



Banking Group
CREDITO EMILIANO – CREDEM

PRESS RELEASE

Reggio Emilia, 17 January 2006

CREDEM: STANDARD & POOR'S UPGRADES ITALY'S CREDEM OUTLOOK TO 'POSITIVE' FROM 'STABLE' AND AFFIRMS THE RATINGS.

On January 16, 2006, Standard & Poor's Rating Services revised its outlook to positive from stable on Italian regional bank Credito Emiliano SpA ("Credem") while "A-" long-term and "A-2" short-term counterparty credit ratings on the bank were affirmed.

Find here attached, the original Standard & Poor's press release.

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RESEARCH

Research Update: Credito Emiliano SpA Outlook To Positive On Profitability Rise; 'A-/A-2' Ratings Affirmed

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Credit Rating: A-/Positive/A-2

Rationale

On Jan. 16, 2006, Standard & Poor's Ratings Services revised its outlook to positive from stable on Italian regional bank Credito Emiliano SpA (Credem), reflecting a rise in profitability and maintenance of a strong risk profile. At the same time, the 'A-' long-term and 'A-2' short-term counterparty credit ratings on the bank were affirmed.

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.

A midsize Italian bank, Credem is controlled by a founder-shareholder base of entrepreneurial families. It has an adequate market position in its wealthy home Region of Emilia-Romagna (AA-/Negative/--), and is a niche player in other regions. To improve profitability, Credem has put strategic priority on strengthening retail banking through organic growth.

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. Core profitability has proved resilient to disruptions from volatile stock markets and corporate bankruptcies, as Credem has maintained net income consistently above €100 million. 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 to 65% in the first nine months of 2005, compared with 73% in the same period of 2004.

Outlook

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. Standard & Poor's also expects Credem to continue expanding its retail franchise and to avoid acquisitions that could erode its financial profile. Credem is committed to maintaining a core Tier 1 ratio of more than 7% in coming years.

Conversely, the outlook could be revised to stable if the group does not demonstrate the strengthening of its core earnings measures in 2006 and 2007, including the cost-to-income ratio and risk-adjusted profitability.

Ratings List

	To	From
Counterparty credit rating	A-/Positive/A-2	A-/Stable/A-2

NB: This list does not include all ratings affected.

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