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Stella Schaefer-Brown
Yale School of Management

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Cyprus: Laiki Bank Capital Injection, 2012[1]

Stella Schaefer-Brown[2]

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Abstract

In 2011, Cyprus's second-largest bank, Marfin Popular Bank—later renamed Cyprus Popular Bank, but commonly known as Laiki Bank—lost billions of euros when the Greek government restructured its sovereign debt, decimating its equity capital and shutting its access to market liquidity. In late 2011, supervisors estimated the bank's capital shortfall at EUR 3.1 billion. In January 2012, the bank submitted a plan to the central bank that included EUR 1.8 billion of capital raised from private investors and EUR 1 billion of capital increases through debt-to-equity swaps and deleveraging. However, Laiki Bank was unable to raise private capital and asked the government to inject EUR 1.8 billion. The government agreed and, on June 30, 2012, acquired EUR 1.8 billion in new common shares. The government paid by issuing to Laiki Bank an unfunded sovereign bond rather than cash, since it lacked access to capital markets. The bank would have reported negative equity on June 30 in the absence of the government capital injection. In 2013, to satisfy the conditions for sovereign aid from the European Central Bank (ECB), European Commission, and International Monetary Fund, and after the ECB withdrew its approval of emergency liquidity assistance to Laiki Bank, the Cyprus government put the bank into resolution. In resolution, the bank transferred its insured deposits and some uninsured deposits to the Bank of Cyprus, the country's largest bank, which the government also restructured, and sold its Greek assets and deposits to Piraeus Bank, one of the largest Greek banks. The legacy Laiki Bank retained some assets and received an 18% stake in the Bank of Cyprus. The government retained its investment in the legacy bank as it sought to sell the legacy bank's remaining assets.

Keywords: bail-in, capital injection, Cyprus, Laiki Bank, recapitalization

[1] This case study is part of a Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering ad hoc capital injections. A survey of all the cases in this series (Rhee, Hoffner, et al. 2024) and the individual cases underlying it are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/vol6/iss3/. Rhee, Oguri, et al. (2022) surveys broad-based capital injection programs.

[2] Research Associate, YPFS, Yale School of Management.

Overview

This case study describes the EUR 1.8 billion capital injection by the government of Cyprus into Laiki Bank that preceded the bank's resolution (see Schaefer-Brown 2024).[3]

The Greek government debt crisis, which began in 2009, hit Cypriot banks hard. The country's two largest banks, Bank of Cyprus and Laiki Bank, lost EUR 1.8 billion and EUR 2.3 billion (USD 2.4 billion and USD 3.1 billion),[4] respectively, on their Greek government bond holdings after the European Union (EU) decision in October 2011 to haircut Greek government bonds. Beginning in October 2011 and lasting until the bank's resolution in 2013, Laiki Bank received collateralized loans from the European Central Bank (ECB) and emergency liquidity assistance (ELA) from the Central Bank of Cyprus (CBC) to make sure the bank could continue to fund itself as depositors withdrew their funding (CBC 2013b; EC 2012).

In late 2011, in response to the crisis, the European Banking Authority (EBA) identified a EUR 2.0 billion capital shortfall at Laiki Bank in a stress test of 71 banks across Europe using numbers from September 2011. Supervisors later raised that estimate to EUR 3.1 billion. In January 2012, Laiki Bank presented a recovery plan to the CBC that included deleveraging, a voluntary exchange offer to bondholders, and a capital increase of EUR 1.8 billion through private investors. When the bank failed to raise capital from private investors, the government agreed in May

Key Terms

Purpose: To cover a capital shortfall at Laiki Bank after it failed to privately raise the needed capital

