

Cyprus Bailout & the Banks

Alert: Bailout Agreed – Haircuts on Large Deposits & Bank Restructuring

Bailout Agreed: Earlier this morning, the FT reported that the Cypriot Government and the Troika had agreed on a €17bn bailout, which includes €10bn of EU/ECB/IMF assistance. The remainder of the bailout will be funded by haircutting large deposits (above €100,000) and privatization/other proceeds – deposits under €100,000 at the country's banks were spared. However, junior and senior debtholders at Laiki Bank will be haircut (possibly wiped out).

Restructuring Laiki Bank: Laiki's €4.2bn of large deposits will be ring-fenced, haircut and used as equity supporting a "bad asset" Laiki. As of 3Q12, Laiki had €7.0bn of non-performing loans, of which €4.9bn were in Greece and €2.1bn were in Cyprus (**Fig. 1**). This suggests that the bank's Cypriot NPLs could be understated by up to 50% (€4.2bn vs €2.1bn reported) – if the assumption of haircut deposits being used for Laiki's Cypriot operations only is correct.

Bank of Cyprus: The "good asset" Laiki will be merged with Bank of Cyprus and the large deposits haircut adequately to recapitalize the combined entity. No money will be used from the bailout to recap the entity, i.e. the entire amount would need to be sourced from depositors.

European Banks Most/Least Preferred: We believe the non-imposition of haircuts on small deposits is a positive. We reiterate our most preferred names which are all from the 'core core' of Europe and Switzerland: **Barclays, BNP, Credit Suisse and Standard Chartered**. We also reiterate our least preferred names: Intesa, Popular, Raiffeisen and RBS.

Companies Mentioned: Barclays PLC (BARC.L; £2.92; 1); BNP Paribas SA (BNPP.PA; €41.18; 1); Credit Suisse (CSGN.VX; SFr25.65; 1); Standard Chartered PLC (STAN.L; £17.02; 1); Intesa Sanpaolo (ISP.MI; €1.22; 3H); Raiffeisen Bank Intl (RBIV.VI; €27.52; 3); Royal Bank of Scotland Group PLC (RBS.L; £2.93; 2H); Banco Popular Espanol (POP.MC; €0.63; 3H); Bank of Cyprus (BOCr.AT; €0.21; 2); Cyprus Popular Bank Public Co Ltd (MRBr.AT; €0.04; Not Rated)

■ Industry Overview

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Figure 1. Cypriot Banks – Select 3Q12A Indicators (€ in billion)

	Group		Greece	
	Bank of Cyprus	Laiki	Bank of Cyprus	Laiki
Assets	36.2	30.4		
Loans	28.2	25.5	9.5	12.2
NPLs	4.8	7.0	2.0	4.9
RWA	23.6			
Deposits	27.9	17.9	6.5	6.0
ECB/ELA Funding	3.7	9.0		
LDR	101%	143%	146%	203%
NPL ratio	17.1%	27.4%	20.9%	40.2%

Source: Citi Research, company reports

Appendix A-1

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