



## **Analysis of trading activity in Glitnir hf. claims**

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**Presentation to the Winding-up Board of Glitnir hf.**

14 November 2013

## Important information

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## Highlights

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- We found that 29% of Glitnir's claims by value are still held by pre-Default par creditors who have never sold their claims (by number, this is 93% of Glitnir's creditors).
- 64% of Glitnir's claims by value are now held by creditors who have acquired their claims on average relatively recently, with an estimated aggregate weighted average acquisition price of 28 cents in the Euro (Glitnir's claims have been priced fairly stably around this level for the last 4 years). By number this is 6% of Glitnir's creditors.
- By value, we found 7% of Glitnir's claims were held by creditors who had acquired these in the year following the Default when prices were lowest (most creditors who acquired claims during that first year have since sold these again to new investors). By number this is 1% of creditors. We estimated an average acquisition price of 14 cents in the Euro for the claims acquired in this period.
- The market in buying and selling ("transferring") Glitnir claims has been very active. Since the creditor register was established just over four years ago the transferred claims have turned over an aggregate of 2.3 times, with some individual claims having been bought and sold more than 12 times.

## Background

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We have been asked to analyse how many of Glitnir's creditors have sold their claims to new investors and to estimate the average price at which the new creditors acquired these claims

- Glitnir defaulted on its financial obligations on 7 October 2008 (the “**Default**”).
- Over time a number of Glitnir's unsecured creditors at the time of the Default have sold their claims. Such trading activity is often seen in the claims of large estates, in a context where regulatory standards can make it undesirable for financial institutions to continue holding unrated, defaulted financial instruments. Furthermore, given Iceland's unique legislation and economic situation, it is difficult for creditors to estimate when they will receive any distribution and selling their claim to a new investor allows them to recover a portion of their remaining value sooner.
- We have analysed Glitnir's claims register to determine the proportion of claims still held by original pre-Default creditors who have not sold their claims as opposed to those who have purchased their claims in the secondary market following Glitnir's Default. We have then also sought to estimate the aggregate price at which these new creditors acquired their claims.

## Pricing and trading volume data Overview

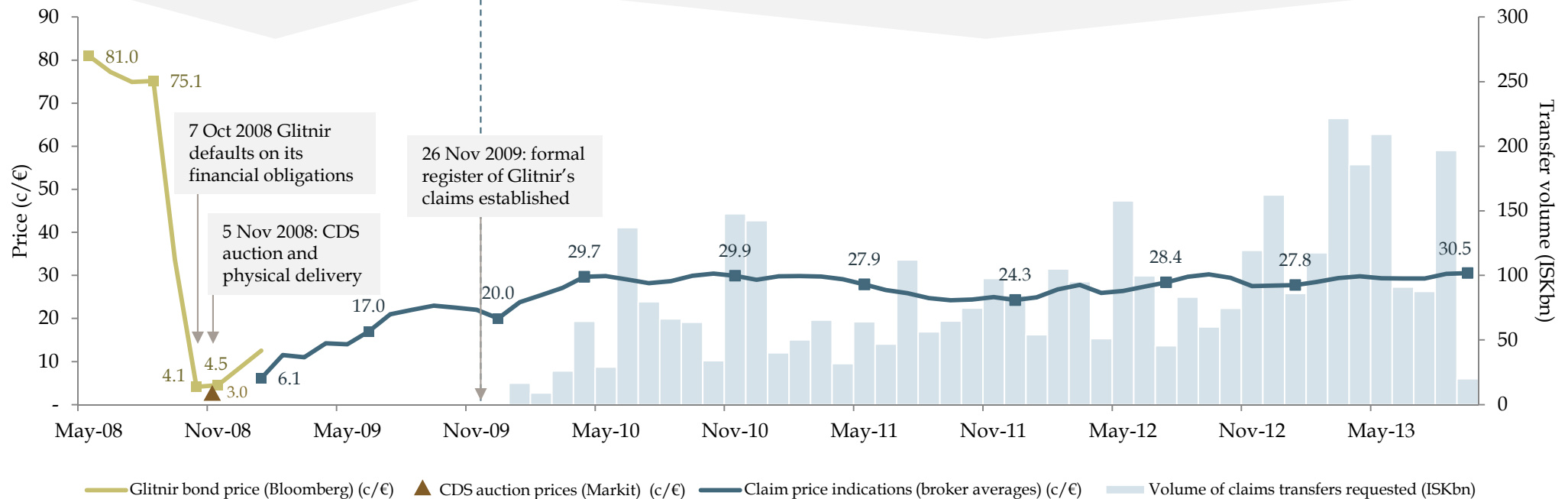
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### Period prior to the establishment of the estate's formal claim register

