

France
Special Report

Major French Banks' Exposure to Greece

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Summary

Numerous studies on the Greek crisis in the last few weeks have cited French banks as the most exposed to the country. In this special report, Fitch Ratings summarises French banks' global and detailed exposure to Greek risk, explains which banks are most at risk and why, and concludes by assessing the impact on these banks' ratings.

The main conclusions are that:

- Credit Agricole (CA; 'AA-'/'F1+') is the most exposed bank to overall Greek risk in absolute (EUR) terms, and La Banque Postale (LBP; 'AA-'/'F1+') is the most exposed to Greek sovereign risk as a proportion of equity.
- CA and (to a lesser extent) Société Générale (SG; 'A+'/'F1+') are more exposed than their major French banking peers to Greek economic risks because of their ownership of local banking subsidiaries (Emporiki Bank of Greece for CA and Geniki Bank for SG). Nevertheless, a simple stress test undertaken by Fitch suggests that potential re-capitalisation costs of these subsidiaries ought to be very manageable, given the financial strength and size of both CA and SG relative to their respective subsidiaries. CA in particular has provided a large amount of cross-border funding to Emporiki (about EUR11bn at end-Q110 or about EUR8bn net of deposits placed back with CA group entities).
- Reputational risk and indirect consequences on banks' funding costs in wholesale markets may be the largest risk for those French banks most exposed to Greek risk. The major French banks weathered the financial crisis better than many of their European peers and, provided the strong measures announced by the European Union and European Central Bank (ECB) at the weekend prove sustainably effective at easing broader money market concerns, the large French banks' funding and liquidity positions ought to remain solid.
- Fitch does not envisage any rating action on French banks at this stage as a direct result of their exposure to Greek risk.

French Banks' Global Exposure to Greek Risk

The six largest French banks (CA, SG, BNP Paribas (BNPP), Crédit Mutuel Centre Est Europe (CMCEE), Groupe BPCE (GBPCE), and LBP), which together account for 80% of the French banking system by deposits, all have some exposure to Greek entities. All these banks have now published their exposure to Greek risks, albeit not homogeneously. Published exposures plus those derived from Emporiki's and Geniki's financial reports are summarised in Table 1.

Table 1: Large Banks' Exposure to Greek Risk

EURbn	Cross-border exposure				Local exposure via subsidiary	Total
	Sovereign	Banks	Corporates & Securitization	Insurance	Loan book	
Credit Agricole	0.9	0.2	2.4	0.4	22.0	25.9
BNP Paribas	5.0	Not material	3.0	Not material	0.0	8.0
Societe Generale	3.0	Not material	Not material	n.a.	4.1	7.1
Groupe BPCE	1.4	0.1	0.6	0.1	0.0	2.2
Credit Mutuel	0.8	0.0	0.1	Not material	0.0	0.9
Centre Est Europe						
La Banque Postale	1.4	0.0	0.0	0.0	0.0	1.4
Total	12.5	0.3	6.1	0.5	26.1	45.5

Source: Banks' publications

As can be seen, in absolute terms the most exposed French bank is CA, with around EUR26bn total exposure, most of which is attributable to its local subsidiary, Emporiki. Emporiki has a relatively large local deposit base, meaning CA's actual funded exposure to the bank (ie equity, loans and securities) is materially less than the EUR22bn detailed above (see *Exposure To Non-Financial Institutions* section below). The second most exposed group of banks is composed of BNPP and SG, with exposures of around EUR7bn-8bn. Finally, GBPCE and CMCEE are the least exposed, with only EUR1bn-2bn. As a portion of equity, LBP is by far the most exposed bank.

Exposure to the Sovereign

On 9 April 2010, Fitch downgraded Greece's Foreign Currency Long-Term IDR to 'BBB-' with a Negative Outlook. The downgrade reflected the intensification of fiscal challenges in response to more adverse prospects for economic growth and increased interest costs, as well as uncertainties regarding the government's financing strategy despite potential financial support from the euro area partners and the IMF. On 3 May 2010, Fitch commented that the announcement by the Greek government of substantial additional fiscal austerity measures and the commitment of as much as EUR110bn of financial support from the IMF and other euro area member states materially reduces near-term sovereign credit risk for Greece.

