Research Bulletin

Bank of Cyprus Capital Increase

August 2014

Timeline of BOC Capital Increase

Phase 1: "Private Placement of New Shares"

Phase 1 of the capital increase was completed successfully with a €1bn capital increase through a private placement of new shares, priced at €0.24 per share. The placement was open to qualified investors as well as new investors and existing shareholders.

Phase 2: "The Open Offer"

The Bank is proceeding with phase 2 of capital increase, which consists of an open offer to existing shareholders. The bank has invited its existing shareholders to subscribe for up to 20% in aggregate of the total number of shares offered to qualified investors in the first phase and at the same price as the private placement price (€0.24). The offer was open for 15 business days, starting from July 31, 2014 and ending on August 21, 2014. The minimum purchase price for each existing shareholder in the Open Offer was €100,000. The issued share capital of the BOC is estimated to reach €892,237,734.50 divided into 8,922,377,345 ordinary shares of nominal value of €0.10 each.

Phase 3: "The Retail Offer"

The Bank expects to offer up to €100 million of new ordinary shares for subscription by all existing shareholders except for those participating in Phase 1, unless they were shareholders before phase 1. The subscription price for the shares in phase 3 will be the same as in phase 1 and phase 2 of the capital increase.

Phase	Available Issue	Issue Price	Capital Raised/ to Raise	Nominal Price
1	4,166,566,667	€ 0.24	1,000,000,000	€0.10
2	833,333,333*	€ 0.24	200,000,000	€0.10
3	416,666,667	€ 0.24	100,000,000	€0.10

After the completion of the first phase of the share capital increase, the existing shareholders hold 53.3% of the Bank's capital, while new shareholders hold 46.7%. The percentage of the "Legacy Laiki" holding is expected to fall to c. 9.2% from 18.1%, after the completion of Phase 3 of the capital increase, while international investors introduced by Wilbur Ross would hold a share of c. 14.3%.

BOC Share Capital+

	Before	Phase 1	Phase 2*	Phase 3**
Existing Shareholders	100%	53.3%	62.6%	59.8%
Phase 1 Shareholders		46.7%	37.4%	35.7%
Phase 3 Shareholders				4.5%

+ Indicative percentage holdings of the current shareholders before after the capital increase.
** Assuming the full 20% is clawed back by existing shareholders*
*** Phase 3 shares will be offered to the public with the exception of the investors that participated in Phase 1.*

Key Events

June 2014

- The BOC announced that its Board of Directors would convene on June 26, 2014 to examine various options that could strengthen its capital, as publicly suggested by the Central Bank of Cyprus (CBC).

July 2014

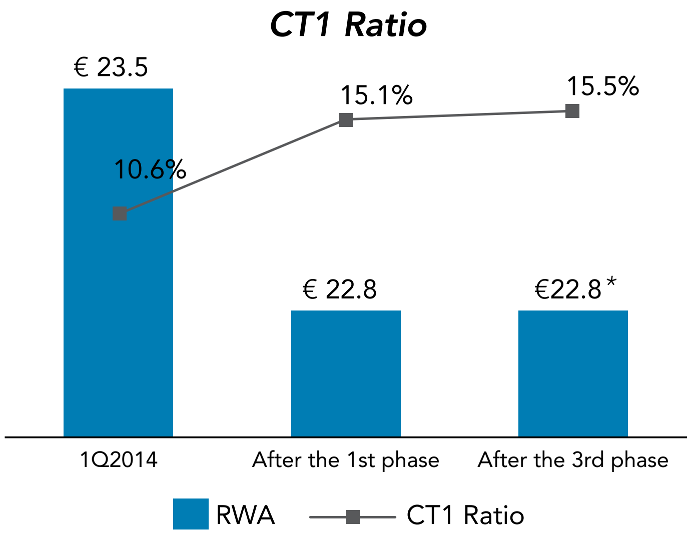
- BOC decided to increase its capital by issuing of shares.
- The Government repaid to BOC €950mn out of a €1,987mn sovereign bond.
- Fitch upgraded the long and short term issuer default ratings of BOC from RD to CC and C respectively.
- BOC released the twelve-month time deposits of about €927mn that were blocked as per the decrees relating to the recapitalisation of the Bank in July 2013 with maturity the 31st of July 2014.
- BOC announced the successful private placement of €1bn at a price per share of €0.24.
- BOC proceeded with a reduction of its lending base rates by 0.25% as of August 4.

