

## **Plain English Summary of the Auction Methodology in the 2008 Icelandic Banks CDS Protocols**

This summary is based on the 2008 Landsbanki CDS Protocol / 2008 Glitnir CDS Protocol / 2008 Kaupping CDS Protocol, each as published by ISDA on October 27, 2008 (the **Protocols**) and summarises the auction methodology contained in Exhibit 2 to each the Protocol (the **Auction Methodology**). This summary is for informational purposes only, is not a summary of the entire Protocol and is subject to the terms of each Protocol in all respects. Market participants should examine the text of each Protocol itself before deciding whether to adhere to a Protocol or take any other action with respect thereto. ISDA makes no representation or warranty as to the accuracy or completeness of any information contained in this summary and accepts no liability for the accuracy or completeness of such information. All times of day herein refer to such times in London. Capitalised terms used but not defined in this summary having the meaning specified in the relevant Protocol.

Each of the Protocols is substantially the same in substance except that the auction and follow on dates differ.

### **Important Dates**

In respect of each Protocol

- October 27 → Protocol Published
- October 31 → Cut-Off Date for Adherence and Bidding Agreement Letters

In respect of the 2008 Landsbanki CDS Protocol

- November 4 → Auction Date
- November 7 → Deadline for receipt of Notice of Physical Settlement for trades formed under the Protocol
- December 19 → Physical Settlement Date for trades formed under the Protocol
- November 20 → Cash Settlement Date for Covered Transactions

In respect of the 2008 Glitnir CDS Protocol

- November 5 → Auction Date
- November 7 → Deadline for receipt of Notice of Physical Settlement for trades formed under the Protocol
- December 19 → Physical Settlement Date for trades formed under the Protocol
- November 20 → Cash Settlement Date for Covered Transactions

In respect of the 2008 Kaupping CDS Protocol

- November 6 → Auction Date
- November 10 → Deadline for receipt of Notice of Physical Settlement for trades formed under the Protocol
- December 22 → Physical Settlement Date for trades formed under the Protocol
- November 20 → Cash Settlement Date for Covered Transactions

### **Covered Transactions**

Each Protocol covers the following types of transactions, as further set out in Section 5 of the Protocol ("*Definitions*"):

- Tranching or untranching Transactions referencing a bespoke portfolio;
- Single name CDS Transactions;

- Constant Maturity Swap Transactions (both portfolio and single name);
- Principal Only and Interest Only Transactions;
- First to Default and Nth to Default Transactions;
- Recovery Lock Transactions; and
- Swaptions (both single name and portfolio);

subject in each case to certain provisos, including that Landsbanki Islands hf (**Landsbanki**) / Glitnir Banki hf (**Glitnir**) / Kaupping Banki hf (**Kaupping**) as appropriate is a Reference Entity under the Transaction and that the relevant portion of the Transaction is still outstanding. Transactions documented under either the 1999 or 2003 Credit Derivatives Definitions that meet the relevant criteria are covered by the relevant Protocol.

The Protocols exclude certain Transactions such as Reference Obligation Only Transactions, Loan Only Transactions, Preferred CDS Transactions and Fixed Recovery Transactions.

### **Auction Timing**

#### October 31, 2008

Before 5:00 p.m. Participating Bidders submit Bidding Agreement Letters.

#### November 3, 2008

The Administrators publish a list of the Participating Bidders.

#### November 4, 5 or 6, 2008 (Auction Date)

The auction procedures described below will be conducted and a Final Price will be determined to be applied to all of the Covered Transactions.

The Deliverable Obligations for the auction are listed as "Senior Deliverable Obligations" or "Subordinate Deliverable Obligations", as the case may be, in the relevant Protocol and are available on the Landsbanki, Glitnir or Kaupping page of the ISDA website available at: [www.isda.org](http://www.isda.org).

Between **9:45 a.m. and 10:00 a.m.**, Participating Bidders submit Inside Market Bids, Inside Market Offers and Physical Settlement Requests in relation to the Senior Auction.

