



International Swaps and Derivatives Association, Inc.

## 2009 ECUADOR CDS PROTOCOL

published on January 6, 2009

by the International Swaps and Derivatives Association, Inc.

The International Swaps and Derivatives Association, Inc. ("**ISDA**") has published this 2009 Ecuador CDS Protocol (this "**Protocol**"), to enable parties to Covered Transactions to confirm their intentions in respect of certain matters arising in relation to certain credit derivative transactions which reference the Republic of Ecuador ("**Ecuador**").

Accordingly, a party that has entered and/or anticipates entering into a Covered Transaction may adhere to this Protocol and be bound by its terms by completing and delivering a letter substantially in the form of Exhibit 1 to this Protocol (an "**Adherence Letter**") to ISDA, as agent, as described below.

### 1. Amendments

By adhering to this Protocol in the manner set forth in Section 2 below, a party (an "**Adhering Party**") that has entered and/or anticipates entering into a Covered Transaction agrees, in each case on the terms and subject to the conditions set forth in this Protocol and the relevant Adherence Letter, that certain amendments will be deemed to be made to the Documentation governing each Covered Transaction between it and any other Adhering Party in accordance with the terms of Schedule 1.

### 2. Adherence and Effectiveness

- (a) Adherence to this Protocol will be evidenced by the execution and delivery, in accordance with the first sentence of Section 4(e) below, to ISDA, as agent, of an Adherence Letter on or before January 12, 2009 (the "**Cut-off Date**").
  - (i) Each Adhering Party will deliver two copies of the Adherence Letter, one a manually signed original and the other a conformed copy containing, in place of each signature, the printed or typewritten name of each signatory.
  - (ii) Each Adhering Party agrees that, for evidentiary purposes, a conformed copy of an Adherence Letter certified by the General Counsel or an appropriate officer of ISDA will be deemed to be an original.
- (b) The agreement to make the amendments contemplated by this Protocol, on the terms and subject to the conditions set forth in this Protocol, will, as between any two Adhering Parties, be effective on receipt by ISDA, as agent, of an Adherence Letter from the later of the Adhering Parties to adhere. Any such amendments will apply to each Covered Transaction between the Adhering Parties (whether entered into before, on or after the Cut-off Date).

- (c) This Protocol is intended for use without negotiation, but without prejudice to any amendment, modification or waiver in respect of a Covered Transaction that the parties may otherwise effect in accordance with the terms of that Covered Transaction and the Governing Master Agreement.
  - (i) In adhering to this Protocol, an Adhering Party may not specify additional provisions, conditions or limitations in its Adherence Letter or otherwise.
  - (ii) Any purported adherence that ISDA, as agent, determines in good faith is not in compliance with this Protocol will be void.
- (d) The parties acknowledge and agree that adherence to this Protocol is irrevocable.

### 3. Representations and Agreements

Each Adhering Party represents to each other Adhering Party with which it has or may have a Covered Transaction, on the date on which the later of them adheres to this Protocol in accordance with Section 2 above and, if then outstanding, in respect of each Covered Transaction between them, that:

- (a) **Status.** It (i) is, if relevant, duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation and, if relevant under such laws, in good standing or, (ii) if it otherwise represents its status in or pursuant to the Governing Master Agreement, has such status;
- (b) **Powers.** It has the power to execute and deliver the Adherence Letter and to perform its obligations under the Adherence Letter and each Covered Transaction, in each case as amended by the Adherence Letter and this Protocol, and has taken all necessary action to authorize such execution, delivery and performance;
- (c) **No Violation or Conflict.** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
- (d) **Consents.** All governmental and other consents that are required to have been obtained by it with respect to the Adherence Letter and each Covered Transaction, in each case as amended by the Adherence Letter and this Protocol, have been obtained and are in full force and effect and all conditions of any such consents have been complied with;
- (e) **Obligations Binding.** Its obligations under the Adherence Letter and each Covered Transaction, in each case as amended by the Adherence Letter and this Protocol, constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)); and
- (f) **Credit Support.** Its adherence to this Protocol and any amendment contemplated by this Protocol will not, in and of itself, adversely affect any obligations owed, whether by it or by any third party, under any Credit Support Document relating to a Covered Transaction.

Each Adhering Party agrees with each other Adhering Party with which it has or may have a Governing Master Agreement that:

- (a) each of the foregoing representations will be deemed to be a representation for purposes of Section 5(a)(iv) of each such Governing Master Agreement (then or in the future) between them; and
- (b) any Credit Support Document between the Adhering Parties and relating to a Covered Transaction will be deemed to be amended to the extent necessary such that the operation thereof is not affected by the adherence by the Adhering Parties to this Protocol and any amendments contemplated by this Protocol.

#### **4. Miscellaneous**

- (a) ***Entire Agreement; Survival; Amendments.***
  - (i) This Protocol constitutes the entire agreement and understanding of the Adhering Parties with respect to its subject matter. Each Adhering Party acknowledges that in adhering to this Protocol it has not relied on any oral or written representation, warranty or other assurance (except as provided for or referred to elsewhere in this Protocol or in Schedule 1) and waives all rights and remedies which might otherwise be available to it in respect thereof, except that nothing in this Protocol will limit or exclude any liability of an Adhering Party for fraud.
  - (ii) Except for any amendment deemed to be made pursuant to this Protocol in respect of a Covered Transaction, all terms and conditions of each Covered Transaction will continue in full force and effect in accordance with its provisions on the effective date of that amendment. As used in the Documentation governing each Covered Transaction, the terms "**Transaction**", "**this Transaction**", "**Confirmation**", "**this Confirmation**" and words of similar import will, unless the context otherwise requires, mean the Covered Transaction and related Confirmation as amended pursuant to this Protocol in accordance with the relevant Adherence Letters. This Protocol will, with respect to its subject matter, survive, and any amendments deemed to be made pursuant to it will form a part of, each Covered Transaction between the Adhering Parties notwithstanding Section 9(a) of the Governing Master Agreement.
- (b) ***Amendments.*** An amendment, modification or waiver in respect of the matters contemplated by this Protocol will only be effective if made in accordance with the terms of the Governing Master Agreement and then only with effect between the parties to that Governing Master Agreement (and will only be effective to amend or override the provisions contained in Section 1 of this Protocol and Schedule 1 to this Protocol if it expressly refers in writing to this Section 4(b) of this Protocol and would otherwise be effective in accordance with Section 9(b) of the Governing Master Agreement).
- (c) ***Headings.*** The headings used in this Protocol and any Adherence Letter are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Protocol or any Adherence Letter.
- (d) ***Governing Law.*** This Protocol and each Adherence Letter will, as between two Adhering Parties, be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine), provided that each Covered Transaction as amended in accordance with Schedule 1 to this Protocol shall be governed by and construed in accordance with the law specified to govern that Covered Transaction and otherwise in accordance with the applicable choice of law doctrine.
- (e) ***Notices.*** Any Adherence Letter must be in writing and delivered as a locked PDF (portable document format) attachment to an email to ISDA at [EcuadorProtocol@isda.org](mailto:EcuadorProtocol@isda.org) and will be deemed effectively delivered on the date it is delivered, unless on the date of that delivery the New York ISDA office is closed or that communication is delivered after 5:00 p.m. New York time, in which case that

communication will be deemed effectively delivered on the next day the New York ISDA office is open. Each Adhering Party agrees that the determination of the date and time of delivery of any Adherence Letter shall be determined by ISDA in its sole and absolute discretion.

## 5. Definitions

As used in this Protocol, "**Confirmation**", "**Credit Support Document**" and "**Transaction**" each has the meaning given that term in the related Governing Master Agreement and "**Credit Derivative Transaction**" has the meaning given to such term in the 2003 ISDA Credit Derivatives Definitions, as published by ISDA (the "**Credit Definitions**") (except that any credit derivative transaction that incorporates the 1999 ISDA Credit Derivatives Definitions, as published by ISDA, will also be considered a "Credit Derivative Transaction" for purposes of this Protocol). Each capitalized term used in this Protocol or Schedule 1 but not defined herein or therein has the meaning given that term in the related Index Documentation.

References in this Protocol and Schedule 1 to the following terms have the meaning indicated below:

"**Affected CDX Index**" means each of the CDX indices of CDS IndexCo LLC containing Ecuador, if any.

"**Auction Date**" has the meaning specified in Exhibit 2 hereto.

"**Bespoke Portfolio Transaction**" means any Bespoke Untranch Portfolio Transaction and any Bespoke Tranch Portfolio Transaction.

"**Bespoke Tranch Portfolio Transaction**" means a tranch Credit Derivative Transaction that relates to more than one Reference Entity and which is not any other type of Covered Transaction.

"**Bespoke Untranch Portfolio Transaction**" means an untranch Credit Derivative Transaction that relates to more than one Reference Entity and which is not any other type of Covered Transaction.

"**Business Day**" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in New York and London.

"**Constant Maturity Swap Transaction**" means any Portfolio Constant Maturity Swap Transaction and any Single Name Constant Maturity Swap Transaction.

"**Covered CDX Tranch Transaction**" means a tranch Credit Derivative Transaction that relates to an Affected CDX Index.

"**Covered CDX Untranch Transaction**" means a Credit Derivative Transaction that is not a Covered CDX Tranch Transaction but relates to an Affected CDX Index.

"**Covered Index Transaction**" means a Covered CDX Untranch Transaction or a Covered CDX Tranch Transaction for which:

- (a) the Effective Date is on or prior to the Default Date;
- (b) the Trade Date is on or prior to the Business Day immediately preceding the Final Price Determination Date;
- (c) the Scheduled Termination Date is on or after (i) November 15, 2008 in respect of any such Credit Derivative Transaction for which Grace Period Extension is specified as applicable in the Documentation applicable to such Credit Derivative Transaction (and the Grace Period is either

specified as 30 calendar days or more therein or no Grace Period is specified therein) or (ii) the Default Date in respect of all other such Credit Derivative Transactions;

- (d) each of the parties to such Credit Derivative Transaction is an Adhering Party; and
- (e) the Ecuador Portion is still outstanding as of the Final Price Determination Date.

**"Covered Non-Index Transaction"** means any Credit Derivative Transaction that (i) is not a Covered Index Transaction, (ii) is not an Excluded Non-Index Transaction, (iii) is a Single Name CDS Transaction, a Constant Maturity Swap Transaction, a Principal Only Transaction, an Interest Only Transaction, a First to Default Transaction, an Nth to Default Transaction, a Recovery Lock Transaction, or a Bespoke Portfolio Transaction, and (iv) for which:

- (a) Ecuador is a Reference Entity;
- (b) either (1) no Reference Obligation is specified in respect of Ecuador or (2) at least one Reference Obligation specified in respect of Ecuador is not Subordinated to any of the Deliverable Obligations;
- (c) the Effective Date is on or prior to the Default Date;
- (d) the Trade Date is on or prior to the Business Day immediately preceding the Final Price Determination Date;
- (e) the Scheduled Termination Date is on or after (i) November 15, 2008 in respect of any such Credit Derivative Transaction for which Grace Period Extension is specified as applicable in the Documentation applicable to such Credit Derivative Transaction (and the Grace Period is either specified as 30 calendar days or more therein or no Grace Period is specified therein) or (ii) the Default Date in respect of all other such Credit Derivative Transactions;
- (f) each of the parties to such Credit Derivative Transaction is an Adhering Party;
- (g) the Deliverable Obligation Category and Deliverable Obligation Characteristics, if any, specified as being applicable in respect of Ecuador are the same as those applicable pursuant to the Credit Derivatives Physical Settlement Matrix; and
- (h) as applicable, (1) the Ecuador Portion is still outstanding as of the Final Price Determination Date; or (2) the Termination Date has not occurred as of the Business Day immediately prior to the Final Price Determination Date.