Announcement Date	May 25, 2012
Operational Date	June 30, 2012
Date of Final Capital Injection	June 30, 2012
End Date	The government of Cyprus began the process of resolving Laiki Bank on March 25, 2013
Source of Funding	Unfunded bond issued by the government of Cyprus
Administrators	Laiki Bank requested capital from the government, which then coordinated the capital injection
Size	EUR 1.8 billion
Capital Characteristics	New special class of ordinary shares
Bail-in Terms	Bondholders received a voluntary exchange offer in May, at the same time as the capital injection; depositors were spared, but in 2013, uninsured depositors were transferred to the liquidating legacy bank
Outcomes	The government of Cyprus resolved Laiki Bank a year after the capital injection and sold it to the Bank of Cyprus, which it also restructured; the government wrote off its entire investment in Laiki Bank

(continued)

[3] The legal name of Laiki Bank was Marfin Popular Bank between 2006 and April 2012, when its board changed the legal name to Cyprus Popular Bank.

[4] Per Bloomberg, EUR 1.00 = USD 1.33 on October 3, 2011.

Notable Features	Laiki Bank received ELA from the CBC throughout 2012. The government, lacking access to capital markets, paid for the new equity with an unfunded, renewable, 12-month zero-coupon sovereign bond; the ultimate bail-in of uninsured depositors was unusual

2012 to recapitalize the bank and, in June 2012 became an 84% shareholder (CBC 2011; CBC 2013b; Laiki Bank 2012c; Noonan 2013).

In August, officials from Laiki Bank submitted a restructuring plan to the CBC that would (1) create a "good" bank, separating nonperforming loans into a "bad" bank, and an asset management company; and (2) force losses on senior bondholders while protecting depositors. But the government amended the plan in response to feedback from the European Union and International Monetary Fund (IMF). The new plan was to put the healthy parts of the bank into a new subsidiary that could be sold once separated from the bank's Greek branch. But this plan also failed, as depositors continued to pull their funds, partly due to concerns that the government would impose haircuts on depositors (CBC 2013b; Noonan 2013). Over the course of 2012, Laiki Bank lost EUR 2 billion in deposits in its Greek branch and one-third of its domestically raised deposits. These outflows significantly reduced the amount of liability holders available to share losses in the bail-in when the bank was ultimately restructured (Dübel 2013; IMF 2014).

In early 2013, ECB authorities estimated that the recapitalization needs of Bank of Cyprus and Laiki Bank were EUR 8 billion, approximately 44% of the GDP of Cyprus. Also in early 2013, the EU and the IMF encouraged the government to downsize the banking sector because it would not be able to afford a recapitalization. In March 2013, the ECB threatened to withdraw its approval of ELA to Laiki Bank, putting further pressure on the government to agree to terms of a bail-out by the troika—IMF, European Commission (EC), and ECB (CBC 2013b; Draghi 2015).

Throughout this time, Cypriot authorities were in negotiation with the troika for a bail-out deal for the government (CBC 2013b). There would have been precedent for the troika to protect all depositors, since it had done so in other countries and Laiki Bank's recapitalization needs stemmed from the EU's decision to haircut Greek government bonds (Association of Cyprus Banks 2013). But the troika made it a condition of its assistance that Cyprus rescue the two banks without official funds, which required Cyprus to impose substantial losses on depositors (Eurogroup 2013).

On March 15, 2013, the finance minister of Cyprus negotiated a controversial resolution plan for the two banks, which was announced the following day. This deal involved Cyprus raising EUR 5.8 billion through a tax on all banking sector deposits, including a 9.9% tax on uninsured deposits and a 6.75% tax on insured deposits (Noonan 2013; O'Brien 2013). This plan was rejected by the Cypriot Parliament on March 19 (IMF 2014).

When the Cypriot Parliament rejected this plan, Cyprus reached out to Russia for help. Previously, Russia had loaned Cyprus EUR 2.5 billion, which Cyprus received in three tranches from 2011 to 2012. However, Russia did not provide Cyprus with further funds when asked for help in March 2013 (ESM 2019).

