| Banks | Corporate news |

Banca MPS

Last chance to exit

Negative

(maintained)

Sector weighting	
Tier 1	Neutral
Lower Tier 2	Neutral
Senior	Overweight

iBoxx index spread	
Tier 1	989
Lower Tier 2	581
Senior	249

Rating	LT	FSR	Outlook
MDY	Baa3	ba2	Negative
S&P	BBB	bbb	Watch neg
Fitch	BBB	bbb-	Stable

Key financials		
(€bn)	2011	1Q 12
Total assets	240.7	230.7
RWAs	105.2	102.6
Total equity	10.8	12.3
Net income	-4.7	0.1

Key Ratios		
(%)	2011	1Q 12
PBT/RWAs	-4.1	0.7
Cost/Income	63.6	57.7
Tier 1 ratio	11.1	11.3
NPL ratio	14.7	16.1

Credit Spread Evolutions

SG Bond Recommendation: Today, MPS announced an exchange offer on Tier 1, UT2 and LT2 instruments (see overleaf). The offer will be limited to a maximum amount of EUR1.25bn, far below the cumulative value of the eligible securities. The bank offers a premium vs the last previous quotations and the exchange is to be made into a new senior unsecured fixed rate note with a three-year maturity and a spread of 6.5%.

We find the exchange offer attractive especially for those holding securities with potential coupon deferrals. This could be the last chance to exit at reasonable conditions if the European Commission were to impose restrictions on calls and coupons (see below). In addition, MPS made it clear that any future call decision will be taken on an economic basis and provided regulatory clearance.

Event: During the December 2011 EBA capital exercise, MPS was diagnosed with a EUR3.3bn capital shortfall, which increased to EUR3.9bn when taking into account Q4 11 and Q1 12 results. MPS managed to reduce its shortfall by EUR1.9bn through capital management and RWAs “optimisation”. It has an additional EUR0.6bn reduction in store through the sale of Biver Banca (see below), the subordinated debt exchange offer and further RWAs optimisation. The shortfall at end-June 2012 (including the three previously mentioned actions) will still be about EUR1.3bn. The bank will sell c.EUR3.4bn of hybrid bonds to the government (EUR3.9bn maximum) by the end of the year, including the replacement of existing Tremonti bonds (EUR1.9bn). Terms and conditions of this issue are not available yet and will be discussed with the Italian and European authorities.

MPS presented today its new business plan for 2012-2015 and confirmed it had reached an agreement with CR di Asti to sell its 60% stake in Biver Banca for EUR203m.Completion is expected during the year and the price may be adjusted within a EUR150-223m range.

The main items in the new Business Plan include the following:

-further improvement of the capital position with rationalisation of the business portfolio (including the disposal of consumer finance and leasing activities) and a EUR1bn capital increase either in ordinary shares or in convertible bonds within the coming years; MPS targets an 8.07% Common Equity Tier 1 ratio under partially phased-in Basel 3;

-a return to profitability despite an overall expected decline of revenues, primarily thanks to a reduction in operating costs (closure of 400 branches, implementing a new group structure, outsourcing back offices), a reduction in cost of risks thanks to improved and centralised risk management and a repositioning on higher value-added services such as insurance products;

-an improvement in liquidity through asset disposals, longer duration of liabilities, less maturity transformation and a significant improvement of the loan to deposit ratio implying a reduction in lending activities.

SG Credit Opinion: We continue to be hopeful in the medium to long term given the bank’s strong franchise and the inevitable reduction of the Foundation’s role. We also find it positive that the new management is actively focused on implementing new and ambitious dynamics through the 2012-2015 business plan. However, we reiterate that MPS’ real challenge will be to manoeuvre through the next two to three years. We see significant hurdle risk regarding the implementation of the business plan’s objectives including:

-weak solvency targets –the bank is de facto targeting a fully phased-in basel 3 ratio of 7% at best by end-2015 when most European competitors are targeting at least 9% by 2013;

-the capacity of the bank to reduce its cost of risks (admittedly through better risk management) in a negative economic environment;

-the capacity to raise capital within the next three years, which is dependent on significantly improved market conditions;

-the sustainability of a strategy putting emphasis on bancassurance, in a Basel 3 context.

More importantly, we have no visibility on possible EC conditions against State aid. If the EC were to impose a restructuring plan, MPS’ new business plan could soon be obsolete.

