

CREDEM: THE BOARD OF DIRECTORS APPROVES FIRST HALF 2005 RESULTS

- **Net operating profit** +38.4% at €160.0 million, versus €115.6 million for the same period in 2004;
- **Consolidated net profit** +61.5% at €117.4 million, versus €72.9 million in 1H 2004;
- **First half RoE** 11.8% (8.0% in 1H 2004);
- **Banking margin** +11.7% at €467.8 million, versus €418.9 million in 1H 2004;
- **Customers' fundings*** +7.4%* equal to €53,347 million versus €49,672 million in 1H 2004;
- **Net cash loans** +6.4% at €11,909 million (vs. €11,189 million in 1H 2004);
- **Credit quality** (net non performing loans on total loans) equal to 0.22% (0.36% in 1H 2004);
- **Tier 1 capital ratio** 8.0% (7.2% in 1H 2004);
- **Cost/income** equal to 60.9% (65.5% in 1H 2004);

Credem's Board of Directors has approved today the consolidated and individual half year reports.

Consolidated income statement at June 30th, 2005

Credem's income statement for the first half 2005 presents a **consolidated net profit** of €117.4 million, up 61.0% compared to €72.9 million in the same period of 2004. Consolidated first half **ROE** comes in at 11.8% (vs. 8.0% in 1H 2004).

Banking margin is €467.8 million, up 11.7% (compared to €418.9 million in 1H 2004).

Net interest income is up by 9.9% at €173.6 million vs. €157.9 million in 1H 2004. The growth is due to the overall increase in loans to private clients and SMEs with improved spreads.

Net non interest income is up by 12.7% at €294.2 million (€261.0 million in 1H 2004). In addition to the contribution made by the finance area, there was also an increase in net commissions (up 26.6% for third party brokerage services, up 1.0% in traditional banking activities, up 1.6% in cash-in and payment services and 1.2% in asset management).

Operating expenses equal €285.0 million (+3.8%) as compared to the €274.5 million in 1H 2004. In particular, **personnel expenses** equal €172.6 million (+6.3%), while **administrative expenses** come in at €112.4 million (+0.2%).

Cost/income comes in at 60.9%, down from 65.5% at 1H 2004.

Gross operating profit reached €182.8 million (+26.6%) as compared to €144.4 million in 1H 2004. **Amortization and depreciation** equal €22.8 million (vs. €28.8 million in the same period of 2004).

Net operating profit is up by 38.4% at €160.0 million as compared to the €115.6 million in 1H 2004.

Extraordinary items impacting the first half 2005 for a total of €30.7 million, of which €15.1 million is attributable to the capital gain from the sale of Banca del Garda and €11 million from some fiscal recalculations done at a consolidated level.

Provisions for risks and charges equal €0.1 million as compared to €9.1 million in 1H 2004.

Net adjustments to loans amount to €7.7 million, compared with €2.7 million in 1H 2004. Attention is drawn to the benefits to income of improvements in the quality of credit, with the net balance of write-downs and write-backs resulting in a virtual breakeven for the period. In fact, the account

(amounting to €-7.7 million) includes €8.0 million for reclassifying risks already foreseen in Abaxbank's 2004 financial statements and recorded in the provision for risks and charges.

Pre-tax profit equals €182.9 million (+79.3%) versus €102.0 million in 1H 2004.

Income taxes comes in at €59.1 million (vs. €26.1 million in 1H 2004).

Consolidated balance sheet at June 30th, 2005

Customers' fundings * increased by 7.4% to €53,347 million at 6/30/2005, from €49,672 million at 6/30/2004, with **net inflows** of about €870 million.

In greater detail, direct deposits, net of repurchase agreements, are 8.6% higher at €12,508 million, up from €11,520 million in 1H 2004 (direct deposits including repurchase agreements have reached €13,498 million compared with €12,747 million in 1H 2004, +5.9%). In detail, deposits have climbed by 17.3% to €8,588 million (€7,324 million in 1H 2004), while bonds have gone down by 6.6% to €3,920 million (€4,196 million in 1H 2004). Repurchase agreements have decreased by 19.3% to €990 million (€1,227 million in 1H 2004) due to a reduction in Abaxbank's activity.