Ultimately, to satisfy the troika, Cyprus put Laiki Bank through resolution in late March. The CBC took over and coordinated the transfer of Laiki Bank's insured deposits, along with most assets (including the EUR 1.8 billion Cyprus government bond from the June 2012 recapitalization) and some senior liabilities, through a purchase and assumption transaction to the Bank of Cyprus. The CBC also coordinated the sale of Laiki Bank's Greek operations to Piraeus Bank (CBC 2013a; CBC 2013b). The government of Cyprus seemingly received nothing for its 84% stake in Laiki Bank as the liquidation of Legacy Laiki presumably goes first to the bailed-in uninsured depositors and estimates have put the value of the legacy bank well below fully repaying depositors. Laiki Bank's uninsured depositors have remained in the legacy bank as it has been liquidated. The legacy bank received 18% of the share capital of the restructured Bank of Cyprus as compensation. Uninsured depositors ultimately received about 6 cents on the euro (Cyprus Mail 2019; Dübel 2013). The European Stability Mechanism (ESM) argued that the government had managed to resolve the bank with minimal use of taxpayer money through a full bail-in of shareholders and bondholders and a partial bail-in of uninsured deposits (ESM 2013).

At the same time, the government recapitalized the Bank of Cyprus by bailing in its shareholders and bondholders and converting nearly half of its uninsured deposits into equity; Bank of Cyprus depositors received about 81% of the equity of the restructured Bank of Cyprus. Immediately following these measures, the Bank of Cyprus had an adequate common equity Tier 1 ratio of 12%. On July 30, 2013, the Bank of Cyprus announced that the recapitalization process was complete (BoC 2013; ESM 2013).

On March 25, 2013, the EU and IMF announced an agreement to provide EUR 10 billion in financial assistance to Cyprus through the first quarter of 2016. The troika estimated that Cyprus needed approximately EUR 17 billion, but since this was about the size of the Cypriot GDP and was therefore unsustainable, the troika settled on a EUR 10 billion aid package. As a condition for aid, the troika stipulated Cyprus could not use these funds to recapitalize Laiki Bank or Bank of Cyprus. Cyprus ultimately drew EUR 6.3 billion from the ESM and EUR 1 billion from the IMF (Eurogroup 2013; ESM 2013; ESM 2019; ESM n.d.).

The Bank of Cyprus fully repaid its ELA in January 2017. Later in January 2017, the Bank of Cyprus was admitted to listing and trading on the London Stock Exchange (BoC 2017). A Reuters article from January 2017 categorized Bank of Cyprus's first public issue since the 2013 bail-in as a strong indicator that the Bank of Cyprus turnaround story had won over investors. A Bank of Cyprus official stated the bank had made "tremendous progress," citing its repayment of ELA and inflows of cash deposits (Gledhill 2017). As of 2021, the liquidation of Legacy Laiki appeared to still be in progress (Hazou 2021). Figure 1 shows a timeline of key events in this intervention.

Figure 1: Timeline of the Restructuring of Bank of Cyprus and the Resolution of Laiki Bank

Date	Event
2011	Supervisors identify a EUR 3.1 billion capital shortfall at Laiki Bank.
October 2011	Laiki Bank begins receiving ELA from the CBC and collateralized loans from the ECB.
January 20, 2012	Laiki Bank submits capital plan to the CBC.
April 2, 2012	Laiki Bank board of directors approves capital plan.
May 16, 2012	The CBC confirms the systemic importance of Laiki Bank in a letter to the EC.
May 18, 2012	The minister of finance issues a decree allowing for Laiki Bank's share capital increase.
May 22, 2012	Laiki Bank issues a prospectus for its share capital increase.
June 30, 2012	The Cypriot government injects EUR 1.8 billion into Laiki Bank.
June 25, 2012	Cyprus requests aid from the troika.
August 2012	Laiki Bank officials submit a restructuring plan.
March 2013	Laiki Bank stops receiving ELA from the CBC and collateralized loans from the ECB. The Cypriot government puts Laiki Bank through resolution, transferring Laiki Bank's insured deposits to Bank of Cyprus while most uninsured deposits remain in the legacy bank, which receives equity in the Bank of Cyprus.
March 25, 2013	The EU and the IMF announce a EUR 10 billion aid package for Cyprus.
July 30, 2013	Bank of Cyprus announces that it has completed its recapitalization through the bail-in of shareholders, bondholders, and some uninsured deposits.
January 2017	Bank of Cyprus fully repays its ELA and is admitted to listing and trading on the London Stock Exchange.

