



2010 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:
Communication and
External Relations Department

Board of Directors, Statutory Auditors, Independent Auditors and Management

Board of Directors

Chairman	Alfredo Monaci *
Deputy Chairman	Roberto De Battistini *
Directors	Giuseppe Algerino * Quirino Barone Luciano Boggio Fabio Carlesi * Fabio Corsico Gianfranco De Martini Valter Fucecchi* Emilio Jona Fernando Lombardi* Mario Maggia Dunia Maria Palumbo Ermanno Rondi Totto* Licia Rossi

Board of Statutory Auditors

Chairman	Gabriele Mello Rella
Regular Auditors	Roberto Comoli Enzo Mario Napolitano

Management

General Manager	Angelo Barbarulo
Deputy General Manager	Roberto Cerreia Vioglio

Independent Auditors

Reconta Ernst & Young S.p.A.

(*) Members of the Executive Committee

Letter to Our Shareholders

Dear Shareholders,

In 2010 global economic scenario remained gloomy even if there were signs of a timid recovery that seemed to prelude to more stable and durable conditions. Sovereign debt crisis hitting European countries (initially Greece and Ireland) deeply affected financial markets, as well, with harsh impacts on the performance of interest rates.

Despite persisting difficulties in the market, Biverbanca succeeded in delivering favourable outcome: net income came to 15.2 million euro in line with budget forecasts (6.45% ROE -- rising to 7.35% if calculated on year-end capital equity).

Net interest income reflected negative market trends by evidencing a downturn to 68.1 million euro, while showing a moderate recovery in net commissions up to 41.2 million euro. Net income from banking activities was equal to 109.3 million euro.

Financial income amounted to 104.4 million euro, reflecting the overall weak performance of interest rates (having registered small increase), whilst profits on trading/valuation of financial assets were strongly beaten by increasing credit spreads on government bonds held in the Bank's portfolio.

Against the above-described depressing economic background, although our prudent approach to provisions and adjustments on loans continued with rigorous criteria (adjustments for impairment of loans and receivables amounted to 15.6 million euro), total non-performing loans further increased: non-performing loan to total gross loans stood at 6.2%, net non-performing loan/total net loans ratio was at 2.4% while net non-performing loans/ shareholders' equity equalled 22.8%.

Consequently, traditional coverage levels were maintained high for all kind of loans: 63.4% to non-performing loans, 20.4% to substandard loans, 9.5% on restructured loans and 5.3% for past due debt.

Our strict policy aimed at structural cost containment (administrative expenses, personnel expenses, adjustment to fixed assets and intangibles) made it possible to obtain a cost reduction for 71.9 million euro.

Annual key indicators also include values referring to the thirteen formerly Antonveneta branches purchased last October, though their contribution to the Bank's economic revenues was limited to approximately two months. Total customer loans boosted by 7.2% up to 2.4 billion euro. Similarly consumer loans upturned to total 55.8 million euro (exhibiting a y-o-y growth of 30.5 million euro).

Total funding (direct and indirect customer deposits) equalled 6.1 billion euro at year-end, posting a 3.6% growth over the previous year. In particular, direct funding amounted to 2.8 billion euro, being 2.5% growth on 2009, whilst indirect funding saw a robust increase of 9.6% compared to the preceding year, owing to consumer inclination towards diversification in investment activities.

Further to the Industrial Plan 2008-2012, during 2010 Biverbanca became the reference bank in Piedmont for the whole Montepaschi Group while confirming its leadership in core territories. In fact, after the opening of a branch in Strambino in the province of Turin (February 2010), in October the Bank acquired thirteen branches from Banca Antonveneta in the provinces of Turin, Alessandria, Novara and Verbania, and sold the non-core branch in Rome to Banca Monte dei Paschi di Siena. Network expansion was enhanced, during the first months of 2011, by a new branch in Chivasso, in the province of Turin. Consequently, branches increased to total 122 (+12% y-o-y) supported by three private banking centres and three corporate centres. Moreover, the historic city agency of Via Dante in Biella was completely restyled and four outlets with reduced opening hours were transformed into full-service branches: Cerrione and Viverone in the province of Biella followed by Rovasenda and Scopello in the province of Vercelli.

In order to back the extraordinary operation of purchasing the thirteen formerly Banca Antonveneta's branches, capital was increased to 124,560,677 euro (opposite to former 117,500,000 euro) consisting of shares with nominal value of 1 euro each. After capital increase, shareholdings were as follows:

- Banca Monte dei Paschi di Siena, nominal 75,258,793 euro, or 60.42%;
- Foundation Cassa di Risparmio di Biella, nominal 41,648,330 euro, or 33.44%;
- Foundation Cassa di Risparmio di Vercelli, nominal 7,653,554 euro, or 6.14%.

Among countless initiatives in favour of households launched during the year, we can recall those ones conducted in compliance with Law Decree 132 of 21 September 2010, aimed at creating a solidarity fund to finance first-home purchases; then initiatives within the program known as “Combating the crisis” and in collaboration with the Piedmont Region to support those workers that have not received their wages for three months or longer; and further, the adoption of the ABI-CEI (Italian Banking Association – Italian Episcopal Conference) Agreement; an accord, in co-operation with Foundation Cassa di Risparmio di Vercelli and Brotherhoods of Saint Sebastian and Charity to grant personal loans in favour of Vercelli’s citizens at favourable conditions. As for offerings to businesses, we can point out the execution of special agreements for granting of loans at favourable terms; also, the allocation of a special plafond designed to finance members of the Builders’ Association in the province of Biella, ASCOM - Biella and main category associations of the agrarian sector within the Vercelli area.

The important expansion plan came along with strong commitment to enhance the Bank’s human resources that at year-end 2010 increased up to total 770, compared to 713 of December 2009 (+8% y-o-y growth). In order to back the efficacious improvement of the business network and strengthen customer relations, approximately 72% personnel has been appointed to territorial Areas and commercial Network.