A lot of attention has been paid to banks' exposure to the Greek sovereign in the last few weeks, notably because the sovereign rating has been hovering around the threshold between investment grade and speculative grade. As can be seen in Table 2, the most exposed French bank to the Greek sovereign as a proportion of equity is LBP, although its regulatory capital ratio is currently strong, at 13.4% (Tier 1 ratio: 11.3%). In absolute (EUR) terms, the most exposed banks are BNPP and SG, with EUR5bn and EUR3bn each, respectively. As can be seen in Table 2, exposure to the Greek sovereign exceeds 10% of regulatory capital only at LBP.

Table 2: Large Banks' Exposure to the Greek Sovereign

EURbn	Sovereign Exposure (A)	Regulatory Capital (B)	Equity (C)	A/B	A/C
Credit Agricole	0.9	60.5	74.7	1.5%	1.2%
BNP Paribas	5.0	88.4	70.1	5.7%	7.1%
Société Générale	3.0	42.0	38.9	7.1%	7.7%
Groupe BPCE	1.4	44.9	36.6	3.1%	3.8%
Crédit Mutuel Centre Est Europe	0.8	17.3	21.9	4.6%	3.7%
La Banque Postale	1.4	4.0	4.5	35.0%	31%

Source: Banks' publications

Exposure to Non-Financial Institutions

Most French banks have cross-border exposure to large Greek companies in their corporate banking divisions. As can be seen in Table 1, the two most exposed banks are BNPP (EUR3bn) and CA (EUR2.4bn). Most exposure is related to the shipping sector through asset-backed loans and there is little correlation with the state of the Greek economy. At this stage, these exposures are not a material source of concern.

In-Country Exposure

Only CA and SG have local exposures to the country, as these two banks acquired Greek banks: Emporiki was acquired by CA in 2006 and Geniki was acquired by SG in 2004. While Emporiki (EUR27.9bn of assets at end-Q110) is much larger than Geniki (EUR4.8bn), both are dwarfed by the size of their parent banks. Through Emporiki, CA indirectly has EUR10.5bn gross exposure to private individuals (mortgages EUR8.1bn, term loans EUR2bn and credit cards EUR0.5bn) and EUR13.3bn gross exposure to corporates (large corporates EUR7.7bn, SMEs EUR5bn and other EUR0.6bn). Through Geniki, SG indirectly has EUR2.3bn gross exposure to private individuals (mortgages EUR1.1bn, term loans EUR0.5bn and credit cards EUR0.3bn,

other EUR0.4bn) and EUR2.1bn gross exposure to corporates (large corporates EUR1.2bn, SMEs EUR0.7bn and other EUR0.2bn).

Fitch uses the word “indirectly” in the paragraph above as both Emporiki and Geniki are part-funded by local deposit bases (53% of liabilities at Emporiki at end-Q110 and 57% at Geniki). There has been a severe war for deposits in Greece since 2008, with some local banks offering very high rates to depositors. As Emporiki enjoys unlimited funding facilities from CA, it chose not to take part in this battle and preferred to raise funds at an attractive price directly from CA. As a consequence, deposits at Emporiki fell by EUR4.2bn between end-2008 and end-March 2010, and at the same time funding (used credit facilities, securities and other borrowed funds) received from CA entities increased by EUR3.6bn to reach EUR11bn (although nearly EUR3bn of these borrowings were placed back with CA group entities). The story differed at Geniki, as customer deposits were stable and funding received from SG decreased by EUR300m to just EUR1.5bn between end-2008 and end-March 2010.

Liquidity

A theoretical risk faced by CA and SG in Greece – and one which would increase these banks’ direct funded exposure to their Greek subsidiaries and thus to their underlying asset risk – would be a run on customer deposits were customers to lose faith in their bank, in which case liquidity support would be required. This risk is mitigated by the depositor protection scheme in Greece, which covers deposits up to EUR100,000 per customer. In addition, the presence of solid foreign institutional shareholders is likely to reduce this risk. In any case, both CA and SG’s current liquidity position largely exceed potential liquidity needs at their subsidiary. For instance, CA currently enjoys over EUR80bn of unused assets repoable at the ECB, which is equivalent to six times Emporiki’s entire deposit base.

