

**Plain English Summary of the Auction Methodology in the 2010 Aiful Corporation Credit
Derivatives Auction Settlement Terms**

This summary is based on the 2010 Aiful Corporation Credit Derivatives Auction Settlement Terms, as published by ISDA on March, 3 2010 (the **ASTs**) and summarizes the auction methodology contained in such ASTs (the **Auction Methodology**). This summary is for informational purposes only, is not a summary of the entire ASTs and is subject to the ASTs in all respects. Market participants should examine the text of the ASTs before deciding whether to take any action with respect thereto. ISDA makes no representation or warranty as to the accuracy or completeness of any information contained in this summary and accepts no liability for the accuracy or completeness of such information. All times of day herein refer to such times in Tokyo. Capitalized terms used but not defined in this summary have the meanings specified in the ASTs.

Important Dates

- March 24 → Exercise Cut-off Date
- March 25 → Auction Date
- March 26 → Deadline for the party determined to be the Buyer under each trade formed in the Auction to deliver a Notice of Physical Settlement in respect of such trades
- May 17 → Physical Settlement Date for trades formed in the Auction
- March 30 → Auction Settlement Date for Auction Covered Transactions

Auction Covered Transactions

The Auction covers the following types of Credit Derivative Transaction:

- Tranched or untranching Credit Derivative Transactions referencing a bespoke portfolio;
- Single name Credit Derivative Transactions;
- Constant Maturity Swap Transactions (both portfolio and single name);
- Principal Only and Interest Only Transactions;
- First to Default and Nth to Default Transactions;
- Recovery Lock Transactions; and
- Swaptions (both single name and portfolio),

provided (a) Aiful Corporation is a Reference Entity, (b) Auction Settlement is the applicable Settlement Method, (c) (for non-Swaption Transactions) an Event Determination Date has occurred in respect of Aiful Corporation on or before March 24, 2010 as a result of the Aiful Credit Event resolved by the Japan DC on December 30 2009¹, (d) the Deliverable Obligation Provisions are identical to one set of the Deliverable Obligation Terms determined by the relevant Convened DC to be applicable to the Auction, (e) for covered portfolio swaption transactions, the Trade Date is on or prior to March 25, 2010 and the Expiration Date is after March 25, 2010 (f) for covered single name swaption transactions, the Trade Date is on or prior to December 24, 2009 and the Expiration Date is on or after December 24, 2009.

The Auction does not include any Credit Derivative Transaction for which the Deliverable Obligations specifically listed in the ASTs would not be considered "Deliverable Obligations" under the terms of the relevant Credit Derivative Transaction. This would include, but not be limited to, Reference Obligation Only Transactions, Loan Only Transactions and Preferred CDS Transactions. Transactions under which

¹ The Event Determination Date will be December 24, 2009 if the Notifying Party has effectively delivered a Credit Event Notice on or before March 24, 2010 and the DC Credit Event Announcement applies to the transaction in question.

payment is not determined by reference to the Auction Final Price (such as Fixed Recovery Transactions) are also not included in the Auction.

Auction Timing

March 15, 2010

Before 5:00 p.m. dealers (other than DC Members) who wish to be Participating Bidders submit Participating Bidder Letters.

March 19, 2010

The Administrators publish a list of the Participating Bidders.

March 25, 2010 (Auction Date)

The Auction Methodology described below will be conducted and an Auction Final Price will be determined for application in respect of all Auction Covered Transactions.

The Deliverable Obligations for the Auction are listed as "Deliverable Obligations" in the Final List published by the Credit Derivatives Determinations Committee available on the Aiful Corporation page of the Website available at: www.isda.org/companies/aiful/aiful.html.

Between **9:45 a.m. and 10:00 a.m.**, Participating Bidders submit Initial Market Bids, Initial Market Offers, and Physical Settlement Requests (taking into account any Customer Physical Settlement Request to the extent received from customers).

- Initial Market Bids and Initial Market Offers are firm quotations, expressed as percentages, to enter into (as Seller or Buyer, respectively) Credit Derivative Transactions in respect of Aiful Corporation on terms equivalent to the terms of the Representative Auction-Settled Transaction specified in the ASTs. The Representative Auction-Settled Transaction is a deemed standard, single name credit default swap referencing Aiful Corporation and assuming an Event Determination Date of December 24, 2009.
- A Participating Bidder's Initial Market Bid and Initial Market Offer must differ by no more than 5% of par and must be in the size specified in the ASTs (JPY200 million).
- Dealer Physical Settlement Requests and Customer Physical Settlement Requests are firm commitments, submitted by a Participating Bidder to the Administrators or by a customer to a Participating Bidder, respectively, to enter into a Representative Auction-Settled Transaction. 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. Each Customer Physical Settlement Request must be, to the best of the relevant customer's knowledge and belief (when aggregated with all Customer Physical Settlement Requests submitted by such customer), in the same direction as, and not in excess of, its Market Position.²
- If the Administrators do not receive Valid Initial Market Submissions from at least eight Participating Bidders, the timeline for holding the Auction will be adjusted according to the Auction Methodology, otherwise the Auction will proceed as follows.