In order to enhance the strengthening of the distribution structure as well as to develop the restructuring plan of the organizational model in the commercial network along with the assessment process designed to redefine head office functions, we carried out intensive training programs meant to cultivate employee proactive attitudes towards customers and the market in general.

In addition, I wish to emphasize that the adoption of Group information systems at year-end 2009 led to a deep change process, positively welcomed by all employees, that proved great sense of adaptability and flexibility.

With a strong belief that human resources represent the Bank’s core asset able to drive growth, we started an assessment process involving all personnel at Head Office and some of branch employees, as well. This gave us the opportunity to make a better and deeper acquaintance with personnel adequacy, attitudes, know-how and skills with respect to the job role covered. Also, it allowed us to learn individual expectations and needs in order to arrange customized training programs to fill deficiencies, if any.

Notwithstanding enduring economic weakness and financial markets turmoils, Biverbanca, thanks to rigorous management, has been able to post a profitable net income that will allow, subject to the Board of Directors' approval, a dividend distribution for 12,954,310.41 euro. Also, capital ratios remained good (total capital to total risk-weighted assets stood at 13.36% vis-à-vis 11.75% in 2009).

Recent economic forecasts for 2011 indicate recovery is still wary (+1% of domestic GDP), linked to mounting inflation and increasing interbank interest rates. Against this background, the Bank will continue to focus on core activities (funding and lending) in favour of households, entrepreneurs and local public entities, through a wider product range, further enriched by Group Montepaschi's commercial catalogue.

In the Board's detailed and exhaustive report, to which you 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 strong commitment in an extremely difficult year.

My deepest gratitude shall go to the Board of Directors and the Statutory Auditors for their competence and ceaseless dedication.

Conclusively, warm thanks to Shareholders: Banca Monte dei Paschi di Siena, Foundation Cassa di Risparmio di Biella and Foundation Cassa di Risparmio di Vercelli for their unfailing support.

Biella, March 2011

The Chairman
Alfredo Monaci

Financial Highlights and Financial Ratios

HIGHLIGHTS AND FINANCIAL RATIOS

STATEMENT OF INCOME (in millions of euro)	31/12/10	31/12/09	Change %
Net Income from banking activities	109.3	121.2	-9.8
Financial income (loss)	104.4	130.0	-19.7
Net Operating income	17.0	34.5	-50.8
Net income (loss)	15.2	19.9	-23.5
BALANCE SHEET (in million euro)	31/12/10	31/12/09	Change %
Direct funding	2,808.9	2,879.5	-2.5
Indirect funding	3,243.0	2,959.9	9.6
<i>including managed funds</i>	1,181.1	1,045.1	13.0
<i>including funds under administration</i>	2,061.9	1,914.8	7.7
Loans to customers	2,376.5	2,216.4	7.2
Shareholders' equity	247.8	224.0	10.6
CREDIT QUALITY (%)	31/12/10	31/12/09	
Net doubtful loans / Loans to customers	2.38%	2.11%	
Substandard loans / Loans to customers	2.45%	1.82%	
STATEMENT OF INCOME RATIOS	31/12/10	31/12/09	
Cost / income ratio	68.85	57.95	
ROE (on average shareholders' equity)	6.45	9.01	(1)
ROE (on year-end shareholders' equity)	7.35	10.07	(2)
Net adjustment to loans / Year-end investments	0.66	0.70	
CAPITAL RATIOS	31/12/10	31/12/09	
Tier 1 capital / Risk-weighted assets	13.36	11.75	(3) (4)
Total capital / Risk-weighted assets	13.36	11.75	(3) (4)
OPERATING STRUCTURE	31/12/10	31/12/09	Change
Staff (number) (5)	770	713	57
Branches (number)	121	108	13

- (1) R.O.E. on average shareholders' equity is calculated by dividing net profit for the year for the average value between the shareholders' equity (including net profit) of the previous year and the one for the year under review.
- (2) R.O.E. on year-end shareholders' equity is calculated by dividing net profit for the year and the shareholders' equity of the previous year net of dividend distributed to Shareholders.
- (3) Ratios are compliant to Basel II Capital Accord requirements and have been determined by applying standardized methods
- (4) To determine capital ratios risk-weighted assets are calculated by multiplying minimum prudential capital requirements by the inverse of the minimum capital percentage (8%)
- (5) Total employees, including staff seconded from our Parent Company.

Report on Operations

Report on Operations

The Macroeconomic Scenario

In 2010 world economy experienced a widespread recovery that interested both ripe markets and emerging economies, consequent to a steep rise in world trade volumes. The positive trend, already evident in the last part of 2009, has continued throughout the year under review. However, economic growth continued to be characterised by uncertainty and developed at different speed.

In the United States, growth in GDP was equal to 2.8% during the year, with a steadier rebound in the second half. However, further to enduring jitters in the labour market, revamped difficulties in real estate and mounting US debt, recovery remained tentative, below forecasts.

Among emerging countries, China led recovery. In fact, during 2010 Chinese GDP grew strongly by 10.3, based largely on exports.

In the eurozone, economic recovery has been constant. The International Monetary Fund confirmed that GDP in that area rose by 1.8%. In addition, industrial production increased by 7% during the first eleven month of the year. Despite that, unemployment rate remained high and inflation topped 2.4%, also due to the rapid upturn in energy and petroleum prices. Germany could still be considered “the engine for European growth”, even though employment tensions, prices leap and mounting turmoils in North-African countries make recovery still uncertain.

IMF confirmed that Italian 2010 GDP would be around 0.7%, in spite of the industrial production slowdown registered at year-end, when new orders fell and industrial production recovered less than expected. Whilst in the last part of the year household expenditure slightly increased, consumer confidence remained weak. On the other hand, inflation rose up to 2.1%. Juvenile unemployment rate remained very high throughout all year to score a new negative record (29%) in December.

