



2008 Annual Report



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Biverbanca is part of the Monte dei Paschi di Siena Group

These Summary Financial Statements have been translated from the original written in Italian and are issued for information purposes only.

Translated by:
Financial Services Department

Board of Directors, Statutory Auditors, Independent Auditors and Management

Board of Directors

Chairman	Pasquale Carciotto *
Deputy Chairman	Lucia Coccheri *
Directors	Luciano Boggio * Fabio Carlesi Fabio Corsico Roberto De Battistini Valter Fucecchi * Piero Eusebio Garrione Emilio Jona Fernando Lombardi * Pietro Pecorini * Giovanni Pozzi Franco Prina Cerai Carlo Alberto Prosino Ermanno Rondi Totto *

Board of Statutory Auditors

Chairman	Gabriele Mello Rella
Regular Auditors	Roberto Comoli Pierangelo Ogliaro

Management

General Manager	Angelo Barbarulo
Deputy General Manager	Roberto Cerreia Vioglio

Independent Auditors	Reconta Ernst & Young S.p.A.
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(*) Members of the Executive Committee

Letter to Our Shareholders

Dear Shareholders,

In a turbulent economic scenario marked by growing difficulties in financial markets, Biverbanca's 2008 results turned in a favourable performance, with a net income of 27 million euro in slight decline over previous year's outcome (12.2% ROE -- rising to 13.7% if calculated on year-end equity).

Income from banking activities (surpassing 141 million euro, or +3.3%) was hindered by diminishing net fee and commission income (37.7 million euro or -8.9%) whilst financial income (129.9 million euro or -6.6%) reflected downbeat results from trading/valuation of financial assets.

However, the comprehensive favourable revenue performance, together with a severe costs control, made it possible for Biverbanca to achieve a net operating income of 42.8 million euro. This result was positively influenced by the application of IAS 39.

In 2008, the local economic environment further weakened and customer difficulties deepened with consequences on the total amount of non-performing loans.

In a weak financial environment, our policy of loan loss reserves and loan adjustments continued under the most rigorous criteria. The non-performing loan/total loans ratio stood at 1.7%, with the following specific coverage percentages: 62.5% to non-performing loans, assisted by collateral or mutual guarantee funds (Confidi) for nearly 60%; 25.1% to substandard loans, 8.3% on restructured loans and 7.9% for past due debt.

On the other hand, collective write-offs were equal to a 0.7 percent average of total performing loans.

The overview of key performance indicators shows how deeply the latter were impacted by global economic weakness. Customer loans amounted to 2,326 million euro, posting a year-on-year decline of 1.3%.

However, considering that total loans to customers amounted to 2,356.1 million euro as at the end of 2007, including 51 million euro from intra-group lending transactions with our former Parent's affiliates (repaid in the first months of the year), net of this component, total loans to customers would have shown a "real increase" of 21 million euro (+0.9%).

Loans, representing the most dynamic component of total lending, added up to 1,297 million euro (+4.7%), including 1,083 new mortgage loans granted during the year for a total amount of 215 million euro. Consequently, as at the end of 2008, total mortgage loans amounted to 996.5 million euro, with a 1.7% increase over the previous year.

Direct customer deposits (2,676.9 million euro) augmented by 2.9%, thanks to the strong performance of Biverbanca Bonds which gained +10.7%. On the contrary, indirect customer deposits (2,574 million euro) dropped by 5.5%, also due to securities write-offs registered during the year under review which penalized the aggregate as at 31.12.2008.

Following general market trend, funds under administration marked a positive record (+9.8%), whilst managed funds performance had a negative return (-23.5%). So total indirect customer deposits reduced by 1.4% totalling 5,250.9 million euro.

2008 has been Biverbanca's first year in the Montepaschi Group. During this period, we have undertaken countless initiatives to further improve our range of offerings and strengthen customer relationships, given that we could rely on Group synergies from our Parent Company, Banca MPS. These initiatives were included in a wider project of financing households, young people, third age persons and "new citizens", both European and extra-European immigrants, thus enlarging our product assortment by creating tailor-made solutions for current accounts, loans and services, and providing support to enterprises investing on innovation, a requisite to overcome the current financial crisis and speed economic recovery.

Good returns from our business model were obtained by enhancing comprehensive customer relations and attaching focal importance to human resources, seen as the key drivers for the realization of our business goals.

From the very beginning of 2008, personnel management was remodeled to reflect the new structural and organizational environment originated by the fact that Biverbanca became part of the Montepaschi Group. This helped us achieve the following specific objectives:

- enhancement of individual skills with particular respect to customer relations;
- selection of the best professional skills to fill managerial positions;
- ensuring maximum level of adequacy of each employee with respect to the profile set for the position filled.

At the end of September, in co-ordination with our Parent Company, we approved the new Industrial Plan 2008-2012 which would steer the Bank's progressive expansion in new areas outside its traditional domains. According to the plan, Biverbanca would become a "regional bank with predominant territorial features" as well as the reference body in Piedmont for the Group.

Expansion in Piedmont has always been our great ambition which we can now accomplish thanks to the precious partnership with the Montepaschi Group.

According to the business plan schedule, in 2009 Biverbanca is going to open four new branches and to convert five outlets with reduced opening hours into full-service branch locations. In addition, 13 Antonveneta agencies will be acquired.

We cannot ignore that this ambitious business plan covers a period of time marked by fundamental instability in financial markets. However, I am confident that our efficient organization, along with Shareholders' choices, will lead us through challenging times and transform Biverbanca into a regional bank. This approach will promote investment diversification and enable the Bank to combine profitability for Shareholders with closeness to local communities within "old" and "new" boroughs.

Subject to the Board of Directors' approval, 2008 results will allow us to distribute a dividend of euro 0.171 per share (74.29% payout) and at the same

time to maintain good capital adequacy ratios: in fact, capital/total risk-weighted assets stands at 7.79%.

In the Board's detailed and exhaustive report, to which the reader should refer for full details, a comprehensive breakdown of our activities and results is displayed.

Finally, let me express sincere gratitude to the General Manager, Mr Angelo Barbarulo, the Deputy General Manager, Executives and all personnel for their passionate and capable commitment in achieving outstanding results in a very difficult environment.

Moreover, special appreciation goes to the Board of Directors and the Statutory Auditors for their competence and ceaseless activity.

Conclusively, a warm thank goes to Shareholders: Banca Monte dei Paschi di Siena, the majority Shareholder, the Foundation Cassa di Risparmio di Biella and Foundation Cassa di Risparmio di Vercelli for their support to the Bank's management harmonization.

Biella, March 2009

Pasquale Carciotto

Financial Highlights and Financial Ratios

HIGHLIGHTS AND FINANCIAL RATIOS

STATEMENT OF INCOME (in millions of euro)	31/12/2008	31/12/2007	Change %
Net Income from banking activities	141.38	136.83	3.3
Financial income (loss)	129.90	139.01	-6.6
Net Operating income	42.80	47.07	-9.1
Net income (loss)	27.04	28.60	-5.4
BALANCE SHEET (in million euro)	31/12/2008	31/12/2007	Change %
Direct customer deposits	2,676.90	2,601.74	2.9
Indirect customer deposits	2,574.00	2,723.33	-5.5
<i>including managed funds</i>	956.50	1,249.71	-23.5
<i>including funds under administration</i>	1,617.5	1,473.63	9.8
Loans to customers	2,326.00	2,356.10	-1.3
Shareholders' equity	217.78	224.04	-2.8
CREDIT QUALITY (%)	31/12/2008	31/12/2007	
Net doubtful loans / Loans to customers	1.72%	1.13%	
Substandard loans / Loans to customers	1.14%	1.40%	
STATEMENT OF INCOME RATIOS	31/12/2008	31/12/2007	
Cost / income ratio	56.16	51.85	(2)
ROE (on average shareholders' equity)	12.24	12.88	(3)
ROE (on year--end shareholders' equity)	13.65	14.99	
Net adjustment to loans / Year-end investments	0.56	0.84	
CAPITAL RATIOS	31/12/2008		
Tier 1 capital / Risk-weighted assets	7.79		(4)
Total capital / Risk-weighted assets	7.79		(4)
OPERATING STRUCTURE	31/12/2008	31/12/2007	Change
Staff (number) (1)	702	705	-3
Branches (number)	105	105	0

(1) Total employees, including staff seconded from our Parent.

(2) The information differs from 2007 due to a restatement of some captions included in the statement of income

(3) The information differs from 2007 due to a change in valuation criteria

(4) Ratios are compliant to Basel II requirements and have been determined by applying standardized methods

Report on Operations

Report on Operations

The Macroeconomic Scenario

The global financial crisis, originated in 2007, seriously deteriorated by involving a larger number of investors and causing public bailouts in the attempt to rescue some of the most prominent financial institutions in the US and in Europe. This situation badly affected consumption, investment and production, whilst real economy moved into recession.

After surging near 143 dollars a barrel, oil prices fell sharply down to 35 dollars at the end of December. The overall situation worsened, inflation reduced, interest rates plummeted to 2.5% in the Eurozone whilst they were cut at near-zero in the United States and in Japan.

In the US, as in most countries, the crisis also hit real economy in several ways: global financial and real estate wealth diminished whereas investment and expenditures were cut or postponed. The Federal Reserve lowered the federal funds rate to 1% from 4.25% and, in mid-December, decided to establish a target range of 0 to 0.25. In the third quarter, GDP reduced by 0.5% on an annual basis reflecting drastic consumption drop, export slowdown and real estate decline. In this context, unemployment rate surged to 7.2% whilst inflation, after reaching a top yearly rate of 4.4% in August, reduced to about 1%.

In Japan, GDP decreased by 1.8% in the third quarter of 2008, industrial production and unemployment rates evidenced a further worsening of the international situation. In China, the growth rate slowed to 9%, registering a progressive deceleration through to a yearly 6.8% in the fourth quarter.

The Eurozone, whose third-quarter GDP declined by 0.2%, entered recession, mainly due to a fall in foreign demand and a postponement of investment projects. Main economic indicators (sales, industrial production) showed lower levels whilst inflation went down to 1.6% at year-end. While governments adopted measures to support the economy, the ECB brought the reference rate to 2.5%.

In Italy, after GDP declined in the second quarter of 2008 (-0.4% compared to the previous quarter), it further lowered by 0.5% in the third quarter (-0.9% vis-à-vis the same period of 2007); the crisis deepened in the last months of the year due to investment fall, export slowdown and stagnation of households consumption. Industrial production diminished by 4%, down to an yearly rate of 10% in the last months of 2008. Employment growth halted whilst the recourse to redundancy fund augmented. Inflation went to 2.3% further to oil price reduction and demand weakening.

Italy adopted similar measures to support the financial system though its balance sheet policy suffers restrictions imposed by its mounting public debt.

The Financial Markets

The financial markets have evidenced an overall decline as a sign of uncertainty deriving from the unpredictable development of the ongoing economic recession. Compared to the end of 2007, the Stock Exchange indexes reduced over 40% in the United States, in the Eurozone and in Japan, reaching almost 50% in Italy.

Government bond yields rose, the euro jumped against the dollar by reaching the exchange rate of 1.6 in the first half-year, capital previously invested into high-yield currencies flew towards dollar and yen, thus causing euro depreciation.

Italian banks were able to tackle the economic and financial crisis investing global markets thanks to their sound structure, mostly based on retail lending and deposits, and also as a result of efficiency recovery experienced in the recent years. Consequent to the worsening of real economies and following the global financial crisis, investors became more prudent and preferred guaranteed investment products, especially government and bank bonds.

Customer deposits showed a 12% growth in the second half-year (+7.9% in 2007). In particular, bond holdings increased by over 18% (or 115 billion euro vis-à-vis the end of 2007), while current accounts augmented by 5%, one percentage point more than the previous year, favoured by high liquidity.

The market situation and savings choices continued to negatively influence managed funds. In 2008, mutual funds outflows exceeded 140 million euro, customer deposits through managed funds declined and life insurance products slowed by 23%.

Loans to customers grew by 7.5%, compared to +10.6% in 2007. The slowdown is mainly due to a decline in new mortgage loans (-6.9% in the first three quarters of the year). Similarly, loans to non-financial enterprises experienced a progressive downturn (+6% from +12% at year's beginning) as a consequence of negative economic performance and minor demand.

The average yearly difference between customer loans and deposits stood at around 3.2%. During the year, markup rose by 30 basis points reflecting financial pressures; on the other hand, markdown declined to 2.09% from 2.28% in 2007.

Local Economy

During the third quarter of the year, Piedmont was pushed into recession, showing a progressive drop by 3.2% in the industrial production which was anyway in line with national trend (-3.5%).

The disappointing performance of regional manufacturing activities goes along with other depressing economic indicators. Domestic orders slowed by 8.4% in comparison with the second quarter of the year, while the picture of foreign orders was even gloomier, showing a deeper downturn (-13.1%). Enterprise turnover shrank by 1.2% compared with the period July-September 2007.

Also the Biella borough was negatively impacted by overall market uncertainty and consumption slump: downturn rate vis-à-vis 2007 was 5.5% and all main economic indicators appeared gloomy. The performance of the textile manufacturing activities was disappointing, as well, the weaving sector registering the worst performance in latest years (-8.26%) and the spinning mills confirming the same negative levels of last quarters (-5.68%).

Textile mechanical industries, though presenting a more composite picture, reported a 3.18% decline. Biella's manufacturing turnover reduced by 6.95% versus the third quarter of 2007, a data exceeding the industrial production contraction rate, which evidenced how the sale prices of local manufacturing reduced.

Foreign orders showed a consistent downturn in the weaving sector (-28.9%) although the spinning mills suffered a lesser contraction (-17.6%).

The overall economic deterioration was followed by further unemployment rate rise and extra recourse to redundancy fund. In fact, we registered a 20.7% increase in terms of redundancy fund hours over 2007. In particular, the textile sector absorbed 87% of all redundancy funds distributed in the district.

