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## Credit Agricole May Post Drop in Quarterly Net on Greek Losses

By Fabio Benedetti-Valentini - Aug 24, 2011

[Credit Agricole SA \(ACA\)](#), France's second-largest bank by assets, will probably report a decline in second-quarter earnings tomorrow following losses at its Greek unit and costs tied to a rescue plan for the country.

Net income may fall to 187 million euros (\$271 million) from 379 million euros a year earlier, based on the average estimate of 11 analysts surveyed by Bloomberg. The Paris-based company announced on July 28 that Greek losses and costs related to the aid plan would lower earnings by as much as 850 million euros, though it still expected to report a profit.

Credit Agricole tumbled about 30 percent this month in Paris trading as the sovereign debt crisis that started in [Greece](#) more than a year ago threatened [Italy](#), where the bank has about 960 branches. Concern spread to France, pushing the extra yield investors demand to hold French government debt rather than German bunds to a euro-era record and driving the benchmark CAC 40 stock index down 15 percent in August.

“Credit Agricole is, with [BNP Paribas \(BNP\)](#), the bank most at risk as investors are irrationally targeting Italy after Greece,” said Christophe Nijdam, an analyst at AlphaValue in Paris who has a “buy” rating on the stock. A European Union plan to ask banks and other private investors to share losses on their Greek sovereign debt holdings “opened the Pandora’s box of losses for private investors, and it gives the blueprint for default by other states,” Nijdam said.

### Italy, Greece

Credit Agricole had about 10.8 billion euros in gross exposure to Italian government debt at the end of 2010, data from the European Banking Authority show. Among European banks with headquarters outside of Italy, only Paris-based BNP Paribas SA, Commerzbank AG of [Frankfurt](#) and Brussels-based Dexia SA surpassed Credit Agricole’s level of Italian sovereign-debt holdings.

BNP Paribas, France’s biggest bank, wrote down its Greek government debt by 534 million euros on Aug. 2, the same day it reported a 1.1 percent increase in second-quarter profit. BNP Paribas, unlike Credit Agricole and [Societe Generale \(GLE\)](#) SA, France’s third-largest bank by assets, doesn’t operate a branch network in Greece.

EU leaders agreed to a 159 billion-euro aid package for Greece on July 21, the country's second following a 110 billion- euro bailout in May 2010. State asset sales will make up part of the financing of that plan, while holders of Greek debt will contribute an estimated 50 billion euros through a bond exchange program.

## Emporiki Losses

Greece will stick to fiscal targets set out under the bailout plans even as the economy contracts more than forecast this year, Finance Minister Evangelos Venizelos said Aug. 22. The economy may shrink between 4.5 percent and 5.3 percent in 2011, more than the previous forecasts by the EU and the [International Monetary Fund](#).

Credit Agricole spent about 2.2 billion euros in 2006 to amass a controlling stake in Emporiki Bank of Greece SA. The French bank, which controls 96 percent of Emporiki, this month got the Hellenic Capital Market Commission's approval to buy out other shareholders at 1.76 euros apiece, the bank said Aug. 9. That's 93 percent below the 2006 purchase price, according to Bloomberg calculations.

"They've bought Emporiki very high, and now it's very heavy," said Jacques-Pascal Porta, who helps manage 400 million euros at Paris-based Ofi Gestion Privee and doesn't own shares in Credit Agricole. "Excluding Emporiki, the bank is solid."

## Goodwill Writedown

Emporiki's second-quarter loss widened to 451 million euros from 326 million euros a year earlier, the Athens-based lender reported last month. [Credit Agricole](#) said on July 28 that "the current and expected situation for the coming quarters makes reaching Emporiki Bank's goal for breakeven" by the end of 2012 more difficult.

Credit Agricole plans to write down the remaining 359 million euros of goodwill it carries on its books tied to Emporiki in the second quarter, the French bank said. Overall, the support plan for Greece will cost Credit Agricole about 150 million euros, the bank said last month.

Chief Executive Officer Jean-Paul Chifflet, who took over in 2010, said in December that he plans to chart a "less adventurous" strategy for Credit Agricole over the next 10 years compared with the past decade. Annual net income should rise to between 6 billion euros and 7 billion euros in 2014, helped by a turnaround at the international retail-banking business, Credit Agricole said in March.

## Investment Bank

Annual profit rose 12 percent last year, helped by higher consumer-banking earnings and lower

provisions on assets the bank is winding down. First-quarter net income doubled to 1 billion euros, boosted by higher revenue and lower provisions from assets it's reducing at the corporate-and-investment banking division.

The assets Credit Agricole is winding down include unhedged super-senior collateralized debt obligations linked to U.S. residential mortgages, according to the bank's website.

"Their investment bank has reduced risks a lot since 2008 but the unit's earnings must have suffered in August like any bank with important market activities, and this will be seen especially in the third quarter," said AlphaValue's Nijdam.

Profit at the corporate and investment bank probably fell to 314 million euros in the second quarter from 330 million euros a year earlier, the analyst survey showed.

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