The Financial Markets

In 2010 the Federal Reserve kept exchange rates unchanged by confirming its intention to maintain extraordinary stimulus measures at least until the half of April 2011. Because of uncertainty that accompanied economic recovery in the USA or concerns about European debt crisis, benchmark yields dropped both in the eurozone and in the United States.

Similarly, the European Central Bank poised to keep reference rate at 1% by considering inflation being in line with price stability in a medium term period. At year-end 2010, currency market showed that interest rates for main maturities slightly declined though general growing trend remained consistent throughout the whole year.

Following the sovereign debt crisis in some European countries (starting in Greece and Ireland), credit spreads on European government bonds widened steeply. EU rescue plans for Greece and Ireland, approved in May and November respectively, could not avoid that financial distress extended to Portugal and Spain, rapidly followed by Belgium and Italy.

In the first part of the year, principal stock markets recorded main losses that were then recovered in the second half. On the contrary, performances of European indexes in peripheral countries have been less brilliant, due to a deterioration of risk indicators, also reflecting mounting domestic sovereign debts.

As for currency markets, after the dollar surged against the euro in the first part of the year, the European currency recovered lost ground at around year-end, up to 1.33 against the dollar.

In 2010, whilst direct customer deposits showed a slight slowdown, customer loans jumped. In general, customer savings contracted, as a result of different factors, such as decreasing incomes, changed attitude of customers towards saving, along with negative financial balance of enterprises, all that resulting in growing loan demand.

Growth in customer deposits reduced from +8.3% y-o-y in 2009 down to +2.8%, also reflecting a dull performance of bonds that after years of steep increase (+10.7% in 2009) declined by over 10 billion euro in terms of total stock. On the other hand, the other forms of deposits did not register great changes over the last year, though their breakdown evidenced that current accounts declined (-2% vis-à-vis +11.8% in 2009) opposed to a sharp increase of repos.

However, this marked slowdown in customer deposits has been balanced by a significant increase by managed funds (mutual funds, retail customers' managed funds and life insurance products) whose aggregates jumped to more than 40 billion euro from 28 billion euro recorded in 2009. More in detail, life insurance policies confirmed their growing trend; similarly, funds topped 1 billion euro and managed funds totalled 5 billion euro, thus evidencing a growth by over 10% in total aggregates.

Starting from the second quarter of the year, loans to customers showed signs of rebound to grow by over 4% y-o-y, compared to +2% in 2009. This steady increase was helped by corporate loans that, after declining by about -3% at the beginning of the year, bounced back in the second half. Increasing new loan demand by enterprises was generally linked to liquidity needs or debt restructuring, and only in part to finance new investments. Likewise, demands for household loans remained high, especially those meant for the purchase of homes, as a result of the general recovery in the real estate market and supported by favourable interest rates as well as by new regulations.

Credit quality continued to be negatively influenced by the difficult economic situation: the decay rate showed a growing trend during the course of the year by returning to 2009 levels, being around 2%. In terms of total amount non-performing loans to total loans slowed their growth (+31.6% y-o-y opposite to +38.2% in 2009) whilst non-performing loans leapt to 2.4% of total loans ratio vis-à-vis 2% at year-end 2009.

While policy rate remained stable at 1% and currencies confirmed their upward trend, interest rates plunged in the first half of the year to slightly bounce back in the second half. The average interest rate on loans closed the year 12 basis points below 2009 levels. Whilst the mark-up (calculated on current accounts and based on 1-month Euribor interest rate) dropped below 4% (from 4.2% in 2009), the mark-down widened, passing from 0.16% to 0.4%.

Local Economy

During the first quarter of 2010, recovery process from the profound international crisis hitting Piedmont's manufacturing in 2008-2009 continued. Initiating in the first months of the year, significant signs of an inversion in trends were evident in the following three quarters. According to Unioncamere Piemonte's records, during the period July-September 2010, industrial production grew by +6.8%. However, performance improvements in manufacturing were not followed by similar results from other key economic indicators: domestic and international orders declined by -1.7% and -0.7% respectively.

Likewise, Biella's economic district witnessed progressive growth in the manufacturing sector. According to a survey of the Chamber of Commerce on Biella's industrial market records of the third quarter, industrial production outcome in the province of Biella were higher than regional or national average. Quite all sectors were interested by economic growth, especially metal mechanics, spinning and finishing. In the same way, textile mills and other enterprises registered remarkable improvements, though at a lesser extent. Above all, economic development was boosted by foreign orders.

It should be remembered that in Biella's district the economic crisis harshly hit manufacturing (consisting of 2,200 enterprises whose 44 per cent was represented by textile mills): between 2005 and 2009 about 272 companies ceased activity, involving more than 8,000 workers. Only during the first nine months of the year under review 270 enterprises closed and forecasts for 2011 remained gloomy.

A research by the Cassa Edile's Studies Office showed that the building sector lost one third of enterprises in six years. In fact, construction sector companies passed from 400 to 259 whilst the number of workers declined to about 1,100 from a peak of 1,800 reached in 2004.

In Vercelli area, economy showed signs of multi-speed recovery. On one hand, according to the result of a survey conducted by Confindustria Vercelli Valsesia, pessimistic sentiment of entrepreneurs interviewed about foreseeable production trend in the first quarter of 2011 exceeded optimistic views: in particular, the percentage of entrepreneurs that remained confident in production increase dropped to 13.59% (from 18.75%) whilst the number of local industries believing that production would remain on the previous levels raised to 67%, vis-à-vis previous 62.5%. As a consequence, employment expectations worsened, both in Vercelli and in Valsesia areas, down to -9.17% from -8.93%. On the other hand, new orders started to raise again after previous negative quarter: the balance between pessimistic and optimistic views passed from -0.91 to +2.88. Moreover, the overall scenario improved thanks to new export orders: the balance between pessimistic and optimistic outlook jumped to +15 from -3.57.