A "Covered Non-Index Transaction" shall also include any Covered Single Name Swaptions and any Covered Portfolio Swaptions.

**"Covered Portfolio Swaption"** means a Portfolio Swaption for which:

- (a) Ecuador is a Reference Entity for the purposes of the related Underlying CDS;
- (b) the Swaption Trade Date of the Portfolio Swaption is on or prior to the Business Day immediately preceding the Final Price Determination Date;
- (c) the Expiration Date of the Portfolio Swaption is on or after the Final Price Determination Date;

- (d) the Deliverable Obligation Category and Deliverable Obligation Characteristics, if any, specified as being applicable for the purposes of the related Underlying CDS in respect of Ecuador are the same as those applicable pursuant to the Credit Derivatives Physical Settlement Matrix; and
- (e) each of the parties to such Portfolio Swaption is an Adhering Party.

**"Covered Single Name Swaption"** means a Single Name Swaption for which:

- (a) Ecuador is the Reference Entity for the purposes of the related Underlying CDS;
- (b) the Swaption Trade Date of the Single Name Swaption is on or prior to the Common Event Determination Date;
- (c) the Expiration Date of the Single Name Swaption is on or after the Default Date;
- (d) the Deliverable Obligation Category and Deliverable Obligation Characteristics, if any, specified as being applicable for the purposes of the related Underlying CDS in respect of Ecuador are the same as those applicable pursuant to the Credit Derivatives Physical Settlement Matrix; and
- (e) each of the parties to such Single Name Swaption is an Adhering Party.

**"Covered Transaction"** means a Covered Index Transaction or a Covered Non-Index Transaction, as applicable.

**"Credit Derivatives Physical Settlement Matrix"** means the terms applicable to a Latin America Sovereign pursuant to the Credit Derivatives Physical Settlement Matrix (version 7 – September 22, 2008) published by ISDA.

**"Default Date"** means December 15, 2008.

**"Documentation"** means Index Documentation or Non-Index Documentation, as applicable.

**"Ecuador Portion"** means, in respect of a Covered Transaction, the portion of such Covered Transaction (or, in respect of a Single Name Swaption or Portfolio Swaption, the portion of the related Underlying CDS) attributable to Ecuador.

**"Excluded Non-Index Transaction"** means (a) any Bespoke Portfolio Transaction that relates to a portfolio of Reference Entities that is also substantially identical to the relevant portfolio for any series of credit linked notes, trust certificates or other similar securities and for which the Adhering Parties intend settlement of any Credit Event to be consistent with the settlement terms applicable to such securities, (b) Reference Obligation Only Transactions, (c) Loan Only Transactions, (d) Preferred CDS Transactions, (e) Fixed Recovery Transactions and (f) any Credit Derivative Transaction that by its terms expressly states that the provisions relating to settlement therein shall not be amended or modified by any protocol published by ISDA in respect of an auction.

**"Final Price Determination Date"** has the meaning specified in Exhibit 2 hereto.

**"First to Default Transaction"** means a Credit Derivative Transaction linked to more than one Reference Entity pursuant to which Cash Settlement Amounts or Physical Settlement Amounts will only be paid to Buyer after the Conditions to Settlement have been satisfied for the first time in respect of any of the relevant Reference Entities.

**"Fixed Recovery Transaction"** means a Credit Derivative Transaction in respect of which the Final Price is pre-determined and specified in the relevant Documentation.

**"Governing Master Agreement"** means, in respect of a Covered Transaction, the master agreement governing such Covered Transaction, whether executed by the parties thereto or incorporated by reference in the Confirmation relating to such Covered Transaction.

**"Index Documentation"** means the Governing Master Agreement and (i) in the case of a Covered CDX Untranch Transaction, a Confirmation (including a master confirmation) based on the CDS IndexCo LLC forms published in April 2005, March 2007 or March 2008 with such modifications to which the parties thereto have agreed or such other Confirmation (including a master confirmation) documenting a Covered CDX Untranch Transaction as may have been agreed between the parties thereto or (ii) in the case of a Covered CDX Tranch Transaction, a Confirmation (including a master confirmation and irrespective of whether such Confirmation or master confirmation incorporates the standard terms) based on the CDS IndexCo LLC forms published in April 2005 or March 2007 with such modifications to which the parties thereto have agreed or such other Confirmation (including a master confirmation) documenting a Covered CDX Tranch Transaction as may have been agreed between the parties thereto.

**"Interest Only Transaction"** means a Credit Derivative Transaction linked to more than one Reference Entity under which (a) Seller pays to Buyer either (i) an upfront amount or (ii) a floating interest rate, (b) neither party pays Cash Settlement Amounts during the term of the Credit Derivative Transaction and (c) Buyer pays Fixed Amounts to Seller during the term of the Credit Derivative Transaction (which Fixed Amounts are reduced due to Credit Events).

**"Loan Only Transaction"** means a Credit Derivative Transaction in respect of which "Loan" is specified as the only Deliverable Obligation Category.

**"Non-Index Documentation"** means the Governing Master Agreement and a confirmation or master confirmation, as applicable, relating to a Covered Non-Index Transaction.

**"Nth to Default Transaction"** means a Credit Derivative Transaction linked to more than one Reference Entity pursuant to which Cash Settlement Amounts or Physical Settlement Amounts will only be paid to Buyer after the occurrence of Credit Events in respect of a specified number of Reference Entities.

**"Portfolio Constant Maturity Swap Transaction"** means a Credit Derivative Transaction linked to a portfolio of Reference Entities in respect of which the Fixed Rate is reset at the end of each Fixed Rate Payer Calculation Period to the then-current market rate for the relevant Credit Derivative Transaction.

**"Portfolio Swaption"** means any option to enter into a Covered Transaction (other than another Portfolio Swaption) referencing more than one Reference Entity.

**"Preferred CDS Transaction"** means a Credit Derivative Transaction which contains specific provisions governing preferred securities and similar hybrid securities as Reference Obligations or Deliverable Obligations.

**"Principal Only Transaction"** means a Credit Derivative Transaction linked to more than one Reference Entity under which (a) Seller pays an upfront amount to Buyer, (b) neither party pays any Fixed Amounts or Cash Settlement Amounts during the term of the Credit Derivative Transaction and (c) upon termination of the Credit Derivative Transaction, Buyer pays to Seller an amount equal to (i) the notional amount of the Credit Derivative Transaction minus (ii) aggregate Cash Settlement Amounts.

**"Recovery Lock Transaction"** means a Credit Derivative Transaction in respect of which the Reference Price is specified in the relevant Documentation as a price less than 100 per cent and for which either Buyer or Seller can deliver a Notice of Physical Settlement.

**"Reference Obligation Only Transaction"** means a Credit Derivative Transaction in respect of which "Reference Obligation Only" is specified as the Deliverable Obligation Category.

**"Single Name CDS Transaction"** means a Credit Derivative Transaction linked to not more than one Reference Entity that is not a Single Name Constant Maturity Swap Transaction.

**"Single Name Constant Maturity Swap Transaction"** means a Credit Derivative Transaction linked to not more than one Reference Entity for which the Fixed Rate is reset at the end of each Fixed Rate Payer Calculation Period to the then-current market rate for the relevant Credit Derivative Transaction.

**"Single Name Swaption"** means any option to enter into a credit default swap (other than another Single Name Swaption) referencing not more than one Reference Entity.

**"Underlying CDS"** means, in respect of a Single Name Swaption or Portfolio Swaption, the underlying Credit Derivative Transaction to which the relevant option relates.



**Form of Adherence Letter**

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**[Letterhead of Adhering Party]**

**[Date]**

**International Swaps and Derivatives Association, Inc.**

**Send to: [EcuadorProtocol@isda.org](mailto:EcuadorProtocol@isda.org)**

Dear Sirs,

**2009 ISDA Ecuador CDS Protocol - Adherence**

The purpose of this letter is to confirm our adherence to the 2009 Ecuador CDS Protocol, as published by the International Swaps and Derivatives Association, Inc. on January 6, 2009 (the "**Protocol**"). This letter constitutes an "Adherence Letter" as referred to in the Protocol.

The definitions and provisions contained in the Protocol are incorporated into this Adherence Letter, which will supplement and form part of each Covered Transaction (now or in the future) between us and each other Adhering Party, respectively.

**1. Specified Terms**

The amendments in Section 1 and Schedule 1 of this Protocol shall apply to Covered Transactions to which we are a party.

**2. Appointment as Agent and Release**

We hereby appoint ISDA as our agent for the limited purposes of the Protocol and accordingly we waive, and hereby release ISDA from, any rights, claims, actions or causes of action whatsoever (whether in contract, tort or otherwise) arising out of, or in any way relating to, this Adherence Letter or our adherence to the Protocol or any actions contemplated as being required by ISDA.

**3. DTCC Account Number**

For purposes of electronic matching and counterparty recognition, our DTCC Account Number is as follows, but you understand and agree that our failure to provide any such details pursuant to this letter will not affect the legal validity and binding nature of the Protocol with respect to us:

DTCC Account Number: [●]

**4. Contact Details**

Our contact details for purposes of this Adherence Letter are:

Name: [●]

Address: [●]

Telephone: [●]

Fax: [●]

E-mail: [●]

We consent to the publication of the conformed copy of this letter by ISDA and to the disclosure by ISDA of the contents of this letter.

Yours faithfully,

[ADHERING PARTY]<sup>1</sup>

By:

Name:
Title:
Signature:

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<sup>1</sup> Specify legal name of Adhering Party. If you are an investment or asset manager and act on behalf of multiple funds, you may indicate in the signature block, "Investment/Asset Manager, acting on behalf of each of the funds and accounts listed in the relevant Master Agreement (or other agreement which deems a Master Agreement to have been created) between it and another Adhering Party" (or such other language that indicates the funds to which this letter is applicable). A separate Adherence Letter for each fund does *not* need to be submitted to ISDA. Further, no specific names of clients of the investment or asset manager will be publicly disclosed on the ISDA website in connection with the Protocol (unless such names are contained in the Adherence Letter or any attached appendix). However, in order for each Participating Bidder to calculate its Market Position, each such investment or asset manager is required to provide a list of all funds and accounts that it acts on behalf of to each Participating Bidder that has (or whose affiliate has) entered into an ISDA Master Agreement with any of those funds. As provided in Section (1) of Exhibit 2 of the Protocol, on the Business Day prior to the Auction Date, the Administrators will publish a list of the Participating Bidders.

### Auction Methodology

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For the purposes of the Protocol of which this Exhibit forms a part, the Final Price will be determined according to an auction procedure on the following terms (the "**Auction**").