Much in the same way, the Vercelli area, after registering the best regional economic performances in 2006 and 2007, entered a negative business cycle since the industrial production decreased by 6.5% and all sectors reported detrimental results (from the textile industry through to the mechanical textile factories including the tap and valve sector which on the contrary had appeared to beat the market in the near past).

Furthermore, we assisted to a 56.5% redundancy fund hours escalation over 2007.

As for the farming sector, in 2008 total rice cultivated land slightly reduced around Vercelli (-0.9%) vis-à-vis 2007, coming to total 72,554 hectares, being 61.7% of the whole rice cultivated land in Piedmont. In addition, rice harvest was conditioned by bad weather and fungal diseases.

If rice quotations at the rice stock exchange in Vercelli maintained fairly stable during the first half of the year, they climbed up in December because of a sudden increase in demand.

Similarly, in 2008 the Aosta Valley suffered a severe contraction affecting industrial production, domestic and foreign orders, employment levels.

All industrial sectors registered a slump in production and demand. Also, forecasts for the next months describe a gloomy scenario of enduring stagnation.

Building and construction activities gave underperforming results as they reflected weak residential demand.

Industrial Plan 2008-2012

The Industrial Plan 2008-2012 aims at strengthening the Bank's leading role in driving the economic development in its traditional boroughs located in Piedmont. This vision assigns Biverbanca a clear and specific mission to guide and support local economy.

Biverbanca's growth as a "regional bank with predominant territorial characteristics" is perfectly in line with our Parent Company's Industrial Plan 2008-2011 which entails the enhancement of our branch-network according to the principle of "territorial exclusivity" by which Biverbanca will become the reference body within the Montepaschi Group in Piedmont and in the areas it serves.

The definition of our Industrial Plan's guidelines was set forth by considering the Bank's particular character (Saving Bank) and pointed to consolidate its presence in its traditional domain, though considering the necessity to introduce commercial and strategic modifications, proceeding by gradual steps, without deeply altering the Bank's real nature.

The new "regional" dimension will be achieved by enlarging Biverbanca's territorial presence and will involve:

- attention to local communities;
- proper actions to support growth;

Whilst Biverbanca wishes to remain "the main reference point" in its traditional areas, it is repositioning as "a proactive interlocutor" for new boroughs, by affirming four key values:

- customer-focused vision, centred on client relationship, transparency, clarity, rapidity and confidence in order to improve our standing, as well;
- employee-oriented policies, understanding that each person, with its social, cultural and economic background, is important in achieving our goals;
- focus on boosting opportunities for Piedmont being the centre of our activities;
- district support, both in the Biella-Vercelli regions and in the Aosta Valley county, by assuming the same approach towards the territories where Biverbanca will open new branches.

The Branch Network

The expansion of our distribution network entails:

- the opening of 30 new branches during the plan period;
- acquisition of 13 Antonveneta agencies;
- upgrading of 10 outlets with reduced opening hours to the public to full-service branch locations; the sale of our branch in Rome (considered non-strategic by the Bank).

To perform our project, we will make use of GRUPPOMONTEPASCHI's service models, by adapting them to our situation.

The new 43 branches will be located in Turin and Canavese regions as well as in the provinces of Alessandria and Novara and in the Verbano-Cusio-Ossola district, according to a progressive growth model based on "ray lines" extending from the Bank's centre.

Client-oriented solutions and offerings

Further to the forthcoming implementation of GRUPPOMONTEPASCHI's information platform, our commercial offers will benefit by Group services and products, which will mix with our traditional proposals.

The improved client-specialization with a focus on markets will create mutual value from relations in the short-term, and especially in the medium-long-term period, for different service models: retail customers (family, affluent, small business and small public authorities) / branches; corporate clients (medium enterprises and large companies, public authorities) / corporate centres; private clientele / private centres.

Efficiency improvement and partnership in service management

Operating synergies with our Parent Company allow us to rationalize, centralize or externalize some activities, such as back office processes, to Group service companies or create joint ventures for service management.

In this connection, we will migrate to the information platform of the Group Operating Consortium, which will replace the one in use, in order to share Group services and products.

In addition, this approach will also improve the efficiency and efficacy of costs control, by adopting cost management and cost saving programs, supported by our Parent's relevant functions.

Risk monitoring and capital control

We focus our activities on improvement of lending quality and credit control, active management of credit risks (total loans/RWA), revision of credit granting process, profit maximization approach (risk-adjusted pricing model), in compliance with the advanced methods of Basel II which will be implemented in 2010.

In particular, our efforts will focus on:

- pursuing of risk diversification by expanding in new areas;
- strengthening of our equity capital base through a capital increase.

Estimates predict a growth by all main performance indicators during the four year period. According to forecasts, by the end of 2012 the Bank should number 862 employees with an increase of 157 staff members (of them, 146 will be new recruitments) compared to the current 702.

The Bank's Performance

On 20 December 2007 Biverbanca became a member of the Monte dei Paschi di Siena Group and during 2008 the Bank accomplished those requirements needed to enter the Group.

Consequently, our company is now managed and coordinated by Banca Monte dei Paschi di Siena, our Parent Company.

During the first months of 2008, Biverbanca's shareholder structure changed, as follows:

- Banca Monte dei Paschi di Siena, 59 percent stake;
- Fondazione Cassa di Risparmio di Biella, 35 percent stake;
- Fondazione Cassa di Risparmio di Vercelli, 6 percent stake.

At the end of March, the Board of Directors approved the assignment of five new directors, coming from MPS, being Lucia Coccheri, Fabio Carlesi, Fabio Corsico, Valter Fucecchi e Pietro Pecorini, who replaced the outgoing directors, Roberto Brambilla, Paolo Baessato, Giorgio Borroni, Piermatteo Gatti and Mario Masini.

The newly nominated top executives, together with the unchanged remaining old ones, will held the position until the approval of 2008 results. On the other hand, the Board of Statutory Advisors was confirmed in the persons of Gabriele Mello Rella, Chairman, Roberto Comoli and Pierangelo Ogliaro, Regular Auditors.

During the meeting of 8 April 2008, the Board of Directors appointed Pasquale Carciotto and Lucia Coccheri as the Bank's Chairman and Deputy Chairman respectively. At month-end, the Board of Directors approved the 2007 Corporate and Social Responsibility Report which offers a detailed breakdown of our sound performance and gives evidence of growing sensitivity towards social environmental responsibility issues characterizing Biverbanca's daily relationship with local community.

In 2008, the organisational structure underwent some changes, started in April through the appointment of top executives and then continued in May with the publication of the Rule No. 1, compliant to the Group Directives on Organisational Model and Structure of Biverbanca's Headquarters.

In September, the Board approved Biverbanca's 231 Organisational Model for managing administrative responsibility (a development of the preceding Model adopted in 2004); then, in October, the Bank adopted Group directives relating to compliance, information systems plan and costs program, communication and external relations. In addition, the Bank studied the organisational aspects for the implementation of Group Employee Safety and Health Standards. These initiatives, along with the creation of the Territorial Development Area and the forming of the Compliance Department in December, required the revision of Rule No. 1 and the company function diagram.

Furthermore, at the end of October, we adopted the Montepaschi Group's Code of Ethics, which involves our commitment to the Group's principles, models and individual conducts in the performance of our activities, relating to stakeholders, market relations, environment approach, in order to implement the Group's social responsibility policy and combine Group goals with civil society needs.

The year under review was marked by growing instability and progressive worsening in financial markets which led to surging interest rates and mounting inflation in the first eight months while gradually reducing at around year-end. Our results were partly affected by the crisis in the textile industry which hit the area where we have operated for years, hindering revenue growth. However, strong interest margin counterbalanced falling commissions and the weak performance by financial incomes.

Posted records, with a net income of about 27 million euro, are fruits of efficient activity based on integrity and transparency and constant attention to all stakeholders by driving socially responsible business practices.

In this context, whilst Biverbanca aimed at preserving and reviewing its market shares, it also strengthened its vocation towards socio-economic and cultural development of the territory, by assuring a wide retail branch network, paying attention to SMEs, creating synergies with insurance industry and building strong relationships with local public authorities. In fact, even in challenging times, territorial rooting and all clientele, made of households, small businesses, artisans, traders and farmers, remained the Bank's strength to beat the current financial crisis which was mainly originated by the worldwide circulation of complex financial instruments and also by a widespread attitude in the banking industry to boost financial activities rather than lending core business.

In the course of 2008, Bank's activities largely focused on:

- protecting and enlarging shareholders' capital;
- increasing confidence and customer satisfaction;
- fostering a sense of belonging among employees;
- enhancing productivity and efficiency;
- improving risk management;
- supporting community needs;
- pursuing sustainable environmental policies.

Biverbanca engaged in developing a customer-focused vision, by directing its actions towards *Private*, *Retail* and *Corporate* customers and pursuing objectives of stability, efficiency, productivity and profitability.

During the year under review, we started plenty of innovation projects and redefined commercial offers, following the fact that Biverbanca had become member of MPS Group. To this end, specific agreements have been closed with Montepaschi's companies which helped us launch innovative products during the year.

These initiatives were part of a more comprehensive plan entailing:

- support to households, young people, third age persons and "new citizens", both European and extra-European immigrants, by enlarging our product assortment and creating tailor-made solutions for current accounts, loans and services;
- financial backing for enterprises investing on innovation, a requisite to overcome the current financial crisis and speed economic recovery.

The following breakdown evidences the main balance sheet indicators by comparing them with 2007 data:

- Year-on-year statement of income:
 - **Net Income:** 27.0 million euro (-1.6 million euro or -5.4%);
 - **Net Income from Banking Activities:** 141.4 million euro (+4.6 million euro or +3.3%), as a result of the combined increase in interest margin (+8.2 million euro) with declining commissions (-3.7 million euro);
 - **Net financial Income (Loss):** 115.7 million euro (-3.4 million euro or -2.9%) including:
 - gain by net income from banking activities (+4.6 million euro);
 - lowering other financial incomes (-13.7 million euro);
 - lesser adjustments on non-performing loans and financial assets (posting a positive return with 5.7 million euro);
 - **Net Operating Income:** 42.8 million euro (-4.3 million euro or -9.1%) consisting of:
 - declining financial income (-3.4 million euro);
 - slight increase in operating costs (+0.9 million euro).

Net income was positively influenced (+11,076 thousand euro) by the application of IAS 39 which consented to reclassify financial instruments originally posted to “financial assets held for trading” into different captions, net of write-downs on sales of OICR shares. Finally, income after tax from continuing operations increased by 7,496 thousand euro.

- Financial ratios compared to data as at 31 December 2007:
 - **“Cost/Income”** (Operating Costs/Net Operating Income): 56.2% (51.9%);
 - **“ROE”** (Net Income/Average Shareholders’ Equity): 12.2% (12.9%);
- Balance sheet items vis-à-vis 2007:
 - **Customer Deposits under Administration:** 5,250.9 million euro (-74.1 million euro or -1.4%);
 - **Direct Customer Deposits:** 2,676.9 million euro (+75.2 million euro or +2.9%);
 - **Indirect Customer Deposits:** 2,574 million euro (-149.3 million euro or -5.5%);
 - **Loans to Customers:** 2,326 million euro (-30.1 million euro or -1.3%);
- Structure, organization and human resources:
 - **Operating Structure:** 105 branches and 2 Corporate Centres;
 - **Organization:**
 - Board of Directors;
 - Executive Committee;
 - Board of Statutory Auditors;
 - General Management;
 - First Level Staff: Human Resources, General Affairs, Legal and Contentious Claims; Internal Audit and Claims; Budgeting, Control and Risk Management; Compliance;
 - Divisions: Commercial; Credit and Finance; Administrative; Operations.
 - **Human resources:** 702 employees including 5 executives seconded from MPS Group as at December 2008, compared with 705 staff members (including 2 managers from the Intesa Sanpaolo Group and MPS Group) as at 2007 year-end.

Economic Results

In 2008, the Bank's operations generated a 27 million net income.

In the chart below, statement of income has been reaggregated to better outline income captions and compare them with last year's records which have been reclassified to provide homogeneity in input values.

in thousands of euro

Reclassified statement of income	31 Dec 2008	31 Dec 2007	Changes amount	%
Net interest income	103,729.3	95,491.5	8,237.8	8.6
Net fee and commission income	37,655.6	41,342.0	-3,686.4	-8.9
Net income from banking activities	141,384.9	136,833.5	4,551.4	3.3
Dividend and similar income	1,749.6	2,217.9	-468.3	-21.1
Profits (losses) on trading/valuation of financial assets	-14,551.6	-885.6	13,666.0	
Net gain (loss) from hedging	1,316.9	843.2	473.7	56.2
Financial income (loss)	129,899.8	139,009.0	-9,109.2	-6.6
Net adjustments for impairment of				
a) loans and receivables	-12,912.8	-19,892.1	-6,979.3	-35.1
b) financial assets	-1,241.1	31.3	-1,272.4	
Net financial income (loss)	115,745.9	119,148.2	-3,402.3	-2.9
Administrative expenses	-70,899.8	-69,965.9	933.9	1.3
a) administrative expenses	-49,539.1	-47,739.6	1,799.5	3.8
b) other administrative expenses	-21,360.7	-22,226.3	-865.6	-3.9
Adjustments to fixed assets and intangibles	-2,048.3	-2,107.6	-59.3	-2.8
Operating expenses	-72,948.1	-72,073.5	874.6	1.2
Net operating income	42,797.8	47,074.7	-4,276.9	-9.1
Net provisions for risks and charges and other operating income/expenses	815.5	912.8	-97.3	-10.7
Profits (Losses) on investments	0.0	0.0	0.0	0.0
Profits (Losses) on sale of investments	13.3	9.8	3.5	35.7
Income (Loss) before tax from continuing operations	43,626.6	47,997.3	-4,370.7	-9.1
Taxes on income from continuing operations	-16,582.3	-19,397.1	-2,814.8	-14.5
Income (Loss) after tax from continuing operations	27,044.3	28,600.2	-1,555.9	-5.4
Income (Loss) after tax from assets for sale	0.0	0.0	0.0	0.0
Net income (loss)	27,044.3	28,600.2	-1,555.9	-5.4

The main reclassification criteria are illustrated here below, with the numbers between parentheses referring to the relevant caption tags in the statement of income:

- **profits (losses) on trading/ valuation of financial assets** include:
 - net results from trading activities (tag 80);
 - profit/loss on asset disposal or repurchase, financial assets available for sale, financial assets held to maturity and financial liabilities (tag 100);
 - dividends on structured finance transactions (included in tag 70);
 - funding costs for above transactions (included in tag 20).
- **other administrative expenses** comprise other administrative expenses (tag 150b) net of recoveries on expenses and taxes pertaining to other income;
- **net provisions for risks and liabilities and other operating income/expenses** consist of provisions for risk and liabilities (tag 160), other operating income/expenses (tag 190) net of recoveries on taxes which are included among other administrative expenses (tag150b).