In 2010 in the Aosta Valley we registered a feeble improvement of economy. This trend has continued in 2011. Industry demand has been backed by improved revenues from international business, especially from the metallurgic sector. Some economic segments showed positive signals of growth due to tourism boost. On the other side, building and construction sector remained depressing despite of weak recovery of real estate.

In the first half, the total number of employees increased for the first time in several months. Also, unemployment rate reduced.

During the first eight months of the year corporate lending recovered, thanks to demand raise and new offer opportunities.

Credit quality slightly improved and households boosted deposits and benefited by good returns from their investments in bond instruments.

The Bank's Territorial Reorganization and Capital Increase

According to the Industrial Plan 2008-2012, in line with the one set forth by our parent company Banca Monte dei Paschi di Siena, Cassa di Risparmio di Biella e Vercelli – Biverbanca SpA's mission is to reaffirm its leading role as a reference bank for the economic development in its heartland in Piedmont and in all areas where it operates. The plan entailed Biverbanca's enlargement of territorial boundaries in Piedmont through the purchase of thirteen Banca Antonveneta's branches and the sale of its non-core branch in Rome to Banca MPS.

Therefore, in 2010 the Bank carried out strategic objectives foreseen by the Industrial Plan 2008-2012.

- **Purchase of Banca Antonveneta's branches and capital increase for partial demerger purposes**

On 31 August 2010, Shareholders' Meeting approved the partial demerger plan of thirteen Banca Antonveneta's branches in favour of Biverbanca through the Bank's capital increase totally allocated to Banca Monte dei Paschi di Siena, sole shareholder of the demerging company.

The demerger deed was signed on 15 October 2010 and the demerger became effective on 25 October 2010, pursuant to art. 2506-quater of the Civil Code.

The value of the business transferred as a going concern, after due diligence assessment, pursuant to art. 2243-ter of the Civil Code, was equal to 33,999,998 euro, posted to goodwill.

Following the demerger, No. 5,933,682 of Biverbanca's shares at a nominal value of 1 euro each have been allocated to Banca Monte dei Paschi di Siena, at an exchange ratio of one new share for each 5.73 euro of the value of the business transferred as a going concern, resulting in a share premium reserve for 28,066,316 euro.

- **Capital increase against contribution in cash**

At the same time, on 31 August 2010 the Shareholders' Meeting approved a further increase of the share capital, in a divisible manner, subject to the demerger approval, for 4,123,391 euro, through the issuance of No. 4,123,391 shares of nominal value of 1 euro each, with a premium of 19,503,639 euro, at a subscription ratio of 1 euro for each 4.73 euro, to be paid in cash and offered pro rata to existing shareholders.

During the meeting, main shareholder Banca Monte dei Paschi di Siena totally and definitively renounced to its right to exercise the option on new shares.

On the other hand, whilst Fondazione Cassa di Risparmio di Biella has partially exercised its rights to subscribe No. 523,560 newly issued shares, Fondazione Cassa di Risparmio di Vercelli has totally exercised its option on

the total stake of its shares (No. 247,403) and also its pre-emption right on unexercised No. 356,032 shares.

Biverbanca's newly issued shares assigned to shareholders, as a result of the capital increase for demerger purposes and share capital increase against cash payment, participate in the Bank's profits as from the demerger effectiveness date.

Further to the capital increase of 5,933,682 pursuant to the demerger and to the share capital increase against cash payment for total 1,126,995 euro, Biverbanca's equity capital changed to 124,560,677 euro, consisting of the following stakes:

	Number of Shares after Capital Increase	Shareholding (%)
Banca Monte dei Paschi di Siena SpA	75,258,793	60.42%
Fondazione Cassa di Risparmio di Biella	41,648,330	33.44%
Fondazione Cassa di Risparmio di Vercelli	7,653,554	6.14%
Totale	124,560,677	100%

- **Sale of the branch in Rome to Banca Monte dei Paschi di Siena**

On 22 October 2010 the agreement to sell the branch in Rome to Banca Monte dei Paschi di Siena was finalized, following the resolution of Banca Monte dei Paschi di Siena's Board of Directors of 5 May 2010 and the one approved by Biverbanca's Board on 11 May 2010. The sale effectiveness date was 18 October 2010. It has been agreed among parties that both assets and liabilities of the branch involved would have remained on Biverbanca's account until the effectiveness date when they would be transferred to Banca Monte dei Paschi di Siena by allocating results to the proper party according to the Accounting Principles.

The agreement entailed a sale price of 2,100,000 euro, determined on the basis of due diligence assessment conducted by experts appointed by the two Parties.

Since the sale concerned an infra-group transaction, capital surplus has been posted to Shareholders' Equity reserves.

The Bank's Performance

If we go back to the main events that characterized 2010, the most relevant Group Directives and Rules that have been approved by the Board of Directors are as follows:

- during the meeting of 19 January, Group Directives on Account Plan Management, Annual Report Preparation and Privacy were introduced while amending the Directive on Usury;
- during the meeting of 1 March, Group Directives on Equity Investments and Corporate Governance, Executives' Expenses and Valuation of Financial Instruments at Fair Value were adopted;
- during the meeting of 20 May, Group Directives on Capital Assessment for Supervisory Purposes, Capital and Prudential Reporting Requirements, Public Information Requirement, Country Risk Management were approved while amending the Directive on Capital Adequacy Assessment, already in place as from 10 February 2009;
- during the meeting of 3 August, Group Directives on Securities Investment and Disinvestment Strategies, Propriety Finance, Financial and Investment Transaction Services, Interest Rate Risk Management were adopted;
- during the meeting of 15 October, the Group Directive on Organizational Model for Prevention and Protection from 231 Risk, already in place as from 8 April 2008, was amended while the one on Valuation Process for NPLs was approved;
- during the meeting of 16 November, the Group Directive on the issuance of special treasury bonds (the so-called MEF Bonds, issued by the Italian Ministry of Economics and Finance) was approved.

