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French banks face Greek woes

By Scheherazade Daneshkhu in Paris

Shareholders in Crédit Agricole booed last week as they vented their fury at the management of the French bank most exposed to Greece and its shares slid to a record low on fears about the eurozone.

Jean-Marie Sander, chairman, told the hostile meeting that Emporiki, its lossmaking Greek bank, had taken its toll on the bank's results: "Greece has weighed heavily on our accounts and we will not be paying a dividend."

Jean-Paul Chifflet, chief executive, acknowledged: "The Greek crisis cost us €2.4bn last year – it's a lot."

The day coincided with the shares sinking for the first time below €3 – closing at €2.97. They closed at €2.98 on Friday, having tumbled by 72 per cent in the past 12 months and are at a fraction of their €16.60 flotation price in 2001.

The question is how much more damage the Greek crisis can wreak on France's banks – Crédit Agricole, in particular, but also Société Générale, the country's second-biggest bank by market value, which owns Geniki, a much smaller Greek lender.

The French banks are exposed through their holdings of Greek sovereign debt – on which they have had to take a 75 per cent writedown – while Crédit Agricole and SocGen have capital at risk in their Greek banking subsidiaries and are exposed to the deterioration in the country's economy through the subsidiaries' loans.

Both banks had to scrap their dividend this year to conserve capital.

According to figures published last month by the Bank for International Settlements, French banks had $39bn of exposure to Greece at the end of last year – accounting for half the European banks' total.

BNP Paribas, France's biggest bank by market value, and Natixis, the fourth-largest, have not been immune. Though neither own Greek banks, BNP has made a total loss of €3bn due to Greece, mainly on the country's sovereign bonds.

All in all, French banks wrote down or made provisions relating to Greece of €8bn last year, according to Credit Suisse.

Crédit Agricole bought Emporiki, the country's fifth largest by assets, in 2006 for €2.2bn as part of a Mediterranean expansion drive that also saw it enter Italy, Spain and Portugal. Italy is its second-largest domestic market after France through its Cariparma subsidiary.

Emporiki, which has a loan book of €22.9bn, has already cost Crédit Agricole €6bn.

It has had to pour capital into the bank, though its net refinancing of Emporiki fell to €5.2bn at the end of March, from €11.4bn a year earlier.

So far Crédit Agricole's plea to the Greek Central Bank to grant Emporiki access to a liquidity facility for local banks has fallen on deaf ears since the central bank regards Emporiki as a French bank.

Analysts estimate that a Greek exit from the eurozone, accompanied by a devaluation and a partial run on deposits, could trigger a further loss of €5bn-€8bn.

Crédit Agricole is a mutual bank that is majority-owned by its 39 regional banks. Philippe Brassac, secretary-general of the Fédération Nationale du Crédit Agricole – the body that represents the regional banks – did not dispute a potential €7bn loss put to him in an interview last week. But he said the bank's deep pockets of €70bn in shareholders' equity – including the quoted entity – would "allow the group to absorb these shocks."

In a different part of Paris, SocGen was also facing questions from shareholders last week, though less hostile since its Geniki bank has gross loans of only €2.5bn – about one-tenth of Emporiki's.

SocGen's policy appears to be to manage Geniki into extinction as it grants very few new loans and has made provisions against a large proportion – SocGen has a doubtful loan coverage ratio of 75 per cent on Geniki loans against Crédit Agricole's 58 per cent at Emporiki.

Frédéric Oudéa, Soc Gen's chairman and chief executive, assured shareholders that a Greek exit, should it happen, would be: "Disagreeable but manageable."

Christian Noyer, governor of the Bank of France, has been swift to reassure saying recently that: "I cannot think of any French bank that would be put in difficulty by an extreme scenario in Greece."

But the French banks are vulnerable to a "contagion effect", particularly Crédit Agricole and BNP Paribas, which owns BNL, one of Italy's biggest banks.

"The direct impact of a Grexit is pretty much quantifiable for French banks as the exposures are disclosed," said Jean-Pierre Lambert, analyst at Keefe, Bruyette & Woods.

"However, there is a second order and unquantifiable risk for Crédit Agricole, where concerns about the capital impact of the Greek losses may lead to abrupt outflows of corporate and interbank deposits. This may then, in turn, contaminate other French banks perceived as interlinked with Crédit Agricole."