Financial Income (Loss)

The aggregate figure, which includes net income from banking activities (net interest income and net fee and commission income), other financial incomes (dividends, profits/losses on trading / valuation of financial assets, net gain/loss from hedging) was equal to 129.9 million euro compared to 139 million euro in 2007.

The result reveals the progress registered by net interest income (+8.6% over 2007) as opposed to a decline by net fees and commissions (-8.9%) as well as contraction in other financial incomes (-11.5 million euro vis-à-vis +2.2. million one year before).

Net Income from Banking Activities

Net income from banking activities, including interests and commissions, represents the most remarkable indicator of financial trading performance. In 2008, it stood at 141.4 million euro, by marking a +3.3% growth with respect to the previous year.

Net Interest Income

In 2008, in an effort to face turmoils in interest rates market, Central Banks co-ordinated an expansive monetary policy aimed at fighting recession and inflation fears and avoiding impacts on funding cost, as well. ECB kept its interest rate on hold at 4% until April but, from July onwards, it decided to lower borrowing cost rate down to 2.5% (followed by another 50 basis points reduction in January 2009). Similarly, other Central Banks worldwide intervened to give the economy room to breathe, by adopting forceful measures which brought interest rates to a record low of 0-0.25 per cent in the USA, 2% in Great Britain and 0.10% in Japan.

By comparing December 2007 data with June 2008 and December 2008 figures, 1-month Euribor monthly average (act/365) stood at 4.83%, 4.54% and 3.13% respectively, 3-month Euribor passed from 4.93% up to 5% then it lowered to 3.43% in

the third reference period, 6-month Euribor climbed from 4.89% in the first observation period up to 5.14% in the second and reduced to a final 3.50% in the third. It can be observed that Euribor performance reflects ECB interest-rate cuts which narrowed the spread between the two rates after the peaks reached in the second half of the year.

In connection with the monetary trends in the first three quarters of the year, having led to progressive interest rate increases followed by sharp drops, Biverbanca was able to harmonize customer expectations, global competition challenges and revenues.

The Bank's Management disposed prompt interventions to align banking products with market conditions, segmented by different customer categories.

in thousands of euro

Net interest income	2008	2007	Changes	
			amount	%
Relations with customers	109,110.1	106,001.7	3,108.4	2.9
Relations with banks	9,946.3	1,548.4	8,397.9	
Securities issued	-39,592.2	-32,992.0	6,600.2	20.0
Differentials on hedging derivatives	-2,978.5	-3,470.5	-492.0	-14.2
Financial assets held for trading	21,007.7	18,175.7	2,832.0	15.6
Investments held to maturity	0.0	0.0	0.0	
Financial assets available for sale	347.0	114.7	232.3	
Non-performing assets	5,593.0	6,073.1	-480.1	-7.9
Other net interest income	295.9	40.4	255.5	
Net interest income	103,729.3	95,491.5	8,237.8	8.6

Net interest income totalled 103.7 million euro, equal to a year-on-year rise by +8.6%, being 8.2 million euro.

The disaggregated analysis shows a moderate slowdown in customer interest margin with respect to 2007 (-3.4 million euro as the sum of relations with customers, securities issued, differentials on hedging derivatives and non-performing assets) as opposed to a sharp increase in revenues from the interbank market when compared to 31 December 2007, amounting to 9.9 million euro (+8.4%).

Net interest income represents more than 79% of financial income.

Financial assets reclassified out of held-for-trading category to loans and receivables on debt securities accounted for a progress in accrued interest by 0.1 million.

Net Fee and Commission Income

During the year under review, commissions were unfavourably impacted by gloomy financial markets and deepening economic turmoils which characterized banking industry as a whole and caused a steep fall in customer funds under management as well as in mutual funds. On the contrary, insurance products registered a favourable performance.

At year-end, total commission incomes amounted to 37.7 million euro, with a -8.9% drop compared to the previous year's results, equal to 3.7 million loss.

in thousands of euro

Net fee and commission income	2008	2007	Changes	
				%
- guarantees given	867.2	862.4	4.3	0.6
- collection and payment services	3,726.0	3,823.6	-97.6	-2.6
- current accounts	12,815.0	12,912.1	-97.1	-0.8
- fees on credit and debit cards	3,184.5	3,656.3	-471.8	-12.9
Commercial banking activities	20,592.7	21,254.4	-661.7	-3.1
- securities trading and placement	7,561.3	9,780.4	-2,219.1	-22.7
- currency dealing	326.7	309.0	17.7	5.7
- managed funds	1,711.4	2,259.6	-548.2	-24.3
- distribution of insurance products	3,502.4	3,728.7	-226.3	-6.1
- other	413.8	282.5	131.3	46.5
Management, dealing and consultancy activities	13,515.6	16,360.2	-2,844.6	-17.4
Other net fee and commission income	3,547.3	3,727.4	-180.1	-4.8
Total net fee and commission income	37,655.6	41,342.0	-3,686.4	-8.9

This caption corresponds to 29% (vis-à-vis 29.7% in 2007) of financial income (loss) and is the result of the difference between fee and commission incomes, totalling 41.3 million euro, and fee and commission expenses, amounting to 3.6 million.

Whilst commission incomes contracted by 8.2%, equal to -3.7 million euro, commission expenses recorded a +9.9% upturn, in line with 2007 results.

Other Financial Incomes

It includes dividends, profits (losses) on trading/valuation on financial assets and net gain (loss) from hedging.

At year-end, it shows a negative record amounting to -11.5 million euro, evidencing a decline by 13.7 millions vis-à vis 2007.

Dividends

This item consists of dividends from equities held for trading or available for sale whilst any dividend paid on shares linked to more complex transactions are posted to profits on trading.

Total dividends amount to 1.7 million euro, down from 2.2 million euro in 2007 (-21.2%).

Profit (Loss) on Trading/Valuation of Financial Assets

This caption comprises income and loss generated by debt securities, equities and other capital securities as well as reclassified items linked to complex transactions (dividends and funding cost).

in thousands of euro

Profits (Losses) on trading/valuation of financial assets	2008	2007	Changes	
			amount	%
Interest rates	-13,698.0	-1,215.3	12,482.7	-
Equity	1,375.3	-213.0	1,588.3	-
Foreign Exchange	-1,445.9	19.3	-1,465.2	-
Credit Derivatives	0.0	0.0	0.0	-
Total profits (losses) on trading	-13,768.6	-1,409.0	12,359.6	-
Profits (Losses) on disposal/repurchase of financial assets	-783.0	523.4	-1,306.4	-
Profits (Losses) on trading	-14,551.6	-885.6	13,666.0	

The above chart evidences:

- a loss on trading (-13.7 million euro, being -12.5 if compared to 2007) affected by steep fall in incomes from OICRs, securities and interest rate derivatives. The amount derives from the application of modified IAS 39 having introduced new accounting principles which consented to reclassify financial instruments originally posted to “financial assets held for trading” into different captions. Consequently, some debt instruments were reclassified into “loans and receivables” whilst OICR shares were posted to “financial assets available for sale”.
- a loss on disposal/repurchase of financial assets (-0.8 million euro, or -1.3 million euro year-on-year) which was largely due to losses from transfer of substandard loans.

The application of IAS 39 on above instruments entailed a total increase of 11 million euro.

Net Gain (Loss) from Hedging

In the last twelve months, the contribution from hedging totalled a 56.2% increase vis-à-vis 2007.

Net Financial Income (Loss)

Net financial income stood at 115.7 million euro opposite to 119.1 million euro in 2007 (-2.9%).

2008 results have been impacted by net adjustment for impairment on loans and financial assets for -12.9 and -1.2 million euro respectively.

Net Adjustments for Impairment

The aggregate, consisting of net adjustments for impairment on loans and receivables for 12.9 million euro and on other financial assets for 1.2 million euro, came to 14.1 million euro with respect to 19.9 million euro in 2007, when it was entirely made of adjustments to loans and receivables.

in thousands of euro

Net adjustments to loans and receivables and other financial assets	2008	2007	Changes	
			amount	%
- non-performing loans	-7,443.2	-11,599.7	-4,156.5	-35.8
- other impaired loans	-3,425.1	-10,953.4	-7,528.3	-68.7
- performing loans	-2,044.5	2,661.0	-4,705.5	-
Net impairment losses on loans and receivables	-12,912.8	-19,892.1	-6,979.3	-35.1
Net provisions for other financial assets	-1,241.1	31.3	-1,272.4	-
Net adjustments	-14,153.9	-19,860.8	-5,706.9	-28.7

The year-on-year decline (-28.7%) reflected major recoveries and minor adjustments if weighed against last year.

Operating Expenses

Total operating costs borne in 2008 topped 72.9 million euro which meant a y-o-y small upturn by 0.9 million euro or +1.2%.

Personnel expenses, including costs for employees seconded from our Parent Company, totalled 49.6 million euro, increasing by +3.8%, equal to 1.8 million, compared to last year.

At the end of 2008, Biverbanca counted 702 employees, including 5 staff members seconded from MPS Group.

In 2008, the yearly average number of enrolled human resources was equal to 704 units against 705 in 2007.

Administrative costs, inclusive of recovery of expenses and charges for 8.4 million, stood at 21.2 million euro with a year-on-year cost reduction of 3.9%, equal to 0.9 million.

Cost increase was registered by specific items, such as information technology services (+1.0 million) and building maintenance (+0.6 million). On the contrary, we saved money on indirect taxes and duties (-0.34 million) as well as on legal and professional expenses (0.37 million).

The depreciation of tangible and intangible assets amounted to 2.0 million euro, in line with the figures recorded in the previous fiscal year.

in thousands of euro

Operating Costs	2008	2007	Changes	
			amount	%
- wages and salaries	30,513.2	29,990.5	522.7	1.7
- social security charges	8,192.7	7,949.6	243.1	3.1
- other	10,945.3	9,915.5	1,029.8	10.4
Personnel expenses	46,651.2	47,855.6	1,795.6	3.8
- general structure costs	2,968.0	2,850.4	117.6	4.1
- IT expenses	8,458.3	7,465.1	993.2	13.3
- indirect taxes and duties	6,285.2	6,630.7	-345.5	-5.2
- management of real estate assets	3,238.9	2,650.4	588.5	22.2
- legal and professional expenses	550.6	917.9	-367.3	-40.0
- advertising and promotional expenses	993.4	1,091.4	-98.0	-9.0
- indirect personnel costs	289.4	483.0	-193.6	-40.1
- other costs	6,815.5	8,657.3	-1,841.8	-21.3
- recovery of expenses and charges	-8,350.7	-8,635.9	-285.2	-3.3
Administrative expenses	21,248.6	22,110.3	-861.7	-3.9
- intangibles	42.7	46.2	-3.5	-7.6
- fixed assets	2,005.6	2,061.4	-55.8	-2.7
Adjustments to fixed assets and intangibles	2,048.3	2,107.6	-59.3	-2.8
Operating costs	72,948.1	72,073.5	874.6	1.2

Operating Income

Net operating income reached a total of 42.8 million euro, vis-à-vis 47.1 in 2007 which means -9.1%.

This result derives from a sharp decline in financial income and a slight increase in operating expenses, combined with smaller adjustments for impairment of loans than those effected in the preceding year.

Net Provisions for Risks and Liabilities and Other Operating Income/Expenses

This caption consists of net provisions for risks and liabilities as well as other operating income/expenses.

The amount of net provisions for risks and charges, resulting from the difference between other provisions for 0.6 million euro and use from provisions on exceeding for 0.8 million, accounted for 0.2 million euro opposite to -0.8 million as at the end of 2007 when they were 1.8 and 1.0 million euro respectively.

Other operating income/expenses, net of expense and tax recoveries which are included into other administrative expenses and amount to 2.6 and 5.8 million euro respectively, totalled about 0.6 million euro vis-à-vis 1.7 million in 2007. More in detail, the result was due to:

- extraordinary incomes from a favourable conclusion reached on a legal controversy meaning 1.9 million recovery for the Bank;
- extraordinary expenses relating to a payment due to the Treasury on stale cheques for a total amount of 1.6 million euro.

It can be added that in 2007 we benefited by an extraordinary tax sparing for 1.6 million euro.

Income before Tax from Continuing Operations

Income before tax from continuing operations totalled 43.6 million euro, recording a yearly decrease of 4.4 million euro.

This result includes provisions for risk and liabilities, other income/expenses and profits on sale of investments.

Net Income

Conclusively, consequent to above performances and after deducting taxes for 16.6 million euro, including 3.9 million in respect of IRAP, the Bank recorded a global net income of 27 million euro.

Main Balance Sheet Aggregates

In the Balance Sheet's tables and schedules, aggregates as at 31 December 2008 are compared with the figures as at the end of 2007.

