

CREDEM

CREDEM

FY2005

- ***Group Profile***
- *Results*
- *History & Planning*

- Based in Emilia Romagna, one of Italian richest regions
- Italy's 14th largest banking group
- Italy's 12th largest asset manager
- Listed on Milan Stock Exchange since 1997 and market cap around 3 billions
- 455 branches in Italy
- 700,000 customers and Eur 69.2 bln in customer total business*
- Rating: **S&P** **A-** Long Term – outlook positive
Fitch **A** Long Term – outlook stable
- ROE: 23.2%
- NPL Ratio: 0.18%

Ratings Standard & Poor's

Short Term	A2
Long Term	A-
Outlook	<i>Positive</i>

Last review: 16 January '06

".. The ratings on Credem reflect its strong financial profile, based on very strong asset quality, highly satisfactory capitalization, and resilient core profitability. The ratings also take into account the bank's only-adequate efficiency and market position.

Credem has an adequate market position in its wealthy home Region of Emilia-Romagna, and is a niche player in other regions...

Credem's credit risk metrics are very strong, reflecting a low credit risk appetite; a highly efficient credit risk process; extensive monitoring, notably of its southern branches; and low geographic and single-party concentrations. Capitalization is highly satisfactory in light of the bank's low credit risk profile.

Bottom-line profitability is satisfactory, with only-adequate but improving efficiency compensated by very low cost of risk...

The strategic shift in activity mix toward higher margin retail lending and private banking is paying off, as evidenced by the cost-to-income ratio improving. Compared to domestic regional peers, Credem has a larger share of revenues generated by brokerage fees and commissions on financial products...

The positive outlook reflects the possibility that the ratings on Credem could be raised to 'A/A-1' if the bank manages to sustain the improvement in core profitability--notably efficiency--started in 2005 in the next two years..."

Ratings Fitch-IBCA

Short Term	F1
Long Term	A
Outlook	<i>Stable</i>
Individual	B
Support	3

Last review: 21 December '05

"..The upgrade reflects progress in management efforts to contain Credem's above-average costs and to increase the diversification of its loan portfolio, the quality of which is healthier than other Italian mid-sized regional banks. The ratings also reflect the bank's good revenue generation and profitability, adequate capital base, good management and controls. The Outlook on the ratings is Stable and reflects Fitch's view of Credem as a well-managed, profitable bank with a modest appetite for risk. Where risks are taken, adequate controls are in place, which should maintain ratings at their current levels..."

	FY05	FY04
Assets under management (AUM)	18.0 bln	15.9 bln
Assets under custody (AUC)	25.0 bln	23.0 bln
(AUM+AUC) / Total Business	62. 1%	61.2%
AUM/AUC	72.0 %	69.1 %
Direct Deposits	8.6 bln	7.8 bln
Loans to customers	12.6 bln	11.6 bln
NPL ratio	0.18%	0.28 %
Non interest income / Total Income	60.3 %	61.1 %
Operating costs / Total Income	62.0 %	66.2 %
ROE	23.2 %	14.8%
TIER I ratio	7.7%	7.6%
TIER TOTAL ratio	9.9%	10.6%

Pact among 226
shareholders

*More than 2,900 other
shareholders*

Main Shareholders

Maramotti family	35.5%
Pictet Cie	4.9%
Eredi Savioli	2.9%
Fincorrad	2.1%
Allianz Subalpina	1.7%

72.6%

27.4%

CREDEMHOLDING

72.2%

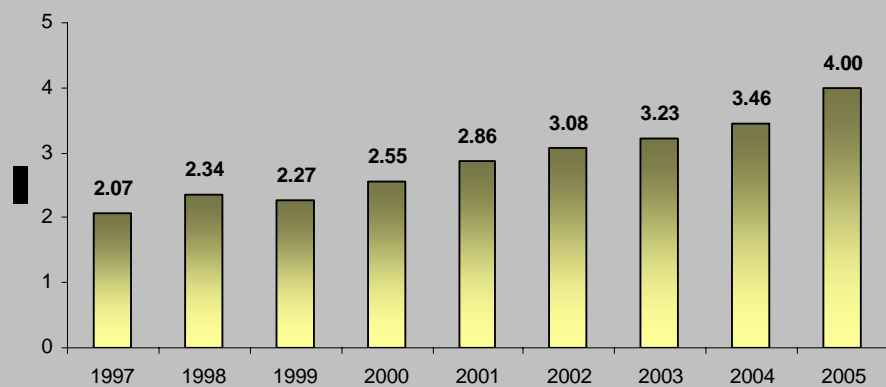
27.8%

CREDEM

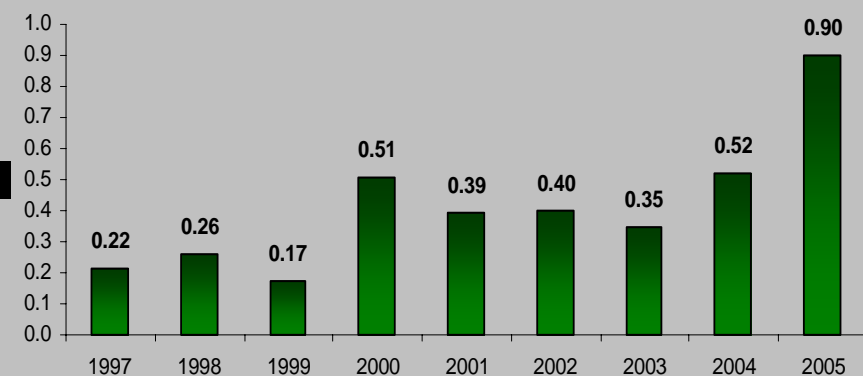
*Free Float on Milano
Stock Exchange*

	1997	1998	1999	2000	2001	2002	2003	2004	2005
No. shares (/000)	225,839	253,408	265,464	270,679	272,537	273,309	274,350	275,417	278,605
Net equity per share	2.07	2.34	2.27	2.55	2.86	3.08	3.23	3.64	4.00
Earnings per share	0.22	0.26	0.17	0.51	0.39	0.40	0.35	0.52	0.90
ROE	11.6%	13.5%	8.5%	21.3%	14.6%	13.5%	11.1%	14.8%	23.2%
Dividend per share	0.08	0.10	0.12	0.18	0.20	0.20	0.20	0.25	0.50
Payout ratio	39.2%	37.9%	68.6%	35.3%	50.8%	50.0%	57.1%	47.8%	55.8%