Source: Author's analysis.

Summary Evaluation

The capital injection did not stop the depositor runs on Laiki Bank and was insufficient to set the bank on sound financial footing, as its losses on Greek loans continued. By June 2012, Fitch Ratings, S&P Global Ratings, and Moody's Investors Service had already downgraded the Cyprus sovereign bonds to non–investment grade (EC 2013; Noonan 2013). A July 2012 opinion of the ECB noted drawbacks associated with the use of an unfunded sovereign bond, specifically, that the unfunded bond may not be viewed as credible and that recapitalization by a government bond could create a feedback loop between the state and the bank. In the same opinion, the ECB advised against recapitalizing insolvent banks. The ECB recommended instead using resolution tools, saying, "A fully-fledged bank resolution regime, comprising tools such as bridge banks, asset separation and transfers of business would offer legally sound means of resolving institutions on the brink of insolvency, safeguarding financial stability, whilst addressing stakeholder rights" (ECB 2012, 4).

In April 2013, the President of Cyprus criticized the governor of the CBC, saying that the governor had "failed to regulate" the banking system effectively (Kambas 2013). Laiki Bank

continued to receive ECB emergency liquidity assistance despite being insolvent. Then the "ECB's warning that it would pull the plug on emergency liquidity assistance to Cyprus' banks" forced Cyprus into accepting "tough rescue terms" (Kambas 2013). The president highlighted the governor's decision not to annul the emergency liquidity assistance to Laiki Bank and his aim of holding elections in February 2013 as evidence of the governor's failing to effectively regulate and supervise the banking system. The president of Cyprus also launched a study on what caused the collapse of the Cypriot economy. This study concludes that Laiki Bank had been insolvent before the haircut of Greek bonds. This study also discusses a viability assessment made by the CBC in April 2012, noting that it was "glaringly unreliable" as it was not based on any "scientific instrument" (NYT 2014).

A study commissioned by the Center for Financial Studies at the University of Frankfurt and published in October 2013 highlights two points of interest. First, Laiki Bank would have had more of a risk buffer if it had written down shareholders and hybrid capital owners to zero and turned subordinated bond investors into co-shareholders in 2012 at the time of the government recapitalization. Second, a more aggressive bail-in in 2012 of senior bonds, subordinated bonds, and potentially uninsured deposits could have protected the government against losses. This paper also notes that the government should have done a more thorough review of the bank before recapitalization (Dübel 2013).

According to sources at the ESM, since the COVID-19 pandemic, Cyprus has made positive developments in terms of financial stability and debt. Cyprus regained investment-grade ratings from all major rating agencies in September 2023, which the country had lost in 2012.

Context: Cyprus, Laiki Bank, 2012–2013	
Assets	**EUR 31.4 billion** as of June 30, 2012
Liabilities	**EUR 30.1 billion** as of June 30, 2012
Deposits	**EUR 17.9 billion** as of June 30, 2012 **EUR 6.4 billion** insured deposits as of 2013
Capital Ratio	Unknown
Nonperforming Loans	Unknown
Market Share	Unknown
Banking System, % of GDP	**675%** as of 2012
Sources: EC 2012; ESM, Laiki Bank 2012c.	

Key Design Decisions

1. Purpose: The purpose of this capital injection was to cover a capital shortfall at Laiki Bank after the bank failed to privately raise the needed capital.