- Pricing indications are available during this period but not transfer volumes nor the precise months in which creditors acquired claims
- Detailed analysis is therefore necessary to try to determine whether those creditors which were on the original register and still hold claims today, hold pre-Default par claims or acquired these in the first year post-Default

### Period since the establishment of the estate's formal claim register

- Pricing indications are available and arguably more robust than the pre-register period
- Detailed volume and transfer data is available



## Pricing and trading volume data

### Detailed figures

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Month	2009			2010			2011			2012			2013		
	Price	Transfers	Transfers	Price	Transfers	Transfers	Price	Transfers	Transfers	Price	Transfers	Transfers	Price	Transfers	Transfers
	Indication (c / €)	Requested (ISKbn)	Registered (ISKbn)	Indication (c / €)	Requested (ISKbn)	Registered (ISKbn)	Indication (c / €)	Requested (ISKbn)	Registered (ISKbn)	Indication (c / €)	Requested (ISKbn)	Registered (ISKbn)	Indication (c / €)	Requested (ISKbn)	Registered (ISKbn)
Jan	6.1	-	-	23.8	16.7	-	29.8	40.0	354.0	24.9	54.1	140.8	27.8	86.0	153.9
Feb	11.5	-	-	25.4	8.9	-	29.8	50.1	2.0	26.7	104.9	37.7	28.5	117.5	168.5
Mar	11.0	-	-	27.1	26.1	-	29.7	65.4	65.5	27.8	95.2	80.3	29.4	221.6	98.6
Apr	14.3	-	-	29.7	64.4	-	29.1	31.8	114.5	25.9	50.9	120.7	29.8	185.8	72.6
May	14.0	-	-	29.9	29.0	-	27.9	64.0	121.0	26.4	157.7	100.2	29.3	209.2	346.1
Jun	17.0	-	-	29.0	136.9	-	26.6	46.9	50.9	27.4	99.6	41.7	29.3	91.0	318.8
Jul	21.0	-	-	28.2	79.5	-	25.9	112.1	80.5	28.4	45.5	73.3	29.3	87.6	102.6
Aug	22.0	-	-	28.6	66.4	70.5	24.7	56.4	92.3	29.6	83.2	73.0	30.4	196.7	247.5
Sep	23.0	-	-	29.9	63.8	2.1	24.2	64.7	78.4	30.2	60.0	39.9	30.5	19.9	128.9
Oct	22.5	-	-	30.4	34.0	255.6	24.4	74.6	65.7	29.5	74.5	49.1			
Nov	22.0	-	-	29.9	147.7	75.8	25.0	97.6	74.6	27.5	119.3	104.0			
Dec	20.0	-	-	29.0	142.4	24.4	24.3	84.5	77.9	27.6	162.4	81.3			

Source: Pricing indications via Bloomberg, brokers or Markit; volumes of claims requested and registered transferred via Epiq Systems, Inc., Glitnir's claim agent

Note: The distinction between transfer requests and transfer registrations is explained in more detail on a later slide

**16.8** simple average of the broker indications available prior to the establishment of the creditor register (11 months highlighted above)

**14.4** simple average between Default and the establishment of the claims register  
(incorporates the highlighted indications above plus the prior 3 months' Bloomberg indications)

## Pricing data review

# Pre-Default public market in Glitnir bonds

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The quoted public market in Glitnir's bonds quickly collapsed on the bank's Default

- Based on data quoted on Bloomberg immediately prior to the Default, Glitnir bonds had been briefly indicated in prices in the mid 70s having fallen from the 80s only a few months earlier. Upon the Default the quoted price on Bloomberg fell to 4 cents in the Euro. The Default had largely taken the market by surprise.
- Shortly after the Default, the public market for Glitnir bonds shut down and market pricing and trading volume data providers like Bloomberg discontinued coverage.