Net equity per share



Earnings per share

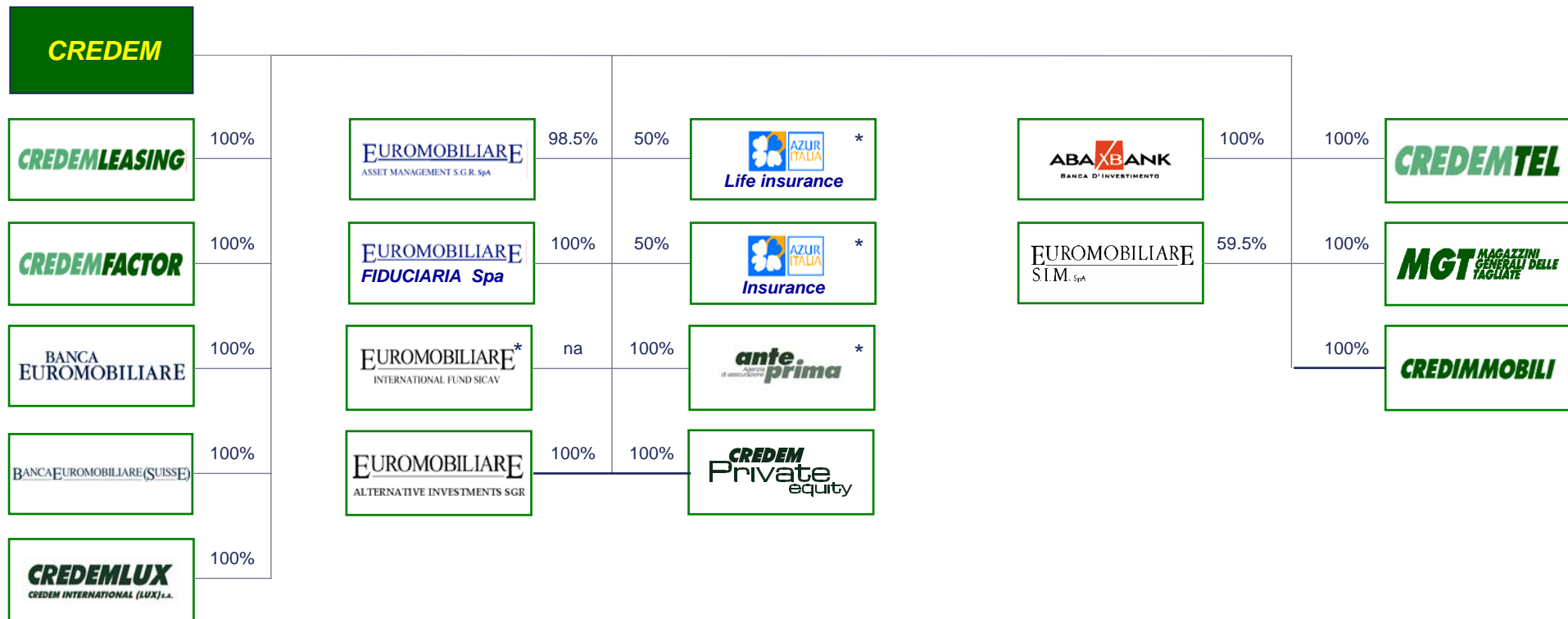


Commercial Banking

Wealth Management

Investment Banking

Other



* Not consolidated

No. of CREDEM Group branches as at 31 December 2005



Market shares

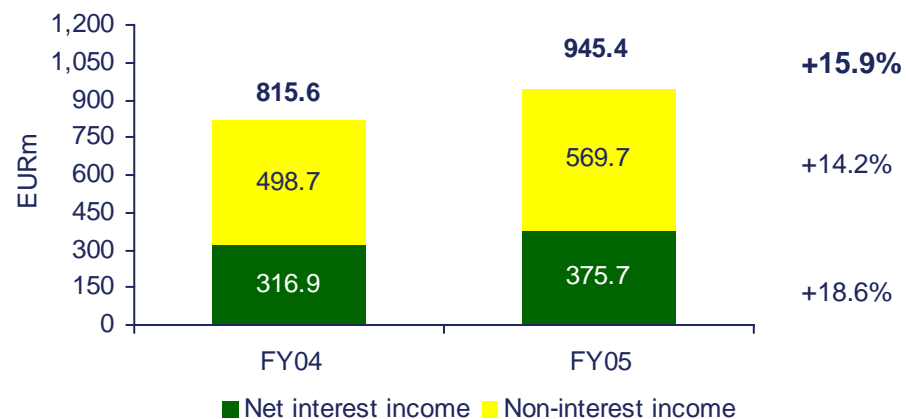
	Deposits & Funding	Loans
Emilia Romagna	4.0%	4.3 %
Italia	1.5 %	1.0 %

Network	FY05	FY04
Credem and others	433	441
B.ca Euromobiliare	22	22
Branches	455	463
Business centres	40	39
Credem Points	24	24
Banca Euro financial stores	22	21
Staff	FY05	FY04
Banca Euromobiliare advisors	328	356
Credem advisors	506	508
Advisors with mandate*	834	864
Advisors with employee status	218	232
Total advisors	1,052	1,096
Credem Group employees	4,943	4,986

