Paschi May Post Fifth Straight Loss on Italy Bailout Costs

By Sonia Sirletti & Francesca Cinelli - 2013-08-07T09:36:12Z

Banca Monte dei Paschi di Siena, the bailed-out Italian bank embroiled in a fraud probe, will probably report a fifth straight quarterly loss on the cost of state aid and an economic recession.

Monte Paschi may post a net loss of 149.7 million euros ($199 million) when it publishes earnings today, according to the average estimate of six analysts surveyed by Bloomberg. The Siena-based bank had a loss of 1.67 billion euros a year earlier, when it wrote down goodwill and intangible assets at a cost of more than 1.5 billion euros.

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Pedestrians stand outside the administrative offices of Banca Monte dei Paschi di Siena SpA in Siena, Italy.

Pedestrians stand outside the administrative offices of Banca Monte dei Paschi di Siena SpA in Siena, Italy. Photographer: Alessia Pierdomenico/Bloomberg

Chief Executive Officer Fabrizio Viola is waiting for European regulators to approve the latest restructuring plan for Monte Paschi to retain rights to 4.1 billion euros of state aid, which it got from selling bonds to the government. The Siena-based bank, which must pay 9 percent annual interest on the bonds, is cutting costs and reducing risk to return to profit this year, a necessary condition under the plan in order to avoid surrendering a stake to the government.

“Monte Paschi will suffer from a decline in net interest income because of the Monti bond coupon charge and lower income from lending,” Fabrizio Spagna, managing director at Axia Financial Research in Padua, Italy, said in a telephone interview yesterday. “We expect another loss in the quarter, as provisions are increasing and revenue decreasing.”

The company's shares rose 1.8 percent to 20.8 cents at 10:48 a.m. in Milan, paring declines this year to 7.8 percent and giving the bank a market value of 2.4 billion euros. The 40-company Bloomberg Europe 500 Banks and Financial Services Index climbed 9.4 percent since December.

Tougher Penalties

Europe's regulators may insist on tougher measures on cost-cutting, executive pay and treatment of creditors to approve Monte Paschi's plan, according to a letter sent by EU competition Chief Joaquin Almunia to Finance Minister Fabrizio Saccomanni on July 16.

"Investors are waiting for updates from management on any additional measures requested by regulators to approve Paschi's strategy," Wolfram Mrowetz, chairman of Alisei Sim, a Milan-based brokerage, said by telephone two days ago. "A refusal, which implies forced repayment of the bailout, would be a disaster."

The strategy hasn't been rejected by EU's competition regulators, the Finance Ministry said in a statement last week.

Reviving Profit

Viola, 55, and Chairman Alessandro Profumo, 56, appointed last year to turn the bank around, cut more than 1,750 jobs in the first half and plan to reach a 2015 target of closing 400 branches by next month. The pair are trying to revive profit after the acquisition of Banca Antonveneta SpA in 2008 and investments in sovereign debt and derivatives hurt capital and finances. The goal is complicated by Italy's economic recession, which is hurting asset quality and profitability.

Loan-loss provisions may increase 14 percent to 468 million euros in the second quarter from a year earlier, according to the analysts' estimates. Revenue is expected to decline 18 percent to 1.07 billion euros. Net interest income, which includes about 90 million euros of interest that should be paid on the state aid, may fall 27 percent to 576 million euros, according to the estimates.

"The market focus will remain on the asset quality and capital base, waiting for the approval of the restructuring plan presented to the European Commission," Manuela Meroni, an analyst at Banca IMI in Milan, said in a report two weeks ago. "We have a negative view on the stock, on the basis of the liquidity and capital issues and negative profitability for the next two years."

Luring Investors

Last month, Monte Paschi shareholders agreed to remove a requirement for owners to hold a 4 percent stake in order to win voting rights. The step was designed to make a 1 billion-euro share sale to help repay state aid and avert nationalization more attractive. The bank hasn't been approached by any potential investors, Profumo said last month.

"With probes under way and such high uncertainty concerning the bank's future, I don't expect any buyers in the short term," Mrowetz said.

Prosecutors are probing whether former managers at Monte Paschi, which piled up losses of 7.9 billion euros in the past two years, used derivative contracts to obscure more than 700 million euros of losses.

Magistrates are accusing ex-executives, including former chairman Giuseppe Mussari, of withholding information from regulators about how the bank financed its purchase of Antonveneta in 2008. Mussari has denied any wrongdoing. Former General Manager Antonio Vigni, also under investigation, said through his lawyer that he always acted in good faith and in the interests of the bank.

The executives allegedly withheld documents that showed how a 1 billion-euro securities sale arranged by JPMorgan Chase & Co. (JPM) to finance the purchase consisted of debt instead of equity, the prosecutors said in a court filing last week.

-- With assistance from Sergio Di Pasquale in Siena and Elisa Martinuzzi in Milan. Editors: Mark Bentley, Dan Liefgreen

To contact the reporters on this story: Sonia Sirletti in Milan at ssirletti@bloomberg.net Francesca Cinelli at fcinelli@bloomberg.net

To contact the editor responsible for this story: Frank Connelly at fconnelly@bloomberg.net