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Paschi, Carige, Said to Face Capital Gap From ECB Test

By Sonia Sirletti and Nicholas Comfort - Oct 23, 2014

[Banca Monte dei Paschi di Siena SpA](#) and [Banca Carige SpA \(CRG\)](#), two of 15 Italian lenders in the [European Central Bank](#)'s euro-area bank health check, are set to face capital shortfalls they'll need to plug, according to a person with knowledge of the matter.

The two Italian lenders are currently seen reporting a capital hole under the most severe of the ECB's stress-test scenarios, said the person, who asked to not be identified because the matter is private. The banks are unlikely to have raised sufficient capital this year to fill the shortfall and will probably have to find fresh funds, the person said.

"Monte Paschi and Carige are the banks most at risk in failing the review, even if I rule out results that can create a systemic risk that may damage markets," Wolfram Mrowetz, the chairman of Alisei Sim, a Milan brokerage, said by telephone. "A potential hole will be manageable for Monte Paschi, given the recovery path undertaken, while for Carige the situation appears more complex."

Carige [fell as much as](#) 5 percent in Milan today and was 1.7 percent lower at 8.91 cents at 9:33 a.m. Monte Paschi declined 1.8 percent to 89.8 cents. The 49-member STOXX Europe 600 Banks Index fell 0.7 percent.

Pop. Vicenza

The ECB's stress test is the second part of the central bank's Comprehensive Assessment of bank balance sheets with evaluations in a so-called baseline scenario and in an adverse scenario. While other Italian lenders may also have insufficient capital under stress tests, they have already raised funds to immediately fill the gap, the person said.

Banks will be required to show that their ratio of core capital to risk-weighted assets can remain above 5.5 percent over three years after a hypothetical recession and bond-market collapse. Lenders with a shortfall will have two weeks to submit a capital plan. They will then have nine months to fill capital holes resulting from the tougher scenario.

Some small cooperative banks, including Banca Popolare di Vicenza, may have a residual gap that needs to be filled, according to the person. All 15 Italian lenders under review are seen passing the asset quality review, the first step of the ECB exercise, the person said.

The ECB is set to publish results on Oct. 26, after the ECB's Governing Council signs off on them.

Spokesmen for Paschi and Carige declined to comment, while an official for Popolare di Vicenza said the bank is not aware of the assessment's results.

Stock Sales

"The ECB can't comment on individual institutions or speculation. Any inferences drawn as to the final outcome of the exercise would be highly speculative until the results are final," the ECB said in an e-mailed statement.

Paschi, based in Siena, and Genoa-based Carige already raised capital this year selling new shares to investors. Monte Paschi increased the size of its rights offer by 2 billion euros (\$2.5 billion) to 5 billion euros in April to build a buffer to absorb "eventual negative impacts" from the review, the bank said at the time.

Carige sold 800 million euros of stock in July and is in talks to sell two insurance units to Apollo Management Holdings LP.

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