August 2014

- 285 old BOC shareholders filed a request seeking a court order preventing a share capital increase before the real value of their shares was restored.
- BOC entered into an agreement to sell assets in Romania for €95mn.
- BOC announced an Extraordinary General Meeting (EGM) at the Bank's headquarters on 28 of August 2014.

Capital Adequacy: Preparing for the European Stress Tests

As of YE2013, the Core Tier 1 (CT1) ratio of BOC was 10.2% (above the CBC target for 2013: 9%). For the 1Q2014, BOC increased their CT1 ratio to 10.6% through the disposal of assets, such as the loan sale to the Piraeus bank. The successful €1bn capital increase through a private placement of new shares in tandem with the deleveraging actions completed since 1Q2014, are expected to strengthen the CT1 ratio of BOC to 15.1%. This would result in the capital buffer of BOC increasing to €1.6bn (CBC target for 2014: 8%). The Bank also plans to sell up to €1bn in bonds in September while it also announced that it is in discussions to dispose of its UK loan book valued at €300mn. By the end of September, BOC is expected to complete the disposal of its Romanian assets (€95mn) a deal that will enhance the bank's liquidity position as well as its capital position. Taking into consideration these actions, the CT1 ratio of the Bank should increase further, putting BOC in a very strong position for the upcoming European stress tests.



*Assuming capital increase is the only change

BOC: Fundamental and Market Information[1]

Operating Environment

The environment of the banks operating in Cyprus remains challenging. Its key characteristics are inadequate liquidity, deleveraging, decrease in borrowers' repayment ability, tightened lending criteria, rising non-performing loans (NPLs), capital control measures.

As the Bank of Cyprus (BOC) is the largest financial institution in Cyprus and given its very high credit exposure to the Cypriot businesses and households, its financial performance is highly correlated with that of economic activity in Cyprus. As noted by the Troika, while the recession in 2014 is expected to be somewhat less severe than previously anticipated, the economic outlook remains challenging. The contraction of output for 2014 has been revised down to 4.2% from 4.8%, given the better-than-expected outturn for 2013 and other recent indicators pointing to gains in confidence. Unemployment remains very high, and large NPLs are constraining the ability of banks to supply credit to the economy. Growth is projected at 0.4% in 2015 and gradually improving thereafter, as domestic demand is weighed down by the need to reduce very high levels of indebtedness. Borrowers are expected to continue facing difficulties while property prices may fall further.

Challenges

- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario, which formed the basis of its preparation.
- The period over which the restrictive measures and capital controls remain in place.
- The continuing reliance on and availability of the Central Bank liquidity facilities.
- The actual outcome of litigation and claims mainly relating to the bail-in of deposits and the reactions of the old BOC shareholders

Key Indicators

	1Q2014
Total Assets (€bn)	29.40
Deposits (€bn)	14.10
Net Loans (€bn)	21.20
Profit/Loss After Tax (€bn)	0.03
Number of Shares Outstanding (bn)	4.70*
Shareholders Equity (€bn)	2.70
Net Asset Value (Book Value) (€bn)	2.60
Net Asset Value (Book Value) per Share (€)	0.56
Equity per Share (€)	0.59
NPLs (€bn)	14.4
NPLs (% of Gross Loans)	55%
90 +DPD (% of Gross Loans)	49%
Net Loans/Deposits (%)	151%
Core Tier 1 (%)	10.6%

This represents the number of shares before the share capital increase. Following the completion of the Phase 1 of Capital Raising, the number of shares outstanding would increase to 8,922,377,345. An additional 416,666,667 shares are expected to be issued after the completion of Phase 3

1 Our in-house research department monitors the banking sector and the progress at the Bank of Cyprus. Without offering any investment advice, the information contained herein aims to assist Clients in forming an opinion about the prospects of the Bank and the current valuation of its equity.

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