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[Home](#) → [World Banking Changes](#) → The World's Oldest Bank Is on the Brink of Collapse

The World's Oldest Bank Is on the Brink of Collapse

Posted by [Stephen Cook](#) on December 30, 2013 / Comments Off

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(see story links below) but it seems we are now witnessing its last days.

Monte Paschi Shareholders Delay Cash Call, Top Executives May Quit

By Silvia Aloisi, Reuters – December 28, 2013

<http://tinyurl.com/mnykgn>

(Reuters) – Italy’s third-biggest bank Monte dei Paschi di Siena was forced to delay a vital 3 billion euro (\$4.1 billion) share sale to raise capital until mid-2014 because of shareholder opposition, plunging its turnaround plan into uncertainty.

The bank’s chairman and its chief executive may now resign after their plan to launch the cash call in January was defeated at an extraordinary shareholder meeting on Saturday due to the vote of Monte Paschi’s top shareholder.

The world’s oldest bank needs to tap investors for cash to pay back 4.1 billion euros in state aid it received earlier this year and avert nationalization after being hammered by the euro zone debt crisis and loss-making derivatives trades.

The unprecedented clash between the lender’s executives and its main shareholder – a charitable banking foundation with close links to Siena politicians – casts a pall over a tough restructuring meant to revive its fortunes.

Chairman Alessandro Profumo, a strong-willed and internationally respected banker who was formerly the chief of UniCredit, said he and CEO Fabrizio Viola would decide in January whether to step down.

“These are decisions one takes in cold blood and in the right place,” Profumo said at the meeting.

“What I have on my mind is a 3 billion euro cash call because we need to pay back 4 billion euros to taxpayers. Today this is uncertain and at risk,” he told a press conference.

Viola, sitting at his side, told reporters he would do everything “so that the ship does not sink”, but that he could not take responsibility for mistakes made by others.

A board meeting is scheduled for mid-January, a bank spokesman said.

Profumo and Viola had already secured a pool of banks ready to guarantee the rights issue, but only if it was carried out by the end of January.

They said delaying it would make fundraising harder because it would likely coincide with a string of cash calls by other Italian and European lenders triggered by a sector health check, and could precipitate the Tuscan bank’s nationalization.

But the cash-strapped Monte dei Paschi foundation – whose stake in the bank is big enough to veto any unwanted decision – forced a postponement until at least mid-May to win more time to sell down its 33.5 percent holding and repay its own debts.

An aide described the 56-year-old Profumo, who quit UniCredit in 2010 after clashing with that bank’s foundation shareholders and joined Monte dei Paschi in April 2012, as “very annoyed”.

Italian newspapers said former European Central Bank policymaker Lorenzo Bini Smaghi and Carlo Salvatori, chairman of the Italian unit of German insurer Allianz, were among possible candidates to replace

management.

But she said that carrying out the capital increase in January would massively dilute the foundation's holding, leaving it with virtually nothing to sell to reimburse debts of 340 million euros.

"We have a precise duty to ensure (the foundation's) survival. You can't ask us to let it collapse," she said.

Analysts however said a delay, and the possibility of Profumo resigning, might undermine the whole rescue of the bank.

"It's important to carry out the capital increase as early as possible," said Roberto Lottici, fund manager at Ifigest. "The risk is that the bank finds itself rushing into a cash call later at a lower price than what it could achieve now."

Umbilical Cord

The rights issue, along with a painful restructuring plan, is among the conditions the European Commission imposed before giving its green light to the state aid for Monte dei Paschi.

But in Siena, where the bank is known as "Daddy Monte" and is the biggest employer, fears that the cash call might sever the umbilical cord between the lender and the city run high.

Siena mayor Bruno Valentini, whose city council is the top stakeholder in the Monte dei Paschi foundation, said on Friday a postponement might help keep the bank in Italian hands.

"We cannot let the third biggest bank in this country fall prey to foreign interests," he said. "Monte dei Paschi is not just an issue in Siena, it is a big national issue."

Several small shareholders at the meeting echoed that view, although one, Luigi Barile, accused the foundation of pushing the lender "to the edge of a precipice".

Under the agreement with Brussels, if Monte dei Paschi cannot complete the capital increase by the end of 2014 the Treasury would convert the bonds it bought from the bank into shares, effectively nationalizing it.

The bank, which is cutting 8,000 jobs and shutting 550 branches, said a delay in the cash call would cost it at least 120 million euros in interest payments owed to the state on the bonds. (\$1 = 0.7303 euros)

Other Monte Paschi stories we've run this year:

<http://goldenageofgaia.com/2013/03/public-face-of-worlds-oldest-bank-suicides/>

<http://goldenageofgaia.com/2013/10/monte-paschi-the-bank-born-out-of-black-death-struggles-to-survive-part-12/>

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