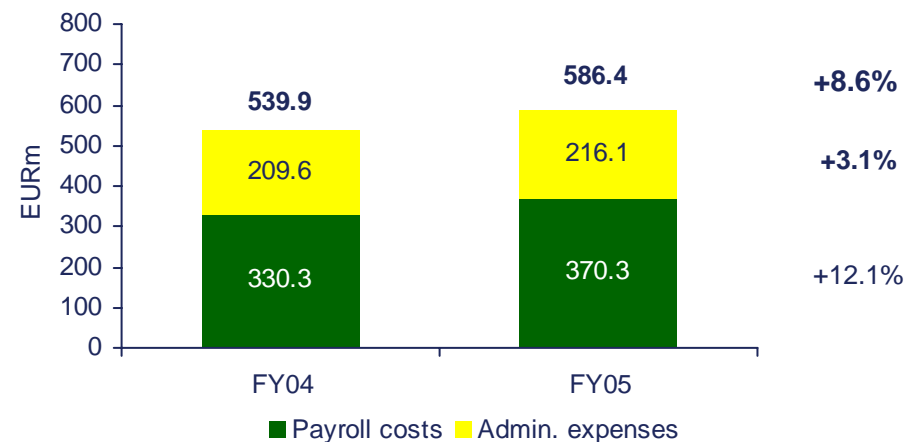
* not on group's payroll

- *Group Profile*
- **Results**
- *History & Planning*

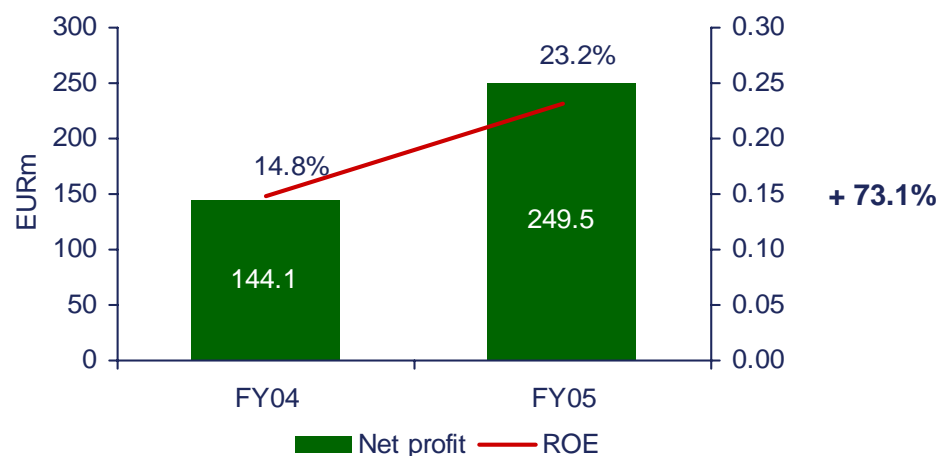
Total income



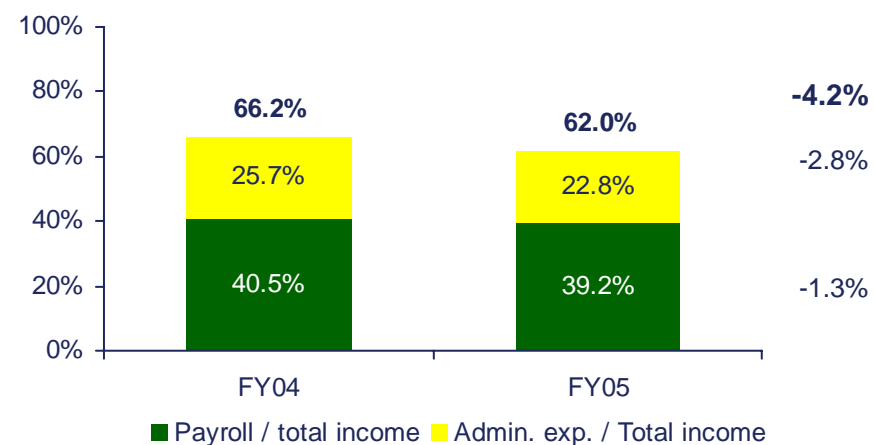
Operating costs



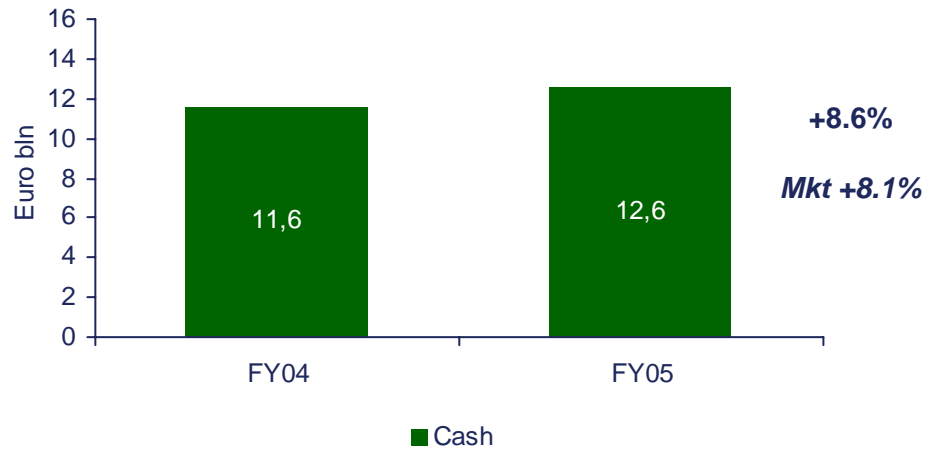
Profitability



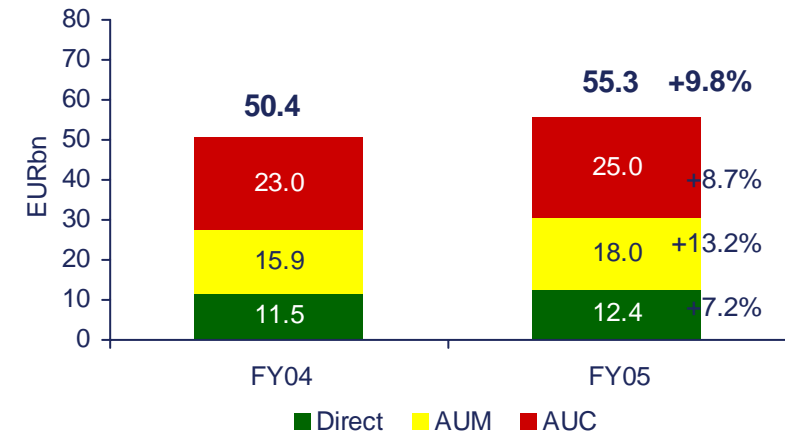
Cost to income



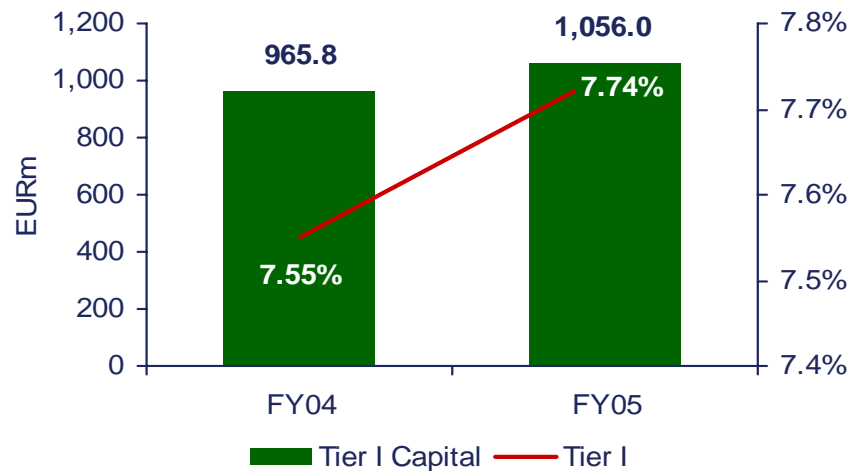
Total direct loans (net of repos)



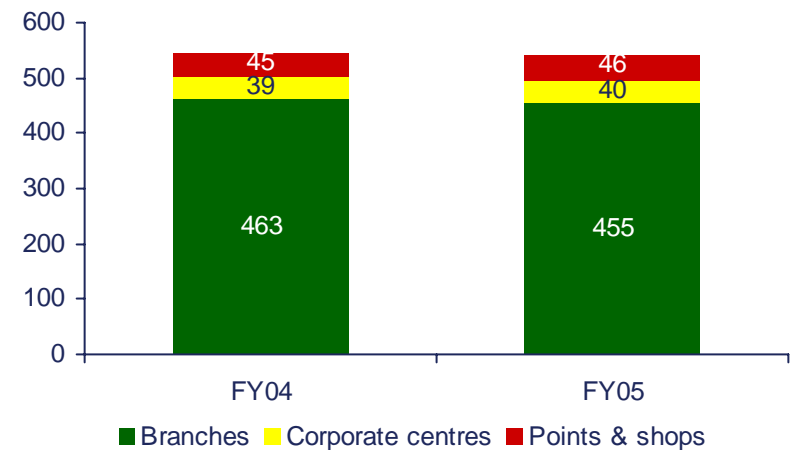
Deposits & funding (net of repos)



Capital adequacy



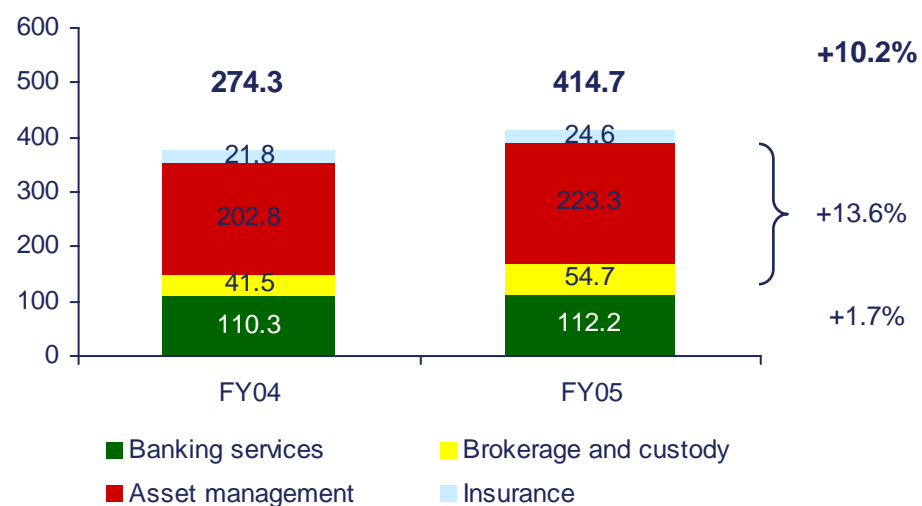
Distribution channels



EURm	FY04*	FY05	% yoy
Net Interest Income	316.9	375.7	18.6%
Commercial spread	3.02%	3.18%	+16 bps
Net fee and commission income	376.4	414.7	10.2%
- of which: management and brokerage	266.2	302.5	13.6%
- of which: banking services	110.3	112.2	1.7%
Trading and forex	79.2	100.9	25.3%
- of which Abaxbank	30.3	41.0	35.3%
- of which other companies	50.2	59.9	19.3%
Other income and expenses	41.7	54.1	29.7%
Non-Interest Income	498.7	569.7	14.2%
Total Income	815.6	945.4	15.9%

- **Net interest income** has improved by **18.6%**. The spread (+16 bps) improved as a result of the stronger focus on “core” loan sectors.
- **Non-interest income** is up **14.2%**, confirming the importance of “non-interest” revenue sources for the group.
- **Net commissions & trading** have grown more than **13%**.

Net commission & trading



EURm	FY04	FY05	% yoy
Net interest income	316.9	375.7	18.5
Non interest income	498.7	569.7	14.2
Total Income	815.6	945.4	15.9
Payroll	-330.3	-370.3	12.1
Administrative expenses	-209.6	-216.1	3.1
Operating costs	-539.9	-586.4	8.6
EBITDA	275.7	359.0	30.2
Amortization and depreciation	-30.1	-25.7	-14.6
EBIT	245.6	333.3	35.7
Net loan writedowns	-7.4	-23.3	na
Provisions for risks and expenses	-16.6	4.3	na
Extraordinary income (expenses)	-6.2	17.4	na
Pre-tax profit	215.4	331.6	53.9
Income taxes	-62.3	-62.8	0.8
Minority interests	-9.0	-19.3	114.4
Net profit	144.1	249.5	73.1

Personnel expenses increase also because of incentive plans provisions, as 2005 group's performance has been extremely good.