Indirect fundings** increased by 7.0%** to €40,839 million (€38,152 million in 1H 2004). In particular, **assets under management** (portfolio management, mutual funds, SICAV and life insurance policies) increased by 9.0% at €16,820 million as compared to €15,430 million in 1H 2004, while **assets under administration**** grew by 5.7%** to reach €24,019 million as compared to €22,722 million in 1H 2004.

Net cash loans to ordinary customers rose by 6.4% to €11,909 million (€11,189 million in 1H 2004), while the increase, net of repurchase agreements, was 7.4% (€11,815 million at 6/30/2005 versus €11,002 million at the same date of 2004).

Mortgage loans increased by a total of 20.5% - particularly strong are the home mortgage loans in the *Presticasa* format (now worth more than €3 billion, +26%, with disbursements of about €480 million, +32%).

Lending was focused mainly on retail customers (+18.3%) and small businesses (+21.3%) that jointly exceeded the 56% of the total loan portfolio.

Endorsement credits equal €699 million (+13.7% versus €615 million in 1H 2004).

The trend was also positive for **net non-performing loans** which came to 0.22% of total loans (0.36% in the same period of 2004), by far less than the industry average of 1.8%.

Total net problem loans equal €58.6 million (€63.2 million in 1H 2004).

Tier 1 capital ratio is 8.0% (7.2% in 1H 2004). The **total capital ratio** is 10.3% (9.6% in 1H 2004).

At June 30th, 2005 the group's distributive structure consisted of 453 branches, 38 corporate centers, 57 financial shops. It had 4,897 employees and 842 financial advisors with mandate.

On 6/30/2005, Credem, that holds a stake of 3.62% in MTS, decided to participate in the acquisition proposal presented by the joint venture Euronext-Borsa Italiana. The impact on the income statement and balance sheet should become evident at the end of this year.

In the month of January the sale of Credembanca's stake of 51.2% in Banca del Garda to Veneto Banca was finalized. In light of the modest impact made by the Banca del Garda on consolidated results for first half of 2004, these numbers were not restated for comparison with group's consolidated results as of June 30th, 2005.

The evolution of the second half of 2005 could appear slightly better than indicated by group's planning, as far as economic results are concerned; considering the first half 2005 results, it is also predictable that all economic aggregates could show significant improvements as compared with 2004 figures.

Transition to IAS/IFRS

The individual and consolidated financial statements at June 30th, 2005 have been prepared using the guidelines envisaged by Decree 87/92.

However, for the purposes of summarizing the impact of using IAS/IFRS, we are presenting reconciliations for the consolidated balance sheets and income statements at the relevant dates required by the international financial reporting standards themselves.

These reconciliations, along with the related notes, are found in a special section of the explanatory notes to the financial statements.

As for the application of IAS/IFRS, the consolidated financial statements will be fully IAS compliant starting from the quarterly report at September 2005.

Effects of the first-time application of IAS/IFRS

Consolidated shareholders' equity at June 2005 prepared using IAS/IFRS amounts to €1,133 million compared with €1,079 million using the principles required by Decree 87/92 (+€54 million).

The main **positive effects** are the result of:

- the adjustment of wholly-owned property to market value for €58 million;
- the reversal of €9 million in depreciation of tangible and intangible assets.

The **negative effects** are mostly due to:

- €2 million in respect of loans, as a result of discounting to present value collections on non-performing and watch-list loans;
- €7 million in respect of loans and bonds as a result of the application of the amortized cost methodology;
- €10 million in respect of hedging derivatives to bring them into line with the accounting treatment recommended by IAS 39;

As for **consolidated net profit** at June 30th, 2005, this amounts to €119.9 million when calculated using IAS/IFRS, compared with €117.4 million using the principles required by Decree 87/92.

The main reasons for this difference are:

- lower depreciation and amortisation charges: €2.2 million in the case of the depreciation fixed assets and €2.3 million in the case of the amortisation of goodwill;
- higher staff provision for €3.1 million as a result of the IAS compliant recalculation;
- lower net interests for €4.6 million as a result of the application of the amortized cost methodology on loans and bonds;
- higher incomes for €6 million as a results of the application of IAS 39.

