to changes in commodity prices, but the volumes of liquid asphalt cement we terminal, store and/or process are indirectly affected by commodity prices.

Our Strengths and Strategies

Strategically placed assets. Our primary crude oil terminalling and storage facilities are located within the Cushing Interchange, one of the largest crude oil marketing hubs in the United States and the designated point of delivery specified in all New York Mercantile Exchange crude oil futures contracts. We believe that the Cushing Interchange will continue to serve as one of the largest crude oil marketing hubs in the United States. In addition, we have approximately 920 miles of strategically positioned gathering and transportation pipelines in Oklahoma and Texas as well as 42 asphalt terminals located in 21 states that we believe are well positioned to provide services in the market areas they serve throughout the continental United States.

Growth opportunities. We continually evaluate and pursue midstream projects to enhance the terminalling, storage, gathering and transportation services we provide to our customers. We have recently announced our plans to build a pipeline that will serve crude oil producers in the emerging East Texas Eaglebine/Woodbine crude oil resource play, representing a significant investment in a new system to ensure crude oil producers have access to key refining markets.

Experienced management team. Our general partner has an experienced and knowledgeable management team with extensive experience in the energy industry. We expect to directly benefit from this management team's strengths, including significant relationships throughout the energy industry with producers, marketers and refiners of crude oil and customers of our asphalt services.

Our relationship with Vitol and Charlesbank. Vitol and Charlesbank jointly own our general partner and therefore control our operations. Vitol owns a diversified portfolio of midstream energy assets in the United States and internationally. Charlesbank is a middle-market private equity investment firm based in Boston and New York. These relationships may provide us with additional capital sources for future growth as well as increased opportunities to provide terminalling, storage, processing, gathering and transportation services.

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Recent Developments

Credit Facility Amendment. On September 15, 2014, we entered into an amendment to our revolving credit facility, pursuant to which our revolving credit facility was amended to, among other things:

- (1) amend the maximum permitted consolidated total leverage ratio such that, after we have spent at least \$15.0 million of the projected capital expenditures for the Eaglebine pipeline project, such maximum ratio will be 5.00 to 1.00 for the fiscal quarters ending March 31, 2015 through September 30, 2016, 4.75 to 1.00 for the fiscal quarter ending December 31, 2016, and 4.50 to 1.00 for each fiscal quarter thereafter; provided that (x) after 50% of the projected capital expenditures for the Eaglebine pipeline project have been spent, we may elect to increase the maximum permitted consolidated total leverage ratio to 5.50 to 1.00 for two consecutive fiscal quarters ending on or before September 30, 2016, and (y) the maximum permitted consolidated total leverage ratio will be 5.50 to 1.00 from the later of the fiscal quarter ending March 31, 2015 and the date on which we issue qualified senior notes (as defined in our credit agreement, but generally being unsecured indebtedness with no required principal payments prior to June 28, 2019) in an aggregate principal amount (when combined with all other qualified senior notes previously or concurrently issued) that equals or exceeds \$200.0 million until September 30, 2016, and 5.00 to 1.00 for each fiscal quarter thereafter; and
- (2) increase the credit facility's limit for material project adjustments to EBITDA (as defined in the credit facility).

We paid a nominal fee to our lenders to obtain the amendment to our revolving credit facility.

Eaglebine Pipeline Project. On August 6, 2014, we announced our plans to build a 160-mile, 16-inch diameter pipeline linking the emerging East Texas Eaglebine/Woodbine crude oil resource play to a crude oil and product terminal on the Houston Ship Channel owned and operated by Oiltanking Partners, L.P. The pipeline will have an initial capacity of 100,000 barrels per day, will be expandable up to 200,000 barrels per day and will serve Eaglebine/Woodbine crude oil producers through two origination stations located near North Zulch and Madisonville with a third station near Roans Prairie planned to accommodate future production growth in the area. The pipeline will have the capability to segregate and batch crude oil in order to help producers capture value for this premium product. Construction on the pipeline will start immediately and is expected to be complete by March 2016.

The pipeline is estimated to cost approximately \$300 million, subject to final pipeline design and shipper commitments, and is backed by long-term shipper commitments, one of which is a transportation agreement with Eaglebine Crude Oil Marketing LLC (Eaglebine Crude), which is a joint venture between Vitol and SEI Energy, LLC. The initial term of the contract with Eaglebine Crude is for five years beginning on the first day of the month following the date that is thirty days after we notify Eaglebine Crude that the Eaglebine pipeline project is complete. Eaglebine Crude will pay throughput fees based on its per barrel daily volume commitment of at least 40,000 barrels per day (subject to possible adjustments under certain conditions).