Reclassified Balance Sheet

Assets	2008	2007	in millions of euro	
			Changes amount	%
Cash and cash equivalents	27.0	30.6	-3.6	-11.7
Receivables				
a) Loans to customers	2,326.0	2,356.1	-30.1	-1.3
b) Due from banks	403.4	769.6	-366.2	-47.6
Financial assets for trading purposes	563.0	448.1	114.9	25.6
Fixed and intangible assets	25.1	26.5	-1.4	-5.1
Other assets	90.4	70.5	19.9	28.2
Total Assets	3,434.9	3,701.3	-266.4	-7.2
Liabilities	2008	2007	Changes amount	%
Payables:				
a) Due to customers and securities	2,676.9	2,601.8	75.1	2.9
b) Due to banks	389.1	730.6	-341.5	-46.7
Financial liabilities for trading purposes	34.1	16.8	17.3	
Specific provisions:				
a) Employee termination indemnities	19.9	19.8	0.1	0.7
b) Pensions	28.5	27.9	0.6	2.3
c) Other provisions	4.5	4.6	-0.1	-2.0
Other liabilities	64.2	75.8	-11.6	-15.3
Shareholders' equity				
a) Valuation reserves	-1.8	5.6	-7.4	
b) Reserves	75.0	72.3	2.8	3.8
c) Share capital	117.5	117.5	0.0	0.0
d) Net profit (loss) for the year	27.0	28.6	-1.6	-5.6
Total Liabilities and Shareholders' Equity	3,434.9	3,701.3	-266.3	-7.2

Asset and Liabilities Scheme offers exhaustive and wide analysis of financial highlights. We group them as follows:

- “trading financial assets” include financial assets held for trading (tag 20) and “financial assets available for sale” (tag 40);
- “other assets” consists of hedging derivatives (tag 80), tax assets (tag 130) and other assets (tag 150);
- “due to customers and securities” comprises payables to customers (tag 20) and securities issued (tag 30);
- “other liabilities” takes into account hedging derivatives (tag 60), tax liabilities (tag 80) and other liabilities (tag 100).

Loans to Customers

Loans to customers, consisting of performing and impaired loans, as well as loans represented by securities, totalled 2,326 million euro, showing a downturn of 1.3% y-o-y that corresponds to 30.1 million euro.

in millions of euro

Loans to customers	2008	2007	Changes	
			amount	%
- Current accounts	527.9	595.0	-67.1	-11.3
- Loans	1,296.9	1,238.3	58.6	4.7
- Advances and other loans	371.2	359.0	12.2	3.4
- Repos	0.5	0.3	0.2	66.7
- Impaired loans	92.6	94.6	-2.0	-2.1
- Loans represented by securities	36.9	69.0	-32.1	-46.5
Total Loans to customers	2,326.0	2,356.1	-30.1	-1.3

In a global framework of deteriorating market conditions, loan to customers registered a slowdown mostly attributable to the general attitude of retail customers to reduce their indebtedness along with a steep fall in investment business.

Current accounts figures were negatively impacted by the lack of financial loans transactions with one of Intesa Sanpaolo’s subsidiary and also because of a drop in hot money inflows.

Loans represented by securities include debt securities reclassified out of financial assets held for trading for total 19.6 million euro.

In 2008, the Bank’s activities focused on preserving existing market shares. Given the extremely difficult market conditions, our efforts aimed at providing financial support to all client categories (retail – i.e. households, young and elderly people, immigrants -, corporate – entrepreneurs, artisans, traders and public administrations).

In this environment, local real estate sector showed evident signs of progressive downturn in line with national trend.

Nevertheless, Biverbanca confirmed its leading position as lender of “home mortgages” in the provinces of Biella and Vercelli. At year-end, more than 10,500 mortgage loans were in place, mostly granted to retail customers. Of these, fixed-rate mortgages ratio was 42 percent. Between January and December, the Bank granted 1,083 new mortgages for a countervalue of 215 million euro. As much as 75% of new housing loans were fixed-rate loans. This high percentage against adjustable-rate loans is attributable to a progressive increase in interest rates (Euribor) which variable rate mortgages are linked to.

Additionally, in the same period, the Bank granted 1,719 unsecured mortgage loans and 3,267 personal loans.

Finally, net loans to total assets ratio was 67.7% vis-à-vis 63.7% in 2007.

Impaired Loans (Credit Quality)

A particular attention to risk measurement and the implementation of advanced valuation methods enabled the Bank to monitor credit quality and to keep the non-performing loans to total loans ratio around 1.7%.

Loans to customers: credit quality	2008			2007		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
- Non-performing loans	106.9	-66.8	40.1	84.8	-58.1	26.7
- Watchlist loans	25.4	-8.9	26.5	45.1	-12.1	33.0
- Restructured loans	15.7	-1.3	14.4	17.0	-1.4	15.6
- Past due loans	12.6	-1.0	11.6	20.9	-1.7	19.3
- Impaired loans	170.6	-78.0	92.6	167.8	-73.3	94.6
- Performing loans	2,249.3	-15.9	2,233.4	2,275.4	-13.9	2,261.5
Total	2,419.9	-93.9	2,326.0	2,443.2	-87.1	2,356.1

The “non-performing loans” figure summarizes the gross and net value of customers’ loans, whilst the ratio between value adjustments and total loans evidences the relevant coverage rate of estimated risks.

Value adjustments reduce loans for an amount equal to potential losses. Estimates of these losses have been assessed for all loan categories and examined analytically, for single item, on non-performing, restructured, watch list and past due loans whilst synthetically on other kind of loans to customers.

Based on year-end figures, provisions rate for impaired loans is 45.7%, whilst non-performing loans are covered at 62.5%, watchlist loans at 25.1%, restructured loans at 8.3% and past due loans at 7.9%

Collective adjustments represent 0.7% of total exposure relating to performing loans.

Trading Assets

Trading assets amount to 563 million euro (+114.9 million or 25.7% year-on-year) whose 84.2 percent (or 474.1 million euro) consists of financial assets held for trading whilst the remaining 15.8 percent is represented by financial assets available for sale.

Financial assets	2008	2007	in millions of euro	
			Changes amount	%
- Bonds and other debt securities	451.7	320.8	130.9	40.8
- Capital securities and OICRs	0.0	81.6	-81.6	
Trading securities	451.7	402.4	49.3	12.3
- Bond and interest rate derivatives	6.8	12.8	-6.0	-47.1
- Currency derivatives	15.3	8.8	6.5	73.8
- Capital securities and stock index derivatives	0.3	0.7	-0.4	-59.9
Fair value of credit derivatives	22.4	22.4	0.0	0.0
Financial assets held for trading	474.1	424.8	49.3	11.6
- Bonds and other debt securities	14.9	3.8	11.1	
- Capital securities and OICRs	55.6	0.0	55.6	
Securities available for sale	70.5	3.8	66.7	
- Equity investments	18.1	19.2	-1.1	-5.7
- Private equity investments	0.3	0.3	0.0	0.0
Equity investments available for sale	18.4	19.5	-1.1	-5.6
Financial assets available for sale	88.9	23.3	65.6	
Total financial assets	563.0	448.1	114.9	25.7

Financial assets available for sale contain OICR shares reclassified out of “financial assets held for trading” for an amount of 24.3 million euro.

In addition, this caption consists of proprietary investments in OICR instruments for a balance-sheet countervalue of 55.6 million euro; given the characteristics of these instruments, their valuation is tied to the extreme market volatility which usually deepens in periods of market turmoils like those occurred in the final part of the year.

Fixed and Intangible Assets

The aggregate denominated “fixed and intangible assets” accounted for total 25.1 million euro. We can remark no relevant difference as compared to 2007 and all components are in line with the previous year’s figures.

Net Interbank Position

At year-end, Biverbanca's net interbank position recorded a credit balance of 14.3 million euro vis-à-vis 39 million in 2007.

In detail, loans turned down to 403.4 from 769.6 million euro (-366.2 million or -47.6%). Similarly, deposits reduced to 389.1 from 730.7 million euro (-341.6 million or -46.7%).

in millions of euro

Net interbank position	2008	2007	Changes	
			amount	%
- loans	68.9	93.0	-24.1	117.0
- deposits	-163.9	-78.0	85.9	-
Net interbank position payable on demand	-95.0	15.0	-110.0	-
- loans	334.5	676.6	-342.1	-50.6
- deposits	-225.2	-652.7	-427.5	-65.5
Net interbank position with a maturity date	109.3	24.0	85.3	-
Net interbank position	14.3	39.0	-24.7	-63.3

Time loans amount also include debt securities reclassified out of the trading portfolio for the amount of 16.6 million euro.

Entrusted Assets

Amid the current market turmoil, more investors preferred investing in low risk guaranteed financial instruments. Consequently, Biverbanca proved responsive to client needs in competition with local banks.

in millions of euro

Customer funds	2008	2007	Changes	
			amount	%
- Deposits	168.9	173.5	-4.6	-2.6
- Current accounts and other	1,176.8	1,159.7	17.1	1.5
- Other	6.0	9.9	-3.9	-39.6
- Repurchase agreements	215.7	256.3	-40.6	-15.8
Due to customers	1,567.4	1,599.3	-31.9	-2.0
Securities issued	1,109.5	1,002.4	107.1	10.7
Total direct deposits	2,676.9	2,601.7	75.2	2.9
Indirect customer deposits	2,574.0	2,723.3	-149.3	-5.5
Customer deposits under administration	5,250.9	5,325.0	-74.1	-1.4

Aggregate financial assets held on behalf of customers equaled 5,250.9 million euro, evidencing a slight downturn of nearly -1.4 percent vis-à-vis 2007.

More in detail, direct customer deposits progressed by 2.9% over the past year amounting to 2,676.9 million euro which counts for quite 51% of total aggregate. On the other hand, indirect customer deposits downturned by -5.5% topping 2,574 million euro, being equal to 49% of total aggregate.

Direct Customer Deposits

In 2008, direct customer deposits grew by nearly 3 percentage points, closing the fiscal year with total 2,676.9 million euro and a rise in volume of 75.2 million over 2007.

The yearly performance expressed:

- decrease in repurchase agreement volumes (-40.6 million euro or -15.8%); on the contrary, the average performance advanced by 37.6% year-on-year, indicating that repos are seen by customers as the most appealing investment instrument in front of persistent economic uncertainty;
- growth in Biverbanca Bonds (+107.1 million euro or +10.7%) confirming customer preference for our own products.

While current accounts remained on the previous year's levels, with a total amount of 1,176.8 million euro (+1.5%), saving deposits recorded a slight slowdown (-2.6%). Together, they accounted for half direct customer deposits (50.3%) at year-end.

The Bank reached a direct customer deposits to total assets ratio of nearly 78% opposite to 70% as at December 2007.

Indirect Customer Deposits

Indirect customer deposits, excluding Biverbanca bonds, certificates and managed funds (GPMs), reduced to 2,574 million euro from 2,723.3 at year-end 2007, as a result of the impact of mark-to market valuation.

In 2008, the widespread turbulence in global financial markets pushed world's economies into recession. In this environment, our customers expressed their preference for guaranteed capital investments.

in millions of euro

Indirect customer deposits	2008	2007	Changes	
			amount	%
- Mutual Funds and Sicav	426.1	617.3	-191.2	-31.0
- Pension Funds	3.7	3.7	0.0	0.0
- GPMs and GPFs	177.2	271.9	-94.7	-34.8
Managed Funds	607.0	892.9	-285.9	-32.0
Insurance products	349.5	356.8	-7.3	-2.0
Total managed funds	956.5	1,249.7	-293.2	-23.5
Assets under administration and in custody	1,617.5	1,473.6	143.9	9.8
Indirect customer deposits	2,574.0	2,723.3	-149.3	-5.5

Assets under administration progressed by +9.8% up to total 1,617.5 million euro, representing 62.8% of total indirect customer deposits.

On the contrary, managed funds confirmed their downward trend worsened by weak funds performance and by the fact that customers stepped backward towards more traditional instruments. Albeit insurance products slumped in terms of net volumes, they registered a growth in the sale of new solutions thought to better meet customer needs.

Financial Liabilities for Trading Purposes

They consists of derivatives for trading purposes, valued at fair value, which registered a negative performance in 2008.

Financial liabilities for trading purposes totalled 34 million euro, being 17.2 million more than 2007 results.

in millions of euro

Financial liabilities for trading purposes	2008	2007	Changes amount	%
Debt-related and interest rate derivative contracts	16.4	9.0	7.4	83.1
Currency derivatives	17.4	7.2	10.2	-
Equity and stock index derivatives	0.2	0.7	-0.5	72.2
Credit derivatives	0.0	0.0	0.0	-
Negative fair value of trading derivatives	34.0	16.8	17.2	-
Total	34.0	16.8	17.2	

Shareholders' Equity

Net shareholders' equity, including net income for the period, amounted to 217.8 million euro. It consists of share capital for 117.5 million euro, reserves for 75 million and valuation reserves for -1.8 million, the latter attributable to financial assets available for sale.

in millions of euro

Valuation reserves attributable to financial assets available for sale	Reserves as at 31/12/2007	Change in the period	Reserves as at 31/12/2007
Financial assets available for sale	5.6	-7.4	-1.8
Fixed assets	0.0		-
Cash flow hedges	0.0		-
Special revaluation laws	0.0		-
Other	0.0		-
Total valuation reserves	5.6	-7.4	-1.8

Reserves include the valuation of OICR shares reclassified into "financial assets available for sale". The valuation effects (-5.3 million) resulted into a negative reserve, after taxes for - 3.6 million euro.

Capital for Supervisory Purposes

At year-end, capital for supervisory purposes amounted to 190.1 million euro while risk-weighted assets were equal to 2,441 million, mostly attributable to credit risks and to a lesser extent imputable to market and operation risks.

Total solvency ratio stood at 7.79%.

Ratios have been determined by applying Basel Accord's accounting methods (Basel II) to calculate risk-weighted assets

in millions of euro

Capital for supervisory purposes and capital ratios	2008
Tier 1 capital	190.1
Tier 2 capital	0.0
Capital for supervisory purposes	190.1
Credit risks	123.5
Market risks	7.7
Operational risks	15.2
Prudential requirements	146.4
Capital exceeding minimum requirements	43.7
Risk-weighted assets	2,441.0
Capital ratios %	
Core Tier 1 net of preference shares/ Total risk-weighted assets	7.79
Core Tier 1 / Total risk-weighted assets	7.79
Total capital / Total risk-weighted assets	7.79

Personnel

During 2008, especially in the first half of the year, personnel management has been remodeled to reflect the new structural and organizational environment originated by the fact that Biverbanca became part of the Montepaschi Group.