In May the Board of Directors approved Biverbanca's 2009 Corporate Social Responsibility Report that illustrated how the Bank, despite a difficult and troublesome year, succeeded in affirming itself as a strong and lively presence, linked to territory, close to families, enterprises and public administrations.

In line with Group guidelines entailing the enhancement of the Bank's branch network and according to the principle of territorial exclusivity outlined in the Industrial Plan that appointed Biverbanca as the reference point in Piedmont for the whole Montepaschi Group, on 18 February a new branch in Strambino was opened.

In addition, during the meeting of 21 December, the Board of Directors approved the assessment plan of Head Office departments that entailed a deep reorganization of all structures, involving at the same time a reallocation of resources and activities.

In the course of 2010, Bank's activities largely focused on:

- protecting and enlarging shareholders' capital;
- supporting community at the light of the deep economic crisis that hit local industrial districts;
- enhancing productivity and efficiency;
- optimizing risk management process in view of the expected increase in the number of default positions and adopting proper pricing policies;

- fostering a sense of belonging among employees;
- pursuing environmental policies for sustainable development.

During the year under review, Biverbanca renewed its closeness to local communities at the light of the fragile economic environment characterizing local districts. In this connection, the Bank has enhanced its support to households and businesses by launching own initiatives or taking part to projects promoted by its Parent Company Banca Monte dei Paschi di Siena.

Here below you will find in brief the most relevant activities carried out in 2010 whose complete details will follow in the business development section.

- In favour of households:
 - initiatives related to the law decree 132 of 21 September 2010 that introduced a Solidarity Fund in support of first-time home mortgage borrowers;
 - interventions within the “Combating the Crisis” program set forth by our Parent Company;
 - financial support to workers that have not been paid for three months or longer, in collaboration with the Piedmont Region;
 - ABI-CEI (Italian Banking Association – Italian Episcopal Conference) Agreement;
 - Agreements signed with the Foundation Cassa di Risparmio di Vercelli and the Brotherhoods of Saint Sebastian and Charity to grant personal loans at favourable conditions in favour of Vercelli’s citizens.
- In favour of businesses:
 - execution of agreements to grant access to special lending products;
 - creation of special Credit Funds designed to finance members of Builders’ association in the province of Biella, Biella ASCOM, and main category associations of the agrarian sector.

The following breakdown evidences the main 2010 balance sheet indicators.

In 2010 net income was equal to 15.2 million euro (+0.2 million euro or +1% compared to 2010 budget; -4.7 million euro or -23.5% over 2009).

Analysis of aggregates show that net income from banking activities amount to 109.3 million euro (-9.9 million euro or -8.3% vis-à-vis 2010 budget; -11.9 million euro or -9.8% over 2009) being the sum of interest margin (-6.3 million euro vis-à-vis 2010 budget; -14 million euro over 2009) and net fees and commissions (-3.6 million euro compared to 2010 budget; +2.1 million euro over 2009).

Financial income totalled 104.4 million euro (-16.8 million euro or -13.9% vis-à-vis 2010 budget; -25.5 million euro or -19.7% over 2009) resulting from positive performing of net income from banking activities and negative performance of other financial income (-6.9 million euro with respect to 2010 budget; -13.7 million euro over 2009).

Net financial income amounted to 88.9 million euro (-14.4 million or -13.9% compared to 2010 budget; -21 million or -19.1% over 2009); the outcome was affected by the performance of net income from banking activities and by minor adjustments for impairment of loans and financial assets (less 2.5 million euro over 2010 budget; +4.6 million euro over 2009);

Net Operating Income recorded total 17 million euro (-10.4 million euro or -38% compared to 2010 budget; -17.6 million euro or -50.8% over 2009) consisting of

declining financial income and improvement of operating expenses vis-à-vis 2010 budget (-4 million euro) and 2009 records (-3.4 million euro).

Financial ratios, compared to 2010 budget indicators and 2009 figures, evidence how cost/income ratio (operating costs/net operating income) is 68.9% (opposite to 62.6% defined in 2010 budget and 57.9% posted in 2009) while ROE (net income/average shareholders' equity) is equal to 6.45% (vis-à-vis 6.79% according to 2010 budget and 9.1% recorded in 2009);

Balance sheet items, vis-à-vis 2009 figures, outline customer deposits under administration for total 6,051.9 million euro (+212.5 million euro or +3.6%), direct funding for 2,808.9 million euro (-70.6 million euro or -2.5%), indirect funding amounting to 3,243 million euro (+283.1 million euro or +9.6%) and loans to customers totalling 2,376.5 million euro (+160.1 million euro or +7.2%).

As at the end of the year under review, Biverbanca's operating structure counted 122 branches, three Private Centres and three Corporate Directorates.

The Bank's organizational structure consisted of Board of Directors, Executive Committee, Board of Statutory Auditors, General Management, five top-level Staff units (Human Resources, General Affairs Legal and Contentious Claims, Internal Audit and Claims, Budgeting Control and Risk Management and Compliance) and four Divisions (Commercial, Credit and Finance, Administration and Operations).

At year-end, total workforce totalled 770 employees, including 14 people seconded from Montepaschi Group, opposite to 713 staff members (including 6 seconded persons from Montepaschi Group, as well) as at 2009 year-end.