Laiki bank (the bank), then the second largest in Cyprus, recorded a loss of EUR 2.3 billion in 2011 on its significant holdings in Greek government bonds after the Greek government restructured its debt. In October, the European Banking Authority set the bank's capital shortfall at EUR 2.0 billion, relative to the EBA's target core Tier 1 ratio of 9%, as part of the EBA's special review of 71 European banks' capital needs during the Greek sovereign debt crisis. Supervisors later raised this estimate to EUR 3.1 billion. The Central Bank of Cyprus asked Laiki Bank to provide a plan on how it would reach a core Tier 1 ratio of 9% by June 2012. In January 2012, the bank submitted a plan that involved privately raising EUR 1.8 billion in new capital, converting EUR 600 million of debt into equity, and further boosting capital by the equivalent of EUR 400 million by shedding risky assets (CBC 2011; CBC 2013b; EC 2012; Laiki Bank 2012a; Laiki Bank 2012a).

In late 2011 through June 2012, the bank attempted to attract private investors but was unsuccessful. The bank's market capitalization of EUR 200 million was significantly lower than the EUR 1.8 billion the bank was attempting to raise, which made the share offer appear unattractive to potential private investors. In May, the bank asked the government of Cyprus to cover the EUR 1.8 billion deficit. The government, after determining that the failure of the bank would have "severe adverse impacts on other banks and the wider financial systems in Cyprus," agreed to provide the bank with EUR 1.8 billion in the form of an unfunded sovereign bond, in return for new common shares (CBC 2013b; EC 2012, 5). The government's decision to recapitalize the bank was also based on a viability assessment done by the CBC in April 2012; however, as discussed in the Summary Evaluation, this assessment was criticized in a later study requested by the president of Cyprus in 2013, following the resolution of the bank. That study concludes that Laiki Bank had been insolvent before the haircut of Greek bonds (NYT 2014).

At the same time as the bank was trying to raise capital privately, it attempted to execute its capital plan by offering to exchange existing subordinated debt securities for cash, equity, or other types of debt, on a voluntary basis. However, holders of these securities did not take up these voluntary offers in full (see Key Design Decision No. 7, Treatment of Creditors and Equity Holders). As a result, the bank failed to meet the European Banking Authority's capital requirements and was faced with an additional capital shortfall of EUR 630 million (EC 2012).

2. Part of a Package: The Central Bank of Cyprus and the European Central Bank provided continuous emergency liquidity assistance to Laiki Bank between October 2011 and March 2013, but Cyprus ultimately resolved the bank the following year.

Beginning in October 2011 and lasting until the bank's resolution in 2013, Laiki Bank received collateralized loans from the ECB and ELA from the CBC. Up until October 2011, the bank had been able to provide adequate collateral to conduct monetary operations directly with the ECB (CBC 2013b).

3. Legal Authority: The Cypriot Parliament passed a bill to allow for the capital injection.

On May 15, 2012, the governor of the CBC issued a recommendation that the Cypriot government enact legislation allowing the state to commit to acquiring any shares from the capital-raising process not purchased by private investors (EC 2012). The Cypriot government passed this legislation on May 21, 2012 (EC 2013). Following the recommendation of the CBC, the minister of finance issued a decree on May 18, 2012, allowing the Cypriot government to underwrite Laiki Bank's capital rights issue (Laiki Bank 2012a). The legal bases for this legislation and the minister of finance's decree were articles from the Management of Financial Crisis Laws of 2011 to 2012 (ECB 2012; EC 2012; EC 2013; Laiki Bank 2012c).

The government of Cyprus also needed approval from the European Commission because the capital injections qualified as State Aid as specified in Article 107(1) of the Treaty on the Functioning of the European Union (TFEU). Cyprus notified the EC before recapitalizing the bank but did not wait for the EC decision. In its State Aid decision approving the injections, the EC made note of this, saying that it violated Article 108(3) of the TFEU. However, the EC agreed that the EUR 1.8 billion was necessary to avoid "serious disturbance in the economy of Cyprus" and was an appropriate, needed, and proportional measure. The EC therefore approved the injections under Article 107(3)(b) (EC 2012, 8–12).

