DOC. N.º 14

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/SB10001424052748703798904575069712153415820

EUROPE

Exposure to Greece Weighs On French, German Banks

By VANESSA FUHRMANS in BerliN and
SEBASTIAN MOFFETT in Paris
Updated Feb. 17, 2010 12:01 a.m. ET

Germany and France have suggested in recent days that rescuing Greece may be necessary to safeguard the euro zone, but both countries may have a more pressing motivation in the move—protecting their own banks.

German and French banks carry a combined $119 billion in exposure to Greek borrowers alone and more than $900 billion to Greece and other countries on the euro-zone's vulnerable periphery: Portugal, Ireland and Spain.

Together, France and Germany's banking sectors account for roughly half of all European banks' exposure to those countries. Nearly half of the outstanding debt is with Spain, according to data from the Bank for International Settlements. The data include government bonds, corporate debt and loans to individuals.

Concern over the exposure has helped to drive down bank stocks in recent weeks. The DJ Stoxx European bank index has fallen 12.5% over the past month against a 7% decline of the broader pan-European index. Among big decliners have been Germany's Commerzbank, which has fallen 15% over that period and France's BNP Paribas, which dropped 14%.

Meanwhile, the cost of insuring against default at many German and French banks, as measured by credit-default swap spreads for their senior debt, has increased slightly since December.

The fears that French and German banks could fall victim to Greece's debt crisis helps explain why Paris and Berlin have signaled that they would pursue a politically unpopular rescue of Greece—at the same time that they are trying to force Athens to take painful austerity measures.

"What seems to have galvanized minds is the realization that much of European banking is heavily exposed to Southern Europe and Greece in particular," Société Générale economists said in a note to clients late last week.

EUROPE'S DEBT CRISIS

Take a look at events that have rattled European governments and global markets.

GROWING APART

Take a look at the premium in percentage points that selected euro-zone governments must past on their 10-year bonds.

- More photos and interactive graphics (http://online.wsj.com/public/page/0_0_WP_2003.html)

If Athens were to default, investors may question whether French and German banks could withstand the potential losses, sparking a panic that could reverberate throughout the financial system.

Information on individual banks' exposure is scarce, leaving investors to guess where the greatest dangers lie. The BIS doesn't provide such data.

Deutsche Bank AG Chief Executive Josef Ackermann described his bank's exposure to Greece as "relatively small" last week. The company declined to provide more details about what Greek debt is on its books, or those of other vulnerable euro-zone nations.

Among publicly traded banks, Commerzbank, through its specialist bank for real estate and public finance unit, Eurohypo AG, has one of the largest exposures, analysts say. Exposure to Spain and Portugal combined make up 19%, or €13.3 billion ($18.09 billion), of Eurohypo's government bond, or public finance, business in the first half of 2009, according to its midyear report.

Troubled mortgage lender Hypo Real Estate Holding AG is exposed through its Deutsche Pfandbriefbank unit. The unit said Spain is €21 billion of its total public-sector exposure of €294 billion, while Greece represents roughly €10 billion, according to 2008 figures. Hypo had to be nationalized last year because of its exposure to the real-estate bubble.

Like a number of German financial institutions, Hypo Real Estate plans to shift about €210 billion in troubled assets into a "bad bank" to help rid its balance sheet of toxic assets.

A spokesman for the Deutsche Pfandbriefbank unit, however, said it hasn't been determined whether Greek assets might be among those folded into the structure.

German banks, which have about $240 billion outstanding with Spanish borrowers, have more exposure to Spain than any other European country outside the U.K. Some of the bigger creditors are Germany's public-sector banks, or Landesbanken, and banks to public-sector borrowers, analysts say.

While big European banks have been lobbying governments behind the scenes to aid Greece, banking officials have publicly sought to play down the risk of the euro-zone debt crisis to their industry.

Baudouin Prot, chief executive of BNP Paribas and president of the French Banking Federation, said last week that French banks did not have a particular problem with such assets.

"The exposure of French banks to different countries in the euro zone is completely reasonable," Mr. Prot told reporters.

"I'd remind people that on the whole, the big French banks are active in the euro-zone countries that are, if I may say, by far the most solid, so it's not a particular issue for French banks."

Analysts say the French banks most likely to be exposed are those that own Greek banks, notably Crédit Agricole, which owns Emporiki, and Société Générale, which owns Geniki.

Societe Generale declined to comment, while a Crédit Agricole spokeswoman said its exposure was not "significant."

Jean Pierre Lambert, an analyst at financial services firm Keefe, Bruyette & Woods, calculates that at least 6% of Crédit Agricole's risk-weighted assets are in Greece. This is the number obtained by calculating the exposure to Crédit Agricole to Greece through Emporiki, he says.

There may be other Greece-related assets on the books of other divisions of Crédit Agricole, France's third-largest bank by market value and is a public company majority owned by French regional banks, but these have not yet been disclosed.

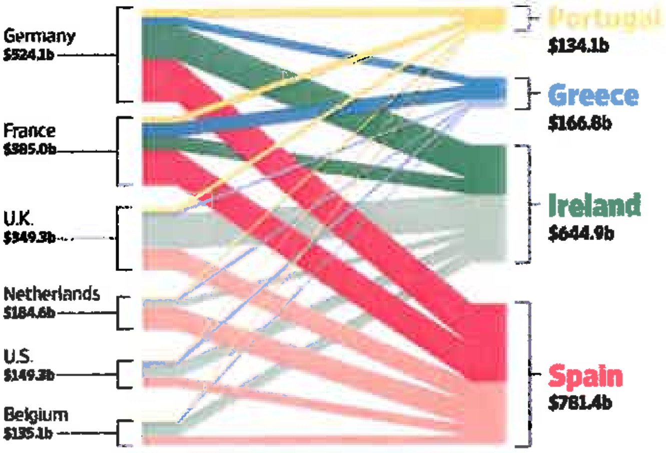
Investors' longer-term fear is that banks would have to begin marking down assets in the affected countries, says John Raymond, an analyst at research firm CreditSights in London. A similar dynamic fueled the financial crisis in the U.S. after write-downs on mortgage and other assets saddled banks with gigantic losses that forced the government to bail them out.

—David Crawford in Berlin contributed to this article.

Write to Vanessa Fuhrmans at vanessa.fuhrmans@wsj.com and Sebastian Moffett at sebastian.moffett@wsj.com

Out on a Limb?

Banks' exposure to the debt of Portugal, Greece, Ireland and Spain. Amounts outstanding in selected countries:



Note: Figures are as of Sept. 30, 2009, and are only for countries whose central banks report to the B.I.S.
Source: Bank for International Settlements