- (1) On the Business Day prior to the Auction Date, the Administrators will publish a list of the Participating Bidders.
- (2) Any customer that wishes to submit a Customer Physical Settlement Request to a Participating Bidder must submit a valid Customer Physical Settlement Request Letter to the relevant Participating Bidder on or prior to 5:00 p.m. New York time on the Business Day prior to the Auction Date. Each Customer Physical Settlement Request submitted to a Participating Bidder must be, to the best of the customer's knowledge and belief, in the same direction as and (when aggregated with all other Customer Physical Settlement Requests submitted by such customer to one or more other Participating Bidders) not in excess of, its Market Position. Each Participating Bidder must accept Customer Physical Settlement Requests from any customer with whom it has a trading relationship, provided that such Customer Physical Settlement Request is no larger than, and is in the same direction as, such customer's Dealer-Specific Market Position with respect to that Participating Bidder and/or its affiliates (in aggregate). A Participating Bidder may, but is not required to, accept a Customer Physical Settlement Request larger than the relevant customer's Dealer-Specific Market Position in respect of such Participating Bidder and/or its affiliates.
- (3) During the Initial Bidding Period, each Participating Bidder will be expected to submit to the Administrators a Valid Inside Market Submission and a Physical Settlement Request (which Physical Settlement Request will equal the aggregate of the relevant Participating Bidder's Dealer Physical Settlement Request and all Customer Physical Settlement Requests, if any, that the relevant Participating Bidder receives and accepts from its customers pursuant to Section (2) of this Exhibit 2). Each Dealer Physical Settlement Request must be, to the best of the relevant Participating Bidder's knowledge and belief, in the same direction as, and not in excess of, its Market Position.
- (4) If the Administrators receive at least 6 Valid Inside Market Submissions, the Administrators will determine the "**Inside Market Midpoint**" as follows:
  - (a) The Administrators will sort the Inside Market Bids and Inside Market Offers in the Valid Inside Market Submissions separately, with the Inside Market Bids sorted in descending order and the Inside Market Offers sorted in ascending order. Each Inside Market Bid will then be matched with the corresponding Inside Market Offer (i.e., the highest Inside Market Bid being matched with the lowest Inside Market Offer, the second highest Inside Market Bid with the second lowest Inside Market Offer, etc.) (each such Inside Market Bid/Inside Market Offer pair constituting a "**Matched Market**"). For purposes of sorting the Inside Market Bids and Inside Market Offers, where two Inside Market Bids are equal, the one submitted first to the Administrators will be considered to be the lower of the two, and where two Inside Market Offers are equal, the one submitted first to the Administrators will be considered to be the higher of the two.
  - (b) The Administrators will then calculate the mean of the Inside Market Bids and Inside Market Offers included in the Best Half of the Matched Markets that are Non-Tradeable Markets. To identify the Best Half, the Administrators will sort all Non-Tradeable Markets in order of the spread between the Inside Market Bid and Inside Market Offer within each Matched Market, from smallest spread to largest. The Best Half of the Matched Markets are those in the first half

of such list. In the event that the number of Non-Tradeable Markets is an odd number, the Administrators will round up the number of Matched Markets to include in the Best Half. The Administrators will then calculate the Inside Market Midpoint by finding the mean of all the Inside Market Bids and Inside Market Offers included in the Matched Markets that fall within the Best Half (with the results rounded to the nearest one eighth of one percent).

- (c) The steps described in (a) and (b) above are illustrated in the following example (which is not intended to reflect indicative prices for the Deliverable Obligations):

Step 1 – Sort Bids from highest to lowest and Offers from lowest to highest.

Contributed		} Matched Markets	Sorted		} Tradeable Markets Best Half
IM Bids	IM Offers		IM Bids	IM Offers	
39.500%	41.000%		45.000%	34.000%	
40.000%	42.000%		41.000%	39.500%	
41.000%	43.000%		41.000%	40.000%	
45.000%	47.000%		<b>40.000%</b>	<b>41.000%</b>	
32.000%	34.000%		<b>39.500%</b>	<b>42.000%</b>	
38.750%	40.000%		<b>38.750%</b>	<b>42.750%</b>	
38.000%	39.500%		38.000%	43.000%	
41.000%	42.750%		32.000%	47.000%	

Step 2 – Ignore all Tradeable Markets.

Step 3 – The Inside Market Midpoint is the mean of the Best Half of the remaining Matched Markets. If there is an odd number of remaining Matched Markets, round up to determine the number of Matched Markets in the Best Half.

Best Half	
IM Bids	IM Offers
40.000%	41.000%
39.500%	42.000%
38.750%	42.750%

Inside Market Midpoint = Average (40, 41, 39.5, 42, 38.75, 42.75) = 40.667%, rounded to the nearest one-eighth of one percent: 40.625%

- (5) For each Tradeable Market, one of the Participating Bidders whose Inside Market Bid or Inside Market Offer forms part of such Tradeable Market will make a payment to ISDA (the "**Adjustment Amount**") on the third Business Day after the Final Price Determination Date, such payment to be calculated by the Administrators as follows:

- (a) The "**Adjustment Amount**" in respect of a Tradeable Market will be an amount equal to (i) the Inside Market Quotation Amount *multiplied by* (ii) either (A) if the Open Interest is an offer to sell Deliverable Obligations, the greater of (I) zero and (II) the Inside Market Bid forming part of such Tradeable Market minus the Inside Market Midpoint or (B) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of (I) zero and (II) the Inside Market Midpoint minus the Inside Market Offer forming part of such Tradeable Market. Each Participating Bidder agrees that (1) if the Open Interest is an offer to sell Deliverable Obligations, the Participating Bidder whose Inside Market Bid formed part of such Tradeable Market will pay the Adjustment Amount to ISDA and (2) if the Open Interest is a bid to purchase Deliverable Obligations, the Participating Bidder whose Inside Market Offer formed part of such Tradeable Market will pay the Adjustment Amount to ISDA. Any payments of Adjustment Amounts shall be used by ISDA to defray any costs related to any auction that ISDA has coordinated (including the Auction), or that ISDA will in the future coordinate, for purposes of settlement of Credit Derivative Transactions. To the extent that ISDA determines at any time that the aggregate of all such payments received by ISDA (and not previously applied by ISDA to defray auction-related costs) up to and including such time exceeds the costs (including future costs as determined by ISDA) of such auctions, ISDA may in its sole discretion distribute any such excess among all entities that have previously acted as participating bidders in any prior auction proportionately, based upon participation as a participating bidder in such prior auctions.

Payments of Adjustment Amounts will not be conducted or effected by, or through, any Administrator.

- (b) The steps described in (a) above are illustrated in the following example (which is not intended to reflect indicative prices for the Deliverable Obligations):

Step 1 – Consider only Tradeable Markets.

Tradeable Markets	
IM Bids	IM Offers
45.000%	34.000%
41.000%	39.500%
41.000%	40.000 %

Step 2 – Calculate the Adjustment Amount for each Tradeable Market by (i)(A) if the Open Interest is an offer to sell Deliverable Obligations, determining the greater of (I) zero and (II) the Inside Market Bid forming part of such Tradeable Market minus the Inside Market Midpoint or (B) if the Open Interest is a bid to purchase Deliverable Obligations, determining the greater of (I) zero and (II) the Inside Market Midpoint minus the Inside Market Offer forming part of such Tradeable Market and (ii) multiplying the resulting amount by the Inside Market Quotation Amount.

Example calculation of Adjustment Amount if the Open Interest is an offer to sell Deliverable Obligations:

IM Bids	IMM	Adjustment Amount (as a percentage of the Inside Market Quotation Amount)
45.000%	<b>40.625%</b>	4.375%
41.000%	<b>40.625%</b>	<b>0.375%</b>
41.000%	<b>40.625%</b>	<b>0.375%</b>

Example calculation of Adjustment Amount if the Open Interest is a bid to purchase Deliverable Obligations:

IMM	IM Offers	Adjustment Amount (as a percentage of the Inside Market Quotation Amount)
<b>40.625%</b>	34.000 %	<b>6.625 %</b>
<b>40.625%</b>	39.500%	<b>1.125%</b>
<b>40.625%</b>	40.000%	0.625%

- (6) If an Inside Market Midpoint has been determined pursuant to Section (4) of this Exhibit 2, the Administrators will match all Physical Settlement Requests with one another in order to determine the Open Interest.
- (a) If the sum of all Quotation Amounts stated in each Physical Settlement Sell Request is less than the sum of all Quotation Amounts stated in each Physical Settlement Buy Request, all Physical Settlement Sell Requests will be matched with Physical Settlement Buy Requests, subject to the Rounding Convention, or if the sum of all Quotation Amounts stated in each Physical Settlement Buy Request is less than the sum of all Quotation Amounts stated in each Physical Settlement Sell Request, all Physical Settlement Buy Requests will be matched with Physical Settlement Sell Requests, subject to the Rounding Convention (each such match, a "**Market Position Trade**"), and each such pair will form a trade at the Final Price as described in Section (9) of this Exhibit 2.
- (b) Within 30 minutes of the conclusion of the Initial Bidding Period, the Administrators will publish the following information on their respective websites:
- (i) the size and direction of the Open Interest;

- (ii) the Inside Market Midpoint; and
  - (iii) the details of any Adjustment Amounts.
- (7) Any Customer Limit Order Submission must be submitted to the relevant Participating Bidder at any time after the publication of the information set out above in accordance with Section (6)(b) of this Exhibit 2 until the end of the Subsequent Bidding Period (determined for these purposes only, without regard to any extension that may be made by the Administrator). Each Customer Limit Order Submission submitted to a Participating Bidder must be, to the best of the customer's knowledge and belief, (when aggregated with all other Customer Limit Order Submissions, if any, submitted by such customer to one or more Participating Bidders) not in excess of the size of the Open Interest. The Participating Bidder may, but is not obliged to, take into account in its Limit Order Submissions any Customer Limit Order Submission submitted to it in accordance with this Section (7) of this Exhibit 2, provided that if a Participating Bidder, for any reason, decides not to accept a Customer Limit Order Submission from a customer, such Participating Bidder shall promptly notify such customer of its decision not to accept such customer's Customer Limit Order Submission.
- (8) During the Subsequent Bidding Period, each Participating Bidder will submit Limit Order Submissions. All Inside Market Bids or Inside Market Offers (as applicable) submitted during the Initial Bidding Period (regardless of whether or not they form part of a Tradeable Market) will, together with all Limit Bids or Limit Offers (as applicable), be considered "**Unmatched Limit Orders**", however any Inside Market Bid or Inside Market Offer that forms part of a Tradeable Market will be deemed to be equal to the Inside Market Midpoint for purposes of serving as an Unmatched Limit Order. The difference between the aggregate Quotation Amount of a Participating Bidder's Limit Order Submissions and the portion of such aggregate Quotation Amount attributable to any Customer Limit Order Submissions received by such Participating Bidder that are taken into account in the Limit Order Submission received by the Administrators from such Participating Bidder during the Subsequent Bidding Period must be, to the best of such Participating Bidder's knowledge and belief, not in excess of the size of the Open Interest. If the Open Interest is an offer to sell Deliverable Obligations, then any Limit Bid that would otherwise be at a price above the Inside Market Midpoint plus the Cap Amount shall be deemed to be at a price equal to the Inside Market Midpoint plus the Cap Amount. If the Open Interest is a bid to purchase Deliverable Obligations, then any Limit Offer that would otherwise be at a price below the Inside Market Midpoint minus the Cap Amount shall be deemed to be at a price equal to the Inside Market Midpoint minus the Cap Amount.
- (9) The Administrators will then match the Open Interest against the corresponding Unmatched Limit Orders.
  - (a) If the Open Interest is a bid to purchase Deliverable Obligations, it will be matched against the Unmatched Limit Orders that are Offers. If the Open Interest is an offer to sell Deliverable Obligations, it will be matched against the Unmatched Limit Orders that are Bids.
  - (b) The Open Interest will be matched against each applicable Unmatched Limit Order, beginning with the Unmatched Limit Order that is the lowest Offer or the highest Bid, as the case may be, and moving to the next remaining lowest (in the case of Offers) or next remaining highest (in the case of Bids) until:
    - (i) the full amount of the Open Interest has been matched against Unmatched Limit Orders totalling the same size as the Open Interest; or
    - (ii) all of the Unmatched Limit Orders of the relevant direction (i.e. Offers, if the Open Interest is a bid to purchase Deliverable Obligations or Bids, if the Open Interest is an offer to sell Deliverable Obligations) have been matched to the Open Interest.

Each Unmatched Limit Order that is matched to the Open Interest under Section (9)(b)(i) or (ii) of this Exhibit 2 is a "**Matched Limit Order**", and each such match between a Matched Limit Order and a Physical Settlement Request is a "**Matched Limit Order Trade**". If, in the case of Section (9)(b)(i) of this Exhibit 2, there are multiple Unmatched Limit Orders stating the same price and each could be the final Unmatched Limit Order to be matched to the Open Interest, then such final Unmatched Limit Orders will be filled Pro Rata against the remaining Open Interest, subject to the Rounding Convention.

