

French banks brace for additional, though manageable hits on Greek exposure

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By Emma Newlands

News that France is to demand higher bank Greek provisions from its banks will mark yet another, if not unexpected, blow for BNP Paribas SA and other French banking giants.

BNP Paribas potentially faces incurring a further provision of up to €500 million after French regulator Autorité de Contrôle Prudentiel is to request that French lenders increase the provisions related to their exposure to Greece's sovereign debt from 60% to between 70% and 75%, *Le Monde* said Jan. 18.

It has previously been rumored that private creditors will face a 75% haircut on their holdings of Greek sovereign debt.

SNL data published in June 2011 showed BNP Paribas' gross exposure to Greece was the highest of four French banking groups at €5.01 billion.

In its 2011 third-quarter results, the bank said it set aside a provision for 60% of the full amount of all Greek sovereign debt it holds.

That equated to a further provision of €2.09 billion for the banking book and of €47 million for the insurance portfolio, the French bank noted. It added that the effect of the additional impairment of Greek bonds on associated companies was negative to the tune of €116 million.

Analyst Pierre Flabbée of Kepler Capital Markets told SNL Financial that for BNP Paribas, the impact of provisioning of 75% would be about €400 million to €500 million, calculated according to exposure of €3.5 billion; he also said the lender also has some insurance exposure of about €2.6 million or €2.7 million.

Banking analyst Christophe Nijdam of AlphaValue predicted a broadly similar estimate for the additional provision, at about €450 million.

Nijdam noted, however, that such a figure is not big enough to endanger the banking giant's chances of reaching the 9% core equity ratio as required by the EBA by June 30.

"It's costly but it's not going to jeopardize BNP Paribas," he told SNL, stating that equally there will not be an impact on Crédit Agricole SA.

The news of France's lenders having to raise their provisions comes as talks continue with private creditors in an attempt to reach an agreement to cut the country's debt. The talks involve a bond swap deal with the intention of avoiding a default, and aimed at reducing Greece's €350 billion-plus debt load by €100 billion. During negotiations on Greek debt restructuring that stretched into the weekend, private sector investors offered to take a maximum loss of between 65% and 70% on the current long-term value of Greek bonds, *London's Financial Times* reported Jan. 22.

Along with German lenders, French banks were seen as being most vulnerable to further significant impairment charges beyond 50%.

French banks mostly released the impact of Greece on their balance sheet in their third-quarter figures, though results for the end of 2011 are expected to be posted in the coming weeks.

Natixis reported a relatively small pretax charge of €40 million in the third quarter, while parent company Groupe BPCE announced an additional €784 million third-quarter charge.

Crédit Agricole consequently took an impairment of €905 million, while BNP Paribas lifted its provision at a cost of €2.1 billion excluding associates. Société Générale SA in the third quarter recorded €239 million in provisions for the write-down of Greek government debt.

Crédit Agricole on Nov. 10, 2011, posted a 65.2% year-over-year drop in its third-quarter group share net income to €258 million from €742 million on the back of a 60% haircut on Greek government bonds of all maturities.

Flabbée said a 75% haircut for Crédit Agricole would equate to a small impact of a "few million," calculated against gross exposure of €260 million. Its Greek unit, Emporiki Bank of Greece SA, he said, holds very little of Greece's country's debt compared to other domestic banks.

What's more, Nijdam noted that the brunt of the impact would not be on Crédit Agricole directly, but rather through Greek government bonds held by insurance unit Predica; life insurance investors would therefore bear the cost rather than the insurance company. Crédit Agricole Assurances Group is the 100% owner of Emporiki Bank of Greece SA: Predica is the life insurance unit of the Crédit Agricole unit. Flabbée estimated that the impairment amount would be about €150 million for the portion not borne by life insurance investors, though he stressed that is very much subject to change.

Elsewhere, SocGen's having to take a 75% haircut would have little impact on the lender, both analysts agreed, with Flabbée estimating the impact at €110 million to €150 million after tax.

"For Société Générale the impact would be minimal because as opposed to the other two French banks ... [it] had substantially decreased its exposure [to Greek government bonds]," Nijdam said, though he noted that its exposure to Greece through unit GENIKI Bank SA would continue to be an issue. SocGen recently increased its stake in Greek unit GENIKI Bank to 98.96% following its participation in the bank's share capital increase in December 2011.

In the same vein, Crédit Agricole Group injected about €2.0 billion into unit Emporiki, according to a report Jan. 4. Nijdam described the unit as having been a thorn in its parent company's side.

SNL data published in June 2011 said SocGen's gross exposure to Greece was €4.23 billion, while the figure was €1.54 billion for Groupe BPCE and €854 million for Crédit Agricole.

As for the eventual level of impairments to be agreed with private investors, that remains to be determined. *i*