Since the very beginning of the year under review, human resources management has aimed at developing synergies between Biverbanca and the MPS Group's cultural and operating strategies in order to support the Bank's economic development in compliance with 2008 budget goals.

According to these preliminary assumptions, our initiatives have been focused on developing employee performance appraisal programs and outlining policies based on the enhancement of individual professional skills, by emphasizing enduring involvement and motivation and recognizing at the same time the importance of reaching a balance between individual objectives/expectations and company's needs.

Biverbanca's Industrial Plan 2008-2012, in compliance with the objectives of MPS's Business Plan approved in June 2008, outlined human resources management guidelines, then adopted in the last months of the year with a medium-long term vision. According to the Industrial Plan's global framework, from 2009 onwards our bank will extend its branch network considerably while strengthening its "territorial leadership" in traditional strongholds.

In order to achieve these goals, the Plan highlighted the importance of improving commercial efficacy and operating efficiency underlying the existing distribution model denominated "Prism", by starting from the analysis of critical issues appeared during its application (i.e. size of portfolio assigned to customer managers, role played by customer managers, centralizing back office transactions processing, etc.).

In this connection, we decided to implement Montepaschi's service models, by adapting them to our own features.

In January 2009, this project will commence starting from a "pilot phase" which entails the testing of the new model in some locations (2 branches, 1 Corporate Centre and 1 Private Banking Centre) before rolling it out on the entire branch-based network.

To this end, we developed assessment initiatives and carried out training projects, to be completed in 2009, which would help us pursue the following goals:

- enhancing professional skills with particular respect to customer relations;
- ensuring the cover of managerial positions, particularly in the branches which are planned to open in the near future;
- ensuring maximum level of adequacy of each employee with respect to the profile set for the position filled.

In other words, this will involve a more general way of approaching to the Group Identity, aimed at favouring value creation process from transferring Montepaschi expertise (products, services, organizational models and business platforms) into our Bank.

As at the end of 2008, Biverbanca had a total 697 employees, added to 5 executives seconded from Banca MPS Group.

Women represent 52% of the total workforce. More than 70% of employees works on the front line, in our branch network and at our district directorates.

Report on Operations

Workforce by contract types	2008		2007		Changes	
	number	%	number	%	number	%
Top managers	6	0.9	6	0.9	0	0.0
Executive cadres	200	28.7	196	27.9	4	2.0
3rd professional area	475	68.1	484	68.8	-9	-1.9
1st and 2nd professional areas	16	2.3	17	2.4	-1	-5.9
Total employees	697	100.0	703	100.0	-6	-0.9
Staff seconded from other Group companies	5		2		3	
Total workforce	702		705		-3	-0.4

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Staff seconded from other Group companies	5		2		3	
Total personnel	702		705		-3	-0.4

Staff numbers decreased by 3 people vis-à-vis 2007, as a consequence of the following changes:

- our total workforce fell by 38 employees, including 6 voluntary resignations, 2 untimely deaths, 26 on term contracts (of these, 25 were hired again), 3 retirements and the conclusion of the job contract of 1 executive formerly seconded from Intesa Sanpaolo Group;
- personnel increased by 35 new recruitments. Of these, 30 were hired on term contracts and 1 permanently. The remaining 4 human resources were enrolled from our Parent Company.

Workforce	31/12/2008		Terminations 2008	31/12/2007	Changes	
	Recruitments 2008				number	%
Fixed-term contracts	692	33	11	670	22	3.03
Short-term contracts	5	30	58	33	-28	-84.8
Total workforce	697	63	69	703	-6	-0.9
of which: part-time contracts	83			88	-5	-5.7

During the year, 32 employees previously engaged on short-term contracts were hired permanently.

In 2008, special attention was paid to employees belonging to protected categories according to Law 68/99 in order to create the most suitable working conditions by taking care of their needs, adapting workplaces and information tools in order to make them fully accessible and userfriendly.

In compliance with law regulations, we closed agreements with Employment Centres in Vercelli and Turin (in addition to the existing accord with the Province of Biella) to define multi-year recruitment plans.

Consequently, during 2008, among new recruitments, as above illustrated, there were 4 people belonging to protected categories. Moreover, we are planning to take other two into service in the first month of 2009; of these, one position will be enrolled to fill law requirements in the Valle d'Aosta region.

In 2008, training courses were about:

- commercial initiatives to get acquainted with new product range (555 attendants for total 1,600 hours);
- courses on safety at workplaces according to Italian Law Decree 81/08 (37 employees for about 264 hours);
- training lessons to new recruits (24 people for about 270 hours);
- credit training course (8 employees for total 40 hours);
- meetings (259 participants for about 490 hours);
- external training education (68 attendants for about 669 hours);
- distance training (359 people for 475 hours);
- compulsory training programs as required by ISVAP Regulation 2006, entailing both initial and update courses, in-class-courses and distance learning (797 participants for 18,765 hours); these sessions involved the whole branch network, including front office employees.

In all, staff attended 2,107 training sessions (involving 604 employees) for total 22,573 hours.

In an effort to strengthen our ties to community, in synergy with local institutional players (schools, university, etc.), we have signed an agreement with the University of Turin, Department of Economics, located at Città Studi in Biella.

This co-operation will allow us both to carry on activities in areas of mutual interest, concerning the planning of masters, stages, etc. In fact, from the beginning of 2009, our Bank will be delighted to welcome students and new graduates for stages and post-degree experience.

With great sadness, we wish to express our deep condolences to the families of our colleagues who prematurely died in 2008, being Giovanna Audisio and Enzo Mino and of our former colleagues, Celestina Bertucci, Luigino De Barba, Ivano Garibaldi, Cesare Morgando, Franco Nalin, Fausto Ogliaro and Domenico Schiapparelli.

Operational Structure

At the end of December 2008, Biverbanca's network counted 105 branches. The Bank's presence was further underpinned by 110 ATM cash dispensers and 3,083 POS terminals.

Branch network	2008		2007		Changes	
	number	%	number	%	number	%
Region of Piedmont	98	93.3	98	93.3	0	0.0
Province of Biella	46		46			
Province of Vercelli	47		47			
Province of Alessandria	1		1			
Province of Novara	2		2			
Province of Turin	2		2			
Region of Aosta Valley	5	4.8	5	4.8	0	0.0
Province of Aosta	5		5			
Region of Lombardy	1	1.0	1	1.0	0	0.0
Province of Milan	1		1			
Region of Lazio	1	1.0	1	1.0	0	0.0
Province of Rome	1		1			
Total branches	105		105		0	0.0
ATMs	110		107		3	2.8
POS terminals	3,083		3,037		46	1.5

Of all branches, 98 are in Piedmont, where the Provinces of Biella and Vercelli counted 46 and 47 outlets respectively, whilst the remaining five branches are located in the neighbouring Provinces of Alessandria, Novara and Turin.

Outside Piedmont, 2 of our outlets are situated in the metropolitan areas of Milan and Rome and 5 of them in the Aosta Valley.

In the course of 2008, countless activities were carried out in an effort to renovate and restyle both branches and head office premises. Moreover, during the last quarter, we developed start projects as set forth in the Business Plan 2008-2012.

During 2008, our operational structure was redesigned by several construction projects.

- We completed:
 - emergency sites in Vercelli (Piazza Cavour and Piazza Zumaglini) in compliance with our Business Continuity Plan;
 - replacing ATM cash dispensers at Livorno Ferraris and Quaregna with new ones suitable for use of microchip cards;

- enhancement of ATM location at via Garibaldi, Biella which has been equipped with a new automated teller machine and a cash machine;
- extraordinary maintenance works at Gattinara branch where an entrance booth was installed;
- printing of new non-negotiable cheques according to the requirements of law;
- replacing of ATMs (second phase) suitable for use of cards embedded with microchips;
- sale of high-polluting old company's cars replaced by ecological vehicles hired on long-term and short-term car rental;
- improving security equipment at many counters;
- upgrading of plant apparatus and bettering of environmental conditions in the branch network through extraordinary maintenance works concerning:
 - building restructuring (Crescentino, Sandigliano, Trino, Vercelli – Zumaglini Agency);
 - comprehensive requalification of workplace environment (Cavaglià, Motta dei Conti, Campiglia Cervo);
 - equipment replacement/installation at our Headquarters in Biella, via Carso (fire detection devices, air conditioning systems);
 - promotion of the Bank's artistic patrimony;
 - opening of three new off-premise ATMs (at Città Studi and inside the commercial centre "Gli Orsi" in Biella);
 - electronic handling of certificate of conformity for cars at relevant branches.
- We carried on working projects to:
 - reduce paper use by replacing printed forms with electronic modules;
 - upgrading of plant apparatus and bettering of environmental conditions in the branch network through extraordinary maintenance works concerning:
 - rationalization of TD/electric power equipments and telephone equipment replacement;
 - substitution/potentiating/upgrade of heating and air conditioning systems;
- We set up plans to:
 - open a new branch in Ivrea;
 - replace ATMs (third phase) suitable for use of cards embedded with microchips;
 - comply with MPS directives in order to co-ordinate actions concerning:
 - visualization of bank banners;
 - e-procurement strategies and company fleet management;
 - adoption of the Group building and re-styling standards based on energy saving requirements (application of *acceleration performance* model to branches);
 - revision and further improvement of workplace safety and health programs as foreseen by the Italian Law Decree 81/08. To this end, we:
 - signed an agreement to entrust the external Protection and Prevention Services to our Parent Company;
 - created a special task unit inside our Operations Division;
 - prepared a Risk Assessment Statement in compliance with Group standards;
 - development of the Industrial Plan 2008-2012 through:
 - adoption of general principles attaining to Group business plans;

- planning objectives to open new branches (time and site);
- locating premises for new branches to be opened in 2009 inside the areas foreseen by our Industrial Plan.

Business Development

Throughout 2008, our business activities developed along lines aimed at strengthening our presence in the core territory through constant support to internal sustainable growth. Striving to pursue its vocation of being the bank next door, Biverbanca committed to focus all commercial initiatives on community involvement and closeness to the territory.

Last year was characterized by the launch of new products thanks to agreements closed with the following Group companies: Axa Mps Assicurazioni Vita SpA, Monte Paschi Asset Management SGR SpA, MPS Alternative Investments SGR SpA, Willis Italia SpA, MPS Commerciale Leasing SpA, Monte dei Paschi di Siena Leasing & Factoring, Banca per il servizi finanziari alle imprese SpA, Consum.it SpA and Bright Oak Plc.

Moreover, we changed the name to other traditional products, such as current accounts, home mortgages and personal loans.

A market segment analysis will illustrate our activities more in detail.

- **Retail Market**

Funds Management

Our offering of investment products has further enriched.

- **Insurance packages.** Our range of products enlarged with new insurance policies introduced in co-operation with Axa MPS Assicurazioni Vita and Axa MPS Financial.
Among our countless offers, we can number Bussola Speciale, Double Prestige, Investimento Sicuro, Double Engine and Double Engine PAC (the latter, in particular, refers to multi-line life insurance policies created by Axa).
In addition, we proposed new unit-linked policies, such as Accumulator Line, which allow customers to diversify their investments in assorted insurance funds, depending on their risk inclinations.
Index-linked life insurance policies encountered great success among our customers so that total budgeted amount was sold out.
- **Collective investment schemes.** We started the distribution of Ducato Funds and Bright Oak Sicavs.
- **Funds under management.** In relation to this segment, last spring we started the application of Mifid regulations to customer portfolios. As at the end of December, total aggregate of managed funds reduced albeit yields were greater than the equivalent benchmark of performance. In extremely volatile equity market conditions, strategies adopted to protect portfolios (above all, the

underweight on equities for all business lines and the absence of equity component in flexible investment schemes) allowed us to cushion customers from further losses. Furthermore, the strategic approach towards stock markets at year-end enabled flexible schemes to benefit from market rebounds so that full-year 2008 results underpinned strong performance, particularly brilliant in relation to the spreads on benchmark. Also, in July we started an advisory rewarding co-operation with MPS Asset Management.

- **Third-party structured products.** Thought to meet customer demand for safe investments, third-party structured products posted a strong volume growth during the year. More in detail, our offerings included eleven bond issues and ten index bond issues, entirely sold out.
- **Bond issues.** In 2008 we launched six Biverbanca Bond issues, extremely appreciated by our customers for their plain and simple structures.
- **MP Fiduciaria.** We set up service agreements.

During first half-year, our sale network spent great efforts in conforming all customer documentation to Mifid standards and at the same time promoted an intensive advisory activity to support clients.

Debt Management

In 2008, housing markets gave signs of sharp decline. Nevertheless, our lending activity to households and enterprises continued at a robust pace. In this connection, we also renegotiated existing mortgages by remodeling terms of family loans because of unprecedented market conditions which affected customer capabilities to repay debt.

In this context, Biverbanca implemented provisions foreseen by the agreement that ABI (Italian Banking Association) signed with the Ministry of Economics and Finance for renegotiating variable rate loans finalised to purchasing, building or restructuring of the principal residence.

Clients have been advised by letter about the options given by the new regulations, that were:

- access to “Tremonti Law Decree” for renegotiating loans;
- rate redefinition and/or maturity deferment;
- subrogation of mortgages which entitled debtors to change the original lending bank with another one with a better offer in interest rates;
- leave loan terms unchanged;
- elect more than one aforementioned option.

Renegotiation process was absolutely costless for the customer.

Biverbanca’s branch network carried out advisory activity by providing full information to clients and then collected their acceptance to the above terms.

In order to immediately aid customers having difficulties in repaying debt, last August we started contacting clients having unpaid loan installments in order to ascertain the exact customer situation and find the proper solution.

In an effort to boost our lending activities, the number of signed agreements with real estate agencies increased considerably.

Moreover, following the agreement signed with CNP Assurance SA, we revised insurance contracts on transactions exceeding 30 years.