4. Administration: The Cypriot government coordinated the capital injection.

The Cypriot Ministry of Finance coordinated the capital injection after the bank requested the capital from the government. The government passed a needed bill through the Cypriot Parliament and worked in connection with the CBC (CBC 2013b; MoF 2012). As of May 22, 2012, the minister of finance had the power to appoint up to five members on Laiki Bank's board of directors with the concurring opinion of the CBC and the Committee on Financial and Budgetary Affairs of the House of Representatives. Decisions made by at least two of the five board members appointed by the minister had veto power. Subsequent supplementary prospectuses published in June and August 2012 expanded the minister of finance's powers to allow the minister to appoint the majority of the board (Laiki Bank 2012a; Laiki Bank 2012d).

5. Governance: The Cypriot authorities submitted quarterly reports to the EC.

The EC required the Cypriot authorities to submit quarterly reports (EC 2012).

6. Communication and Disclosure: The minister of finance put out a press release following the capital injection detailing the terms.

After the capital injection, the Ministry of Finance put out a press release discussing this bank's recapitalization. This discussed the details of the capital injections and affirmed the government's commitment to "ensure the stability of the financial sector" (MoF 2012).

7. Treatment of Creditors and Equity Holders: Bondholders received a voluntary exchange offer at the time of the capital injection; equity holders experienced substantial dilution; depositors were spared. However, in 2013, equity and bondholders suffered total losses and most uninsured depositors were transferred to the liquidating legacy bank.

In addition to raising EUR 1.8 billion in new equity, the bank's January 2012 capital plan called for (a) the voluntary offer to exchange outstanding capital securities of EUR 738 million into new EBA-compatible contingent convertible instruments (CoCos) or ordinary shares; and (b) the voluntary offer to exchange outstanding EUR 450 million of subordinated bonds into cash or a new senior bond of EUR 414 million of lower Tier 2 capital (EC 2012).

The EUR 738 million of capital securities were a type of perpetual subordinated debt that the company reported as non-core Tier 1 capital (Laiki Bank 2012c). However, holders of these securities agreed to convert only EUR 176.9 million of outstanding securities into ordinary shares (EC 2012). Holders also applied to voluntarily exchange EUR 147.9 million of securities into enhanced capital securities; however, the terms of this exchange were not compatible with the May 22, 2012, prospectus. Therefore, the bank was unable to complete these transactions (Cyprus Popular Bank 2012).

The EUR 450 million of subordinated bonds were callable, floating-rate Eurobonds due in 2016, which the bank counted as lower Tier 2 capital. The bank offered bondholders two options in exchange for their existing notes: (a) new euro-denominated fixed-rate senior notes due 2016 at 72.5% of their nominal value, or (b) cash at a tender price of 55% of their value. Bondholders exchanged a total of EUR 132.5 million of existing notes for new bonds and EUR 181.8 million of existing notes for cash. As a result of the write-downs, the bank reported a profit of EUR 115.6 million on the transactions (Laiki Bank 2012b).

In June, the government recapitalized the bank by acquiring EUR 1.8 billion in new ordinary shares, following the failure of the bank's capital-raising process. In this process, the government acquired 84% of the bank's share capital and effectively nationalized the bank. Existing shareholders saw their existing stakes diluted. The government reduced the number of shares it received by paying EUR 0.10 per share, approximately four times the market price for a condensed four-in-one share. This calculation is based on the market price calculated over the second quarter of 2012, which was EUR 0.025. The EC's State Aid report looked at a share price of EUR 0.19, which was the average share price for the 30 days before

May 15, 2012. This meant that the government received a 47% discount (Dübel 2013; EC 2012).

In 2013, the government resolved Laiki Bank and transferred its insured deposits, along with most assets (including the unfunded EUR 1.8 billion Cyprus government bond) and some liabilities, to the Bank of Cyprus through a purchase and assumption transaction. Insured depositors and assets in the Greek branch were transferred to Piraeus Bank in a separate transaction. Most uninsured Laiki Bank deposits have remained in the legacy bank as it has been liquidated over time. The legacy bank received 18% of the share capital of the restructured Bank of Cyprus and was its biggest single shareholder (CBC 2013a; Dübel 2013, ESM 2013).