Quarterly Update. We anticipate a decrease in revenue and net income for the quarter ending September 30, 2014 as compared to the quarter ended September 30, 2013. During the quarter ended September 30, 2013, we recognized \$6.9 million of revenue associated with the sale of crude oil related to accumulated pipeline loss allowances on our Eagle North and East Texas pipeline systems, which we do not anticipate will be at similar levels for the quarter ending September 30, 2014.

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Principal Executive Offices and Internet Address

Our principal executive offices are located at 201 NW 10th Street, Suite 200, Oklahoma City, Oklahoma 73103 and our telephone number is (405) 278-6400. Our website is located at www.bkep.com. We make available our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, the SEC or the Commission, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the Commission. The information on our website is not part of this prospectus, and you should rely only on information contained or incorporated by reference in this prospectus when making a decision as to whether or not to invest in the common units.

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The diagram below depicts our organization and ownership prior to this offering.

Simplified Organizational Structure Ownership of Blueknight Energy Partners, L.P.

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The Offering

Common units offered by us	8,500,000 common units. 9,775,000 common units if the underwriters exercise in full their option to purchase an additional 1,275,000 common units.
Common units outstanding before this offering	22,925,092 common units.
Units outstanding after this offering	31,425,092 common units, or 32,700,092 common units if the underwriters exercise in full their option to purchase the additional 1,275,000 common units. 30,158,619 Series A preferred units. Each Series A preferred unit is convertible into a common unit on a one-for-one basis, subject to certain anti-dilution adjustments.
Use of proceeds	We expect to receive net proceeds from this offering of approximately \$ million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this offering, including any net proceeds from the underwriters' exercise of their option to purchase additional common units, for general partnership purposes, including the repayment of a portion of the outstanding borrowings under our credit facility and partially funding the Eaglebine pipeline project. Our general partner does not intend to make a capital contribution to maintain its general partner interest in connection with this offering. Please read Use of Proceeds.
Cash distributions	On July 22, 2014, we announced a quarterly cash distribution of \$0.1325 per common unit, or \$0.53 per common unit on an annualized basis, for the second quarter of 2014. This cash distribution was paid on August 14, 2014 on all outstanding common units of record as of the close of business on August 4, 2014. This distribution reflects an increase of 1.9% over the previous quarter's distribution and an increase of 10.4% over the distribution for the second quarter of 2013. Within 45 days after the end of each quarter, we distribute our available cash to unitholders of record on the applicable record date. If cash distributions to our unitholders exceed certain minimum quarterly distribution and target distribution levels, our general partner will receive, in addition to distributions on its general partner interest, increasing

percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to these distributions as incentive distributions. Please read Cash Distribution Policy included in the accompanying base prospectus.

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Issuance of additional common units	We can issue an unlimited number of common units without the consent of our unitholders.
Voting rights	Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 2/3% of all outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon completion of this offering, our general partner, our directors and executive officers, Vitol and Charlesbank will beneficially own an aggregate of approximately 29.6% of our outstanding units. Please read <u>The Partnership Agreement Voting Rights</u> included in the accompanying base prospectus.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2016, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of \$0.53 per unit, we estimate that your average allocable federal taxable income per year will be no more than \$0.10 per unit. Please read <u>Material Income Tax Considerations</u> .
Material income tax considerations	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please read <u>Material Income Tax Considerations</u> in this prospectus supplement and <u>Material Federal Income Tax Considerations</u> in the accompanying base prospectus.
Nasdaq symbol	BKEP.
Risk factors	You should read the risk factors found in the documents incorporated herein by reference, as well as the other cautionary statements throughout this prospectus supplement, to ensure you understand the risks associated with an investment in our common units. Please read <u>Risk Factors</u> .

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The following table shows our summary consolidated financial information as of and for the periods indicated. We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, our historical consolidated financial statements and the accompanying notes incorporated herein by reference. The table should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014, which are incorporated herein by reference.