- (c) If the final matching of the Open Interest against the applicable Unmatched Limit Orders occurs pursuant to Section (9)(b)(i) of this Exhibit 2, the Final Price will be the price associated with the Matched Limit Order that is the highest Offer or the lowest Bid, as the case may be, provided that (A) if the Open Interest is an offer to sell Deliverable Obligations and the price associated with the lowest Matched Limit Order exceeds the Inside Market Midpoint by more than the Cap Amount, then the Final Price will be the Inside Market Midpoint plus the Cap Amount and (B) if the Open Interest is a bid to purchase Deliverable Obligations and the Inside Market Midpoint exceeds the price associated with the highest Matched Limit Order by more than the Cap Amount, then the Final Price will be the Inside Market Midpoint minus the Cap Amount. If the Open Interest is zero, the Final Price will be the Inside Market Midpoint.
- (d) If the final matching of the Open Interest against the applicable Unmatched Limit Orders occurs pursuant to Section (9)(b)(ii) of this Exhibit 2, the Final Price shall be (A) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of (i) 100% and (ii) the highest Limit Offer or Inside Market Offer received or (B) if the Open Interest is an offer to sell Deliverable Obligations, zero. In such case, notwithstanding Sections (6)(a) or (9)(b) of this Exhibit 2, all Physical Settlement Requests of the same direction as the Open Interest (e.g., bids to purchase or offers to sell) will be matched Pro Rata, subject to the Rounding Convention, against the Limit Order Submissions and Physical Settlement Requests on the opposite side of the market to form Market Position Trades or Matched Limit Order Trades, as applicable.
- (e) In all cases, if the Final Price determined pursuant to this Exhibit 2 is greater than 100%, then for the purposes of settling the Covered Transactions only, the Final Price shall be deemed to be 100%.
- (f) Each Participating Bidder whose Physical Settlement Request or Matched Limit Order, as the case may be, forms part of either a Market Position Trade or a Matched Limit Order Trade will be deemed to have entered into a bilateral agreement on terms equivalent to the Representative Auction-Settled Transaction for which (i) the Floating Rate Payer Calculation Amount is equal to the Quotation Amount in respect of the relevant Market Position Trade or Matched Limit Order Trade, as the case may be, and (ii) (A) the Seller is the Participating Bidder whose Physical Settlement Buy Request forms part of such Market Position Trade or whose Physical Settlement Buy Request, Limit Bid or Inside Market Bid, as the case may be, forms part of such Matched Limit Order Trade and (B) the Buyer is the Participating Bidder whose Physical Settlement Sell Request forms part of such Market Position Trade or whose Physical Settlement Sell Request, Limit Offer or Inside Market Offer, as the case may be, forms part of such Matched Limit Order Trade; provided that, (i) in the case of the Matched Limit Order Trades containing the highest Offer or the lowest Bid, as the case may be, the Quotation Amount will, if necessary, be reduced to reflect the size of the remaining Open Interest, and (ii) in the event that there are multiple Matched Limit Orders stating the highest Offer or lowest Bid, as the case may be, then such Matched Limit Orders will be filled Pro Rata against the remaining Open Interest, subject to the Rounding Convention. Participating Bidders whose Physical Settlement Request or Matched Limit Order, as the case may be, forms part of a Market Position Trade or Matched Limit Order Trade will be matched with one another alphabetically; provided that, prior to such

alphabetical matching, the Quotation Amounts in respect of Matched Limit Orders or Physical Settlement Requests, as the case may be, submitted by the same Participating Bidder will be matched with each other, to the extent possible. Transactions entered into by and between Participating Bidders pursuant to Market Position Trades or Matched Limit Order Trades will not be conducted or effected by, or through, any Administrator.

- (10) A Delayed Auction Date or a Materiality Event Delayed Auction Date may occur under the following circumstances:
- (a) If at any time before the determination of the Final Price, an event occurs or exists (i) prior to the commencement of an Initial Bidding Period or (ii) subsequent to such Initial Bidding Period but prior to the commencement of the related Subsequent Bidding Period, that is considered by any two Participating Bidders to be a Potential Materiality Event, then such Participating Bidders shall have a right to require the Administrators to call a vote of the Auction Settlement Committee to determine whether such event is a Materiality Event, which vote will take place in the case of (i) above, before the end of such Initial Bidding Period or, in the case of (ii) above, before the end of such Subsequent Bidding Period. If a simple majority of the Auction Settlement Committee votes that such event is a Materiality Event, then such Initial Bidding Period and, if applicable, such Subsequent Bidding Period will be deemed to have been cancelled and the entire process contemplated by this Auction Methodology shall recommence on the next Business Day (or such other Business Day selected by the Administrators), unless prior to 10:00 a.m., New York time on such Business Day, at a vote of the Auction Settlement Committee held by the Administrators, a majority of the Auction Settlement Committee votes that the news of the Materiality Event has not yet been sufficiently widely disseminated or another Materiality Event has occurred or exists, in which case the entire process contemplated by this Auction Methodology shall recommence on the following Business Day (i.e., the second Business Day after the original vote establishing the occurrence of a Materiality Event) or such other Business Day selected by the Administrators, and on each following Business Day thereafter (or such other Business Day selected by the Administrators), but in no event later than the 30<sup>th</sup> calendar day after the Common Event Determination Date (any such date on which a delayed Initial Bidding Period actually occurs following a particular Materiality Event, a "**Materiality Event Delayed Auction Date**"). The Administrators will publish the results of any vote of the Auction Settlement Committee with respect to the declaration of a Materiality Event on their respective websites.
  - (b) If the process described in this Exhibit 2 does not result in a Final Price for any reason, in the absence of the declaration of a Materiality Event, the relevant steps will be repeated on the Auction Date with the Initial Bidding Period and the Subsequent Bidding Period each occurring two hours or, if a third attempt is necessary, four hours, later than originally scheduled. If a Final Price cannot be determined on any such subsequent attempts on the Auction Date itself, in the absence of the declaration of a Materiality Event, up to three attempts will be made on the same schedule on the Business Day following the Auction Date (such date, the "**Delayed Auction Date**").
  - (c) In the case where a Materiality Event has been declared, if the process described above does not result in a Final Price on the related Materiality Event Delayed Auction Date for any reason, in the absence of the declaration of another Materiality Event, the relevant steps will be repeated on such Materiality Event Delayed Auction Date with the Initial Bidding Period and the Subsequent Bidding Period each occurring two hours or, if a third attempt is necessary, four hours, later than originally scheduled on such Materiality Event Delayed Auction Date. If a Final Price cannot be determined on any such subsequent attempts on such Materiality Event Delayed Auction Date itself, in the absence of the declaration of another Materiality Event, up to



three attempts will be made on the same schedule on the Business Day following such Materiality Event Delayed Auction Date.

- (d) If, after the earlier of (i) the additional attempts described in Section (10)(a) and (c) of this Exhibit 2, and (ii) the fifth Business Day following the Auction Date, a Final Price has not been determined, an "**Auction Cancellation Event**" will be deemed to have occurred (the date of such an event, an "**Auction Cancellation Date**"). The Administrators will announce the occurrence of an Auction Cancellation Event on their respective websites.
- (11) Within one hour of the conclusion of the Subsequent Bidding Period, the Administrators will publish the following information on their respective websites:
- (a) the Final Price;
  - (b) 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 (e.g., Participating Bidders and Quotation Amounts); and
  - (c) the details and size of all Market Position Trades or Matched Limit Order Trades.
- (12) The following rules will apply to Physical Settlement Requests and Limit Order Submissions submitted by any Participating Bidder:
- (a) Any Inside Market Bid, Inside Market Offer or Limit Order Submission may not be amended either by the Participating Bidder or the Administrators after the conclusion of the Initial Bidding Period or Subsequent Bidding Period, as applicable, even if such Submission is a mistake, and all Participating Bidders will be required to comply with the terms of any Matched Limit Order Trade of which such Inside Market Bid, Inside Market Offer or Limit Order Submission forms a part.
  - (b) If a Participating Bidder submits a Physical Settlement Request that is in the same direction as, but less than or equal to, such Participating Bidder's Market Position, such Physical Settlement Request may not be amended by either the Participating Bidder or the Administrators after the conclusion of the Initial Bidding Period, even if such Submission is a mistake, and all Participating Bidders will be required to comply with the terms of any Market Position Trade or Matched Limit Order Trade of which such Physical Settlement Request forms a part.
  - (c) If a Participating Bidder becomes aware that the Physical Settlement Request it has submitted is in the opposite direction from, or is greater than, its Market Position, such Participating Bidder will immediately notify the Administrators and will submit its corrected Physical Settlement Request.
  - (d) If the Administrators become aware of such corrected Physical Settlement Request at least thirty minutes prior to the beginning of the Subsequent Bidding Period (the "**Correction Deadline**"), the Administrators will determine the Open Interest based on the corrected Submission at least fifteen minutes prior to the beginning of the Subsequent Bidding Period. If the Administrators do not become aware of such corrected Physical Settlement Request until after the Correction Deadline, the Administrators will not re-calculate the Open Interest or the Final Price, and all Covered Transactions will settle according to the Final Price published by the Administrators.
  - (e) All Bids and Offers, as well as the Final Price, will be expressed as a percentage of the outstanding principal balance (rather than the face amount) of Deliverable Obligations.
- (13) Each Auction Party agrees that:

- (a) No Participating Bidder will be liable to any party for any form of damages, whether direct, indirect, special or consequential, arising as a result of the publication of a Final Price (or any other result of the procedures contemplated by this Auction Methodology), and agrees to waive any claim that may arise against any Participating Bidder, in each case except in the case of fraud or wilful misconduct on the part of such Participating Bidder.
  - (b) None of ISDA, its advisors, any Administrator or any Participating Bidder will be liable to any party for any form of damages, whether direct, indirect, special or consequential, arising in connection with the inclusion or exclusion of any obligation of Ecuador in or from the list of Deliverable Obligations referenced in the definition thereof in Section (17) of this Exhibit 2 and, without limiting any otherwise applicable waivers, each Auction Party agrees to waive any claim that may arise against any such party in connection with the development of such list of Deliverable Obligations, except in the case of fraud or wilful misconduct on the part of such Administrator.
- (14) Each Auction Party that is not a Participating Bidder agrees that neither Administrator will be liable to any party for any form of damages, whether direct, indirect, special or consequential, arising in connection with the performance of its duties under the auction procedures contemplated by this Auction Methodology, and agrees to waive any claim that may arise against either Administrator in connection with the performance of the relevant Administrator's duties under these auction procedures, except in the case of fraud or wilful misconduct on the part of such Administrator.
- (15) Each Adhering Party agrees that the Cash Settlement Date or the Cash Settlement Date in respect of the Ecuador Portion, as applicable, is January 23, 2009 (the "**Cash Settlement Date**").
- (16) Each Participating Bidder and each customer that submits a Customer Physical Settlement Request through a Participating Bidder or a Customer Limit Order Submission through a Participating Bidder that is taken into account by such Participating Bidder in the Limit Order Submission received by the Administrators from such Participating Bidder during the Subsequent Bidding Period agrees that any such Customer Physical Settlement Request and any such Customer Limit Order Submission submitted by such customer will, to the extent such Customer Physical Settlement Request or such Customer Limit Order Submission is matched in order to form a Market Position Trade or Matched Limit Order Trade, be treated by such customer and Participating Bidder as if such customer and Participating Bidder had entered into a bilateral agreement on terms equivalent to the Representative Auction-Settled Transaction (i) which shall be deemed to be governed by a master agreement and any credit support arrangements executed or otherwise in place between the customer and the Participating Bidder or if no such master agreement has been executed or is otherwise in place, by a deemed master agreement (including any credit support arrangements) between the Participating Bidder and the customer on substantially the same terms as the master agreement and credit support arrangements in place between the customer and the affiliate of the Participating Bidder that is such customer's normal trading counterparty (ii) for which the Floating Rate Payer Calculation Amount is equal to the Quotation Amount in respect of the relevant Market Position Trade or Matched Limit Order Trade, as the case may be, and (iii) for which (A) the customer will be the Seller if the relevant Market Position Trade includes such customer's Physical Settlement Buy Request or if the relevant Matched Limit Order Trade includes such customer's Physical Settlement Buy Request or Limit Bid and (B) the customer will be the Buyer if the relevant Market Position Trade includes such customer's Physical Settlement Sell Request or if the relevant Matched Limit Order Trade includes such customer's Physical Settlement Sell Request or Limit Offer; provided that, in the case of the Matched Limit Order Trades containing the highest Offer or the lowest Bid, as the case may be, the Quotation Amount will, if necessary, be reduced to reflect the size of the remaining Open Interest. Transactions entered into by and between customers and Participating Bidders in respect of Market Position Trades or Matched Limit Order Trades will not be conducted or effected by, or through, any Administrator.