At year-end, in co-ordination with our parent company, Monte dei Paschi di Siena, in compliance with the provisions set out in Italian Law Decree 185/2008, namely “Anti-crisis urgent measures to support families, work, employment and business”, we launched a new type of variable rate mortgage loan tied to the ECB rate. Moreover, we have also arranged the application of other provisions included in the above referred law decree relating to maximum interest rate permitted on first home variable rate mortgages granted to retail borrowers.

Further to the agreement Biverbanca signed in 2008 with “Consum.it”, leading company in the consumer finance sector, we closed arrangements with many dealers for granting consumer credit and took initial steps to distribute tailor-made solutions to private customers.

Retail companies could rely on a full range of lending products varying from medium and long term financing through to leasing transactions. Especially the latter sector recorded growing volumes throughout the year with total 66 contracts for an amount of 4.4 million euro.

Biverbanca also offered tailor-made investment and lending solutions for the farming sector.

New Offerings

- **ContoMolto**: a new current account launched at end August dedicated to those customers having need of high remuneration to their cash eligible liquidity; this product has been favourably welcomed by our clientele and helped us acquire new customers.
- **CartaSi Eura**: a revolving credit card, addressed to new potential clients, which drove successful results, especially in the second half of the year.
- **ContoCommercio**: a current account whose marketing started in December 2008. This account was thought to offer business customers integrated services at defined and competitive costs and at the same time to curtail the use of cash as foreseen by domestic and European guidelines aiming at a sharp reduction of cash in circulation. The account package also includes the opportunity to handle cash flows through **Conto Anticipi POS**.

In addition, we further improved **BivercontoWeb** to better serve those customers keen on remote channels.

Social Initiatives

Biverbanca’s closeness to the areas where it operates is evident in the countless initiatives taken to support the socio-economic needs of its local community, such as **Biveranticipazione**, an advance payment of unemployment indemnities to those

workers who are entitled to access the Extraordinary Redundancy Fund (during the year fifteen businesses made recourse to it) and **Bivermaster**, addressed to university students.

Biverbanca confirmed its commitment to safeguard environment by promoting eco-friendly sustainable products:

- **Eco-drive project**, ended on 31 May 2008, encouraging the replacement of polluting vehicles, was presented in co-operation with the Provinces of Biella and Vercelli;
- **Photovoltaic package**, with suitable solutions for both domestic dwellers and enterprises willing to take advantage of the financial, fiscal and environmental benefits offered by existing laws.

Relationship with the Public Authorities

Biverbanca maintains longstanding relationship with public authorities on behalf of which it collects taxes and provides cash services.

In 2008 the Bank won the European auction, announced last June, for the service of the Local Health Authority (A.S.L.11) in Vercelli, expired on 30 September. Consequently, Biverbanca will provide services until 31/12/2013.

Furthermore, about 80 service agreements with important local authorities expired at year-end (among them, we can boast those with Municipalities of Cossato, Varallo and Borgosesia which were all renewed and entrusted to the Bank after winning public auctions).

As at the beginning of 2009, total public authorities serviced were 312.

• **Corporate Market**

New Projects and Products

During the course of 2008 our Parent Company launched three press campaigns dedicated to the corporate segment, where the logo Biverbanca appeared for the first time.

Advertising initiatives concerned three main group projects addressed to businesses: "**Diagnostica**", "**Progetto Distretti**" and "**Patto**". Whilst the first two projects will be developed during 2009, activities relating to "Patto" have been almost completed, started by adapting Mps Group's credit master agreements and then carried on by including the restyle or launch of a wide range of lending offers. This product is extremely innovative as it centres on a strict co-operation between enterprises and the Bank in defining and sharing a growth path leading to the company's future development.

In particular, the revision of our lending product catalogue entailed the setting of an innovative loan to consolidate short-term debt as well as a new lending solution addressed to businesses investing in medium-large size photovoltaics plants.

Business development with Confidi / Category Associations

In 2008 we continued our meetings with Confidi's associated companies in order to draw down a common activity plan for 2009 (which entailed a testing phase during the last months of 2008) and a full revision of existing Agreements (application of the ratings-based pricing also to the short-time lines; use of three-month Euribor as benchmark rate; spreads redefinition) in line with the approach assumed by the Confidi Staff at our Parent Company.

We began with renovating Agreements with Findindustria and Ascomfidi, Vercelli and Biella agencies. Additionally, during the first months of 2009 we are going to revise existing Agreements with Fincom, Confartigianato Fidi Piemonte, CogartCNA and Ciessepi. On the contrary, the novation of Eurofidi and Unionfidi's Agreements will be effected in co-ordination with MPS.

With regard to the trade sector, on the back of incentives promoted by the Category Associations and Confidi's associated companies, we prepared a "loan stimulus package" aimed at favouring investment and consolidating short time positions. Whilst the offering was first included in a master agreement signed with Ascomfidi, Biella and Vercelli agencies, it is our intention to close similar contracts with other Confidi's associated companies and local Category Associations, too.

During the course of the year, we also signed an agreement with Confidi Cogart-CNA Piedmont, according to which the co-operative company guarantees the loans granted by the Bank, as suggested by existing anti-usury legislation.

In connection with programs undertaken in concurrence with the above referred Company Associations, we want to remind the agreement with CNA–National Confederation for the Craft Sector and Small and Medium Enterprise Association, representing enterprises and service companies associated to CNA in the Biella district, including entrepreneurs, company owners and directors.

Financial products and Group initiatives

Throughout 2008, we strengthened collaborative relationship with **MPS Commerciale Leasing**. The range of leasing products offered by the company, a Gruppo Montepaschi's subsidiary, attracted our corporate customers because of its cost-effectiveness and the quality of the services provided. As a consequence, the number of contracts and total volumes progressed considerably. In this respect, we acquired new customers, taking them away from our competitors.

Biverbanca offers factoring solutions to its customers, too. To this end, an initial work plan was set forth with **MPS Leasing and Factoring**, a Group's company, to

distribute its factoring products. This activity is carried out at our Corporate Centres focusing on affluent clients.

During 2008, we started collaborating with **MPS Capital Services Banca per le Imprese**. Thanks to this co-operation, we were able to propose commodity transaction hedges to our customers.

Furthermore, initial meetings with car sellers were planned to present products by **Consum.it**, a Group affiliate being leading provider of consumer credit and financial services. As a consequence, agreements were closed with several companies thus increasing the number of consumer-credit dealers.

Finally, business development was supported by persuasive communication campaigns. Among our numerous initiatives, we can number:

- advertisements and articles on 25 assorted magazines and newspapers, at different intervals, according to a calendar co-ordinated by our Retail and Corporate Markets Departments;
- vehicles graphics and bus wrap advertising;
- marketing campaigns inside Commercial Centres Carrefour in Burolo, Aosta and Vercelli;
- promotional materials like brochures, flyers and sandwich boards;
- our brand advertisement inside main sports centres;
- participation in subject-specific exhibitions to support the launch of innovative products (i.e. Photovoltaics).

Great efforts were expended to sponsor more than 150 events, including sports competitions, particularly in the juvenile sectors, as well as leisure and cultural activities, such as concerts, shows, historical commemorations, performances and conventions.

Olympics of the Heart

During the first half of the year, we collaborated on an important solidarity initiative, namely “Products of the Heart – Biverbanca gives Lollo as a present for you”, consisting of two main events, being “cashiers for one day” (two days fund-raising campaign held at Main Branch and Agency 8 in Biella and at Agencies 1 and 2 in Vercelli, which saw the participation of some promoters of the Olympics of the Heart) and “banking products of the heart” campaign which took place from 6 March through to 18 April.

Generous donations from our customers (11,877 euro), enriched by Biverbanca’s contribution of one euro for each product sold (total 1,818 products), helped realize charitable projects in favour of Meyer Paediatric Hospital in Florence as well as Biella and Vercelli General Hospitals.

In particular, with regard to the two above mentioned local hospitals, Biverbanca donated two cheques for the amount of 10,000 euro each which will contribute to create a modern “neonatal intensive care unit” inside the pediatrics section of the Biella

Sick Hospital and to acquire medical equipment for a modern “milk bank” at Saint Andrew Hospital in Vercelli.

Evolution and Planning

Since 2007 had closed with the sale of Biverbanca’s majority stake held by Intesa Sanpaolo to Banca Monte dei Paschi di Siena, the year 2008 opened with various activities meant to gradually align the Bank to the new Parent Company’s service models, operating processes and commercial offerings.

In particular, while reviewing the Bank’s organizational structure, we adopted Rule No. 1, which defined the central structures for directional coordination, thus moving the Bank towards a first alignment to the Group organizational model and leaving room for further implementation of principal Group directives and regulations about the following subjects:

- Market abuse directive (8.4.2008)
- Transparency in banking services and transactions (8.4.2008)
- Usury (8.4.2008)
- Legislative Decree 231/2001 (8.4.2008)
- Law 262/2005 (8.4.2008)
- Business Continuity Management (8.4.2008)
- Risk Governance (8.4.2008)
- Operational Risk Governance (8.4.2008)
- Relevant Risk Monitoring (28.4.2008)
- Financial Restructuring (28.4.2008)
- Industrial Production Chain and Commercial Distribution (28.4.2008)
- Building Cost Planning (28.10.2008)
- Logistics Cost Planning (28.10.2008)
- Inspection Expenses (28.10.2008)
- Advisory and Outsourcing Expense Planning (28.10.2008)
- Legal Cost Planning (28.10.2008)
- Information Technology Planning (28.10.2008)
- External Relations and Communication (28.10.2008)
- Non-compliance Risk Management (28.10.2008)
- Code of Ethics (28.10.2008)

In order to optimize commercial channel management, new products were promptly released to the branch network. Likewise, procedural systems were updated to allow the sale of Monte Paschi Asset Management, AXA MPS Vita and Axa MPS Financial’s products.

Moreover, operational support centres and communication channels with our Parent were activated. Then, a preliminary analysis of organizational standards was conducted with the aim of developing Group distribution and operating models. This consented to define a pathway leading to the new service models (Areas, Branches, Business Centres and Private Centres) as well as to start relevant organizational projects.

In the second half of the year, shareholders' willingness to define new strategic lines in the Business Plan 2008-2012 opened novel opportunities of starting training activities in relation to the foreseeable information system migration and conducting a deep analysis aimed at calculating the future organizational and procedural evolutions impacting both our headquarters and branches.

In order to abide by new Italian and EU regulations, we carried out necessary activities to manage the impact of new provisions.

Here below there is evidence of some actions:

- introduction of MIFID directive whose rules required revision of all documentation pertaining to customer custody deposits, funds under administration and managed funds to reflect new trading regulations;
- implementation of SEPA scheme for credit transfers by realigning electronic archives;
- within Basel II we reclassified mortgage guarantees in order to properly measure the appropriate capital to be put aside; moreover, software was updated to extract the account matrix pursuant to the Bank of Italy's new requirements;
- the application of the "Market Abuse Discipline" entailed the creation of a "Register of persons authorized to access relevant information". In addition the legislative decree 231 required the adoption of self assessment techniques (Organizational Model for risk control) which involved all Divisions, Staff subdivisions and the District Directorates in the filling of specific questionnaires;
- the company CISQ CERT S.p.A. in Milan was appointed to effect inspections at our headquarters and branches in order to assess our compliance with provisions set forth in the seven initiatives by Patti Chiari and release certification accordingly.

In relation to the replacement of cards with microchip technology, in observance to ABI's guidelines on implementation of European directives, we continued the enhancement and rationalization of our banking activities. In particular:

- we distributed new embedded microchip cards (Europay) replacing old magnetic strip cards. The process is expected to be completed over the coming months;
- we migrated total POS machines and about 80% of ATMs to the new standards.

During the course of the year, relevant organizational projects were accomplished:

- web portal activation for issuing certificates on the conformity assessment of vehicles;
- creation of a specific information database for activating controls on our commercial activities within a project known as C.A.R. (Performance Measurement Dashboard);
- migration of existing transaction processing appliances (respectively Re.di.Ven in use at our branches and 3270 serving our head offices) to a new integrated platform (Personal Web Station);

- optical data storage of contracts and signature specimen, electronically archived to secure immediate access and duplicate all paper documentation concerning securities, loans and mortgages transactions;
- online collection of cash transactions (online payments) within the SIOPE (the State General Accounting Department) project, involving several public authorities serviced by the Bank;
- activation of communication channels between Cedacri and Mps Group's Operating Consortium for the exchange of data files storing information needed for producing and sending the supervisory reports intermediaries are required to transmit to the Bank of Italy as well as for statistical, commercial and accounting purposes;
- preliminary activities including personnel training to release integrated modules of credit processing procedures ("Controllo Autonomie" and "Fidi Promiscui");
- procedural implementation for mortgage portability pursuant to "Tremonti Decree" allowing borrowers to renegotiate loans;
- broadening of transmission band at branches (minimum connection speed 512 Kbps) and head offices (30 Mbps line speed);
- power enhancement of e-mail transmission, improvement of anti-spam devices, assignment of personal e-mail accounts to all employees and integration of mobile devices;
- anti-money laundering interventions to adapt internal guidelines for all concerned offices;
- rationalization of credit policy process by creating a Credit Lab and centralizing operations at our back office;
- layout of a new web site in co-ordination with our Parent Company;
- Business Continuity planning activities.

Risk Management and Internal Controls

Internal Controls System (hereafter referred to as ICS) consists of all organizational structures, procedures and regulations aimed at guaranteeing – through proper risk assessment, management and monitoring – sound corporate governance in line with objectives. In other words, ICS measures corporate governance by focusing on strategy performance, goal fulfillment, production and service management, reliability and integrity of information in full respect of internal and external regulations while preserving the value of our activities.

In this connection, internal controls form an integral part of our daily activities and involve the Bank's administrative, executing and control functions. In a more general way, they impact all personnel.

ICS provides for a clear definition of roles and responsibilities at three levels of controls.