Economic Results

In 2010 the Bank posted a 15.2 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 2010	31 Dec 2009	Changes	
			amount	%
Net interest income	68,085.7	82,065.3	-13,979.6	-17.0
Net fee and commission income	41,232.3	39,141.1	2,091.2	5.3
Net income from banking activities	109,318.0	121,206.4	-11,888.4	-9.8
Dividend and similar income	1,324.8	1,988.0	-663.3	-33.4
Profits (losses) on trading/valuation of financial assets	-6,109.3	5,830.7	-11,940.0	
Net gain (loss) from hedging	-98.2	954.4	-1,052.6	
Financial income (loss)	104,435.3	129,979.5	-25,544.2	-19.7
Net adjustments for impairment of				
a) loans and receivables	-15,785.3	-15,506.3	-279.0	1.8
b) financial assets	232.4	-4,618.4	4,850.8	
Net financial income (loss)	88,882.4	109,854.8	-20,972.4	-19.1
Administrative expenses	-69,837.5	-73,047.6	3,210.1	-4.4
a) administrative expenses	-47,443.7	-48,981.8	1,538.1	-3.1
b) other administrative expenses	-22,393.8	-24,065.8	1,672.0	-6.9
Adjustments to fixed assets and intangibles	-2,066.4	-2,274.4	208.0	-9.1
Operating expenses	-71,903.9	-75,322.0	3,418.1	-4.5
Net operating income	16,978.5	34,532.8	-17,554.3	-50.8
Net provisions for risks and charges and other operating income/expenses	182.7	-360.8	543.5	
Profits (Losses) on investments	0.0	0.0	0.0	
Profits (Losses) on sale of investments	0.1	5.0	-4.9	-98.0
Income (Loss) before tax from continuing operations	17,161.3	34,177.0	-17,015.7	-49.8
Taxes on income from continuing operations	-1,937.2	-14,268.8	12,331.6	-86.4
Income (Loss) after tax from continuing operations	15,224.1	19,908.2	-4,684.1	-23.5
Income (Loss) after tax from assets for sale	0.0	0.0	0.0	
Net income (loss)	15,224.1	19,908.2	-4,684.1	-23.5

In the report on operations the profit and loss account for civilistic purpose has been reclassified according to criteria allowing a clear and transparent understanding of single items.

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);
 - profits/losses on asset disposal or repurchase, financial assets available for sale, financial assets held to maturity and financial liabilities (tag 100);
 - profits (losses) on trading / financial liabilities at fair value (tag 110).
- **personnel expenses** consist of net provisions for risk and charges in relation to this caption (corporate bonuses to be paid the following year or in the future);
- **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 charges and other operating income/expenses** contain provisions for risk and charges (tag 160), excluding personnel expenses, other operating expenses/income (tag 190) net of expense and stamp duties recoveries included among other administrative expenses (tag150b).

Financial Income (Loss)

At year-end 2010, the aggregate figure, which includes net income from banking activities (net interest income and net fee and commission income) and other financial incomes (dividends, profits/losses on trading/valuation of financial assets, net gain/loss from hedging) stood at 104.4 million euro, being 25.5 million euro down from 2009 figures.

The result combines a negative performance from net interest income (-17% over 2009) and other financial incomes (-4.9 million euro vis-à-vis +8.8 million one year before) with a rise in net fees and commissions (+5.3%).

Net Income from Banking Activities

Net income from banking activities, including interests and commissions, represents the most remarkable indicator of the Bank's financial trading performance. At year-end, it amounted to 109.3 million euro, down from the previous year's level (-9.8%).

Net Interest Income

After coordinated interventions by world central banks from the end of 2008 and during most of 2009, no relevant changes have occurred during the year under review.

During the first five months of the year the persistent financial crisis depressed interest rates further, though at lower level than expected, while in the second half we registered tentative signs of recovery. More in detail, by comparing December 2009 data with June and December 2010 figures, it comes out that the 1-month Euribor

average rate (act/365) passed from 0.45% (December 2009 and June 2010) to 0.82%, whilst 3-month Euribor gradually raised to 0.73% to final 1.04% from initial 0.72% whilst 6-month Euribor climbed to 1.02% to final 1.27% from 1.01%.

As aforesaid, worldwide economic stasis curbed the predicted recovery of net interest income and reduced interest rates differential. Against this background, the Bank revised its strategies in order to combine corporate profitability with competitive market conditions to be offered to all customer segments.

in thousands of euro

Net interest income	2010	2009	Changes	
			amount	%
Relations with customers	75,733.7	95,395.4	-19,661.7	-20.6
Relations with banks	6,682.0	6,165.7	516.3	8.4
Securities issued	-22,418.9	-35,356.0	-12,937.1	-36.6
Differentials on hedging derivatives	1,361.4	0.0	1,361.4	
Financial assets held for trading	8,787.1	16,337.0	-7,549.9	-46.2
Financial assets available for sale	7,069.8	766.0	6,303.8	
Financial liabilities at fair value	-8,851.4	-1,251.9	7,599.5	
Other net interest income	-277.9	9.1	-287.0	
Net interest income	68,085.8	82,065.3	-13,979.5	-17.0

At year-end, net interest income totalled 68.1 million euro and evidenced a yearly slump of -17% which resulted in reduced revenues for 14 million euro.

From the disaggregated analysis it is evident that:

- customer interest margin, which consists of relations with customers, securities issued, financial liabilities at fair value and differentials on hedging derivatives, fell by 22.1% over 2009; this negative result has been caused by a progressive reduction of interest rates in financial markets and smaller average loan amounts combined with increasing customer deposits, all this only partly balanced by lower funding interest rates. In this connection, it should be noted that 2009 figures also included maximum overdraft charges. This fee remained in force until 3 June and is no more operative, as foreseen by law provisions (Law No. 2 of 28 January 2009, art. 2bis);
- profits from interbank activities slightly increased for +0.5 million euro on 2009;
- profits on securities worsened (-1.2 million euro) owed to declining bond yields partly balanced by increasing volumes.

Net interest income represents more than 62.3% of net income from banking activities (vis-à-vis 67.7% at the end of 2009).