Capital

CA owns 91% of Emporiki’s EUR1.1bn capital base, and SG owns 54% of Geniki’s EUR0.3bn capital base. Therefore these investments are small relative to their parents.

On the other hand, potential recapitalisation needs are a concern, albeit difficult to measure as it ultimately depends on the fortunes of the Greek economy. Emporiki has been loss-making since 2008; CA has already injected nearly EUR2bn of capital into the bank. It should also be noted that these subsidiaries are strategic for CA and SG, and a scenario whereby CA or SG would not provide capital support is extremely unlikely. Asset quality at both banks is poor: the non-performing loan ratio increased from 11.6% to 18.8% at Emporiki between end-2008 and end-2009, and from 13.5% to 22.1% at Geniki, and impaired loans (net of reserves) were more than double equity at both banks at end-2009. However, compared with their parent banks’, impaired loans (net of reserves) at Emporiki accounted for only 4% of CA’s equity, and those at Geniki accounted for only 1% of SG’s equity. Very much will now depend on the impact of the Greek government’s plan to reduce the deficit on the economy, and indirectly on the level of impaired loans in the country. However, under a severe (and hypothetical) stress test, under which the principal source of losses arises from a 30% default rate applied to the banks’ loan books, Fitch estimates that the recapitalisation requirements could reach around EUR2bn at Emporiki and EUR0.4bn at Geniki. Such levels could be comfortably absorbed by both CA and SG.

Indirect Risks

French banks’ insurance divisions have large and well diversified investment portfolios, and these contain some exposure to the Greek sovereign. In some cases, these can be large, ie several billion euros. In theory, these investments are only a risk to the insurance policyholders. Nevertheless, were such losses to reach high

levels, some compensation by the banks for reputational purposes cannot be ruled out.

Another risk for banks exposed to the country and, to southern Europe more generally, lies with confidence in the wholesale funding market. In other words, in the scenario whereby liquidity becomes scarce for a lengthy period of time due to a sustained tightening in the money markets, and where funding costs increase and funding maturities reduce, those banks with higher exposure to the region could be relatively hit harder than less exposed banks. In this regard, the strong measures announced on 10 May 2010 by the European Union and the ECB were positive developments, even if their long-term success is yet to be proven. To date, the major French banking groups' funding and liquidity profiles have withstood the severe test of the financial crisis far better than many of their international peers.

Rating Implications

French banks' exposure to Greece has not resulted in any rating action. Of the banks listed above, all have Stable Outlooks attached to their Long-Term IDRs, with the exception of BNPP (the Negative Outlook on BNPP's IDR is not related to the Greek exposure). At this stage, Fitch does not expect any rating action on these banks' Individual Ratings due to Greek exposure either. In any case, all banks listed above have been assigned a Support Rating Floor of 'A+', which means that their Long-Term IDRs will not fall below this level unless Fitch's opinion on the ability and/or propensity of the French authorities to support these banks weakens. LBP is an exception, but its IDRs are driven by support from La Poste, and indirectly from the French State, and no rating action on its IDRs is thus expected.

Table 3: Ratings Assigned by Fitch to Major French Banks

	LT IDR/ Outlook	ST IDR	LT Rating Hybrids	Indiv. Rating	Support Rating	Support Rating Floor
BNP Paribas	AA/Negative	F1+	A+	B	1	A+
Crédit Agricole	AA-/Stable	F1+	A	B	1	A+
Banque Fédérative du Crédit Mutuel ^a	AA-/Stable	F1+	A	n.a.	1	A+
La Banque Postale	AA-/Stable	F1+	n.a.	C/D	1	n.a.
Société Générale	A+/Stable	F1+	A-	B/C	1	A+
Groupe BPCE	A+/Stable	F1+	BB	C/D	1	A+

^a Banque Fédérative du Crédit Mutuel is the issuing vehicle of Crédit Mutuel Centre Est Europe
Source: Fitch Ratings

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