The independent auditors (PricewaterhouseCoopers) engaged to audit the first-time application of IAS/IFRS at 12/31/2004 and 1/1/2005 are completing their review, while the new auditors (Deloitte & Touche Spa) are currently performing the limited audit of the half year report at 6/30/2005 and the related reconciliations with IAS/IFRS.

Notes

(*) the amounts and % changes in total deposits are shown net of a deposit of securities by an institutional customer amounting to €69 million in 1H 2004 and €50 million in 1H 2005 and of €1,227 million in repurchase agreements in 1H 2004 and €990 million in 1H 2005.

(**) the amounts and % changes in indirect deposits are shown net of a deposit of securities by an institutional customer amounting to €69 million in 1H 2004 and €50 million in 1H 2005.

The reclassified consolidated balance sheet, income statement and cash flow statement are attached.

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**CONSOLIDATED
Reclassified balance sheet (/million)**

	30.06.2005	30.06.2004	31.12.2004	Changes 6/05 - 6/04	
				amount	%
Securities	2,666.4	2,818.4	2,666.4	-152.0	-5.4
Cash and banks deposits	4,176.4	3,041.5	3,182.1	1,134.9	37.3
Loans to customers	11,909.5	11,189.4	11,646.4	720.1	6.4
Equity investments	65.1	59.8	66.5	5.3	8.9
Intangible fixed assets	49.2	72.2	62.6	-23.0	-31.9
Tangible fixed assets	265.8	278.4	276.0	-12.6	-4.5
Other assets	1,810.6	1,597.5	1,582.6	213.1	13.3
Total assets	20,943.0	19,057.2	19,482.6	1,885.8	9.9
Due to banks	3,797.2	2,991.6	2,956.2	805.6	26.9
Due to customers	13,114.1	12,354.4	12,924.6	759.7	6.1
Other liabilities	2,194.5	2,026.2	1,815.5	168.3	8.3
Staff provisions	102.3	97.4	99.4	4.9	5.0
Provisions for risks and charges	250.4	207.0	213.3	43.4	21.0
Subordinated liabilities	384.1	391.7	416.7	-7.6	-1.9
Minority interests	21.6	30.9	36.4	-9.3	-30.1
Total liabilities	19,864.2	18,099.2	18,462.1	1,765.0	9.8
Share capital	277.2	274.4	275.4	2.8	1.0
Reserves	673.3	599.8	604.0	73.5	12.3
Reserve for general banking risks	10.9	10.9	10.9	-	-
Net profit for the year	117.4	72.9	130.2	44.5	61.0
Shareholders' equity	1,078.8	958.0	1,020.5	120.8	12.6
Total liabilities and shareholders' equity	20,943.0	19,057.2	19,482.6	1,885.8	9.9

**CONSOLIDATED
Reclassified income statement (/million)**

	30.06.2005	30.06.2004	31.12.2004	Changes 6/05 - 6/04	
				amount	%
Interest income and similar revenues	271.8	254.8	511.0	17.0	6.7
Dividends and income from equity investments	1.9	2.0	3.2	-0.1	-5.0
Interest expenses and similar charges	-100.1	-98.9	-190.4	-1.2	1.2
Net interest income	173.8	157.9	323.8	15.9	9.9
Commission income	238.0	227.7	454.4	10.3	4.5
Commission expenses	-41.6	-39.5	-78.2	-2.1	5.3
Dealing profit (loss) on financial transactions and dividends on shares*	63.7	47.2	80.9	16.5	35.0
Other operating income (charges). net	34.1	25.6	51.4	8.5	33.2
Net non-interest income	294.2	261.0	508.5	33.2	12.7
Banking Margin	467.8	418.9	832.3	48.9	11.7
Personnel expenses	-172.6	-162.3	-324.9	-10.3	6.3
Administrative expenses	-112.4	-112.2	-222.8	-0.2	0.2
Operating expenses	-285.0	-274.5	-547.7	-10.5	3.8
Gross operating profit	182.8	144.4	284.6	38.4	26.6
Depreciation and amortization	-22.8	-28.8	-61.7	6.0	-20.8
Net operating profit	160.0	115.6	222.9	44.4	38.4
Adjustments to loans. net	-7.7	-2.7	-8.0	-5.0	185.2
Provisions for risks and charges	-0.1	-9.1	-17.0	9	n.s.
Extraordinary income (expenses). net	30.7	-1.8	-3.2	32.5	n.s.
Pre-tax profit	182.9	102.0	194.7	80.9	79.3
Income taxes	-59.1	-26.1	-55.7	-33.0	126.4
Minorities interest in net profit/loss	-6.4	-3.0	-8.8	-3.4	113.3
Net profit	117.4	72.9	130.2	44.5	61.0