Net Fee and Commission Income

During the course of 2010, following a trend already registered in 2009, investors rediscovered interest, that seemed lost in the latest two years, in diversifying investment instruments and risk, although plain guaranteed instruments remained central in their choices. In particular, traditional bancassurance products (life segments) and personal loans granted by Consum.it remained the most attractive instruments. These offerings allowed us to post relevant commission incomes.

in thousands of euro

Net fee and commission income	2010	2009	Changes	
				%
- guarantees given	853.3	555.8	297.5	53.5
- collection and payment services	3,741.0	3,467.6	273.4	7.9
- current accounts	16,760.8	15,542.3	1,218.5	7.8
- fees on credit and debit cards	3,416.7	3,178.9	237.8	7.5
Commercial banking activities	24,771.8	22,744.6	2,027.2	8.9
- securities trading and placement	2,851.8	2,102.4	749.4	35.6
- currency dealing	384.8	431.2	-46.4	-10.8
- managed funds	1,825.6	1,602.0	223.6	14.0
- distribution of insurance products	3,277.7	2,962.6	315.1	10.6
- other	6,147.6	6,238.8	-91.2	-1.5
Management, dealing and consultancy activities	14,487.5	13,337.0	1,150.5	8.6
Other net fee and commission income	1,973.0	3,059.5	-1,086.5	-35.5
Total net fee and commission income	41,232.3	39,141.1	2,091.2	5.3

Given the above, notwithstanding the economic situation remained uncertain, net fee and commission income increased at year-end, up to the amount of 41.2 million euro, equal to a 5.3% upturn over 2009.

This caption corresponds to 37.7% (vis-à-vis 32.3% in 2009) of net income from banking activities and is the result of fee and commission incomes for 43.4 million euro and fee and commission expenses, amounting to 2.2 million.

The outcome has been made possible by the improvement in commission income (+4.9% y-o-y) and the contraction in commission expenses (-3.3%).

Other Financial Incomes

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

At the end of December 2010 the caption turned negative down to -4.9 million euro, reducing by 13.7 million euro as compared to 2009 results.

Dividends

This item consists of dividends from equities held for trading or available for sale.

As at 31 December 2010, total dividends amounted to 1.3 million euro from 2 million at year-end 2009 (-33.4%).

Profit (Loss) on Trading/Valuation of Financial Assets

This caption comprises profits/losses generated by debt securities, equities and other capital securities, currencies, derivatives, reclassified items linked to "complex"

transactions (dividend and funding cost), financial liabilities at fair value as well as profits/losses on disposal/repurchase of financial assets.

in thousands of euro

Profits (Losses) on trading/valuation of financial assets	2010	2009	Changes	
			amount	%
Interest rates	-11,115.6	5,783.8	-16,899.4	-
Equities	-135.3	-121.8	13.5	11.1
Foreign Exchange	283.6	1,518.4	-1,234.8	-81.3
Credit Derivatives	0.0	0.0	0.0	-
Total profits (losses) on trading	-10,967.3	7,180.4	-18,147.7	-
Profits (Losses) on disposal/repurchase of financial assets	4,465.7	-912.8	5,378.5	-
Financial assets and liabilities at fair value	392.3	-436.9	829.2	-
Profits (Losses) on trading	-6,109.3	5,830.7	-11,940.0	-

The above chart evidences:

- loss on trading (-11 million euro dropping to -18.1 million if compared to 2009) due to a negative performance in interest rates and a rise in credit spreads of government bonds held in the Bank's portfolio;
- gain by disposal/repurchase of financial assets (+4.5 million compared to -0.9 million in 2009);
- a loss in financial assets and liabilities at fair value (+0.4 million euro vis-à-vis -0.4 million at year-end 2009).

Net Gain (Loss) from Hedging

In the last twelve months, the contribution from hedging totalled 0.1 million euro, indicating a decrease vis-à-vis 2009 results of about one million euro.

Net Financial Income (Loss)

Based on above results, net financial income amounted to 88.9 million euro, down 19.1% over the previous year.

2010 results have been impacted by net adjustment for impairment on loans and financial assets for -15.8 and +0.2 million euro respectively.

Net Adjustments for Impairment

The aggregate, consisting of net adjustments for impairment on loans and receivables for 15.8 million euro and on other financial assets for 0.2 million euro, amounted to 15.6 million euro, with respect to 20.1 million euro in 2009.

Report on Operations

in thousands of euro

Net adjustments to loans and receivables and other financial assets	2010	2009	Changes	
			amount	%
- non-performing loans	-11,800.5	-10,339.6	1,460.9	14.1
- other impaired loans	-6,872.7	-7,913.5	-1,040.8	-13.2
- performing loans	2,887.9	2,746.8	141.1	5.1
Net impairment losses on loans and receivables	-15,785.3	-15,506.3	279.0	1.8
Net provisions for other financial assets	232.4	-4,618.4	4,850.8	-
Net adjustments	-15,552.9	-20,124.7	-4,571.8	-22.7

This improvement in the aggregate, if weighed against last year, was due to the accounting of impairment on investment securities available for sale in 2009 that during the year under review have been partly recovered from the valuation reserve of shareholders' equity.

Operating Expenses

Total operating costs borne in 2010 topped 71.9 million euro which meant a y-o-y contraction of 4.5%.

Cost/income stood at 68.9%, higher if compared to a year before, totally attributable to worsening financial income, used as denominator of the ratio considered.

Personnel expenses, including costs for employees seconded from our Parent Company, amounted to about 47.4 million euro, reducing by 3.1% y-o-y.

At the end of 2009, Biverbanca counted 770 employees, including 14 staff members seconded from Montepaschi Group. The yearly average number of enrolled human resources was equal to 741.

Administrative expenses amounted to 22.4 million euro, with a year-on-year cost saving of 6.9%, mainly obtained from reduced general structure costs and sound management of real estate assets.