(17) References in this Exhibit 2 to the following terms have the meaning indicated below:

**"Adjustment Amount"** has the meaning set forth in Section (5)(a) of this Exhibit 2.

**"Administrators"** means both Markit Group Limited and Creditex Securities Corp., acting together.

**"Auction Cancellation Date"** has the meaning set forth in Section (10)(d) of this Exhibit 2.

**"Auction Cancellation Event"** has the meaning set forth in Section (10)(d) of this Exhibit 2.

**"Auction Date"** means January 14, 2009.

**"Auction-Linked Cash Settled Transaction"** means, in respect of a Participating Bidder or a customer, any Transaction (other than a Covered Transaction) all or any portion of which is linked to Ecuador, to which such Participating Bidder or customer, as the case may be, or its affiliate is a party and which will be cash-settled (by bilateral agreement between the parties thereto) at the Final Price determined pursuant to this Auction Methodology.

**"Auction Party"** means any Participating Bidder, party to a Covered Transaction, party to an Auction-Linked Cash Settled Transaction or customer whose Customer Physical Settlement Request or Customer Limit Order Submission is taken into account in a Participating Bidder's Physical Settlement Request or Limit Order Submission.

**"Auction Settlement Committee"** means the entities that are Participating Bidders.

**"Best Half"** means the group of Matched Markets determined pursuant to Section (4)(b) of this Exhibit 2.

**"Bid"** means an Inside Market Bid or a Limit Bid.

**"Bidding Agreement Letter"** means a letter agreement, substantially in the form of Exhibit 3 to this Protocol, executed and delivered to the Administrators and ISDA no later than 5:00 p.m. New York time on the Cut-off Date.

**"Cap Amount"** means 1% of par.

**"CDS Dealer"** means any entity (or any of its affiliates) appearing on the list of CDS Dealers published by ISDA on its website at [www.isda.org](http://www.isda.org) (or any successor website thereto) at 5:00 p.m. New York time on the Business Day immediately preceding the Final Price Determination Date for the purposes of this Protocol.

**"Common Event Determination Date"** means December 18, 2008.

**"Correction Deadline"** has the meaning set forth in Section (12)(d) of this Exhibit 2.

**"Crossing Market"** means any Matched Market for which the Inside Market Bid is higher than the Inside Market Offer.

**"Customer Limit Order Submission"** means a Limit Bid or a Limit Offer (expressed as a percentage (in increments of one-eighth of one percentage point (e.g., 33.375%)) and for which a Quotation Amount is stated) submitted by a customer of a Participating Bidder to such Participating Bidder.

**"Customer Physical Settlement Request"** means a Physical Settlement Buy Request or a Physical Settlement Sell Request submitted by a customer of a Participating Bidder to such Participating Bidder

and taken into account by such Participating Bidder in the Physical Settlement Request received by the Administrators from such Participating Bidder during the Initial Bidding Period.

**"Customer Physical Settlement Request Letter"** means a letter agreement, substantially in the form of Exhibit 5 to this Protocol, executed and delivered to the relevant Participating Dealer no later than 5:00 p.m. New York time on the Business Day prior to the Auction Date.

**"Cut-off Date"** means January 12, 2009.

**"Dealer Physical Settlement Request"** means a Physical Settlement Buy Request or a Physical Settlement Sell Request taking into account the Market Position of it and its affiliates only, submitted by a Participating Bidder and received by the Administrators during the Initial Bidding Period.

**"Dealer-Specific Market Position"** means, with respect to a customer and a Participating Bidder, such customer's Market Position with respect to its Covered Transactions and Auction-Linked Cash Settled Transactions only with such Participating Bidder and/or its affiliates (in aggregate) calculated by such customer in good faith.

**"Delayed Auction Date"** has the meaning set forth in Section (10)(b) of this Exhibit 2.

**"Deliverable Obligation"** means each of the following obligations:

Issuer	Coupon	Maturity	ISIN		CUSIP	
			Reg S	144A	Reg S	144A
Ecuador	9.375	12/15/15	USP8055QDE90	US27927WAF95	P8055QDE9	27927WAF9
Ecuador	4.00	08/15/30	XS0115743519	US27927WAD48	P8055QAD4	27927WAD4
Ecuador	12.00	11/15/12	XS0115748401	US27927WAE21	P8055QAC6	27927WAE2

**"Final Price"** means the price determined to be the Final Price pursuant to Section (9)(c) or (d) of this Exhibit 2.

**"Final Price Determination Date"** means the day the Final Price is determined.

**"Initial Bidding Period"** means any time between 9:45 a.m. and 10:00 a.m. New York time on the Auction Date or such longer period as the Administrators may prescribe if they determine (in their sole and absolute discretion) that a longer period is required to preserve the integrity of the Auction (the **"Originally Scheduled Initial Bidding Time"**) or, if the process described in Sections (3) and (4)(a) and (4)(b) of this Exhibit 2 must be repeated pursuant to Section (10) of this Exhibit 2, the fifteen minute period occurring two or four hours, as the case may be, after the Originally Scheduled Initial Bidding Time on the Auction Date, or at such times on a subsequent Business Day as required under Section (10) of this Exhibit 2 (or at such other time as the Administrators determine is necessary to implement the procedures described in this Exhibit 2), until the earlier of the Final Price Determination Date or the occurrence of an Auction Cancellation Event.

**"Inside Market Bid"** means a firm commitment by a Participating Bidder, submitted as part of a Valid Inside Market Submission, to enter as Seller (i.e., the party that has an obligation to accept delivery of Deliverable Obligations) into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount is the Inside Market Quotation Amount and at the Reference Price stated in the Valid Inside Market Submission.

**"Inside Market Midpoint"** means the price determined to be the Inside Market Midpoint pursuant to Section (4) of this Exhibit 2.

**"Inside Market Offer"** means a firm commitment by a Participating Bidder, submitted as part of a Valid Inside Market Submission, to enter as Buyer (i.e., the party that would deliver Deliverable Obligations) into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount is the Inside Market Quotation Amount and at the Reference Price stated in the Valid Inside Market Submission.

**"Inside Market Quotation Amount"** means the greater of US\$3,000,000 and the smallest minimum denomination or transfer amount applicable to any Deliverable Obligation.

**"Limit Bid"** means a firm commitment by a Participating Bidder, submitted as part of a Limit Order Submission, to enter as Seller (i.e., the party that has an obligation to accept delivery of Deliverable Obligations) into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount is the Quotation Amount stated in such Limit Order Submission and at the Reference Price stated in such Limit Order Submission.

**"Limit Offer"** means a firm commitment by a Participating Bidder, submitted as part of a Limit Order Submission, to enter as Buyer (i.e., the party that would deliver Deliverable Obligations) into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount is the Quotation Amount stated in such Limit Order Submission and at the Reference Price stated in such Limit Order Submission.

**"Limit Order Submission"** means a submission from a Participating Bidder (which may take into account any Customer Limit Order Submissions) received by the Administrators during the Subsequent Bidding Period of a Limit Bid and/or a Limit Offer expressed as a percentage (in increments of one-eighth of one percentage point (e.g., 35.375%)) and for which a Quotation Amount is stated.

**"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, such risk profile to be determined without regard to whether the original transactions were documented as cash settled or physically settled transactions.

**"Market Position Trade"** has the meaning set forth in Section (6)(a) of this Exhibit 2.

**"Matched Limit Order"** has the meaning set forth in Section (9)(b) of this Exhibit 2.

**"Matched Limit Order Trade"** has the meaning set forth in Section (9)(b) of this Exhibit 2.

**"Matched Market"** has the meaning set forth in Section (4)(a) of this Exhibit 2.

**"Materiality Event"** means a Potential Materiality Event that has been determined to be a Materiality Event pursuant to Section (10)(a) of this Exhibit 2.

**"Materiality Event Delayed Auction Date"** has the meaning set forth in Section (10)(a) of this Exhibit 2.

**"Non-Tradeable Market"** means any Matched Market that is not a Tradeable Market.

**"Notice of Physical Settlement Date"** means the later to occur of (a) the thirtieth calendar day after the Common Event Determination Date (as adjusted in accordance with the Following Business Day Convention (as defined in the Credit Definitions)) and (b) the Business Day following the Final Price Determination Date.

**"Offer"** means any Limit Offer or any Inside Market Offer.

**"Open Interest"** means the difference between (a) the sum of all Quotation Amounts stated in each Physical Settlement Buy Request and (b) the sum of all Quotation Amounts stated in each Physical Settlement Sell Request.

**"Participating Bidder"** means any institution that submits a valid Bidding Agreement Letter no later than 5:00 p.m. New York time on the Cut-off Date.

**"Physical Settlement Buy Request"** means a firm commitment by a Participating Bidder (which may take into account any Customer Physical Settlement Requests), received by the Administrators during the Initial Bidding Period, to enter, as Seller (i.e., the party that has an obligation to accept delivery of Deliverable Obligations), into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount (expressed as an outstanding principal balance rather than face amount of Deliverable Obligations) is the Quotation Amount stated in the Submission.

**"Physical Settlement Request"** means a Physical Settlement Buy Request or a Physical Settlement Sell Request submitted by a Participating Bidder and received by the Administrators during the Initial Bidding Period.

**"Physical Settlement Sell Request"** means a firm commitment by a Participating Bidder (which may take into account any Customer Physical Settlement Requests), received by the Administrators during the Initial Bidding Period, to enter, as Buyer (i.e., the party that would deliver Deliverable Obligations), into an agreement on terms equivalent to the Representative Auction-Settled Transaction for which the Floating Rate Payer Calculation Amount (expressed as an outstanding principal balance rather than face amount of Deliverable Obligations) is the Quotation Amount stated in the Submission.

**"Potential Materiality Event"** means an event or news the occurrence of which has or could have a significant effect on the price of the Representative Auction-Settled Transaction.

**"Pro Rata"** means that Participating Bidders' orders are matched proportionally with respect to the Quotation Amount of each such order and the total amount of orders that can be matched in the relevant part of the Auction.

**"Quotation Amount"** means the US\$ amount stated as the notional amount with respect to a particular Limit Bid, Limit Offer, Inside Market Bid, Inside Market Offer or Physical Settlement Request in a Participating Bidder's Submission, which amount in each case will be an integral multiple of US\$1,000.