“Current” loan write-downs – equal to €15.3 mln in the period – reflecting the group's loan quality.

The balance sheet figure (€23.3 mn), is the result of a simple reclassification of risk for €8 mn already posted in the 2004 provisions for risks and charges.

The income statement also reflects some important extraordinary items:

- € 14.0 million in capital gains from the sale of the 51% stake in Banca Garda;
- € 4.1 million from the sale of a minority stake in MTS;
- € 11 million arising from a consolidated tax recalculation.

Contribution to EBIT 2005

EURm	Core business companies	Other companies
Total income	87%	13%
Operating costs	89%	11%
EBIT	84%	16%

The diversification of the Group's activities and the focus on "core" businesses have helped generate significant profits.

84% of EBIT has been generated by **core** companies working with strategic client segments.

Contribution to Net profit

EURm	FY04	FY05	Contributions % at FY05
Core business companies	143.5	185.7	74.4
Credem (incl. Credem Lux)	114.3	158.6	63.6
Banca Euromobiliare	2.6	6.8	2.7
Euromobiliare A.M. SGR	7.6	6.1	2.4
Credemleasing	10.1	11.9	4.8
Others & adj.	8.9	2.3	0.9
Other companies	0.6	63.8	25.6
Euromobiliare SIM	12.8	28.2	11.3
Abaxbank	-14.1	31.1	12.5
B.ca Euromobiliare Suisse	1.9	4.5	1.8
Total	144.1	249.5	

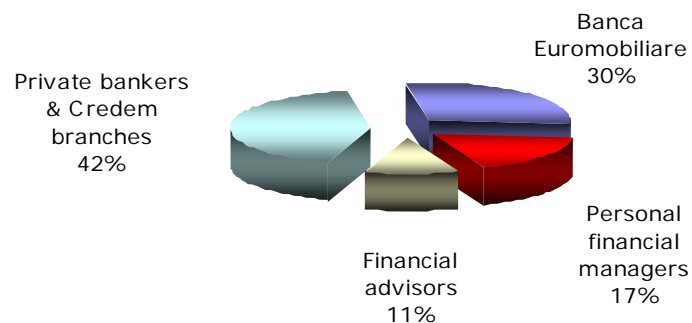
The contribution of "non core" companies to net profit has improved significantly.

Customers funding

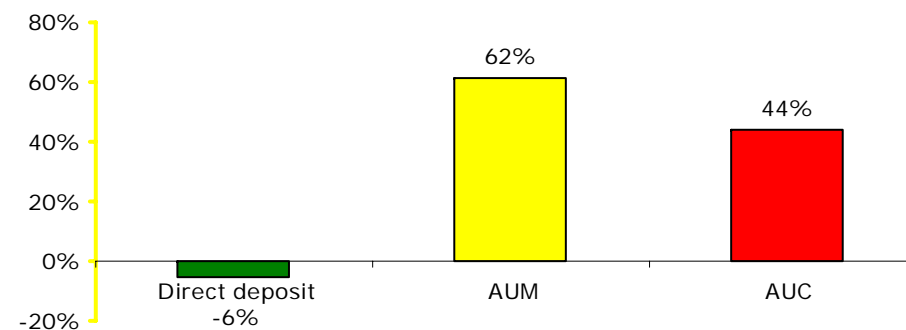
EURm	FY04	FY05	% yoy
Deposits	7,787	8,622	10.7%
Bonds	3,743	3,738	-0.1%
Total direct (net of repos)	11,530	12,360	7.2%
Portfolio management	3,245	5,046	55.5%
Mutual funds and SICAVs	10,529	10,705	1.7%
Hedge funds	114	207	81.6%
Insurance	1,842	1,835	-0.4%
Other	164	165	0.6%
Total assets under management	15,894	17,995	13.2%
Assets under custody	22,972	24,971	8.7%
Indirect customer funding	38,866	42,966	10.5%
Total (net of repos)	50,396	55,304	9.8%

- Net inflows for the year 2005 were about €2.2 billion. All commercial channels and types of product contributed to the acquisition of new resources.
- The general public's preference for short-term, low-risk investments is still evident and is buying up the growth in direct "on demand" funding at a rate that is outpacing the market.
- "Managed" funding overall has improved by more than 13%. This includes "portfolio management", with growth of about 55%.

Net inflows by channel



New inflows by product



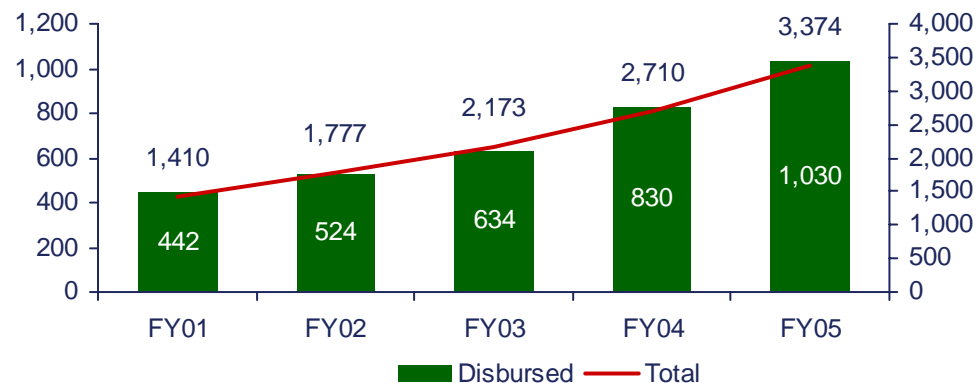
Customers loans

EURm	FY04	FY05	% yoy
Short Term Loans	6,043	6,441	6.6%
Long Term Loans	3,837	4,441	15.7%
Leasing	1,690	1,719	1.7%
Repos	92	117	27.2%
Total cash loans	11,652	12,718	9.2%

The increase has been sustained by all “core” segments (Private, Small and Middle Corporate).