* Including the banking margin of Abaxbank

**INDIVIDUAL
Reclassified balance sheet (/million)**

	30.06.2005	31.12.2004	30.06.2004	Changes 6/05 - 6/04	
				amount	%
Securities	770.0	1,361.6	1,369.9	-599.9	-43.8
Cash and banks deposits	2,737.2	1,607.2	1,423.3	1,313.9	92.3
Loan to customers	11,235.3	10,647.1	10,379.3	856.0	8.2
Equity investments	350.7	373.0	387.7	-37.0	-9.5
Intangible fixed assets	44.4	51.0	55.4	-11.0	-19.9
Tangible fixed assets	152.8	158.4	161.6	-8.8	-5.4
Other assets	830.8	734.1	819.2	11.6	1.4
Total assets	16,121.2	14,932.4	14,596.4	1,524.8	10.4
Due to banks	2,246.8	1,854.3	1,774.9	471.9	26.6
Due to customers	11,193.6	10,543.6	10,037.8	1,155.8	11.5
Other liabilities	1,062.0	976.0	1,302.8	-240.8	-18.5
Staff provisions	92.0	89.2	87.5	4.5	5.1
Provisions for risks and charges	190.8	153.6	160.1	30.7	19.2
Subordinated liabilities	384.1	416.7	374.2	9.9	2.6
Total liabilities	15,169.3	14,033.4	13,737.3	1,432.0	10.4
Share capital	277.2	275.4	274.4	2.8	1.0
Reserves	552.0	435.2	429.9	122.1	28.4
Reserve for general banking risks	10.9	10.9	10.9	-	-
Net profit for the period	111.8	177.5	143.9	-32.1	-22.3
Shareholders' equity	951.9	899.0	859.1	92.8	10.8
Total liabilities and shareholders' equity	16,121.2	14,932.4	14,596.4	1,524.8	10.4

**INDIVIDUAL
Reclassified income statement (/million)**

	30.06.2005	30.06.2004	31.12.2004	Changes 6/05 - 6/04	
				amount	%
Interest income and similar revenues	265.2	241.7	488.4	23.5	9.7
Dividend and income from equity investments	46.6	37.9	38.4	8.7	23.0
Interest expenses and similar charges	-109.1	-103.3	-207.4	-5.8	5.6
Net interest income	202.7	176.3	319.4	26.4	15.0
Commission income	150.9	146.8	297.5	4.1	2.8
Commission expenses	-21.6	-20.3	-43.1	-1.3	6.4
Dealing profit (loss) on financial transactions and dividends on shares	20.6	15.7	31.7	4.9	31.2
Other operating income (charges). net	27.4	18.0	40.8	9.4	52.2
Net non-interest income	177.3	160.2	326.9	17.1	10.7
Total revenues	380.0	336.5	646.3	43.5	12.9
Personnel expenses	-134.8	-125.7	-254.5	-9.1	7.2
Administrative expenses	-84.5	-77.8	-166.3	-6.7	8.6
Operating expenses	-219.3	-203.5	-420.8	-15.8	7.8
Gross operating profit	160.7	133.0	225.5	27.7	20.8
Depreciation and amortization	-16.9	-19.4	-42.4	2.5	-12.9
Net operating profit	143.8	113.6	183.1	30.2	26.6
Adjustments to loans. net	-0.2	-0.8	-5.2	0.6	-75.0
Provisions for liabilities and charges	-	-	-4.5	-	-
Extraordinary income (expenses). net	7.8	86.3	84.7	-78.5	-91.0
Writedowns of equity investments. net	-	-	-0.3	-	-
Profit before tax	151.4	199.1	257.8	-47.7	-24.0
Income tax	-39.6	-55.2	-80.3	15.6	-28.3
Net profits	111.8	143.9	177.5	-32.1	-22.3