The first level entails the internal controls of production, business, administration, operations, support and infrastructure management processes. It deals with:

- government control of business, aimed at evaluating fulfillment of predetermined objectives with particular reference to the expected risks/returns.;
- line controls which guarantee smooth executions of transactions, performed by our production structures (hierarchical controls) or directly integrated into back-office procedures;
- regularity controls, that means assessing observance of rules and procedures as well as compliance with regulations and operational limits assigned to specific functions. They also include controls on balance sheet assets performance carried out by the Bank's central structures in relation to their areas of competence;
- compliance controls pertaining to the Bank's central structures performed on the balance sheet and business activities under their supervision. This assessment aims at producing revenue enhancement and statistics improvement by measuring company performance against industry benchmark, considering operating results and examining possible relation between balance sheet assets and business activities.

The second level involves certain Control Functions which, being independent from operating processes, have the role of governing and monitoring corporate risks under specific responsibilities assigned. Control Functions include, among others, the Legal Compliance Function, the Risk Control Function measuring Financial Data Reliability and the Planning and Management Control Function.

Finally, the third level refers to Internal Audit activity primarily directed at monitoring all ICS components with the objective of verifying functionality and assessing compliance with the Bank's organizational evolution.

Internal Audit's independence is guaranteed through different levels of relationship with Corporate Bodies. Moreover, functional autonomy is secured by organizational positioning which entails independency from operating unit responsables.

In order to further strengthen supervisory of risks related to financial activity, a Finance and Market Risk Committee has been created, chaired by the General Manager.

Against this background, Biverbanca has pursued Group guidelines – by issuing directives, some of them specifically dealing with risk management – in order to achieve step by step a growing alignment to Group controlling methodology.

Internal Control Systems: Internal Audit Activity

Following the definition of Internal Control Systems' principles, Internal Audit activity has been further described in the Rule No. 1, dealing with the Organizational Structure and Business Model of Biverbanca's Head Management Offices. This document suggests that the mission of the Internal Audit and Claims department is to provide independent, objective assurance and consulting services designed to improve control processes and risk management, also through a programme of local inspection visits, as well as to assess the adequacy of the internal control system in order to promote a culture of efficient and effective management within the Bank.

In addition, internal audit performs supervisory activity pursuant to the Consob (Italian Companies and Stock Exchange Association) and the Bank of Italy's directive, namely "*Supervisory Regulations on Asset Management Companies/Collective Investment Undertakings*" and consistent with Consob Regulation No.16190 implementing the provisions on Intermediaries of Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance).

Furthermore, Internal Audit provides support to the General Management by assessing that the development of the Bank's strategies, policies and governance practices are in accordance with risk control processes, also making specific recommendations, if necessary.

Internal Audit is also a valuable support to the Supervisory Body set up under Legislative Decree No. 231/2001, having introduced the concept of "administrative responsibility of legal entities", with the aim to evaluating the adequacy and effectiveness of the organizational model adopted.

Moreover, internal audit's role is to assess the Bank's administrative/accounting processes also to provide proper information to Banca Monte dei Paschi di Siena's Internal Control Area so that its relevant Bodies are able to issue the required certification in accordance with the provisions of the Savings Law No. 261/2005.

Internal Audit department deals with customer claims, too. After recording full information on outstanding cases, it works on settling them.

In order to coordinate its countless activities, Internal Audit sets forth an annual plan to be approved by the Board of Directors, after being evaluated by our Parent Company with specific reference to its adherence to audit general guidelines and adequacy of risk management processes.

Results of the analysis are presented to the General Management and also reported to the relevant Functions depending on issues dealt. At least every six months, Internal Audit department draws up a written report for Company Bodies where it expresses an opinion on outcomes and gives its evaluation of internal controls and ICS as a whole. Then, copies of these reports are transmitted to our Parent Company. As for customer claims and related settlements, Internal Audit sends periodic breakdowns to the Legal Compliance Function for an opinion.

Against this background, audit activity conducted in the course of the year through direct inspection visits or analysis of information held, contributed to draw an accurate picture of the Bank's operating processes and service quality which did not evidence any particular critical issues in 2008, except those related to unfavourable market conditions. Consequently, internal audit department could express a satisfactory opinion on internal control systems.

In connection with customer claims and following above assumptions, 2008 registered a further decline in opened cases. These results – despite of new complaints linked to recent bankruptcies of big financial intermediaries (Lehman Brothers and others) – allowed us to reduce legal fees and expenses linked to defaulted bond litigations settled in a conciliated manner. Moreover, considering customer claims as a whole, no structural defectiveness has been detected.

On the subject of “Administrative Responsibility of Legal Persons – Legislative Decree 231/2001”, Internal Audit effected controls on specific operating activities, without anyway revealing any illegal conduct or law violations to be reported to the Supervisory Authority. In general, we reviewed the Organization Management and Control Model according to directives provided by our Parent Company whilst more in detail, we conducted the risk self-assessment to measure any potential breach of Law 231.

As in the past, anti-money laundering programs revealed no suspicious transactions.

Finally, pursuant to the articles 33-36 and annex B (handbook of minimum security requirements, clauses 19 and 26) of the Law Decree No. 196 dated 30 June 2003 – Code for Protection of Personal Data, we completed the “Security Program Draft” about minimum security requirements for the treatment of personal data.

Credit Risk

The Bank’s lending process, aimed at improving loan portfolio quality and the resulting containment of cost of credit, develops along three phases - granting, management and control – each making use of the following system procedures:

- the “Electronic Loan File” procedure, including balance sheet assets and financial highlights as well as qualitative and performance analysis according to customers’ line of activity;
- “Credit Rating System”, a procedure assigning an internal scoring to measure and manage credit risk under Basel II provisions by assigning a valuation of creditworthiness to obtain scale range values depending on the different levels of yearly default probability, desumed from historical data of insolvency rate by homogeneous classes of customers. Hence, the CRS can unveil highly risky positions;
- The “ICC – doubtful loans” procedure for monitoring anomalous loans with a higher risk of default.

In order to support the first two procedures and improve the accuracy of credit evaluation, we made use of the CRIF data bank which elaborates a final scoring associated to financial and performance analysis of customers by business to consumer classes.

Under the organizational point of view, the lending process is subject to the approval of different bodies which the Board of Directors has empowered with maximum lending operational limits depending on the customer’s line of activity, risk types and guarantees received.

At a first stage, each loan request entails accurate analysis of client creditworthiness performed by the customer relationship manager, then followed by a global evaluation issued by a team of different functions (branch manager, corporate centre responsible, head of private centre, director of district directorate) and ends with the final loan approval.

Moreover, we adopted the Group directive dealing with controls management and coordination of relevant exposure risks.

Similarly to the granting process, also credit control management is handled through dedicated procedures which are able to detect loans with high default probability or showing signs of irregular performance. These loans are then treated as doubtful loans.

Initially, critical situations are checked by the customer relationship manager who has got a predetermined period of time to settle problems. On the contrary, should the situation not improve, positions are assigned to a higher level of authority.

Credit management control may be segmented, that means dividing customers into categories by line of activity in order to focus monitoring on those businesses showing climbing default rates. This activity is performed using *Credit Rating System* procedure which enables users to trace critical customers and businesses by means of tables and grids.

Market Risk

The measuring of market risk is centred on the variance-covariance based daily VaR method, once employed to evaluate our trading book only and then adopted to measure the banking book, as well, so that we could calculate the Bank's global exposure to market and structural interest rate risks.

After conducting deeper analysis in collaboration with our parent Company in the first months of 2008, we decided to limit value-at-risk calculation to the trading book only and to employ sensibility metrics to measure market risk incurring in banking book positions because considered more stable and reliable, being similar to the accounting methods used to assess them. In this connection, we underpinned the necessity to activate a revision of operational limits for financial trading.

The ongoing global financial crisis, originated in 2008 by the widespread use of sub-prime mortgages and then revealed deeper than expected, caused reflections on the Bank's global VaR, unrelated to risky positions held which on the contrary suffered only small harmless alterations during the period considered. In fact, increasing VaR was primarily influenced by the market factors used in the calculation process, such as sudden steep volatility upturn and relevant movements of indexes linked to interest-rate curves for different maturities.

By examining the performance of VaR registered on the trading book and the banking book separately, we found out that structural interest rate risk was the main cause of exposure level. This induced us to apply the same sensitivity parameters used by our Parent Company, integrating them with the mitigating effect of core deposits (being the most reliable source of funding). Thus doing, potential market risk in the banking book would be aligned with MPS Group's levels.

On the other hand, after having reached a peak because of market instability, trading book exposure returned to average values in the last weeks of 2008.

Operational Risk

After its admission to the MPS Group, Biverbanca discontinued the methodological approach and operational instruments acquired from Intesa Sanpaolo, our former Parent Company. Pursuant to Basel II capital adequacy rules, our Bank employs the *Basic Indicator Approach* (B.I.A.) to measure capital to be set aside for operational risk. In this connection, we keep records of operational losses ever occurred and guarantee the continuity of the *Loss Data Collection* (L.D.C.) in view of a future implementation of the *Advanced Measurement Approach* (A.M.A.).

In particular, on January 2008 we developed an internal version of L.D.C. which will remain in use until the equivalent MPS instrument is not available. Meanwhile, we are maintaining contacts with our Parent Company in order to co-ordinate synergies and methodological approaches to the operational risk management.

During the first months of 2009, Biverbanca is planning the first cycle of *Self Risk Assessment* exercises in collaboration with Banca MPS.

Counterpart Risk

The size of operating limits allocated to each individual institution is determined by way of an internal credit scoring system mostly based on the ratings assigned by leading international agencies, balance sheet analysis, ownership and country risk. Furthermore, credit limits avilment as well as any control/approval of transaction amounts temporarily exceeding assigned lines are daily checked.

In compliance with recently enacted supervisory rules, the Bank's exposure to leading banking groups is subject to specific reporting to the Bank of Italy every fortnight.

Structural Interest Rate and Liquidity Risks

Structural interest rate risk, as referred in the section dedicated to Market Risk, and liquidity risk are monitored by the Finance and Market Risk Committee during its monthly meetings.

In this connection, the forthcoming adoption of the Group information platform for risk management has been revised at the light of the new directives regarding organization and information technology included in the Industrial Plan 2008-2012. In particular, until migration to the MPS Operating Consortium, information on the banking book positions will be submitted to Banca MPS for the calculation of exposure levels.

Funds with Specific Destination

Funds with specific destination include:

- Employee Termination Fund amounting to 19.9 million euro as at 31/12/2008 compared to 19.8 million at year-end 2007;
- Pensions Allowances for total 28.5 million euro as at 31/12/2008 vis-à-vis 27.9 million euro at year-end 2007; they represent moneys in favour of retired employees entitled to receive complementary pensions paid directly to them or to surviving husbands/wives;
- Other Allowances for Risks and Charges for the amount of 4.5 million euro opposed to 4.6 million in the previous year. They concern provisions for claims, arbitrations, revocatory proceedings and personnel expenses.

in millions of euro

Allowances for Risks and Charges	2008	2007	Changes	
			amount	%
1) Other allowances for risks and charges				
1.1 Legal proceedings	2.9	3.3	-0.4	-12.4
1.2 Employee expenses	1.5	1.0	0.5	50.0
2.3 Other	0.1	0.3	-0.2	-65.0
Total	4.5	4.6	-0.1	-2.1

During 2008 fiscal year, 21 claims relating to default bonds were settled for a total disbursement of 0.2 million euro opposite to an initial request of 0.8 million.

Important Events After the Close of the Financial Year

During the first quarter of 2009 we are planning the opening of a new branch, located in Ivrea, Corso Costantino Nigra 37/A, followed by additional branches during the course of the year as foreseen by the Industrial Plan 2008-2012. Also, some outlets with reduced opening hours will be transformed into full-service branch locations. Furthermore, we have started activities for the migration to the Group Operating Consortium platform.

Foreseeable Evolution

After months of financial instability in 2008, gloomy forecasts predict worsening scenario in 2009 with mounting recession risks and collapsing employment rates. In this context, ECB might decide further key interest rate cuts.

Consequently, our development plans will be significantly hindered by the difficult domestic market conditions. Profitability and business growth will be significantly affected forcing us to implement strict cost control measures to cushion the sharp slowdown. Our approach to customer lending will remain extremely prudent and guarded so as to avoid contentious claims.

The good results achieved till now witness our capability to prop up activity in the face of the global crisis and also allow us to confirm 2009 objectives of revenue stability, cost control and accurate risk governance, despite adverse operating conditions.

Relations with Group Companies

The below charts illustrate the transactions which were conducted among the Parent Company, the subsidiary and other affiliates detailed by counterpart, characteristics and amount. We would like to underpin that all transactions were effected at prevailing market conditions.

in thousands of euro

Relations with "Group" Companies	Assets				Liabilities			Guarantees and Commitments	
	Due from banks	Due from customers	Securities	Total	Due to banks	Due to customers	Total	Guarantees	Commitments
Controlling companies Banca Monte dei Paschi di Siena Spa	1,102		70,442	71,544	27,969		27,969		
Companies directly owned by controlling company Banca Monte Paschi Belgio SA					1,975		1,975		
Total	1,102	0	70,442	71,544	29,944	0	29,944	0	0

in thousands of euro

Income and expenses attributable to relations with "Group" companies	Income			Expenses			
	Interest and similar income	Dividends and other operating income	Total income	Interest and similar expenses	Commissions and other operating income	Other administrative expenses	Total expenses
Controlling Companies Banca Monte dei Paschi di Siena Spa	194	23	217	1,429	0	1,885	3,314
Companies directly owned by controlling company Banca Monte Parma SpA	35		35	82			82
Banca Monte Paschi Belgio SA	207		207	532			532
Monte Paschi Banque SA - Paris			0	368			368
Monte Paschi Asset Management SpA		397	397				0
MPS Alternative Investments SGR		231	231				0
MPS Capital Services Banca per le Imprese		575	575	137			137
MPS Commercial Leasing SpA		53	53				0
MPS Leasing and Factoring		2	2				0
Grand total	436	1,281	1,717	2,548	0	1,885	4,433

Before concluding this report on operations, we wish to warmly thank Mr. Angelo Barbarulo, our General Manager, for his commitment and professionalism in steering the Bank in a particularly difficult year for the global financial system. Also, let us express appreciation to the Deputy General Manager, the Executives and all employees for their passionate dedication in achieving satisfactory results.