	Years Ended December 31,			Six Months Ended	
	2011	2012	2013	2013	2014
	June 30,				
	(in thousands, except for per unit data)				
Statement of Operations Data:					
Service revenues:					
Third party revenue	\$ 129,104	\$ 130,696	\$ 142,916	\$ 66,231	\$ 69,433
Related party revenue	44,089	48,153	51,755	23,983	22,806
Total revenue	173,193	178,849	194,671	90,214	92,239
Expenses:					
Operating	114,731	122,746	133,610	63,309	69,976
General and administrative	17,311	19,795	17,482	9,157	8,857
Total expenses	132,042	142,541	151,092	72,466	78,833
Asset impairment expense	(867)	(1,942)	(524)		
Gain on sale of assets	3,008	7,271	1,073	123	972
Operating income	43,292	41,637	44,128	17,871	14,378
Other income (expense):					
Equity earnings (loss) in unconsolidated affiliate			(502)	(173)	54
Interest expense	(32,898)	(11,705)	(11,615)	(7,291)	(6,686)
Change in fair value of embedded derivative within convertible debt	20,224				
Change in fair value of rights offering contingency	1,883				
Income from continuing operations before income taxes	32,501	29,932	32,011	10,407	7,746
Provision for income taxes	287	318	593	166	234
Net income from continuing operations	32,214	29,614	31,418	10,241	7,512
Income (loss) from discontinued operations	1,261	1,951	(3,383)	1,947	
Net income	\$ 33,475	\$ 31,565	\$ 28,035	\$ 12,188	\$ 7,512

Allocation of net income for purposes of calculating earnings per unit:					
General partner interest in net income	\$ 912	\$ 774	\$ 647	\$ 316	\$ 189
Preferred partners interest in net income	\$ 16,446	\$ 21,564	\$ 21,564	\$ 10,782	\$ 10,782
Accretion of discount on increasing rate preferred units	\$ 2,243	\$	\$	\$	\$
Beneficial conversion feature attributable to preferred units	\$ 43,259	\$ 1,853	\$	\$	\$
Beneficial conversion feature attributable to repurchase of preferred units	\$ (6,892)	\$	\$	\$	\$
Gain on extinguishment attributable to redemption of convertible debt, recorded as a capital transaction	\$ (2,375)	\$	\$	\$	\$

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	Years Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	(in thousands, except for per unit data)				
Net income (loss) available to limited partners	\$ (20,118)	\$ 7,374	\$ 5,824	\$ 1,090	\$ (3,459)
Basic and diluted net income (loss) per limited partner unit:					
Common units	\$ (0.61)	\$ 0.32	\$ 0.25	\$ 0.05	\$ (0.15)
Subordinated units	\$ (0.55)	\$	\$	\$	\$
Cash distributions per unit to limited partners(1):					
Paid	\$	\$ 0.44	\$ 0.48	\$ 0.23	\$ 0.26
Declared	\$ 0.11	\$ 0.45	\$ 0.49	\$ 0.23	\$ 0.26
Cash distributions per unit to preferred partners:					
Paid	\$ 0.52	\$ 0.71	\$ 0.72	\$ 0.36	\$ 0.36
Declared	\$ 0.58	\$ 0.72	\$ 0.72	\$ 0.36	\$ 0.36

As of December 31,	As of June 30,
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	2011	2012	2013	2013	2014	
						 = "WIDTH: 1.66%; VERTICAL-ALIGN: top"> No – share count and price changes are off-setting

Change in shares outstanding (secondary issuance, share repurchase and/or share	Yes – share count is revised to reflect new	Yes – divisor adjustment reflects change in market capitalization
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buy-back) count

Market-Linked Step Up Notes TS-9

Market-Linked Step Up Notes

Linked to the S&P 500[®] Index, due June , 2020

Spin-off if spun-off company is not being added to the Index	No	Yes – divisor adjustment reflects decline in index market value (i.e. value of the spun-off unit)
Spin-off if spun-off company is being added to the Index and no company is being removed	No	No
Spin-off if spun-off company is being added to the Index and another company is being removed	No.	Yes – divisor adjustment reflects deletion
Special dividends	No.	Yes – calculation assumes that share price drops by the amount of the dividend; divisor adjustment reflects this change in index market value
Change in IWF	No	Yes – divisor change reflects the change in market value caused by the change to an IWF
Company added to or deleted from the Index	No.	Yes – divisor is adjusted by the net change in market value
Rights offering	No.	Yes – divisor adjustment reflects increase in market capitalization (calculation assumes that offering is fully subscribed at the set price)

Disruptions due to Exchange Closure

When an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, the Index sponsor will calculate the closing level of the Index based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the Index. If an exchange fails to open due to unforeseen circumstances, the Index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the Index for that day.

Market-Linked Step Up Notes TS-10

Market-Linked Step Up Notes

Linked to the S&P 500[®] Index, due June , 2020

The following graph shows the daily historical performance of the Index in the period from January 1, 2008 through May 23, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On May 23, 2018, the closing level of the Index was 2,733.29.

Historical Performance of the Index

This historical data on the Index is not necessarily indicative of the future performance of the Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Index during any period set forth above is not an indication that the level of the Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the Index.