Home mortgage loans

- More than 43,000 loans in 6 years
- Avg. amount financed: € 88,000



The growth in long term loans continued, remarkably in the household sector with the “Presticasa” home mortgages loans.

Loans breakdown by customer segments

EURm

Breakdown by business unit	FY03	FY04	FY05	% change FY05 – FY03
Corporate	5,876	5,219	5,221	-11.1%
- % of total	52	45	41	
- large corporate	2,568	1,829	1,553	-39.5%
- medium and small enterprises	3,308	3,390	3,668	+10.9%
Retail	5,413	6,433	7,497	+38.5%
- % of total	48	55	59	
- small business	2,234	2,725	3,095	+38.5%
- individuals	3,179	3,708	4,310	+36.6%
Total	11,289	11,652	12,718	+12.7%

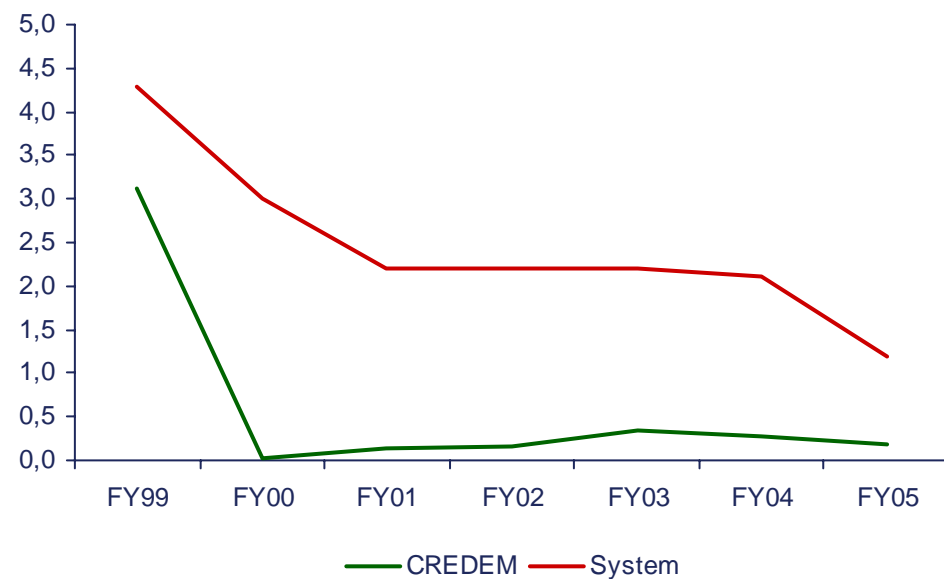
The growth in loans is following the planned strategy of:

- **selective repositioning** towards the **Corporate** segment, with the goal of increasing business in the “mid-corporate” and “SME” sectors and of reducing exposure to Large and Very Large enterprises.;
- **targeting** the **Retail** sector which has grown significantly.

Top 20 borrowers	FY03	FY04	FY05
(Corporate – EUR/m)			
Total utilization	1,400	624	593
% of direct loans	11.9%	5.1%	4.6%
Internal rating	Normal	Normal	Normal
Average utilization	70	31	30
Minimum utilization	30	16	17
Maximum utilization	159	110	92

- Borrowers and their sectors are highly diversified: the top 20 borrowers (in terms of utilization) make up less than 5% of total loans

- Credit quality consistently high, with an **NPL ratio of 0.18%** (0.28% at December '04)



- The management and collection of loans securitized in late 2000 continued with success.
 - Euro 177 mln collected, vs. a maximum Euro 111 mln forecast;
 - senior tranche (ex Euro 100 mln) paid back in full in 2004, five years ahead of schedule;
 - Euro 22 mln of the junior tranche (ex Euro 81 mn) already paid back in advance.

Breakdown of loans by rating	FY03	FY04	FY05
(%)			
Normal risk	94.5	94.8	94.2
Under observation	4.7	4.4	5.1
Problem loans	0.8	0.8	0.7

- Highly reliable, tested internal rating system in place for many years. About 85% of credit related decisions are approved at central level

Market risk (EUR/m)	FY04	FY05
Credem		
- average	5.2	1.6
- maximum	11.0	2.4
Abaxbank		
- average	3.3	1.1
- maximum	6.1	2.5
Other companies		
- average	4.1	4.5
- maximum	7.9	16.2
Interest rate risk (EUR/mIn)		
Banking book – shift 1%	9.5	6.2

- Market risk management mostly pertains to Credem, Abaxbank and Euromobiliare SIM
- Overall risks are modest and fairly stable over time..

- *Group Profile*
- *Results*
- ***History & Planning***

- **1910** The bank was established as Banca Agricola Commerciale di Reggio Emilia (Emilia Romagna)
- **1983** The bank acquired the current denomination of Credito Emiliano S.p.A. (Credem) and acquired Banca Belinzaghi di Milano, the first significant step taken towards the expansion at a national level
- **1991-1999** Credem conducted an intense acquisition campaign, taking over almost thirty small Italian banks, mainly located in southern part of Italy
- **1994** Credem acquired Euromobiliare S.p.A., a group active in the investment banking and asset management sectors, previously owned by HSBC
- **1997** As a result of the merger with Euromobiliare (listed since 1982), Credem stocks were listed on the Milan Stock Exchange
- **2000** The Credem Group established Abaxbank S.p.A., operating in the investment banking sector for corporate clients, banks, financial and institutional investors.
- **2004** Credem releases the new Business Plan 2004-2006

Strategy**Central role of the core business**

- Commercial banking with strong wealth management
 - Focus on RETAIL customers of medium-high standing, small business and SMEs
 - To extract VALUE from acquired potential
-
- After few years of sustained growth, the Group intends to pursue the objective of capitalising on its dimensional evolution by:
 - improving the contribution of the interest margin and, in particular, of loans
 - extending the consulting activity on AUC, to convert savings into AUM and
 - upgrading AUM from monetary to higher risk/profitability profile products