8. Capital Characteristics: The new ordinary shares acquired by the government gave the minister of finance the power to appoint the majority of the board of directors and came with warrants allowing shares to be repurchased within five years.

In June 2012, the government recapitalized the bank by acquiring EUR 1.8 billion in new ordinary shares, following the failure of the bank's capital-raising process (EC 2012). The new shares added had the same rights as the already existing shares, which included voting rights, one vote per share. The shares also allowed the minister of finance to appoint the majority of Laiki Bank's board of directors. Decisions made by at least two of the board members appointed by the minister had veto power. Share warrants were issued with the new ordinary shares to allow shares acquired by the government to be repurchased within five years and giving the government the right to exchange its shares at any time (ECB 2012; Laiki Bank 2012a).

In this process, the government acquired 84% of the bank's share capital and effectively nationalized the bank. Existing shareholders saw their existing stakes diluted substantially. The government reduced the number of shares it received by paying EUR 0.10 per share, approximately four times the market price for a condensed four-in-one share. This calculation is based on the market price calculated over the second quarter of 2012, which was EUR 0.025 (Dübel 2013). The EC's State Aid report looked at a share price of EUR 0.19, which was the average share price for the 30 days before May 15, 2012. This meant that the government received a 47% discount (EC 2012).

9. Size and Source of Funding: The government paid for the capital injection with an unfunded, renewable, 12-month zero-coupon sovereign bond, rather than cash.

The capital injection was EUR 1.8 billion, which was the size of the capital deficit the bank had tried to cover through private means in 2011 through spring 2012 (CBC 2013b). Figure 2 shows the breakdown of shares before and after the recapitalization of the bank.

Figure 2: Recapitalization of Laiki Bank

Before Recapitalization				After Recapitalization		
	Number of shares	%			Number of Shares	%
Private Shareholders	1,610,000,000	100%		Private Shareholders	1,610,000,000	7.5%
				Former Subordinated Debt Holders	1,770,000,000	8.3%
				Private Investors in Capital Increase	30,000,000	0.1%
				State of Cyprus	17,960,000,000	84.0%
Total	1,610,000,000	100%			21,370,000,000	100%

Source: EC 2012.

The government of Cyprus provided the bank with a EUR 1.8 billion renewable 12-month zero-coupon sovereign bond. The sovereign bond had a five-year rollover and was issued at 95.1% of par value (CBC 2013b; EC 2012).

The government used a bond as payment because it had no ability to raise cash itself. International capital markets had been closed to the government since late 2010. On June 20, 10 days before the government injected capital, the CBC told a ratings agency that it expected the government to get external funding—from the European Financial Stability Fund or from the Russian government—to more than cover the cost of recapitalizing Laiki Bank (NYT 2014). This funding was not forthcoming.

Meanwhile, the bank was unable to post the bond as collateral with the European Central Bank in its monetary policy operations after Fitch downgraded Cypriot sovereign debt to BB+, below investment grade, on June 25, 2012 (Fitch 2012). In response to the Fitch announcement, the ECB said that the bonds were no longer eligible for monetary policy operations, although the bank could still use them as collateral for ELA (Cotterill 2012). The following week, the ECB issued an opinion to the CBC, which was not made public until six months later, in which the ECB noted drawbacks associated with the use of an unfunded sovereign bond, specifically, that the unfunded bond may not be viewed as credible and that recapitalization by a government bond could create a feedback loop between the state and the bank. In the same opinion, the ECB advised against recapitalizing insolvent banks (ECB 2012).

The government bond was rolled over and transferred to the Bank of Cyprus in 2013 when it acquired Laiki Bank's Cyprus-based operations. The government repaid roughly one-half of the bond in 2014, rolling the other half over, and repaid the remainder by the end of 2015 by issuing other debt (MoF 2015; MoF 2016).