**"Representative Auction-Settled Transaction"** means a Credit Derivative Transaction incorporating (i) the definitions and provisions contained in the Credit Definitions and (ii) (to the extent not inconsistent with the below) the terms applicable to a Latin America Sovereign pursuant to the Credit Derivatives Physical Settlement Matrix (version 7 - September 22, 2008) published by ISDA, which Credit Derivative Transaction shall supplement, form a part of, and be subject to, the master agreement (including any credit support arrangements) in place between the parties thereto (and if no such master agreement is in place between the parties, an agreement in the form of the 2002 ISDA Master Agreement as if the parties had executed an agreement in such form (but without any Schedule except for the election of the laws of the State of New York as the governing law and USD as the Termination Currency on the Auction Date) and for which:

- (a) the Reference Entity is Ecuador;
- (b) the Settlement Method is Physical Settlement;
- (c) the Settlement Currency is USD;
- (d) the Calculation Agent City is New York;
- (e) the Event Determination Date is the Common Event Determination Date;
- (f) a Credit Event Notice and Notice of Publicly Available Information are deemed to have been effectively delivered on a timely basis;
- (g) all Fixed Amounts are deemed to have been paid when due;
- (h) the only Deliverable Obligations applicable are the obligations specified as Deliverable Obligations in this Protocol;
- (i) the Reference Price is the Final Price determined pursuant to this Exhibit 2;
- (j) the Calculation Agent is (i) if both parties to the Representative Auction-Settled Transaction are Participating Bidders, the Seller under such Representative Auction-Settled Transaction and (ii) if only one party to the Representative Auction-Settled Transaction is a Participating Bidder, such Participating Bidder; and
- (k) the following amendments are made to the Credit Definitions for purposes of the Representative Auction-Settled Transaction:

- (i) Section 3.4 of the Credit Definitions is deleted and the following is inserted in its place:

""Notice of Physical Settlement" means a notice from Buyer to Seller (which may be by telephone and which shall be subject to the requirements regarding notices set forth in Section 1.10) that (i) irrevocably confirms that Buyer will settle the Credit Derivative Transaction and require performance in accordance with Physical Settlement as the Settlement Method and (ii) contains a detailed description of the Deliverable Obligations that Buyer will, subject to Section 9.2(c)(ii), Deliver to Seller, including the outstanding principal balance or Due and Payable Amount of each such Deliverable Obligation to be Delivered and the information described in the form of Notice of Physical Settlement attached as Exhibit 4. Buyer may notify Seller (in the manner given as aforesaid) that Buyer is changing one or more Deliverable Obligations to be Delivered (to the extent such Deliverable Obligation has not previously been Delivered) or the detailed description thereof, but each such notice must be effective at or prior to 11:00 a.m. New York time on the Physical Settlement Date (determined without reference to any such change). Notwithstanding the foregoing, Buyer may correct any errors or inconsistencies in the detailed description of the Deliverable Obligations by notice to Seller (given as aforesaid) prior to the relevant Delivery Date.

If Buyer fails to deliver an effective Notice of Physical Settlement on or before the Notice of Physical Settlement Date, Buyer will have no right thereafter to deliver a Notice of Physical Settlement. If Buyer has not delivered an effective Notice of Physical Settlement, Seller will have the right, from but excluding the Notice of Physical Settlement Date to and including the fifteenth calendar day after the Notice of Physical Settlement Date, to deliver a notice to Buyer, which notice shall contain a detailed description of the Deliverable Obligations that Buyer will be required to

Deliver to Seller, including the outstanding principal balance and/or Due and Payable Amount (the "**Principal Balance**") of each such Deliverable Obligation (the aggregate of such Principal Balances (or the equivalent Currency Amount) shall be equal to or less than the Floating Rate Payer Calculation Amount).

If Buyer delivers an effective Notice of Physical Settlement on or before the Notice of Physical Settlement Date but such Notice of Physical Settlement specifies Deliverable Obligations with a Principal Balance (or the equivalent Currency Amount) less than the Floating Rate Payer Calculation Amount, Seller will have the right, from but excluding the Notice of Physical Settlement Date to and including the fifteenth calendar day after the Notice of Physical Settlement Date, to deliver a notice to Buyer, which notice shall contain a detailed description of the additional Deliverable Obligations that Buyer will be required to Deliver to Seller, including the Principal Balance of each such Deliverable Obligation; provided that the aggregate specified Principal Balance (or the equivalent Currency Amount) shall be equal to or less than the amount by which the Floating Rate Payer Calculation Amount exceeds the aggregate Principal Balance (or the equivalent Currency Amount) of Deliverable Obligations specified in the Notice of Physical Settlement delivered by Buyer.

Any notice delivered by Seller pursuant to this Section 3.4 will include the information described in the form of Notice of Physical Settlement attached as Exhibit 4. Delivery of any such notice shall be deemed to be effective delivery of a Notice of Physical Settlement or an effective amendment to any Notice of Physical Settlement delivered by Buyer, as applicable. Buyer may not change any such notice, other than to correct errors or inconsistencies.

If the fifteenth calendar day after the Notice of Physical Settlement Date is not a Business Day, the last day on which Seller may deliver a notice described in this Section 3.4 shall be adjusted in accordance with the Following Business Day Convention.

If Buyer fails to deliver an effective Notice of Physical Settlement on or prior to the Notice of Physical Settlement Date, and Seller fails to deliver the relevant notice to Buyer on or prior to the fifteenth calendar day after the Notice of Physical Settlement Date (subject to adjustment in accordance with the Following Business Day Convention), then such fifteenth calendar day will be the Termination Date."

- (ii) Section 7.1 of the Credit Definitions is replaced with the following:

"If "Cash Settlement" is deemed to apply pursuant to Section 9.3, 9.4, 9.5 or 9.6, (a) if the Cash Settlement Amount is a positive number, Seller shall, subject to Section 3.1, pay the Cash Settlement Amount to Buyer on the Cash Settlement Date; and (b) if the Cash Settlement Amount is a negative number, Buyer shall, subject to Section 3.1, pay the absolute value of the Cash Settlement Amount to Seller on the Cash Settlement Date."

- (iii) Section 8.1 of the Credit Definitions is amended by replacing the words "Physical Settlement Amount" in the second paragraph thereof with the words "Floating Rate Payer Calculation Amount."
- (iv) Section 9.1(b) of the Credit Definitions is amended by deleting the word "and" from the end of Section 9.1(b)(iv), replacing the period at the end of Section 9.1(b)(v) with a semicolon and adding the following to the end of Section 9.1(b):



- "(vi) each party has determined to enter into such Credit Derivative Transaction notwithstanding any information described in Section 9.1(b)(iv) above of which the other party may have possession, and notwithstanding that the other party may be contractually prohibited from disclosing or offering to disclose such information to it by virtue of any credit agreement or other agreement with a Reference Entity, any Affiliate of a Reference Entity, any Underlying Obligor or any other person or entity having obligations relating to a Reference Entity or any Underlying Obligor or otherwise; and
- (vii) neither party shall have any liability to the other party (or its officers, directors, agents, partners, members, controlling entities or employees) and each party waives and releases any claims that it might have against the other party (or its officers, directors, agents, partners, members, controlling entities or employees) whether under applicable securities laws or otherwise, with respect to the nondisclosure of any information described in Section 9.1(b)(iv) above in connection with such Credit Derivative Transaction; provided, however, that such information does not and shall not affect the truth or accuracy of any representation made by such party herein or in the Confirmation for such Credit Derivative Transaction."
- (v) Section 9.8(a) of the Credit Definitions is replaced with the following:
 

"(a) "Cash Settlement Amount" is deemed to be, for each Undeliverable Obligation, Undeliverable Loan Obligation, Undeliverable Participation or Unassignable Obligation, the aggregate of (A) the outstanding principal balance, Due and Payable Amount or Currency Amount, as applicable, of each Undeliverable Obligation, Undeliverable Loan Obligation, Undeliverable Participation or Unassignable Obligation multiplied by (B) the Reference Price minus the Final Price with respect to such Undeliverable Obligation, Undeliverable Loan Obligation, Undeliverable Participation or Unassignable Obligation."
- (vi) Section 9.8(c) of the Credit Definitions is amended by deleting the words "and 'Reference Price' is deemed to be one hundred per cent".
- (vii) Section 9.9 of the Credit Definitions is amended by deleting the second sentence of the penultimate paragraph and replacing it with the following:
 

"On the third Business Day following such notice, Buyer will be deemed to have Delivered an outstanding principal balance of the Deliverable Obligations specified in the Notice of Physical Settlement for which a Buy-in Price was determined and Buyer will pay to Seller an amount equal to (A) the outstanding principal balance of the Deliverable Obligations specified in the Notice of Physical Settlement, multiplied by (B) the excess, if any, of the Buy-in Price over the Final Price, plus (C) any reasonable brokerage costs incurred by Seller in connection with any purchases by it of the Relevant Bonds as part of the buy-in."
- (viii) Section 9.10(a) of the Credit Definitions is amended by adding the following at the beginning of the section: "This section 9.10(a) will not be applicable if Seller delivers a notice that is deemed to effect delivery of a Notice of Physical Settlement instead of Buyer delivering a Notice of Physical Settlement."
- (ix) Section 9.10(b) of the Credit Definitions is amended by deleting the following from the thirteenth line thereof: "at a price (expressed as a percentage) less than the Reference Price".

**"Rounding Convention"** means that, if a Participating Bidder's order is matched in an amount that is not an integral multiple of US\$1,000, then the amount to be so matched will be rounded down to the nearest US\$1,000. The difference between the total amounts of all orders having been filled Pro Rata and the total of all rounded down amounts will be allocated US\$1,000 at a time to Participating Bidders in order, beginning with the Participating Bidder with the order stating the largest Quotation Amount at the same price. In the event that there are Participating Bidders with identical orders of such type, US\$1,000 amounts will be allocated first to the Participating Bidder whose orders were received first by the Administrators.

**"Submission"** means, with respect to a Participating Bidder, any Valid Inside Market Submission, Limit Order Submission or Physical Settlement Request submitted by such Participating Bidder to the Administrators.

**"Subsequent Bidding Period"** means any time during the fifteen minutes preceding the turn of the hour that is greater than two hours but less than three hours after the announcement by the Administrators of the Open Interest calculated in connection with the immediately preceding Initial Bidding Period (for example, if such announcement is made at 10:30 a.m. New York time, the Subsequent Bidding Period would be anytime between 12:45 p.m. and 1:00 p.m. New York time on the same day) or such longer period as the Administrators may prescribe if they determine (in their sole and absolute discretion) that a longer period is required to preserve the integrity of the Auction.

**"Touching Market"** means any Matched Market for which the Inside Market Bid and Inside Market Offer are equal.

**"Tradeable Market"** means any Matched Market that is a Crossing Market or a Touching Market.

**"Unmatched Limit Order"** has the meaning set forth in Section (8) of this Exhibit 2.

**"Valid Inside Market Submission"** means a submission from a Participating Bidder received by the Administrators during the Initial Bidding Period of both an Inside Market Bid and an Inside Market Offer, each expressed as a percentage (in increments of one-eighth of one percentage point (e.g., 35.375%)) of the outstanding principal balance (rather than the face amount) of Deliverable Obligations which do not differ from one another by more than 2.00% of par, and for which the Inside Market Bid is not greater than or equal to the Inside Market Offer.

**Form of Bidding Agreement Letter**

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**[Letterhead of Participating Bidder]**

**[Date]**

**Markit Group Limited**

**Send to: [cea@markit.com](mailto:cea@markit.com)**

**Creditex Securities Corp.**

**Send to: [CEF@creditex.com](mailto:CEF@creditex.com)**

**International Swaps and Derivatives Association, Inc.**

**Send to: [EcuadorProtocol@isda.org](mailto:EcuadorProtocol@isda.org)**

Dear Sirs,

We write to inform you that we wish to be a "Participating Bidder" in respect of the Auction occurring pursuant to the 2009 Ecuador CDS Protocol, as published by the International Swaps and Derivatives Association, Inc. on January 6, 2009 (the "**Protocol**"), in respect of Ecuador. Capitalized terms used in this letter but not defined herein have the meanings specified in the Protocol.