License Agreement

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WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT

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WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND US, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

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Supplement to the Plan of Distribution

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

We may deliver the notes against payment therefor in New York, New York on a date that is greater than two business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if the initial settlement of the notes occurs more than two business days from the pricing date, purchasers who wish to trade the notes more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these prices will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Index and the remaining term of the notes. However, none of us, MLPF&S, or any of our respective affiliates is obligated to purchase your notes at any price or at any time, and we cannot assure you that we, MLPF&S or any of our respective affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement produced by MLPF&S will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of its affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions, and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

The distribution of the Note Prospectus in connection with these offers or sales will be solely for the purpose of providing investors with the description of the terms of the notes that was made available to investors in connection with their initial offering. Secondary market investors should not, and will not be authorized to, rely on the Note Prospectus for information regarding BNS or for any purpose other than that described in the immediately preceding sentence.

An investor's household, as referenced on the cover of this term sheet, will generally include accounts held by any of the following, as determined by MLPF&S in its discretion and acting in good faith based upon information then available to MLPF&S:

the investor's spouse (including a domestic partner), siblings, parents, grandparents, spouse's parents, children and grandchildren, but excluding accounts held by aunts, uncles, cousins, nieces, nephews or any other family relationship not directly above or below the individual investor;

a family investment vehicle, including foundations, limited partnerships and personal holding companies, but only if the beneficial owners of the vehicle consist solely of the investor or members of the investor's household as described above; and

a trust where the grantors and/or beneficiaries of the trust consist solely of the investor or members of the investor's household as described above; provided that, purchases of the notes by a trust generally cannot be aggregated together with any purchases made by a trustee's personal account.

Purchases in retirement accounts will not be considered part of the same household as an individual investor's personal or other non-retirement account, except for individual retirement accounts ("IRAs"), simplified employee pension plans ("SEPs"), savings incentive match plan for employees ("SIMPLEs"), and single-participant or owners only accounts (i.e., retirement accounts held by self-employed individuals, business owners or partners with no employees other than their spouses).

Please contact your Merrill Lynch financial advisor if you have any questions about the application of these provisions to your specific circumstances or think you are eligible.

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Structuring the Notes

The notes are our unsecured senior debt securities, the return on which is linked to the performance of the Index. As is the case for all of our debt securities, including our market-linked notes, the economic terms of the notes reflect our actual or perceived creditworthiness at the time of pricing. The internal funding rate we use in pricing the market-linked note is typically lower than the rate we would pay when we issue conventional fixed-rate debt securities of comparable maturity. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, typically results in the initial estimated value of the notes on the pricing date being less than their public offering price.

At maturity, we are required to pay the Redemption Amount to holders of the notes, which will be calculated based on the performance of the Index and the \$10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately \$0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see “Risk Factors—General Risks Relating to the Notes” beginning on page PS-7 and “Use of Proceeds and Hedging” on page PS-17 of product prospectus supplement EQUITY INDICES SUN-1.

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Summary of Canadian Federal Income Tax Consequences

An investor should read carefully the description of principal Canadian federal income tax considerations under “Canadian Taxation” in the accompanying prospectus relevant to a holder (as defined on page 19 of the prospectus) owning debt securities, and the description of principal Canadian federal income tax considerations under “Supplemental Discussion of Canadian Federal Income Tax Consequences” in the applicable product prospectus supplement.

Summary of U.S. Federal Income Tax Consequences

The following is a general description of certain U.S. federal tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are residents for tax purposes and the tax laws of the U.S. of acquiring, holding and disposing of the notes and receiving payments under the notes. This summary is based upon the law as in effect on the date of this pricing supplement and is subject to any change in law that may take effect after such date. We urge you to read the more detailed discussion in the “Supplemental Discussion of U.S. Federal Income Tax Consequences” section beginning on page PS-30 of product prospectus supplement EQUITY INDICES SUN-1.

No statutory, regulatory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the notes are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the notes (and of having agreed to the required tax treatment of your notes described below) and as to the application of state, local or other tax laws to your investment in your notes and the possible effects of changes in federal or other tax laws.

Pursuant to the terms of the notes, BNS and you agree, in the absence of a statutory or regulatory change or administrative or judicial ruling to the contrary, to characterize your notes as a pre-paid derivative contract with respect to the Index. If your notes are so treated, you should generally recognize long-term capital gain or loss if you hold your notes for more than one year (and otherwise, short-term capital gain or loss) upon the taxable disposition of your notes in an amount equal to the difference between the amount you receive at such time and the amount you paid for your notes. The deductibility of capital losses is subject to limitations.