10. Timing: The capital injection took place on June 30, 2012, after the bank failed to attract private capital.

When the bank was unable to attract private funds from late 2011 to May 2012, it requested the needed EUR 1.8 billion from the Cypriot government. The government provided this capital on June 30, 2012, after approval from the CBC, passing a needed bill through the Cypriot Parliament and notifying the EC (CBC 2013b; Laiki Bank 2012c; Noonan 2013).

11. Restructuring: Laiki Bank underwent multiple restructuring efforts, but the Cypriot government ultimately put Laiki Bank through resolution in March 2013.

In August 2012, the bank's board submitted to the CBC a restructuring plan for the bank, with the help of KPMG UK as consultants, which the Cypriot government had required along with the capital injection (Laiki Bank 2012a; Laiki Bank 2012b; Noonan 2013). This restructuring plan was part of commitments the government of Cyprus made to the EC throughout August 2012, in order to gain its approval for the capital injection. Other commitments included not paying dividends, coupons, or interest on specified instruments, and not making new acquisitions. In September 2012, the EC approved six months of aid, noting the Cypriot authorities' commitment to provide the EC with a restructuring plan (EC 2012).

The KPMG plan involved forcing losses onto senior bondholders, but no losses to depositors, and would have put the bank's bad loans into an asset management company. However, the European Union and the International Monetary Fund voiced concerns about whether Cyprus could "foot the bill" of a bad bank. Therefore, the restructuring plan shifted; the new plan was to put the healthy bank into a new subsidiary that would be the bank's main holding company (Noonan 2013).

On March 12, 2013, the ECB implemented a decision to cease providing ELA to the bank, meaning that the bank would need to repay the ECB by March 26. This effectively put a deadline on the negotiations between the Cypriot and European authorities. Termination of ELA would have caused the bankruptcy of the bank, and since the Cypriot Deposit Protection Scheme was unequipped to cover all of the insured depositors of the bank, the government would have needed to cover these deposits and would therefore have also been bankrupt. Because of this, the government of Cyprus put the bank through resolution and transferred its insured deposits to the Bank of Cyprus (CBC 2013b). Uninsured depositors remained in the legacy Laiki Bank, which received an 18% equity stake in the restructured Bank of Cyprus. As part of this, the shareholders and bondholders were entirely bailed in and the uninsured depositors were partially bailed in (ESM 2013).

In June 2012, after the government provided the EUR 1.8 billion, it also charged the bank's board with creating a business plan convincing the European Union that the bank could be viable. Officials submitted this plan in August 2012 (Noonan 2013).

12. Treatment of Board and Management: The Cypriot finance minister appointed seven new directors to Laiki Bank.

The bank began 2012 with a new board of directors. Along with the recapitalization of the bank, the finance minister appointed seven new directors. When the government gained the 84% holding, it was able to appoint a majority of the members of the board of directors (Cyprus Popular Bank 2012; EC 2012; Laiki Bank 2012c; Noonan 2013).

13. Other Conditions: The European Commission's approval was contingent on Laiki Bank's adhering to a number of commitments.

One of these commitments was a restructuring plan, which the government of Cyprus had six months to submit. Other commitments included not paying dividends, coupons, or interest on specified instruments, and not making new acquisitions (EC 2012).

14. Regulatory Relief: Research has not revealed evidence of regulatory relief.

Research has not revealed evidence of regulatory relief.

15. Exit Strategy: Ultimately, Laiki Bank was resolved by the government of Cyprus.

In 2012 when the capital injection took place, share warrants were issued to allow shares acquired by the government to be repurchased within five years and giving the government the right to exchange its shares at any time. In March 2013, when the bank continued to struggle, the government of Cyprus resolved the bank. The Bank of Cyprus took over insured deposits, along with most assets (including the EUR 1.8 billion Cyprus government bond) and some liabilities, through a purchase and assumption transaction. The government apparently received nothing for its EUR 1.8 billion investment (CBC 2013b; ECB 2012; ESM 2013; Laiki Bank 2012c; Cyprus Mail 2019; Dübel 2013).

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