We hereby notify you that it is our intention that, pursuant to the terms of the Protocol at the time of submission, any Dealer Physical Settlement Request we submit will, to the best of our knowledge and belief, be in the same direction as and will not exceed our Market Position.

By signing and returning this Bidding Agreement Letter to you, we represent that:

- (a) from time to time we regularly trade in one or more obligations of the types of obligations listed under the definition of "Deliverable Obligation" in Exhibit 2 to the Protocol in the secondary market or we regularly trade credit default swaps with Ecuador as the Reference Entity;
- (b) we are, or our affiliate is, a CDS Dealer, as defined in the Protocol;
- (c) none of our affiliates has previously submitted a Bidding Agreement Letter to you; and
- (d) we are not, as of the date of this letter, subject to any requirement that would make it impossible or illegal for us to deliver or accept delivery of any of the Deliverable Obligations.

In addition, we agree that neither Administrator shall be liable to us for any indirect, special or consequential damages resulting from our participation in the Auction (including any Adjustment Amounts involving our Bid or Offer), and that each Administrator's maximum cumulative liability for direct and any other damages arising out of our participation in the Auction (including any Adjustment Amounts), other than damages resulting from gross negligence, wilful misconduct or breach of representations made to the Participating Bidders in Creditex Securities Corp.'s letter to the Participating Bidders dated on or about January 12, 2009 on the part of such Administrator, is limited to US\$10,000 in the aggregate.

We agree to abide by the terms of the Auction Methodology set out in Exhibit 2 to the Protocol, including, for the avoidance of doubt, Section 13 of such Exhibit 2.

We also agree to pay to ISDA (i) our share of any fees payable by ISDA to the Administrators or to ISDA's legal advisors in connection with the administration of the Auction or the development of the relevant lists of Deliverable Obligations and (ii) any Adjustment Amounts payable by us pursuant to the terms of the Protocol (such fees together with any such Adjustment Amounts, "Auction Costs"). We agree to pay any Auction Costs to ISDA within twenty-one (21) days of receipt of a written invoice submitted by ISDA for such Auction Costs.

Our contact details for purposes of this Bidding Agreement Letter are:

Name: [●]  
Address: [●]  
Telephone: [●]  
Fax: [●]  
E-mail: [●]

Our contact details for purposes of receiving any invoices relating to Auction Costs are:

Name: [●]  
Address: [●]  
Telephone: [●]  
Fax: [●]  
E-mail: [●]

We consent to the publication of the conformed copy of this letter by ISDA and to the disclosure by ISDA of the contents of this letter.

Yours faithfully,

[PARTICIPATING BIDDER]<sup>2</sup>

By:

Name:
Title:
Signature:

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<sup>2</sup> Specify legal name of Participating Bidder.

**Form of Notice of Physical Settlement**

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Attention: [client contact]  
By Fax: [facsimile]  
By Phone: [telephone]

[CLIENT]

Dear Sirs

**NOTICE OF PHYSICAL SETTLEMENT**

Credit Derivative Transaction Details:<sup>3</sup> Representative Auction-Settled Transaction, formed pursuant to Exhibit 2 of the 2009 Ecuador CDS Protocol published by the International Swaps and Derivatives Association, Inc. on January 6, 2009 (the **Protocol**) entered into between [SELLER], as Seller (i.e., the party identified by the Auction Administrators as having an obligation to accept Delivery of Deliverable Obligations), and [BUYER] as Buyer (i.e., the party identified by the Auction Administrators as having the obligation to Deliver Deliverable Obligations), and for which the **Floating Rate Payer Calculation Amount** is USD [●]<sup>4</sup>.

Reference is made to the Credit Derivative Transaction described above (the **Transaction**).

- (1) Pursuant to Exhibit 2 to the Protocol, the Event Determination Date for the Transaction is the Common Event Determination Date and a Credit Event Notice and Notice of Publicly Available Information are deemed to have been effectively delivered on a timely basis.
- (2) Any capitalized term not otherwise defined in this letter will have the meaning, if any, assigned to such term in the Protocol or, if no meaning is specified therein, in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc.
- (3) We hereby confirm that we will settle the Transaction and require performance by you in accordance with the Physical Settlement Method. Subject to the terms of the Transaction, we will deliver to you on or before the Physical Settlement Date the following Deliverable Obligations against payment of the Floating Rate Payer Calculation Amount multiplied by the Final Price of [●]<sup>5</sup>:
  - **Outstanding Principal Balance:** [●]
  - **Primary Obligor:** [●]
  - **Maturity:** [●]
  - **Coupon:** [●]

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<sup>3</sup> These Transactions Details will need to be adjusted appropriately where this form is used in respect of a transaction between a customer and a Participating Bidder.

<sup>4</sup> The Quotation Amount of the Transaction identified by Auction Administrators or, in the case of a Representative Auction-Settled Transaction between a Participating Bidder and a customer, the amount specified by such Participating Bidder.

<sup>5</sup> Adjustment of this provision will be required where Buyer is delivering Deliverable Obligations with a Principal Balance equal to less than the relevant Floating Rate Payer Calculation.

- **CUSIP: [●]**
  - **Type: [Bond/Loan]**
- (4) This letter shall be governed by and interpreted in accordance with laws of the State of New York (without reference to choice of law doctrine).

Very truly yours,

[ ]

By:\_\_\_\_\_

Name:

Title:

**Form of Customer Physical Settlement Request Letter**

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**[Letterhead of Customer]**

**[Date]**

**Send to: [Participating Bidder]**

Dear Sirs,

We write to inform you that we wish to submit a Customer Physical Settlement Request as defined in the Auction Methodology included as part of the 2009 Ecuador CDS Protocol published by the International Swaps and Derivatives Association, Inc. on January 6, 2009 (the "**Protocol**"), in respect of Ecuador. Capitalized terms used in this letter but not defined herein have the meanings specified in the Protocol.

By signing and returning this Customer Physical Settlement Request Letter to you, we represent that:

- (a) the Customer Physical Settlement Request set out below is to the best of our knowledge and belief, in the same direction as and (when aggregated with all Customer Physical Settlement Requests submitted by us to one or more Participating Bidders) not in excess of our Market Position; and
- (b) we are not, as of the date of this letter, subject to any requirement that would make it impossible or illegal for us to deliver or accept delivery of any of the Deliverable Obligations.

The Customer Physical Settlement Request is a Physical Settlement [Buy][Sell] Request of USD [●].

Our contact details for purposes of this Customer Physical Settlement Request Letter are:

Name: [●]

Address: [●]

Telephone: [●]

Fax: [●]

E-mail: [●]

Yours faithfully,

[CUSTOMER]<sup>6</sup>

By:

Name:
Title:
Signature:

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<sup>6</sup> Specify legal name of customer.



## SCHEDULE 1

### (1) Amendments affecting all Covered Transactions

With effect from the later of (a) the Common Event Determination Date and (b) the Trade Date in respect of the relevant Covered Transaction, the Documentation relating to each Covered Transaction shall be modified as follows. To the extent any provision of the Credit Definitions is inconsistent with the terms of this Schedule 1, the terms of this Schedule 1 shall govern.

- (a) *Effect of Actual Notices.* Any Credit Event Notice, Notice of Publicly Available Information or Notice of Physical Settlement delivered with respect to Ecuador or the Ecuador Portion shall be deemed revoked, and neither party shall have any obligations with respect to any such notice.
- (b) *No Additional Notice Deliveries.* Except for the deemed notices provided in clause (c) below, each party agrees not to deliver any Credit Event Notice, Notice of Publicly Available Information or Notice of Physical Settlement with respect to Ecuador or the Ecuador Portion, and any such notice delivered shall be void and have no effect.
- (c) *Satisfaction of Conditions to Settlement.*
  - (i) A Notifying Party shall be deemed to have delivered a Credit Event Notice with respect to Ecuador or the Ecuador Portion and a Notice of Publicly Available Information, which notice in each case is effective as of the Common Event Determination Date and satisfies the requirements of the documentation governing the relevant Covered Transaction.
  - (ii) The Conditions to Settlement in each Covered Transaction are amended by eliminating any requirement that Buyer deliver a Notice of Physical Settlement with respect to Ecuador. Accordingly, the Conditions to Settlement with respect to Ecuador or the Ecuador Portion are deemed satisfied on the later of (A) the Common Event Determination Date and (B) the Trade Date.
- (d) *Settlement Terms.* The Covered Transaction, or the portion thereof to which Ecuador relates, as applicable, shall settle as if the Settlement Method specified in the Documentation were Cash Settlement, subject to the following:
  - (i) The Final Price will be determined as described in the Auction Methodology, with the Final Price Determination Date as the Single Valuation Date. Notwithstanding Section 7.4 of the Credit Definitions, the Calculation Agent will not be obligated to provide any notice with respect to Quotations or the calculation of such Final Price.
  - (ii) The Cash Settlement Amount will be determined as provided in Section 7.3 of the Credit Definitions as modified by the amendment in the applicable section below.
  - (iii) In respect of each Covered Transaction that is not a Covered Portfolio Swaption, (A) the Cash Settlement Date under the Covered Transaction or the Cash Settlement Date in respect of the Ecuador Portion, as applicable, shall be the Cash Settlement Date specified in the Auction Methodology, and (B) in respect of each Covered Portfolio Swaption, the Cash Settlement Date shall be as set out under clause (f) "Portfolio Swaptions" below.
- (e) If an Auction Cancellation Event occurs, subsections (b), (c)(ii) and (d) above shall be rescinded and have no further effect. For the avoidance of doubt, if an Auction Cancellation Event occurs, a party may deliver a Notice of Physical Settlement or any other relevant notice with respect to any Covered Transaction in accordance with the relevant documentation and settle any Covered Transaction in accordance with the relevant documentation; provided that the reference to the "Event Determination

Date" in Section 3.4 of the Credit Definitions shall be deemed to refer to the relevant Auction Cancellation Date.

- (f) *Accruals.* For the avoidance of doubt, notwithstanding the provisions of Paragraph 2 below of this Schedule 1, for any Covered Transaction for which the Scheduled Termination Date is on or after November 15, 2008 and on or prior to the Common Event Determination Date, and in respect of which Grace Period Extension is specified as applicable in the Documentation applicable to such Covered Transaction (and the Grace Period is either specified as 30 calendar days or more therein or no Grace Period is specified therein), no further accruals shall occur after the Scheduled Termination Date and no rebate will apply.

**(2) Amendments affecting particular Covered Transactions**

Provided that an Auction Cancellation Event does not occur, with effect from the Final Price Determination Date, the Documentation relating to each Covered Transaction specified below shall be modified additionally, as follows:

- (a) *Single name CDS transactions.* The Documentation relating to each Covered Transaction that is a Single Name CDS Transaction or a Single Name Constant Maturity Swap Transaction is amended as follows:

- (i) *Accruals.* Notwithstanding anything to the contrary in the documentation governing the Covered Transaction, (A) if the first Fixed Rate Payer Payment Date after the Common Event Determination Date occurs (or would have occurred but for the Credit Event) before January 23, 2009, (1) the Fixed Rate on the Covered Transaction shall accrue to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) for purposes of the payment due on that date and (2) a rebate of such Fixed Rate accrual on the Covered Transaction for the period from but excluding the Common Event Determination Date to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) will be paid by Seller to Buyer on January 23, 2009; or (B) if the first Fixed Rate Payer Payment Date after the Common Event Determination Date occurs (or would have occurred but for the Credit Event) on or after January 23, 2009, (1) the Fixed Rate on the Covered Transaction shall accrue to and including the Common Event Determination Date, and (2) the resulting Fixed Amount in respect of Ecuador shall be paid on January 23, 2009, with no rebate.