Drivers

Target development
with focus on profit

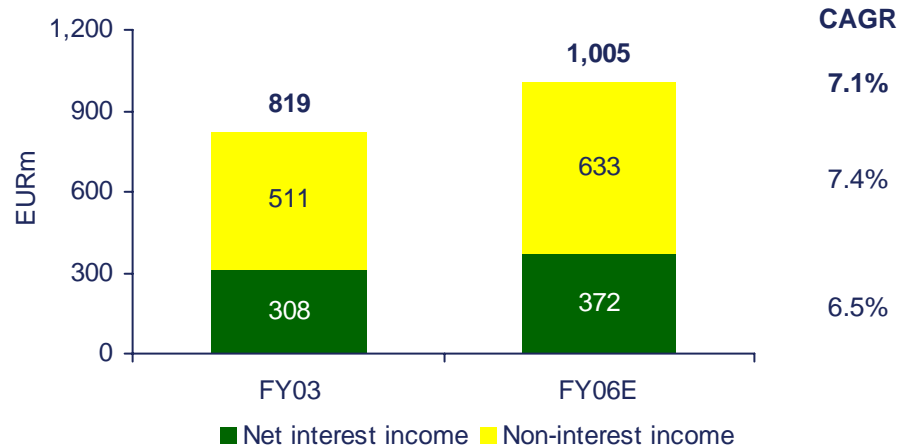
Selectivity in
business and
capital allocation

Governance

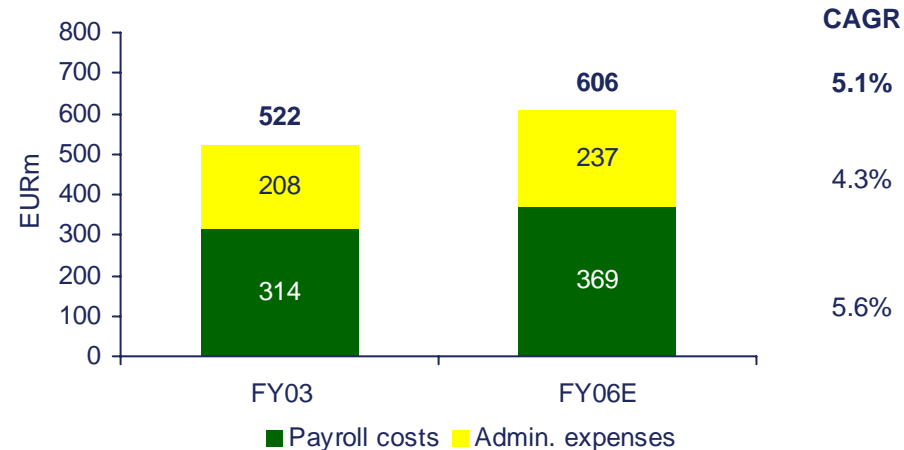
Actions

- Rationalisation of the branches network with stronger focus on efficiency
- Improvement of customers potential and retention through CRM and cross selling
- Strengthening of wealth management as flagship business line
- Focusing of the lending activity on segments with better risk to yield profile
- Maintaining the non-performing loans ratio at its usual levels
- Strengthening of the parent company's role of guidance and supervision
- Improvement in cost control and rationalisation of areas of overlap

