

Quantifying US financial institution exposure to the UK

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Global uncertainty abounds after the U.K. voted to leave the European Union, leaving the U.S. attempting to gauge the potential impact on financial institutions with exposure to the U.K.

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Banks report exposure to countries outside the U.S. on Form FFIEC 009a if that exposure exceeds certain thresholds. The FFIEC includes a variety of claims in its definition of exposure, including deposit balances, securities, federal funds sold and loans, along with many other types of assets. This exposure is broken down into various types of borrowers, including banks; public sector entities, like government agencies and central banks; various nonbank financial institutions, including insurance firms, investment

United Kingdom exposure for select US banks (\$M)

Financial data as of Dec. 31, 2015

Company name (ticker)	Exposure ¹		Cross-border claims after mandated adjustments (\$M) ²		
	United Kingdom (\$M)	% of total	Type of borrower		
			Bank	Public sector entities	Other ³
Citigroup Inc. (C)	118,924	16.38	25,097	20,420	73,407
Goldman Sachs Group Inc. (GS)	103,924	29.42	6,716	17,717	79,491
Morgan Stanley (MS)	79,228	26.63	9,556	36	64,312
JPMorgan Chase & Co. (JPM)	72,141	22.87	6,651	13,901	45,797
Bank of America Corp. (BAC)	70,165	29.42	5,714	9,141	50,436
State Street Corp. (STT)	19,766	25.76	716	10,233	7,503
Bank of New York Mellon Corp. (BK)	18,051	26.21	1,719	12,392	3,281
Northern Trust Corp. (NTRS)	9,024	37.26	962	7,360	160
American Express Co. (AXP)	5,629	34.31	1,974	107	3,453
Capital One Financial Corp. (COF)	3,652	41.83	91	222	3,339
HSBC North America Holdings Inc. (HSBA) [^]	3,502	12.58	2,196	4	912
TD Group US Holdings LLC (TD) [^] , [^]	3,362	17.71	25	644	2,299
United Services Automobile Association	1,846	59.22	394	29	1,423
SVB Financial Group (SIVB)	1,246	60.08	491	0	755
CIT Group Inc. (CIT)	904	26.87	422	26	419
John Deere Capital Corp.	635	29.41	7	2	606
Banco Itaú International [^]	279	35.41	120	0	159
Sumitomo Mitsui Trust Bank (U.S.A.) Ltd (8309) [^]	116	31.87	116	0	0
SNBNY Holdings Ltd. [^]	113	9.53	109	0	4
Santander Holdings USA Inc. (SAN) [^]	82	2.97	52	6	24
BAC Florida Bank	56	5.44	6	0	50
Delta National Bank and Trust Co. [^]	11	7.86	7	0	4

Data compiled June 24, 2016.

Data based on Dec. 31, 2015, FFIEC 009a filing. Part A of FFIEC 009a reports information on exposure to any country that exceeds 1% of the reporting institution's total assets or 20% of its total capital. Part B reports only the list of names of the countries and the aggregate amount of exposure where the amount of exposure exceeds 0.75% but does not exceed 1% of the banking institution's total assets or is between 15% and 20% of the banking institution's total capital.

Companies are ranked by highest amount of exposure in the U.K.

¹ Represents the sum of cross-border claims outstanding after mandated adjustments for transfer of exposure (excluding derivative products), amount of foreign office claims on local residents (excluding derivative products) and amount of gross claims outstanding from derivative products after mandated adjustments for transfer of exposure. Total exposure includes exposure disclosed in part A and part B of the FFIEC 009a filing.

² Adjusted for transfer of exposure, excluding derivative products.

³ Includes exposure to nonbank financial institutions as classified by FFIEC 009a.

⁴ Data shown is for TD Bank NA.

[^] The data is for unit operating in the U.S. only.

Company names are shown for the top-tier bank operating in the U.S. for the company that reported on FFIEC 009a filing. Analysis does not include companies that report U.K. exposure as an aggregate amount in part B of FFIEC 009a filing.

Sources: FFIEC; SNL Financial, an offering of S&P Global Market Intelligence

banks and pension funds; and the “other” sector, which includes counterparties classified as corporate or household. S&P Global Market Intelligence analyzed the most recent country exposure filings available, for the quarter ended Dec. 31, 2015, to get a sense of who had the most exposure to the U.K. following the Brexit vote.

Unsurprisingly, large-cap companies like Citigroup Inc., Goldman Sachs Group Inc., Morgan Stanley, JPMorgan Chase & Co. and Bank of America Corp. reported the highest exposure to the U.K. in dollar terms.

Fitch Ratings expects the Brexit decision to be expensive and disruptive for U.S. global banks with significant operations in the U.K., cutting into their medium-term profitability. The rating agency expects restructuring costs related to Brexit to hurt earnings but also noted that increased volatility in foreign exchange and bond markets should boost trading revenue.

Ultimately Fitch expects the Leave decision will be moderate for the U.S. global banks. The rating agency believes the living will process was a useful exercise for the group as it now faces decisions about restructuring certain operations, relocating staff and potentially refocusing European operations.

Fitch and S&P Global Ratings downgraded the U.K. in the wake of the Brexit vote, and Moody's adjusted its outlook on the country to negative.

DBRS confirmed the U.K.'s rating. Fergus McCormick, head of sovereign ratings at the agency, said on a conference call that the short-term impact on the U.K. would be

significant as financial volatility has increased after the political upheaval created in the wake of the vote.

“Despite this, we do not expect the U.K. government debt repayment capacity to decline in the very near future,” he said. DBRS analysts on the call said they do not expect the U.K. leaving the EU to have a direct impact on the U.S.

In an S&P Global Market Intelligence analysis, some smaller companies also reported relatively high levels of exposure to the U.K. Silicon Valley Bank, a unit of SVB Financial Group based in California with a focus on serving technology companies, had the highest exposure to the U.K. in percentage terms among banks in the analysis. More than 60% of the bank's overall foreign exposure was to the U.K. United Services Automobile Association followed closely; the insurance company, which is the holding company for USAA Federal Savings Bank, had 59.22% of its total foreign country exposure to the U.K.

“Markets hate uncertainty, and the Brexit vote leaves both Britain and the EU in uncharted political and economic waters,” wrote Wasif Latif, head of global multi-assets at USAA on June 24. For USAA, Latif said, the biggest concern is not just the U.K.'s departure from the EU, but whether or not other countries will follow its lead.

“There is a growing feeling among people across the continent that a more unified Europe means they will be subject to more regulation and have less say on major issues that affect their future, including the current migration crisis,” he wrote.