## Pricing data review CDS auction

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In Glitnir's CDS auction on 5 November 2009 bonds changed hands at 3 cents in the Euro

Whilst this price indicates a genuine level where market participants were willing to buy and sell bonds at that date, the data is not instructive as regards actual trading volume on this date nor the real economic position of the parties who received bonds as a result of the settlements under these contracts

- Credit default swaps (CDS) are similar to insurance. In return for a fee bondholders can buy protection on their position whereby if the issuer defaults the provider of the CDS compensates the bondholder for the fall in value of the bond by paying them the difference between par and the value set in an auction held between all the CDS dealers shortly after a default event. An auction is held so that any parties that have entered into CDS contracts without actually owning the bonds can acquire these in order to deliver them to the counterparties under the contracts.
- In Glitnir's case a CDS auction on 5 November 2009 set a price for the bonds of 3 cents in the Euro. Whilst this auction process does provide a real market price data point, it is not relevant when it comes to determining the acquisition costs of the current creditors:
  - whilst sellers of CDS protection would have received bonds at a value of 3 cents in the Euro which they could have subsequently used to file a claim with Glitnir, this entry price would not reflect their economic position, as they would have had to have paid out compensation of up to 97 cents in the Euro and so, in reality, would be par creditors of Glitnir (who, by filing claims, would be seeking to recover a portion of the substantial losses they have made).
  - whilst the identity of the dealers that participated in the auction is known, this is not instructive as to which creditors physically received the bonds and/or made any associated losses as the dealers are likely to have been participating in the auction on behalf of their clients.



## Pricing data review

### Broker pricing indications

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Subsequent to the CDS auction, pricing recovered relatively quickly. By the time the creditor register was established just over one year later, pricing was at 22 cents in the Euro

In the last four years pricing has been fairly stable, averaging 28 cents in the Euro

- Roughly two months after the CDS auction, distressed debt specialists within the broking arms of international investment banks started issuing price indications for Glitnir's defaulted bonds, in an attempt to attract potential buyers and sellers from whom they could earn transaction commissions. The first pricing indication we have been able to obtain from such a broker is for 6 cents in the Euro as at January 2009.
- In an illiquid and private 'over the counter' market however broker indications do not necessarily indicate actual trades are taking place so we can not be confident that many or even any buyers obtained bonds at this price. For instance, in a number of cases where Glitnir has been in dispute with particular creditors regarding the validity and valuation of their claims and has asked creditors to prove transactions were actually taking place at such prices, no such evidence has been forthcoming.
- However over the following months a market increasingly developed and as such it is reasonable to start to place more reliance on the broker indications. In February 2009 the first statement of Glitnir's assets and liabilities was released by Glitnir's Resolution Committee. Brokers would have been able to start to improve their indications, owners start to become more comfortable they were not selling at an excessive discount, and analysts working at the credit funds which are potential buyers of such claims start to become better able to recommend to their investment committees that such acquisitions be made. One month after the first broker indication, the indication had already doubled to 12 cents in the Euro, after 6 months it almost doubled again to 21 cents in the Euro, and within one year reached 24 cents in the Euro. At this stage data providers such as Markit were providing average pricing to the investor community based on multiple underlying brokers' indications, effectively fulfilling the role that Bloomberg had provided prior to Glitnir's Default.
- After the publication of the first claims list, pricing continued to improve, reaching 30 cents in the Euro by April 2010. Thereafter pricing indications remained stable until mid-2011, when the claims were indicated to trade downwards to around 24 cents in the Euro by the end of 2011, but recovering to around 30 cents in the Euro again by mid-2012. Since then the price has remained stable.