- Inside Market Bids and Inside Market Offers are firm quotations, expressed as percentages, to enter into credit derivative transactions in respect of Landsbanki/Glitnir/Kaupping, as appropriate, on terms equivalent to the Representative Auction-Settled Transaction specified in the Protocol. The Representative Auction-Settled Transaction is a deemed standard, single name credit default swap referencing Landsbanki/Glitnir/Kaupping as appropriate and assuming an Event Determination Date of October 8, 2008 in the case of Landsbanki and Glitnir or October 9, 2008 in the case of Kaupping.
- A Participating Bidder's Inside Market Bid and Inside Market Offer must differ by no more than 2% of par and must be in the size specified in the Protocol (\$5 million).
- Physical Settlement Requests (which may take into account Customer Physical Settlement Requests) are firm commitments, submitted by a Participating Bidder to enter into a Representative Auction-Settled Transaction. Each Dealer Physical Settlement Request must be, to the best of such Participating Bidder's knowledge and belief, in the same direction as, and not in excess of, its Market Position. Each Customer Physical Settlement Request must be, to the best of the relevant customer's knowledge and belief in the same direction as, and (when aggregated with

- all Customer Physical Settlement Requests submitted by such customer) not in excess of, its Market Position.<sup>1</sup>
- If the Administrators do not receive Valid Inside Market Submissions from at least eight Participating Bidders, the timeline will be adjusted according to the Auction Methodology, otherwise it will proceed as follows.

Between **10:00 a.m. and 10:30 a.m.**, the Administrators calculate the Open Interest, the Inside Market Midpoint, and any Adjustment Amounts in respect of the Senior Auction.

- The Open Interest is the difference between all Physical Settlement Sell Requests and all Physical Settlement Buy Requests.
- To determine the Inside Market Midpoint, the Administrators (1) sort the Inside Market Bids in descending order and the Inside Market Offers in ascending order, identifying non-tradeable markets for which bids are lower than offers, (2) sort non-tradeable markets in terms of tightness of spread between Inside Market Bid and Inside Market Offer and (3) identify that half of the non-tradeable markets with the tightest spreads. The Inside Market Midpoint is determined as the arithmetic mean of the Inside Market Bids and Inside Market Offers contained in the half of non-tradeable markets with the tightest spreads.
- Any Participating Bidder whose Inside Market Bid or Inside Market Offer forms part of a tradeable market may be required to make a payment to ISDA (an **Adjustment Amount**), calculated in accordance with the Auction Methodology.
- If for any reason no Inside Market Midpoint can be determined, the procedure set out above may be repeated as set out in the Auction Methodology.

No later than **10:30 a.m.**, the Administrators publish the Open Interest, the Inside Market Midpoint and the details of any Adjustment Amounts in respect of the Senior Auction.

Between **10:30 a.m. and 1:00 p.m.**, Participating Bidders canvass Limit Orders in relation to the Senior Auction.

Between **11:00 a.m. and 11:15 a.m.**, Participating Bidders submit Inside Market Bids, Inside Market Offers and Physical Settlement Requests in relation to the Subordinate Auction.

Between **11:15 a.m. and 11:45 a.m.**, the Administrators calculate the Open Interest, the Inside Market Midpoint, and any Adjustment Amounts in respect of the Subordinate Auction.

No later than **11:45 a.m.**, the Administrators publish the Open Interest, the Inside Market Midpoint and the details of any Adjustment Amounts in respect of the Subordinate Auction.

Between **11:45 a.m. and 2:45 p.m.**, Participating Bidders canvass Limit Orders in relation to the Subordinate Auction.

Between **12:45 p.m. and 1:00 p.m.**, Participating Bidders submit Limit Bids (if the Open Interest is an offer to sell Deliverable Obligations) or Limit Offers (if the Open Interest is a bid to purchase Deliverable Obligations) in relation to the Senior Auction.

