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Pietro Lombardi ▼

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## BNP Paribas Braces for Wave of Defaults, Hitting Profit

Companies cutting dividend payments hit the French bank's equity derivatives unit



A BNP Paribas bank branch offering one-in one-out customer service during coronavirus lockdown in Toulouse, France, on April 27.

PHOTO: BALINT PORNECZI/BLOOMBERG NEWS



By [Noemie Bisserbe](#) and [Pietro Lombardi](#)

Updated May 5, 2020 9:49 am ET



SAVE



PRINT



TEXT

PARIS— [BNP Paribas SA](#) [BNPQY -5.07%](#) ▼ reported Tuesday a drop in first-quarter net profit as France's largest bank set aside new provisions to prepare for a flood of customers to default on their loans because of the [coronavirus pandemic](#).

[Like crosstown rival Société Générale SA](#), [SCGLY -5.28%](#) ▼ BNP Paribas suffered a big hit in its equity derivatives unit from companies that canceled their dividend payments. It is a business where the two French banks have a strong foothold. The move wiped €184 million (\$200 million) from BNP Paribas' structured products revenue this quarter.

[Banks world-wide](#) have been setting aside billions of dollars to cover bad loans and have been shoring up capital by canceling dividends and share buybacks, as lockdowns and uncertainty as a result of the novel coronavirus pandemic have slammed the brakes on the global economy.

In Europe, banks came into the crisis in worse shape than their U.S. rivals, after struggling for years with sluggish growth and persistently low interest rates that put their core businesses under severe pressure.

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PREVIEW



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The Paris-based lender, the biggest by assets in France, said net profit fell by 33% to €1.28 billion in the three months ended March 31, while revenue declined by 2% to €10.89 billion.

[BNP Paribas](#) warned net profit for 2020 might fall by 15% to 20% as a result of the coronavirus outbreak and the lockdowns.

“The health crisis has had major repercussions on macroeconomic outlook and produced extreme shocks on the financial markets,” the bank said in a statement.

It set aside €657 million to cover bad loans, raising its total provision to €1.43 billion.

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Still, the bank's earnings and outlook were slightly above expectations, underscoring the resilience of BNP Paribas's diversified

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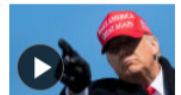
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business model, analysts said.

Some analysts, however, noted a weaker than expected core Tier 1 capital ratio—a key measure of capital strength—and low provisions.

“The optimistic outlook statement relative to expectations may support the shares initially but we would expect this to fade as focus shifts to worse-than-expected capital and a lack of provisioning in all but the corporate bank and consumer credit,” Barclays analysts wrote in a note.

BNP Paribas shares were 2.2% higher at €27.70 in midafternoon trading in Paris having been up about 5% in early trading.

BNP’s core Tier 1 capital ratio—that measures a bank’s top quality capital such as equity and retained earnings against risk-weighted assets—stood at 12% in March from 12.1% in December, still well above the 9.31% threshold set by the European Central Bank for the French lender.

Strong fixed-income revenue, up 34% to €1.39 billion, helped offset the €87 million loss posted by the bank’s equity business. As a result, BNP Paribas’s corporate and investment bank reported a 1.9% decline in revenue to €2.95 billion. The bank’s domestic-markets division, which includes retail operations in Italy, France and Belgium, posted a 1.6% decline in revenue to €3.76 billion. Revenue at its international financial-services unit—which includes wealth management, consumer finance and insurance—was also down 5.4% at €4.05 billion.

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