## Creditor register data

## Pre and post-Default creditor analysis

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Analysis of claims register (as at 18 September 2013) by creditor	BY VALUE OF CLAIMS FILED						BY NUMBER OF CLAIMANTS					
	Pre-Default	Acquired	Total	Pre-Default	Acquired	Total	Pre-Default	Acquired	Total	Pre-Default	Acquired	Total
	par claims ISKbn	claims ISKbn	ISKbn	par claims %	claims %	%	par claims #	claims #	#	par claims %	claims %	%
Acquired in the first year post-collapse	-	158	158	-	7%	7%	-	31	31	-	1%	1%
Acquired in the last 4 years	-	1,510	1,510	-	62%	62%	-	167	167	-	5%	5%
<b>Total post-Default creditors</b>	-	<b>1,668</b>	<b>1,668</b>	-	<b>69%</b>	<b>69%</b>	-	<b>198</b>	<b>198</b>	-	<b>6%</b>	<b>6%</b>
Pre-Default creditors	713	54	767	29%	2%	31%	2,894	4	2,898	93%	0%	94%
<b>Total</b>	<b>713</b>	<b>1,722</b>	<b>2,435</b>	<b>29%</b>	<b>71%</b>	<b>100%</b>	<b>2,894</b>	<b>202</b>	<b>3,096</b>	<b>93%</b>	<b>7%</b>	<b>100%</b>
International financial institutions <sup>1</sup>	312	53	365	13%	2%	15%	479	-	479	15%	-	15%
Fallen Icelandic estates	166	-	166	7%	-	7%	20	-	20	1%	-	1%
Icelandic state-owned entities <sup>2</sup>	94	-	94	4%	-	4%	6	-	6	0%	-	0%
Icelandic institutions (e.g. pension funds)	43	-	43	2%	-	2%	36	-	36	1%	-	1%
Icelandic corporations <sup>2</sup>	41	1	42	2%	0%	2%	86	4	90	3%	0%	3%
International corporations	24	-	24	1%	-	1%	136	-	136	4%	-	4%
Foreign individuals	15	-	15	1%	-	1%	1,923	-	1,923	62%	-	62%
International state-owned entities	12	-	12	0%	-	0%	10	-	10	0%	-	0%
Icelandic individuals	6	-	6	0%	-	0%	198	-	198	6%	-	6%
<b>Total pre-Default creditors</b>	<b>713</b>	<b>54</b>	<b>767</b>	<b>29%</b>	<b>2%</b>	<b>31%</b>	<b>2,894</b>	<b>4</b>	<b>2,898</b>	<b>93%</b>	<b>0%</b>	<b>94%</b>
International credit hedge funds	-	1,453	1,453	-	60%	60%	-	160	160	-	5%	5%
International financial institutions	-	215	215	-	9%	9%	-	38	38	-	1%	1%
<b>Total post-Default creditors</b>	-	<b>1,668</b>	<b>1,668</b>	-	<b>69%</b>	<b>69%</b>	-	<b>198</b>	<b>198</b>	-	<b>6%</b>	<b>6%</b>

Source: Glitnir's claim register as at 18 September 2013, and Moelis analysis

Note: "-" means zero; "0%" means a de minimis figure which rounds down to zero when presenting figures without decimal places rounded to the nearest integer

1. International financial institutions include banks, pension funds, insurance companies and other money managers such as foundations and trusts, including not-for-profit organisations such as charities

2. Pre-Default claims in these categories include 21bn ISK of transferred claims which we have not classified as acquired claims as these have in fact been inherited ('grandfathered') from other entities

## Matching transfer volumes with pricing data

### Creditors who were on the original claim register

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We found 29% of current creditors to be pre-Default, par creditors who have not sold their claims

Most of the creditors who had acquired claims within one year of Default, when price indications for claims were at the lowest levels, have since sold their claims again. Only 7% of the current register consists of claims bought in that initial period