- If the Open Interest is zero, the Final Price will be the Inside Market Midpoint.
- If the Open Interest is a bid to purchase Deliverable Obligations, the Administrators will match the Open Interest against all Inside Market Offers and Limit Offers as further described in the Auction Methodology. If the Open Interest is an offer to sell Deliverable Obligations, the Administrators

---

<sup>1</sup> "**Market Position**" means, in respect of a customer or a Participating Bidder, the aggregate amount of Deliverable Obligations the relevant Participating Bidder or customer, as applicable, would have to buy or sell in order to obtain an identical risk profile with respect to both (a) all Covered Transactions to which it or any of its affiliates is a party and for which every other party thereto is an Adhering Party and (b) all Auction-Linked Cash Settled Transactions, after settlement under the Protocol compared to its risk profile before settlement under the Protocol.

- will match the Open Interest against all Inside Market Bids and Limit Bids as further described in the Auction Methodology.
- The Final Price will be the price associated with the matched market that is the highest offer or the lowest bid, as applicable, provided that (a) if the Open Interest is an offer to sell and the price associated with the lowest matched bid is more than 1% of par higher than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint plus 1% of par and (b) if the Open Interest is a bid to purchase and the price associated with the highest offer is more than 1% of par lower than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint minus 1% of par.
  - If, once all the Inside Market Bids and Limit Bids or Inside Market Offers and Limit Offers, as applicable, have been matched to the Open Interest, part of the Open Interest remains, the Final Price will be (a) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of 100% or the highest Limit Offer or Inside Market Offer received or (b) if the Open Interest is an offer to sell Deliverable Obligations, zero.

No later than **1:30 p.m.**, the Administrators will publish on [www.creditfixings.com](http://www.creditfixings.com) (1) the Final Price, (2) the names of the Participating Bidders who submitted Bids, Offers and Physical Settlement Requests together with the details of all such Bids, Offers and Physical Settlement Requests submitted by each and (3) the details and size of all matched trades under the Senior Auction.

Between **2:30 p.m. and 2:45 p.m.**, Participating Bidders submit Limit Bids (if the Open Interest is an offer to sell Deliverable Obligations) or Limit Offers (if the Open Interest is a bid to purchase Deliverable Obligations) on behalf of customers and for their own account in relation to the Subordinate Auction.

No later than **3:45 p.m.**, the Administrators will publish on [www.creditfixings.com](http://www.creditfixings.com) (1) the Final Price, (2) the names of the Participating Bidders who submitted Bids, Offers and Physical Settlement Requests together with the details of all such Bids, Offers and Physical Settlement Requests submitted by each and (3) the details and size of all matched trades under the Subordinate Auction.

### **Execution of Trades Formed in the Auction**

Each Participating Bidder whose Limit Bid or Inside Market Bid (or Limit Offer or Inside Market Offer if applicable) is matched against the Open Interest, and each Participating Bidder that submitted a Physical Settlement Request, is deemed to have entered into a Representative Auction-Settled Transaction (**RAST**), and each customer that submitted such a Limit Bid, Limit Offer, or Physical Settlement Request is deemed to have entered into a RAST with the Dealer through whom the customer submitted such bid or offer. Accordingly, each such Participating Bidder or customer that is a seller of Deliverable Obligations pursuant to a trade formed in the auction must deliver by **4:00 p.m. on November 7, 2008** in the case of Landsbanki and Glitnir or by **4:00 p.m. on November 10, 2008** in the case of Kaupping to the buyer to whom such Participating Bidder or customer has been matched a Notice of Physical Settlement indicating the Deliverable Obligations that it will deliver, and such Deliverable Obligations will be sold to the buyer in exchange for payment of the Final Price determined in the Auction on November 4, 5 or 6, 2008 as appropriate. If the seller of Deliverable Obligations fails to deliver the Deliverable Obligations specified in the Notice of Physical Settlement, the buyer of Deliverable Obligations will have the applicable remedies set forth in the Credit Derivatives Definitions, as modified by the relevant Protocol.