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Bonds eligible to the exchange offer

Issuer	Type	ISIN	Outstanding in m	Coupon to first call date	First call date	Coupon after call date	Maturity	Exchange price (%)
MPS Cap. Trust I	Tier 1	XS0121342827	€348	7.99%	7 Feb. 11	Eur 3M+ 6.3%	Perp.	62
Antonveneta Cap. Trust I	Tier 1	XS0122238115	€79	Eur 3M+ 3.75%	21 Mar. 11	Eur 3M+ 6.3%	Perp.	62
Antonveneta Cap. Trust II	Tier 1	XS0131739236	€219	Eur 3M+ 3.1%	27 Sep. 11	Eur 3M+ 6.3%	Perp.	62
Banca MPS	UT2	XS0255817685	£200	5.75%	-	-	Sep. 16	79
Banca MPS	UT2	XS0255820804	€750	4.875%	-	-	May 16	92
Banca MPS	LT2	XS0236480322	€493	Eur 3M+ 0.4%	Nov. 12	Eur 3M+ 1%	Nov. 17	76
Banca MPS	LT2	XS0238916620	€138	Eur 3M+ 0.4%	Jan. 13	Eur 3M+ 1%	Jan. 18	76
Banca MPS	LT2	XS0503326083	€500	5%	-	-	Apr. 20	86.75
Banca MPS	LT2	XS0540544912	€500	5.6%	-	-	Sep. 20	87.25

Source: SG Cross Asset Research, Banca MPS

Banca MPS' recent performance

in EUR million	2007	2008	2009	2010	2011	*var.*	Q1 2012
Net interest income (NII)	2,945	3,815	3,638	3,588	3,500	*-2.4%*	894
Net banking income (NBI)	4,968	5,835	5,707	5,571	5,507	*-1.2%*	1,504
Operating expenses	1,901	3,918	3,665	3,431	3,503	*+2.1%*	845
Efficiency ratio	38.3%	67.2%	64.2%	61.6%	63.6%		56.2%
Pre-provision income (PPI)	3,067	1,916	2,043	2,140	2,005	*-6.3%*	659
PPI/RWAs	3.0%	1.6%	1.6%	1.9%	1.9%		2.5%
Loan losses provisions (LLPs)	549	1,060	1,510	1,194	1,464	*+22.6%*	440
Profit before tax (PBT)	1,270	11	265	1,489	-4,440	*-398.2%*	178
PBT/RWAs	1.3%	0.0%	0.2%	1.3%	-4.1%		0.7%
Net profit, before minority	1,453	902	225	987	-4,689	*-575.1%*	56
Net profit	1,438	892	220	986	-4,685	*-575.4%*	55

Source: SG Cross Asset Research

Banca MPS' financial structure

in EUR billion	2007	2008	2009	2010	2011	*var.*	Mar-12
Total assets	162.1	213.8	224.8	239.2	240.7	*+0.6%*	230.7
Securities	31.9	27.6	39.4	53.6	56.4	*+5.2%*	38.9
Customers loans (gross)	109.5	151.7	160.2	164.3	156.1	*-5.0%*	156.7
o.w. impaired loans	6.5	12.8	17.2	19.6	23.0	*+17.6%*	25.3
provisions (specific + general)	3.2	6.3	7.7	9.0	9.5	*+5.9%*	10.1
Impaired loans / gross loans	5.9%	8.5%	10.7%	11.9%	14.7%		16.1%
Coverage ratio	49.8%	49.2%	45.1%	46.0%	41.4%		39.8%
RWAs	113.4	132.4	120.9	109.2	105.2	*-3.7%*	102.6
Core Tier 1 ratio					8.5%		8.6%
Tier 1 ratio	6.1%	5.1%	7.5%	8.4%	11.1%		11.3%
Total Capital ratio	8.9%	9.3%	11.9%	12.9%	15.7%		15.9%
Debt securities in issue	39.8	47.2	42.6	35.2	39.8	*+13.0%*	27.4
Customers deposits	60.4	81.6	91.1	96.9	98.5	*+1.7%*	99.2
AuM (excluding deposits)	58.5	46.4	48.8	50.5	46.4	*-8.1%*	46.9
Loan to deposits	1.8	1.9	1.8	1.7	1.6		1.6
Loan to (deposits+AuM)	0.9	1.2	1.1	1.1	1.1		1.1
Interbank (assets) + cash	15.7	18.6	11.6	11.2	21.6	*+92.3%*	14.9
Interbank (liabilities)	13.7	27.2	22.8	27.4	46.8	*+70.7%*	44.8
Net interbank position	1.9	-8.6	-11.1	-16.2	-25.2	*+55.7%*	-30.0

Source: SG Cross Asset Research

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APPENDIX

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Stable: Indicates expectations of a generally stable trend in the issuer's credit quality over the next six to twelve months, with credit quality expected to be essentially unchanged by the end of the designated time horizon.
Negative: Indicates expectations of a general deterioration of the issuer's credit quality over the next six to twelve months, with the credit quality expected to be materially weaker by the end of the designated time horizon.

Individual Bond recommendations:
Buy: Indicates likely to outperform its iBoxx subsector by 5% or more
Hold: Indicates likely to be within 5% of the performance of its iBoxx subsector
Sell: Indicates likely to underperform its iBoxx subsector by 5% or more

Individual CDS recommendations:
SG Credit research evaluates its expectation of how the 5 year CDS is going to perform vis-à-vis its sector.

Sell: CDS spreads should outperform its iTraxx sector performance
Neutral: CDS spreads should perform in line with its iTraxx sector performance
Buy: CDS spreads should underperform its iTraxx sector performance

Sector weightings:
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UNDERWEIGHT: Sector spread should underperform its iBoxx corporate index

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