Moreover, special gratitude goes to the Statutory Auditors for their competence and ceaseless activity.

Our genuine appreciation for their valuable support goes to the Bank of Italy's local agencies, as well.

Conclusively, we wish to convey our deepest thanks to Shareholders: Banca Monte dei Paschi di Siena, the Foundation Cassa di Risparmio di Biella and the Foundation Cassa di Risparmio di Vercelli for their close cooperation and valid support to the Bank's governance.

Proposals to the Shareholders' Meeting

Proposals to the Shareholders' Meeting

Dear Shareholders,

We hereby submit to your approval the Bank's Financial Statements for the period 1 January – 31 December 2008, consisting of the Balance Sheet, the Profit and Loss Account, Statement of Changes in Shareholders' Equity, Financial Report and Notes to the Financial Statements, as well as the relevant appendices and report on operations.

In particular, we propose the distribution of a dividend of euro 0.171 per share and, pursuant to article 30 of the Bank's By-Laws, the allocation of net profit for 2008, amounting to € 27,044,357.93 fully payable in accordance with articles 5 and 6 of Law Decree no. 38 of 28 February 2005, as follows:

to the Extraordinary Reserve	€	6,951,857.93
to Dividends	€	20,092,500.00

After approval of the balance sheet and ratification of the above proposals, the Bank's Equity Capital – including appropriations to Valuation Reserves pursuant to the IAS/IFRS international accounting standards – shall consist of the following:

Equity Capital (divided into 117,500,000 shares)	€	117,500,000.00
Legal Reserve	€	24,020,601.70
Statutory Reserve	€	4,680,090.54
Extraordinary Reserve	€	34,454,868.27
Transfer Reserve pursuant to Law Decree 218/90	€	20,207,568.76
Concentration Reserve pursuant to Law Decree 218/90 – art. 7 c. 3	€	3,987,328.41
Reserve pursuant to Law Decree 153/99	€	3,885,821.71
FTA IAS Reserve	€	-9,245,045.51
Valuation Reserves attributable to Financial Assets available for Sale (*)	€	-1,806,386.58
Total	€	197,684,847.30

(*) Undistributable reserves, whose amount is set to change over time due to the valuation effects of balance sheet items and to be attributed to profit and loss at the time of disposal.

Biella, 24/03/2009

THE BOARD OF DIRECTORS

AUDIT REPORT

The Financial Statements have been audited by Reconta Ernst & Young S.p.A. who have issued an unqualified audit opinion dated March 25, 2009, which is included in the complete Annual Report and to which readers should refer.

Financial Statements

BALANCE SHEET

in units of euro

	ASSETS	31.12.2008	31.12.2007	Changes	
				amount	%
10.	CASH AND CASH BALANCES WITH CENTRAL BANKS	27,035,397	30,588,223	-3,552,826	-11.62
20.	FINANCIAL ASSETS HELD FOR TRADING	474,097,426	424,769,432	49,327,994	11.61
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	88,902,954	23,311,373	65,591,581	281.37
60.	DUE FROM BANKS	403,368,165	769,600,323	-366,232,158	-47.59
70.	LOANS TO CUSTOMERS	2,325,983,348	2,356,100,453	-30,117,105	-1.28
80.	HEDGING DERIVATIVES	493,991	676,509	-182,518	-26.98
110.	FIXED ASSETS	25,009,539	26,363,042	-1,353,503	-5.13
120.	INTANGIBLES including: - goodwill	94,738 0	93,350 0	1,388	1.49
130.	TAX ASSETS	27,575,622	24,901,265	2,674,357	10.74
	a) current	8,689,173	10,491,076	-1,801,903	-17.18
	b) deferred	18,886,449	14,410,189	4,476,260	31.06
150.	OTHER ASSETS	62,374,584	44,910,226	17,464,358	38.89
	TOTAL ASSETS	3,434,935,764	3,701,314,196	-266,378,432	-7.20

BALANCE SHEET

in units of euro

	LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2008	31.12.2007	Changes	
				amount	%
10.	DUE TO BANKS	389,116,911	730,623,501	-341,506,590	-46.74
20.	DUE TO CUSTOMERS	1,567,408,729	1,599,347,864	-31,939,135	-2.00
30.	SECURITIES ISSUED	1,109,522,420	1,002,394,201	107,128,219	10.69
40.	FINANCIAL LIABILITIES HELD FOR TRADING	34,033,463	16,844,590	17,188,873	102.04
60.	HEDGING DERIVATIVES	2,210,483	5,130,008	-2,919,525	-56.91
100.	OTHER LIABILITIES	61,987,128	70,725,204	-8,738,076	-12.35
110.	EMPLOYEE TERMINATION INDEMNITIES	19,869,289	19,756,063	113,226	0.57
120.	ALLOWANCES FOR RISKS AND CHARGES:	33,009,994	32,457,508	552,486	1.70
	a) pensions and similar commitments	28,483,854	27,863,725	620,129	2.23
	b) other allowances	4,526,140	4,593,783	-67,643	-1.47
	Total liabilities	3,217,158,417	3,477,278,939	-260,120,522	-7.48
130.	REVALUATION RESERVES AND VALUATION DIFFERENCES	-1,806,387	5,645,881	-7,452,268	-131.99
160.	RESERVES	75,039,376	72,289,170	2,750,206	3.80
180.	SHARE CAPITAL	117,500,000	117,500,000	0	0.00
200.	NET INCOME (LOSS)	27,044,358	28,600,206	-1,555,848	-5.44
	Total shareholders' equity	217,777,347	224,035,257	-6,257,910	-2.79
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,434,935,764	3,701,314,196	-266,378,432	-7.20

STATEMENT OF INCOME

in units of euro

	CAPTIONS	31.12.2008	31.12.2007	Changes	
				amount	%
10.	Interest and similar income	199,383,933	185,168,774	14,215,159	7.68
20.	Interest and similar expense	(97,172,445)	(91,687,428)	(5,485,017)	5.98
30.	NET INTEREST INCOME	102,211,488	93,481,346	8,730,142	9.34
40.	Fee and commission income	41,277,233	44,977,515	(3,700,282)	-8.23
50.	Fee and commission expense	(3,621,583)	(3,635,484)	13,901	-0.38
60.	NET FEE AND COMMISSION INCOME	37,655,650	41,342,031	(3,686,381)	-8.92
70.	Dividend and similar income	39,443,040	19,712,162	19,730,878	100.09
80.	Profits (Losses) on trading	(49,944,155)	(16,893,199)	(33,050,956)	195.65
90.	Net gain (loss) from hedging	1,316,863	843,164	473,699	56.18
100.	Profit (Loss) on disposal or repurchase of:				
	a) loans and receivables	(1,186,808)	(1,064,247)	(122,561)	11.52
	b) financial assets available for sale	824	935,629	(934,805)	-99.91
	d) financial liabilities	402,990	652,067	(249,077)	-38.20
120.	NET INTEREST AND OTHER BANKING INCOME	129,899,892	139,008,953	(9,109,061)	-6.55
130.	Net adjustments for impairment of:				
	a) loans and receivables	(12,912,752)	(19,892,088)	6,979,336	-35.09
	b) financial assets available for sale	(1,092,611)	(5,482)	(1,087,129)	19830.88
	d) other financial assets	(148,530)	36,775	(185,305)	-503.89
140.	NET FINANCIAL INCOME (LOSS)	115,745,999	119,148,158	(3,402,159)	-2.86
150.	Administrative expenses:				
	a) personnel expenses	(49,651,203)	(47,855,684)	(1,795,519)	3.75
	b) other administrative expenses	(29,599,382)	(30,746,076)	1,146,694	-3.73
160.	Net provisions for risks and charges	193,202	(766,210)	959,412	-125.22
170.	Adjustments to fixed assets	(2,005,584)	(2,061,364)	55,780	-2.71
180.	Adjustments to intangibles	(42,673)	(46,195)	3,522	-7.62
190.	Other operating expenses (income)	8,973,034	10,314,884	(1,341,850)	-13.01
200.	OPERATING EXPENSES	(72,132,606)	(71,160,645)	(971,961)	1.37
240.	Profits (Losses) on sale of investments	13,271	9,800	3,471	35.42
250.	INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	43,626,664	47,997,313	(4,370,649)	-9.11
260.	Taxes on income from continuing operations	(16,582,306)	(19,397,107)	2,814,801	-14.51
270.	INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	27,044,358	28,600,206	(1,555,848)	-5.44
290.	NET INCOME (LOSS)	27,044,358	28,600,206	(1,555,848)	-5.44

CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2007

(in units of euro)

	As at 31.12.2006	Change in opening balance	As at 1.1.2007	Allocation of profit from previous year		Changes during the year								Shareholders' equity as at 31.12.2007
				Reserves	Dividends and other allocations	Changes in reserves	Shareholders' equity transactions					Net income (loss) for the period		
							New shares issue	Acquisition of own shares	Extr. distribution of dividends	Changes in equity instruments	Derivatives on own shares		Stock options	
Capital														
a) ordinary shares	117,500,000		117,500,000											117,500,000
b) other shares														
Additional paid-in capital														
Reserves														
a) retained earnings	48,318,733		48,318,733	3,762,868										52,081,601
b) other	20,207,569		20,207,569											20,207,569
Valuation reserves														
a) available for sales	962,473		962,473			4,683,408								5,645,881
b) cash flow hedges														
c) other														
Equity instruments														
Own shares														
Net income (loss) for the period	33,137,868		33,137,868	(3,762,868)	(29,375,000)								28,600,206	28,600,206
Shareholders' equity	220,126,643		220,126,643	(29,375,000)	4,683,408								28,600,206	224,035,257

CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2008

(in units of euro)

	As at 31.12.2007	Change in opening balance	As at 1.1.2008	Allocation of profit from previous year		Changes during the year								Shareholders' equity as at 31.12.2008
				Reserves	Dividends and other allocations	Changes in reserves	Shareholders' equity transactions					Net income (loss) for the period		
							New shares issue	Acquisition of own shares	Extr. distribution of dividends	Changes in equity instruments	Derivatives on own shares		Stock options	
Capital														
a) ordinary shares	117,500,000		117,500,000											117,500,000
b) other shares														
Additional paid-in capital														
Reserves														
a) retained earnings	52,081,601		52,081,601	2,750,206										54,831,807
b) other	20,207,569		20,207,569											20,207,569
Valuation reserves														
a) available for sales	5,645,881		5,645,881			(7,452,268)								-1,806,387
b) cash flow hedges														
c) other														
Equity instruments														
Own shares														
Net income (loss) for the period	28,600,206		28,600,206	(2,750,206)	(25,850,000)								27,044,358	27,044,358
Shareholders' equity	224,035,257		224,035,257	(25,850,000)	(7,452,268)								27,044,358	217,777,347

STATEMENT OF CASH FLOWS

	31.12.2008	31.12.2007
A. OPERATING ACTIVITIES		
- net income (+/-)	27,044,358	28,600,206
- profits and losses on financial assets held for trading and designated at fair value through profit and loss (-/+)	15,313,387	(672,707)
- profits and losses on hedge accounting (-/+)	(407,492)	(575,787)
- net impairment losses/recoveries (+/-)	17,767,238	3,915,980
- adjustments to fixed assets and intangibles (+/-)	2,048,257	2,107,559
- net provisions for risks and charges and other costs/revenues (+/-)	7,893,036	10,152,327
- deferred taxes (+)	17,183,408	19,862,671
- net adjustments after tax from discontinued operations in disposal groups held for sale (-/+)	-	-
- other adjustments (+/-)	(535,277)	(3,455,816)
1. Cash flow from (used for) financial assets		
- financial assets held for trading	(58,638,774)	138,577,604
- financial assets available for sale	(76,064,679)	(13,807,756)
- due from banks: repayable on demand	24,129,718	(24,599,361)
- due from banks: other	347,485,440	(12,134,340)
- loans to customers	24,918,096	(24,769,718)
- other assets	(19,126,978)	(24,974,132)
2. Cash flow from (used for) financial liabilities		
- due to banks: repayable on demand	85,967,092	15,131,437
- due to banks: other	(428,413,428)	(215,547,144)
- due to customers	(34,491,250)	95,489,626
- securities issued	85,197,511	49,601,811
- losses on trading	16,927,097	(6,705,418)
- other liabilities	(31,203,445)	(10,297,891)
Net cash flow from (used for) operating activities	22,993,315	25,899,151
B. INVESTING ACTIVITIES		
1. Cash flow from		
- sale of equity investments	-	12,097,362
- dividends collected on other equity investments	-	-
- sale of investments held to maturity	-	-
- sale of fixed assets	-	-
- sale of intangibles	-	-
2. Cash flow used for		
- purchase of equity investments	-	-
- purchase of business investments	-	-
- purchase of fixed assets	(652,080)	(1,334,802)
- purchase of intangibles	(44,061)	(59,282)
Net cash flow from (used for) investing activities	(696,141)	10,703,278
C. FUNDING ACTIVITIES		
- distribution of dividends and capital reserves	(25,850,000)	(29,375,000)
Net cash flow from (used for) funding activities	(25,850,000)	(29,375,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,552,826)	7,227,429
RECONCILIATION		
Captions	31.12.2008	31.12.2007
Cash and cash equivalents at beginning of period	30,588,223	23,360,794
Net increase (decrease) in cash and cash equivalents	(3,552,826)	7,227,429
Cash and cash equivalents at end of period	27,035,397	30,588,223

LEGENDA: (+) from (-) used for

Cash flows from interest income amount to about 203 million euro whilst those deriving from dividends are equal to about 39 million euro.

Cash flows used for interest expense add up to about 96 million euro; income tax payment consists of about 15 million euro.

The above cash flows are included into operating activities.