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

² "Market Position" means, with respect to a Participating Bidder or customer, as applicable, the aggregate amount of Deliverable Obligations that the relevant Participating Bidder or customer, as applicable, would have to buy or sell in order to obtain an identical risk profile after the Auction Settlement Date compared to its risk profile prior to the Auction Settlement Date with respect to all Auction Covered Transactions (excluding those Auction Covered Transactions for which the Trade Date is the Auction Final Price Determination Date) and all Auction-Linked Cash Settled Transactions to which such Participating Bidder, or any Affiliate of such Participating Bidder, as applicable, or such customer, or any Affiliate of such customer, as applicable, is a party, such risk profile to be determined without regard to whether the original transactions were documented as cash settled or physically settled transactions.

- The Open Interest is the difference between all Physical Settlement Sell Requests and all Physical Settlement Buy Requests.
- To determine the Initial Market Midpoint, the Administrators (1) sort the Initial Market Bids in descending order and the Initial Market Offers in ascending order and match each bid with the corresponding offer (i.e. the highest bid with the lowest offer and so on) to give "matched markets", (2) identify "non-tradeable matched markets" (being those for which bids are lower than offers), (3) sort non-tradeable matched markets in terms of tightness of spread between Initial Market Bid and Initial Market Offer and (4) identify the half of the non-tradeable matched markets with the tightest spreads. The Initial Market Midpoint is determined as the arithmetic mean of the Initial Market Bids and Initial Market Offers contained in the half of non-tradeable matched markets with the tightest spreads.
- Any Participating Bidder whose Initial Market Bid or Initial Market Offer forms part of a tradeable matched market may be required to make a payment to ISDA (an **Adjustment Amount**), calculated in accordance with the Auction Methodology.
- If for any reason no single Initial Market Midpoint can be determined, the procedure set out above may be repeated as set out in the Auction Methodology.

No later than **10:30 a.m.**, the Administrators publish the Open Interest, the Initial Market Midpoint and the details of any Adjustment Amounts. If the Open Interest is zero, the Auction Final Price is the Initial Market Midpoint, otherwise, a subsequent bidding period is conducted as described below.

Between **10:30 a.m. and 1:00 p.m.**, Participating Bidders canvass Limit Orders.

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

- If the Open Interest is a bid to purchase Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Offers and Limit Offers as further described in the Auction Methodology. If the Open Interest is an offer to sell Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Bids and Limit Bids as further described in the Auction Methodology.
- If, once the Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, have been matched to the Open Interest such that no part of the Open Interest remains, the Auction Final Price will be the price associated with the submission that is the highest offer or the lowest bid, as applicable, and that results in the Open Interest being fully matched, provided that (a) if the Open Interest is an offer to sell and the price associated with the lowest matched bid is more than 2.5% of par higher than the Initial Market Midpoint, then the Final Price will be the Initial Market Midpoint plus 2.5% of par and (b) if the Open Interest is a bid to purchase and the price associated with the highest offer is more than 2.5% of par lower than the Initial Market Midpoint, then the Final Price will be the Initial Market Midpoint minus 2.5% of par.
- If, once all the Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, have been matched to the Open Interest, part of the Open Interest remains, the Final Price will be (a) if the Open Interest is a bid to purchase Deliverable Obligations, 100% or (b) if the Open Interest is an offer to sell Deliverable Obligations, zero.

No later than **2:00 p.m.**, the Administrators will publish on www.creditfixings.com (1) the Auction Final Price, (2) the names of the Participating Bidders who submitted bids, offers and Physical Settlement Requests, together with the details of all such bids and offers submitted by each and (3) the details and size of all matched trades under the Auction.

Execution of Trades Formed in the Auction

Each Participating Bidder whose Limit Bid, Initial Market Bid, Limit Offer or Initial Market Offer, as applicable, is matched against the Open Interest, and each Participating Bidder that submitted a Physical Settlement Request is deemed to have entered into a Representative Auction-Settled Transaction (**RAST**) with the Participating Bidder with whom it is paired, as described above and, more fully, in the ASTs. Each customer that submitted such a Limit Bid, Limit Offer or a Customer Physical Settlement Request is deemed to have entered into a RAST with the Participating Bidder to whom the customer submitted such bid or offer (and the relevant Participating Bidder is also so deemed).

Accordingly, each such Participating Bidder or customer that is a "seller" of Deliverable Obligations pursuant to a trade formed in the Auction must deliver by **4:00 p.m. on March 26, 2010** to the "buyer" of Deliverable Obligations with whom such Participating Bidder or customer has been matched a Notice of Physical Settlement indicating the Deliverable Obligations that it will deliver, and such Deliverable Obligations will be delivered to the "buyer" of Deliverable Obligations in exchange for payment of an amount equal to the product of the notional amount of Deliverable Obligations delivered and the Auction Final Price determined in the Auction. If the "seller" of Deliverable Obligations fails to deliver the Deliverable Obligations specified in the Notice of Physical Settlement, the "buyer" of Deliverable Obligations will have the applicable remedies set forth in the 2003 Definitions.