- (b) *Untranchcd transactions.* The Documentation relating to each Covered Transaction that is a Covered CDX Untranchcd Transaction, a Bespoke Untranchcd Portfolio Transaction or a First to Default Transaction is amended as follows:

- (i) *Accruals.* Notwithstanding anything to the contrary in the documentation governing the Covered Transaction, (A) if the first Fixed Rate Payer Payment Date after the Common Event Determination Date occurs (or would have occurred but for the Credit Event) before January 23, 2009, (1) the Fixed Rate on the Covered Transaction, or the portion thereof to which Ecuador relates, as applicable, shall accrue to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) for purposes of the payment due on that date and (2) a rebate of such Fixed Rate accrual on the Covered Transaction, or the portion thereof to which Ecuador relates, as applicable, for the period from but excluding the Common Event Determination Date to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) will be paid by Seller to Buyer on January 23, 2009; or (B) if the first Fixed Rate Payer Payment

Date after the Common Event Determination Date occurs (or would have occurred but for the Credit Event) on or after January 23, 2009, (1) the Fixed Rate on the Covered Transaction, or the portion thereof to which Ecuador relates, as applicable, shall accrue to and including the Common Event Determination Date, and (2) the resulting Fixed Amount in respect of Ecuador shall be paid on January 23, 2009, with no rebate.

(c) ***Tranched transactions based on Index Documentation.*** The Documentation relating to Covered Transactions that are tranched transactions based on Index Documentation, including Covered CDX Tranched Transactions, Bespoke Tranched Portfolio Transactions, Interest Only Transactions, Portfolio Constant Maturity Swap Transactions and Principal Only Transactions, is amended as follows:

(i) ***Accruals.*** Notwithstanding anything to the contrary in the documentation governing the Covered Transaction, (A) if a Fixed Rate Payer Payment Date occurs (or would have occurred but for the Credit Event) in the period from but excluding the Common Event Determination Date to but excluding January 23, 2009, (1) the Fixed Rate shall accrue as if no Credit Event had occurred with respect to Ecuador to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) for purposes of the payment due on that date and (2) without duplication of any rebate payable under the Documentation governing such Covered Transaction, a rebate of such Fixed Rate accrual on the portion of the Covered Transaction related to Ecuador equal to the reduction in the Outstanding Swap Notional Amount for the Incurred Loss Amount (if any) and/or Incurred Recovery Amount (if any) with respect to Ecuador for the period (if any) from and including the calendar day immediately following the Common Event Determination Date to but excluding such Fixed Rate Payer Payment Date (or, if such Fixed Rate Payer Payment Date is the Scheduled Termination Date, to and including such Scheduled Termination Date) will be paid by Seller to Buyer on January 23, 2009; or (B) if no Fixed Rate Payer Payment Date occurs (or would have occurred but for the Credit Event) in the period from but excluding the Common Event Determination Date to but excluding January 23, 2009 and the first Fixed Rate Payer Payment Date after the Common Event Determination Date occurs (or would have occurred but for the Credit Event) on or after January 23, 2009, (1) the Fixed Rate shall accrue as if an Event Determination Date with respect to Ecuador had occurred on the Common Event Determination Date, (2) a Fixed Amount accrual in respect of the reduction in the Outstanding Swap Notional Amount for the Incurred Loss Amount (if any) and/or Incurred Recovery Amount (if any) with respect to Ecuador for the relevant Fixed Rate Payer Calculation Period through and including the Common Event Determination Date shall be paid on January 23, 2009 and (3) the Fixed Amount accrual payable on such Fixed Rate Payer Payment Date shall be calculated as if the Outstanding Swap Notional Amount were reduced by the Incurred Loss Amount (if any) and/or the Incurred Recovery Amount (if any) with respect to Ecuador on the first day of the relevant Fixed Rate Payer Calculation Period, with no rebate.

(ii) ***Settlement Terms.*** Unless an Auction Cancellation Event occurs, the Ecuador Portion shall settle in accordance with the Documentation, subject to the following:

- (A) To the extent applicable in the Documentation, Buyer will be deemed to have Delivered the Selected Obligation with an outstanding principal balance having a Currency Amount equal to the Reference Entity Notional Amount on the Auction Date.
- (B) To the extent applicable in the Documentation, Seller will not be obligated to pay the related Market Value Amount or Estimated Amount (or any similarly defined amount), as applicable, and neither party will have any obligation to pay any Adjustment Amount (or any similarly defined amount) in connection with such deemed Delivery.

- (iii) *Cash-settled only tranching transactions based on Index Documentation.* If the Documentation relating to any tranching transaction based on Index Documentation specifies Cash Settlement, as modified by the parties, as the sole Settlement Method, the terms of this Schedule 1 shall be construed in respect of such transaction (and, with respect to Covered CDX Tranching Transactions, after taking into account any differences between the relevant Documentation and the form documentation published by CDS IndexCo LLC in April 2005 or March 2007) to effectuate the parties' intent that, other than in the case of an Auction Cancellation Event, the Final Price, determined as described in the Auction Methodology set forth in Exhibit 2 to this Protocol, be used to determine the amounts, if any, payable by and/or other rights and obligations of the parties with respect to the settlement of the Ecuador Portion.
- (d) *Tranching transactions not based on Index Documentation.* The Documentation relating to tranching transactions not based on Index Documentation, including Bespoke Tranching Portfolio Transactions, Interest Only Transactions, Portfolio Constant Maturity Swap Transactions and Principal Only Transactions, is amended as necessary in order that the Fixed Rate shall accrue as if an Event Determination Date had occurred with respect to Ecuador on the Common Event Determination Date and that portion of the Fixed Amount that accrues in respect of Ecuador (if any) shall be paid on the Cash Settlement Date and shall not be included in the calculation of the Fixed Amount payable on any future date.
- (e) *Recovery Lock Transactions.* The Documentation relating to each Covered Transaction that is a Recovery Lock Transaction is amended as follows:
  - (i) *Accruals.* Notwithstanding anything to the contrary in the Documentation, the final Fixed Rate Payer Calculation Period in respect of the Fixed Amount payable in respect of Ecuador shall end on, and include, the Common Event Determination Date and the resulting Fixed Amount shall be paid on the Cash Settlement Date.
  - (ii) *Satisfaction of Conditions to Settlement.* The Conditions to Settlement in each Recovery Lock Transaction are further amended by eliminating any reference to Seller's right to deliver any notice to Buyer as a result of Buyer failing to deliver a Notice of Physical Settlement.
  - (iii) *Settlement Terms.* Unless an Auction Cancellation Event occurs, and notwithstanding anything to the contrary in the Documentation specifying Physical Settlement or Partial Cash Settlement, Ecuador or the Ecuador Portion, as applicable, shall settle as if Cash Settlement were deemed to apply pursuant to Section 9.3, 9.4, 9.5 or 9.6 of the Credit Definitions, but shall otherwise settle in accordance with the relevant Documentation, provided that the Final Price will be determined as described in the Auction Methodology set forth in Exhibit 2 to this Protocol and, notwithstanding Section 7.4 of the Credit Definitions, the Calculation Agent will not be obligated to provide any notice with respect to Quotations or the calculation of such Final Price.
- (f) *Nth to Default Transactions.* The Documentation relating to each Covered Transaction that is a Nth to Default Transactions is amended as follows:
  - (i) *Accruals.* Notwithstanding anything to the contrary in the Documentation, the final Fixed Rate Payer Calculation Period in respect of the Fixed Amount payable in respect of Ecuador shall end on, and include, the Common Event Determination Date and the resulting Fixed Amount shall be paid on the Cash Settlement Date.
  - (ii) *Satisfaction of Conditions to Settlement.* The amendments to the Documentation set forth in (1)(c)(ii) above will be effected so that an Event Determination Date will be deemed to have occurred with respect to Ecuador on the Common Event Determination Date and, if Ecuador is the Nth Reference Entity for which an Event Determination Date has occurred, the Conditions to Settlement for the Transaction shall be deemed to be satisfied.

- (g) **Single Name Swaptions.** The Documentation relating to each Covered Transaction that is a Single Name Swaption is amended as follows:
- (i) **No Additional Notice Deliveries.** Without prejudice to the application of clause 1(c) above, each party agrees not to deliver any Credit Event Notice, Notice of Publicly Available Information or Notice of Physical Settlement with respect to Ecuador, and any such notice delivered shall be void and have no effect.
  - (ii) **Satisfaction of Conditions to Settlement.** A "Knock-Out Credit Event" (or similar term, as applicable, in the relevant Documentation) will be deemed to have occurred with respect to Ecuador and the Single Name Swaption shall be deemed to be terminated.
- (h) **Portfolio Swaptions.** The Documentation relating to each Covered Transaction that is a Portfolio Swaption is amended to provide that (x) no Accrued Amount in respect of the Ecuador Portion will be deducted from the Strike Adjustment Amount ("Accrued Amount" and "Strike Adjustment Amount" having the meanings specified in the Swaption template (Master Confirmation as Underlying) published by CDS IndexCo LLC, dated March 20, 2007, or, if the relevant Portfolio Swaption is documented under another form of Documentation, meanings analogous thereto, to the extent applicable) and (y) the related Underlying CDS is deemed to be amended as follows:
- (i) **Accruals.** Notwithstanding anything to the contrary in the Documentation for the relevant Portfolio Swaption or the documentation for the underlying credit default swap, (A) if the Portfolio Swaption is effectively exercised on or prior to the third Business Day prior to the Cash Settlement Date (x) the seller of protection in the underlying transaction will pay to the buyer of protection in the underlying transaction, on the third business day after the day on which such Portfolio Swaption is effectively exercised, the Fixed Amount in respect of Ecuador (as defined in the documentation for the underlying credit default swap transaction) for the Fixed Rate Payer Calculation Period beginning on the Fixed Rate Payer Payment Date for the underlying transaction immediately prior to the date on which the Portfolio Swaption is effectively exercised and ending on, and including, the Common Event Determination Date and (y) the buyer of protection in the underlying transaction will not pay to the seller in such underlying transaction any Fixed Amount in respect of Ecuador and (B) if the Portfolio Swaption is effectively exercised after the third Business Day prior to the Cash Settlement Date, neither party will pay to the other any Fixed Amount in respect of Ecuador.
  - (ii) **Settlement Terms.** Unless an Auction Cancellation Event occurs, and notwithstanding anything to the contrary in the documentation for the underlying credit default swap that may specify Physical Settlement or Partial Cash Settlement, the Ecuador Portion shall settle as if the Settlement Method specified in such documentation were Cash Settlement but shall otherwise settle in accordance with the relevant documentation for the underlying transaction, provided that (A) the Final Price with respect to the Ecuador Portion of the underlying credit default swap transaction will be determined as described in the Auction Methodology set forth in Exhibit 2 to this Protocol, (B) notwithstanding Section 7.4 of the Credit Definitions, the Calculation Agent will not be obligated to provide any notice with respect to Quotations or the calculation of such Final Price, (C) if the Portfolio Swaption is effectively exercised on or prior to the third Business Day prior to the Cash Settlement Date, the seller of protection in the underlying transaction will pay to the buyer of protection in the underlying transaction, on the Cash Settlement Date, the Cash Settlement Amount in respect of Ecuador, less the Fixed Amount in respect of Ecuador (as defined in the documentation for the underlying credit default swap transaction) for the Fixed Rate Payer Calculation Period beginning on the Fixed Rate Payer Payment Date for the underlying transaction immediately prior to the date on which the Portfolio Swaption is effectively exercised and ending on, and including, the Common Event Determination Date, and (D) if the Portfolio Swaption is effectively exercised after the third Business Day prior to the

Cash Settlement Date, the seller of protection in the underlying transaction will pay to the buyer of protection in the underlying transaction, on the third Business Day after such Exercise Date, the Cash Settlement Amount in respect of Ecuador.