In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, it would be reasonable to treat your notes in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially from the treatment described above.

Notice 2008-2. In 2007, the Internal Revenue Service (the “IRS”) released a notice that may affect the taxation of holders of the notes. According to the notice, the IRS and the U.S. Treasury Department (the “Treasury”) are actively considering whether a holder of an instrument such as the notes 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 notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the Treasury are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether foreign holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special “constructive ownership rules” of Section 1260 of the Internal Revenue Code of 1986, as amended (the “Code”) should be applied to such instruments.

Medicare Tax on Net Investment Income. U.S. holders that are individuals or estates and certain trusts are subject to an additional 3.8% tax on all or a portion of their “net investment income,” or “undistributed net investment income” in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), \$125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust. The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their advisors with respect to the 3.8% Medicare tax.

Specified Foreign Financial Assets. U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other “specified foreign financial assets” (applying certain attribution rules) exceeds an applicable threshold. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so.

Backup Withholding and Information Reporting. The proceeds received from a taxable disposition of the notes will be subject to information reporting unless you are an “exempt recipient” and may also be subject to backup withholding at the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

Non-U.S. Holders. This section applies only if you are a non-U.S. holder. For these purposes, you are a non-U.S. holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

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· a non-resident alien individual;

· a foreign corporation; or

an estate or trust that, in either case, is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

If you are a non-U.S. holder, subject to Section 871(m) of the Code and FATCA, discussed below, you should generally not be subject to generally applicable information reporting and backup withholding requirements with respect to payments on your notes if you comply with certain certification and identification requirements as to your foreign status including providing us (and/or the applicable withholding agent) a properly executed and fully completed applicable IRS Form W-8. Subject to Section 897 and Section 871(m) of the Code, discussed below, gain from the taxable disposition of the notes or settlement at maturity generally will not be subject to U.S. tax unless (i) such gain is effectively connected with a trade or business conducted by you in the U.S. (ii) you are a non-resident alien individual and are present in the U.S. for 183 days or more during the taxable year of such sale, exchange or settlement and certain other conditions are satisfied, (iii) you fail to provide the relevant, correct, completed and executed IRS Form W-8 or (iv) you have certain other present or former connections with the U.S.

Section 897. We will not attempt to ascertain whether the issuer of any underlying equity constituent of the Index would be treated as a “United States real property holding corporation” (“USRPHC”) within the meaning of Section 897 of the Code. We also have not attempted to determine whether the notes should be treated as “United States real property interests” (“USRPI”) as defined in Section 897 of the Code. If an issuer of any underlying equity constituent of the Index or the notes were so treated, certain adverse U.S. federal income tax consequences could possibly apply, including subjecting any gain realized by a non-U.S. holder in respect of the notes upon a taxable disposition (including cash settlement) of the notes to U.S. federal income tax on a net basis, and the proceeds from such a taxable disposition to a withholding tax. Non-U.S. holders should consult their tax advisors regarding the potential treatment of any underlying equity constituent for their notes as a USRPHC or the notes as USRPI.

Section 871(m). A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain “dividend equivalents” paid or deemed paid to a non-U.S. holder with respect to a “specified equity-linked instrument” that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that have a delta of one (“delta one specified equity-linked instruments”) issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2018.

Based on our determination that the notes are not “delta-one” with respect to the Index or any U.S. Index components, our counsel is of the opinion that the notes should not be delta one specified equity-linked instruments and thus should not be subject to withholding on dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the Index or Index components or your notes, and following such occurrence your notes could be treated as delta one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if you enter, or have entered, into certain other transactions in respect of the Index or Index components or the notes. If you enter, or have entered, into other transactions in respect of the Index or Index components or the notes, you should consult your tax advisor regarding the application of Section 871(m) of the Code to your notes in the context of your other transactions.

Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the

30% withholding tax to an investment in the notes.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders. A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

FATCA. The Foreign Account Tax Compliance Act (“FATCA”) was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on “withholdable payments” (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and “passthru payments” (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

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Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA will generally apply to certain “withholdable payments” made on or after July 1, 2014, certain gross proceeds on a sale or disposition occurring after December 31, 2018, and certain foreign passthru payments made after December 31, 2018 (or, if later, the date that final regulations defining the term “foreign passthru payment” are published). If withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their notes through a non-U.S. entity) under the FATCA rules.

Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the notes, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of BNS).

Where You Can Find More Information

We have filed a registration statement (including a product prospectus supplement, a prospectus supplement, a prospectus addendum and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the “Market-Linked Investments”) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance. Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

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