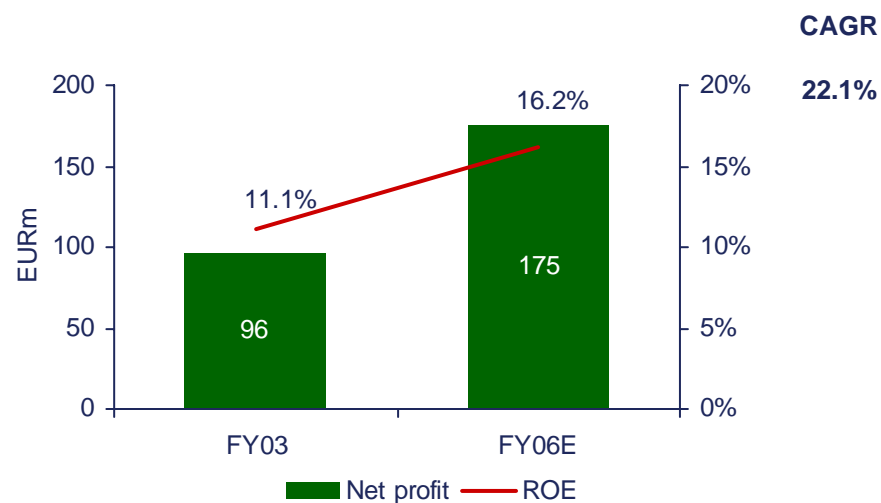
Total income



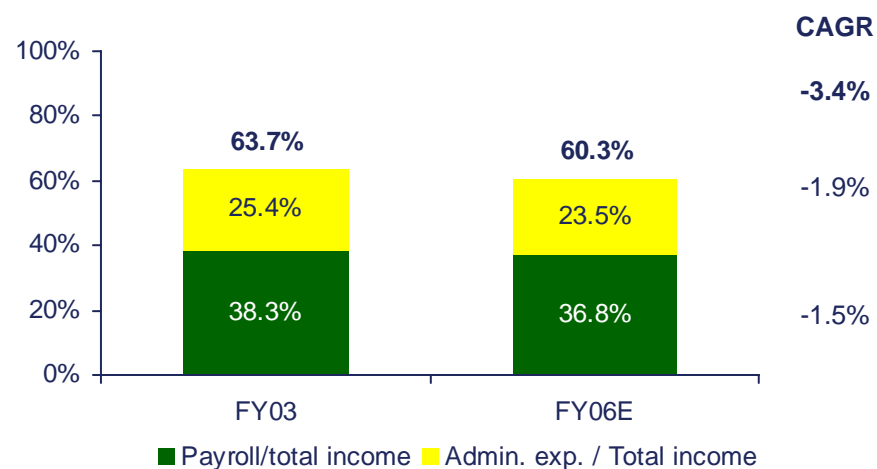
Operating costs



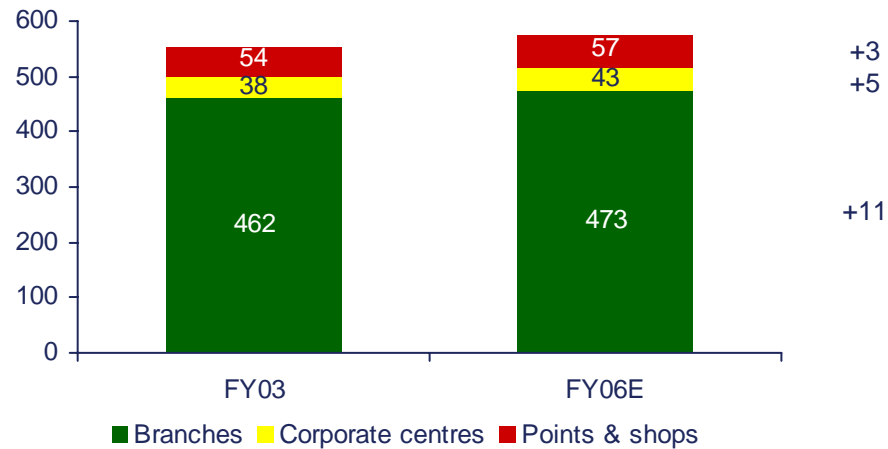
Profitability



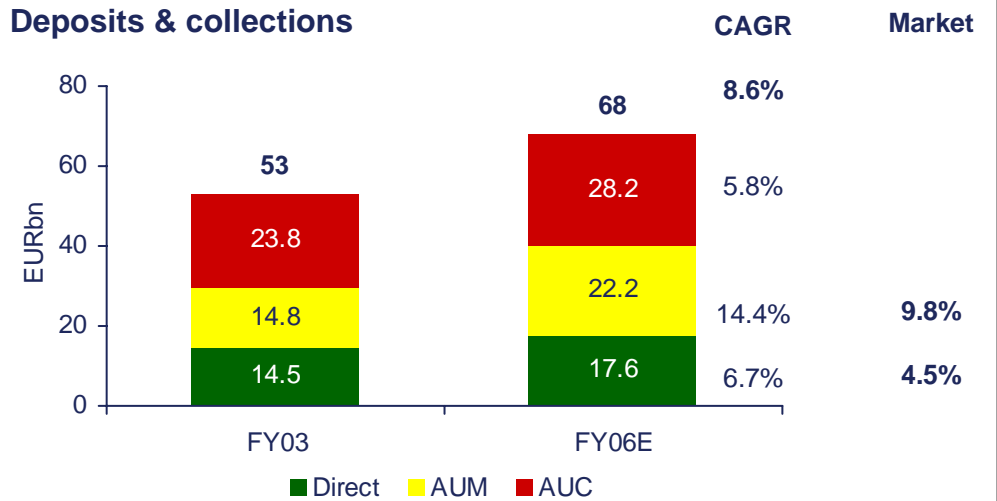
Cost to income



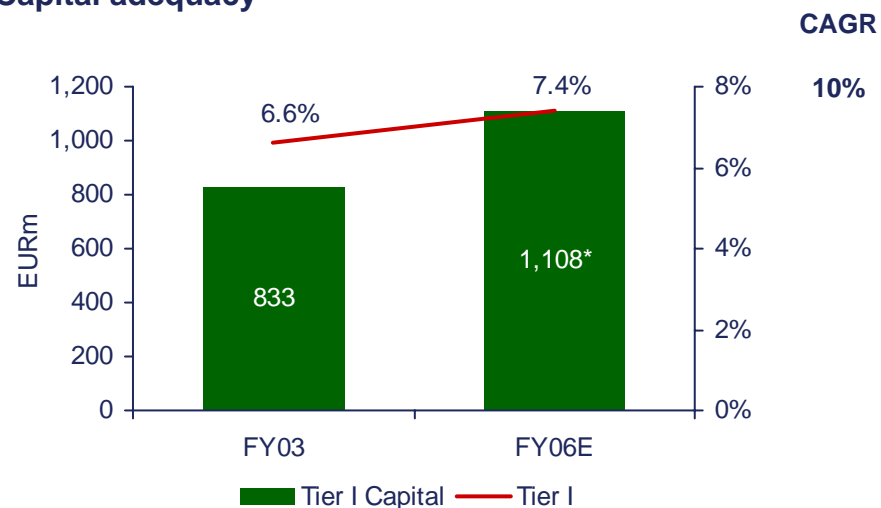
Distribution channels



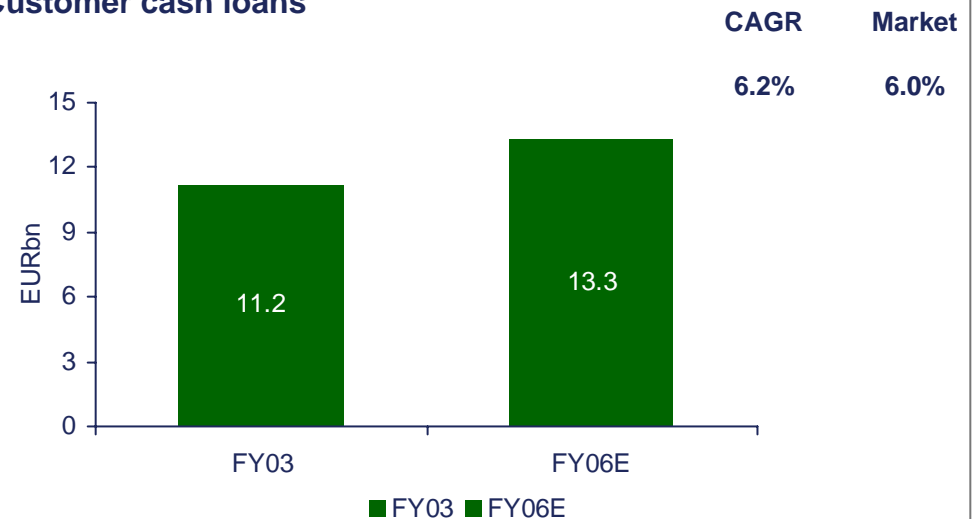
Deposits & collections



Capital adequacy



Customer cash loans



Note: * Net of IAS impact