- Glitnir published its first official list of claims as at 26 November 2009 which confirmed 5,627 claimants had filed 8,747 claims amounting to 3,239bn ISK (equivalent to €17.6bn using the onshore exchange rate at 26 November 2009).
- Based on review of creditors' controlling parties, claim types and supporting information we have analysed the claims register between what we estimate are true pre-Default claims and those we believe were acquired subsequent to the Default. A summary was set out on the preceding page.
- The creditors we estimated are pre-Default include individuals who invested in Glitnir's retail bonds, Icelandic state-owned entities, banks, Icelandic pension funds, corporations, other institutional bondholders, and other fallen estates (which have a mixture of international and Icelandic creditors). These creditors stand to make no profit on their claims in Glitnir under any scenario and in fact are still yet to crystallise their substantial losses (circa 70 cents in the Euro based on the current claims price).
- We found 29% of Glitnir's current claims register to be such pre-Default claims still held by the original creditors. In determining whether it was appropriate to attribute an average price of 100 cents in the Euro to these creditors in our analysis we considered whether or not some could be institutional bondholders that could have acquired their claims in the pre-Default secondary market at a discount (e.g. when Glitnir's bonds were trading in the 80-100 cents in the Euro range). We found only 4% of this 29% (i.e. 1% of the entire current register) to be such potential claims. Assuming an 80 cents in the Euro entry price for this proportion and weighting accordingly indicates that using an entry price of 97 cents in the Euro for the pre-Default creditors rather than 100 cents in the Euro, may be prudent.
- The creditors that we estimate acquired their claims Post-Default are largely credit hedge funds. Although by the time the original register had been established we found 26% of Glitnir's claims by value had been sold to such new investors, a comparison to the current creditor register (as of 18 September 2013) indicates most of the creditors who were early to acquire claims have already sold out. 82% of the claims held by these original creditors have been sold, with 42% of these creditors having sold out from the register entirely or almost entirely and a further 26% having substantially reduced their holdings vs. their original position. We found only 7% of claims on Glitnir's current register were those which had been acquired during the year between Glitnir's Default and the establishment of the register (when pricing was indicated by brokers between 6 cents and 23 cents in the Euro) and which have been held by the same creditors continuously since for over 4 years.
- *Continued...*

**Matching transfer volumes with pricing data****Creditors who were on the original claim register (continued)**

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It is not possible to assign a precise weighted average acquisition price to the 7% of creditors who acquired claims within a year of the Default so we use a simple average of 14 cents in the Euro which we believe is prudent

- Data is not available on trading timing and volumes prior to the register being established so it is not possible to determine a *weighted* average acquisition price for these creditors.
- The simple (unweighted) average price of the monthly Bloomberg and broker indications during this period is 14 cents in the Euro. We believe this is a prudent figure to use as the average for these creditors given i) for the reasons set out earlier, the pricing indications towards the beginning of this period are unlikely to have seen as much trading volume as the later indications in our view, and ii) it is likely that the same effect seen in the more recent data was already at work, namely that some of the creditors who had acquired claims earlier in the period had already sold out to new creditors whose acquisition prices are therefore weighted towards the higher prices seen later in the period.

## Matching transfer volumes with pricing data

### Creditors who have acquired their claims since the claim register was established

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Turnover in Glitnir's claims in the last four years has been extremely high with 64% of Glitnir's total claims now held by creditors which acquired their claims since the register was established

- During the four year period since Glitnir's claims register was established, creditors buying and selling their claims have needed to request that a transfer of the claim's ownership be registered in Glitnir's official register of claims. As such, Glitnir has detailed data which can be used to analyse the precise volumes of claims traded over time.
- Trading in Glitnir claims over this period has been extremely active. Many creditors who have purchased claims since Glitnir's Default have since sold them again. On average the transferred claims have turned over 2.3 times, with some claims being bought and sold more than 12 times.
- Based on the data on claims transfers captured within Glitnir's claims register we can see that 64% of the current register by value is held by creditors who have purchased claims since the claims register was established. 62% of these creditors were not on the original register.
- In the course of this analysis we noted several instances of new claimants being vehicles of an ultimate creditor which had simply transferred claims from one part of its group to another, potentially for its own tax structuring or administrative reasons. Notwithstanding the legal holder of the claim for tax and legal reasons *is* the current entity as recorded in the claims list, to confirm that such transactions could not be argued to be distorting our conclusions we re-ran the analysis 'looking-through' to the original acquisitions and confirmed these did not have a material impact on our findings.
- *Continued over...*

