Credit Agricole Posts Record Fourth-Quarter Loss on Writedowns

Credit Agricole SA, France’s third-largest bank by market value, reported a record fourth-quarter loss after writing down goodwill at its Italian and investment-banking businesses.

The net loss widened 30 percent from a year earlier to 3.98 billion euros ($5.3 billion), the bank, based outside Paris, said in a statement today. The loss exceeded the 3.69 billion-euro average estimate of five analysts surveyed by Bloomberg.

Credit Agricole took 2.67 billion euros in goodwill writedowns in the quarter to reflect stricter rules and a worsening economy, and booked a 706 million-euro additional loss on the sale of its Greek unit Emporiki, a deal completed this month. The French bank has plans for job cuts at its Italian consumer-banking unit and cost-cutting at the investment bank.

“We’ve deeply transformed our group,” Chief Executive Officer Jean-Paul Chifflet, 63, said on a call with journalists. “We will reinforce our financial solidity in 2013 without making a capital increase.”

Credit Agricole had a record annual loss of 6.47 billion euros for 2012 and will skip a dividend for a second year.

The lender, controlled by 39 French regional banks, rose 20 percent in Paris trading this year, giving it a market value of 18.3 billion euros. That compares with a 7.1 percent increase in BNP Paribas SA, France’s largest bank, and a 9.9 percent gain in Societe Generale SA, the second biggest.

Basel Ratio

Credit Agricole Group, the entity regulators look at when applying international capital and liquidity rules, had a core Tier 1 ratio under fully-applied Basel III rules of 9.3 percent at the end of 2012. That ratio should exceed 10 percent by the end of 2013, the bank said. Credit Agricole Group reported a 3.81 billion-euro annual loss in 2012.

While writing down goodwill doesn’t deplete capital, it reduces profit and signals a company overpaid for acquisitions. Deutsche Bank AG, Germany’s largest bank, took 1.9 billion euros of writedowns on goodwill and other intangible assets last month.

The writedowns at Credit Agricole include 466 million euros on corporate- and investment-banking activities, 360 million euros on Newedge Group SA, a brokerage joint-venture with Societe
Generale, and 852 million euros on Credit Agricole's Italian branch network, the bank said.

**Emporiki, Lyonnais**

The French bank invested 2.2 billion euros in 2006 to buy Athens-based Emporiki, and has written down the Greek unit’s goodwill in recent years. Credit Agricole expanded in southern Europe after its 2003 purchase of Credit Lyonnais SA, which strengthened its lead in French consumer banking.

Credit Agricole also wrote down by 267 million euros its 20.2 percent stake in Portugal’s Banco Espirito Santo SA and booked a tax expense of 128 million euros on its insurance businesses. Credit Agricole said it will book about 165 million euros of fourth-quarter losses as its French regional lenders depreciate the value of their shares in the publicly traded entity.

Credit Agricole is taking the writedowns following recent recommendations from the European Union’s markets authority. The European Securities and Markets Authority called last month for improvements in disclosures after reviewing 800 billion euros of goodwill assets at 235 companies in 23 countries across Europe.

Goodwill is an accounting convention that represents the amount paid for an acquisition over and above the fair value of its net assets.

**Scaling Back**

The bank took 541 million euros in net losses in the fourth quarter from the revaluation of its own debt. Banks book accounting charges or gains tied to the theoretical cost of buying back their own debt as market prices fluctuate.

Credit Agricole is also shutting its riskiest investment-banking businesses. The bank has stopped most of its equity derivatives and has no proprietary trading activity, according to a Sept. 26 presentation. The lender is selling its brokerage CLSA to China’s Citic Securities Co. in a transaction valued at $1.25 billion.

The lender, like BNP Paribas and Societe Generale, started trimming its balance sheet in 2011 after French banks had their access blocked to U.S. dollar funding and European debt markets.

**Investment Bank**

Credit Agricole’s corporate and investment bank had a 1 billion-euro net loss in the quarter, hurt by goodwill writedowns and own-debt charges. Excluding one-time items and losses on assets left over from the subprime crisis, the division’s profit rose 73 percent to 199 million euros.

Securities firms have posted gains in revenue since European Central Bank President Mario Draghi’s July pledge to do “whatever it takes” to defend the euro boosted bond markets.

In Italy, Credit Agricole’s largest market outside of France, the Cariparma branch network had a 10 million-euro loss in the quarter, excluding the goodwill writedown. Cariparma’s provisions for bad
loans jumped 32 percent and the unit booked a 64 million-euro charge as it extended a job-cutting plan with a target of 720 departures by 2015.

**BNP Paribas**, the other French bank with large Italian operations, last week posted a 33 percent decline in fourth-quarter profit, partly because it took a 298 million-euro goodwill writedown at its Rome-based division, Banca Nazionale del Lavoro.

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