## Matching transfer volumes with pricing data

### Creditors who have acquired their claims since the claim register was established (continued)

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Transfer data has been captured in detail in this period, allowing us to estimate weighted average acquisition prices for these creditors by matching transfer volumes to the prevailing trading prices

As such we calculated the weighted average acquisition price of the 64% of creditors who are in this category to be 28 cents in the Euro

- Given Glitnir has transfer volume data available by month, it is possible to compare transfer volumes with the quoted claims price in equivalent months in order to calculate a weighted average acquisition price. Within the system two data points are recorded which are relevant to trading volumes: the date at which a claim transfer was requested and the date at which it was ultimately approved and formally registered. For analytical purposes the former has the advantages that it is closer to the date an underlying economic trade would have been agreed between the buyer and seller plus is not distorted by any bureaucratic delays (some transfers take longer to resolve than others) but has the disadvantage that not all requested trades are ultimately completed and finally registered. For the purposes of the pricing analysis we chose to use the *registration* data and assumed trades were being agreed between creditors at the price prevailing 6 months prior to the formal registration. We believe this is prudent as, notwithstanding a temporary initial registration backlog existed when the system was first established, we understand the actual time to request and register a transfer in practice is likely to be significantly less than this for the majority of the four year period, based on interviews we have had with Glitnir's claims agent and certain creditors.
- Using this methodology we determined the weighted average price of *all* acquisitions during the 4 year period to be 28 cents in the Euro and the weighted average purely for the creditors who are *currently* on the register (i.e. those who on average acquired their claims later during this four year period) to also be 28 cents in the Euro.
- To stress-test the methodology we sensitised the time lag used for the current creditors' claims analysis under this methodology, looking at lags of 3, 9 or 12 months instead of 6 but found no material impact on the weighted average. We also compared the result when using aggregate *request* data across all transfers in the period, again which did not have a material effect on the weighted average found.
- The absence of volatility across these different calculations is due to the relative stability of the price over the last 4 years.

## Conclusions

### Aggregate entry price of Glitnir's current creditors

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The weighted average entry-price of all Glitnir's creditors is calculated to be 47 cents in the Euro

Given the largest constituent creditor categories within this calculation are those for which we have the most comfort over the pricing analysis, even using improbably imprudent assumptions for other categories where there is greater uncertainty does not cause a very significant variation to our conclusion

- Different individual creditors will have obtained their claims at different costs. Some acquired their claims pre-Default at a nominal par value of 100 cents in the Euro. Others have acquired their claims in the secondary market from other creditors, at prices which could theoretically range on an individual basis from 3 cents in the Euro to 30 cents in the Euro.
- However as set out on the previous slides, we found that the current creditors could be grouped into three categories:
  - the significant majority (64%) have acquired their claims recently at an estimated weighted average estimated cost of 28 cents in the Euro.
  - 29% of current creditors were found to be pre-Default par creditors with an estimated 97 cents in the Euro acquisition cost.
  - only 7% were determined to have acquired their claims in the period when claims were indicated at the lowest prices, during the first year post-Default (estimated, on average to be 14 cents in the Euro).
- As such, taking these three categories together the average cost-basis, or 'in-price', for Glitnir's current creditors on an aggregated basis is estimated to be 47 cents in the Euro.
- Given the weighting and relatively limited uncertainty for the largest category, even if we use improbably prudent assumptions for both the entry price of the pre-Default creditors (assuming, say, 80 cents in the Euro rather than 97 cents in the Euro) and the creditors we estimated to have acquired their claims in the year or so post-Default (assuming, say, an average 6 cents in the Euro rather than 14 cents in the Euro), the weighted average aggregate entry price for the creditors as a whole is not overly sensitive to the changes, only falling to 42 cents under these assumptions.