The depreciation of tangible and intangible assets amounted to 2.1 million euro, in line with the figures recorded in the previous fiscal year.

in thousands of euro

Operating Costs	2010	2009	Changes	
			amount	%
- wages and salaries	32,660.8	32,340.0	320.8	1.0
- social security charges	8,125.2	7,852.4	272.8	3.5
- other	6,657.7	8,789.4	-2,131.7	-24.3
Personnel expenses	47,443.7	48,981.8	-1,538.1	-3.1
- general structure costs	1,798.4	3,151.7	-1,353.3	-42.9
- IT expenses	8,144.0	7,631.3	512.7	6.7
- indirect taxes and duties	5,585.4	5,754.6	-169.2	-2.9
- management of real estate assets	3,016.4	5,036.2	-2,019.8	-40.1
- legal and professional expenses	1,793.4	1,506.7	286.7	19.0
- advertising and promotional expenses	690.7	776.5	-85.8	-11.0
- indirect personnel costs	273.5	281.4	-7.9	-2.8
- other costs	6,967.0	6,516.2	450.8	6.9
- recovery of expenses and charges	-5,875.0	-6,588.8	-713.8	-10.8
Administrative expenses	22,393.8	24,065.8	-1,672.0	-6.9
- intangibles	141.2	37.7	103.5	-
- fixed assets	1,925.2	2,236.7	-311.5	-13.9
Adjustments to fixed assets and intangibles	2,066.4	2,274.4	-208.0	-9.1
Operating costs	71,903.9	75,322.0	-3,418.1	-4.5

Operating Income

In 2010 Biverbanca posted a 17 million net operating income. The decrease of this aggregate vis-à-vis 2009 mostly refers to diminishing financial income because of less brilliant performance of net interest income and other financial income, only partly balanced by smaller adjustments and operating expense cut.

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 2.4 million euro and use of provisions against earned surplus reabsorbed for 2.7 million, accounted for 0.3 million euro, opposite to -0.6 million as at the end of 2009, when they were 4.2 and 3.5 million euro respectively.

Other operating income/expenses amounted to c-0.2 million euro vis-à-vis 0.3 million in 2009. This caption is net of expense and tax recoveries which are included into other administrative expenses and amount to 0.8 and 5.1 million euro respectively.

Income before Tax from Continuing Operations

Income before tax from continuing operations totalled 17.2 million euro, recording a 49.8% yearly decrease, corresponding to -17 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 1.9 million euro, gaining from the amendments to goodwill valuation introduced by formerly article 15 of leg. Decree 185/08, the Bank recorded a net income of 15.2 million euro.

Main Balance Sheet Aggregates

In the Balance Sheet's tables and schedules, aggregates as at 31 December 2010 are compared with the figures as at the end of 2009.

Assets	2010	2009	Changes amount	%
Cash and cash equivalents	26.1	29.4	-3.3	-11.2
Receivables				
a) Loans to customers	2,376.5	2,216.4	160.1	7.2
b) Due from banks	1,120.3	560.2	560.1	100.0
Financial assets for trading purposes	820.9	513.7	307.2	59.8
Fixed and intangible assets	61.8	23.5	38.3	
Other assets	117.5	148.2	-30.7	-20.7
Total Assets	4,523.1	3,491.4	1,031.7	29.5

Liabilities	2010	2009	Changes amount	%
Payables:				
a) Due to customers and securities	2,808.9	2,879.5	-70.6	-2.5
b) Due to banks	1,260.6	154.9	1,105.7	
Financial liabilities for trading purposes	11.4	32.7	-21.3	-65.1
Specific provisions:				
a) Employee termination indemnities	18.4	17.7	0.7	4.0
b) Pensions	24.7	28.0	-3.3	-11.8
c) Other provisions	6.4	7.8	-1.4	-17.9
Other liabilities	144.8	146.8	-2.0	-1.4
Shareholders' equity				
a) Valuation reserves	-11.8	4.6	-16.4	-
b) Reserves	86.5	82.0	4.5	5.5
c) Issue premium	33.4	0.0	33.4	
d) Share capital	124.6	117.5	7.1	6.0
d) Net profit (loss) for the year	15.2	19.9	-4.7	-23.6
Total Liabilities and Shareholders' Equity	4,523.1	3,491.4	1,031.7	29.5

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

- among assets, “trading financial assets” include financial assets held for trading (tag 20) and “financial assets available for sale” (tag 40);
- among assets, “other assets” consists of hedging derivatives (tag 80), tax assets (tag 130) and other assets (tag 150);
- among liabilities, “due to customers and securities” comprises payables to customers (tag 20), securities issued (tag 30) and financial liabilities at fair value (tag 50);
- among liabilities, “other liabilities” takes into account hedging derivatives (tag 60) and other liabilities (tag 100).

Loans to Customers

In 2010 first signs of tentative economic recovery, though slow and uncertain, were shown. Against this background, as it will be further explained in the section dedicated to business development activities, the Bank confirmed its support to families and businesses in the areas where it operates, by favouring adequate access to credit, meanwhile assuring protection against lending quality risk.

Given the above, as at the end of 2010 loans to customers, consisting of performing and impaired loans, as well as securities-backed loans, reached a total of 2,376.5, vis-à-vis 2,216.4 million y-o-y. (+7.2%).

Loans to customers	2010	2009	Changes	
			amount	%
- Current accounts	344.0	334.0	10.0	3.0
- Loans	1,472.7	1,390.9	81.8	5.9
- Advances and other loans	421.6	347.1	74.5	21.5
- Impaired loans	133.2	117.3	15.9	13.6
- Loans represented by securities	5.0	27.1	-22.1	-81.5
Total Loans to customers	2,376.5	2,216.4	160.1	7.2

The analysis of the aggregate show that current accounts (+3% y-o-y), loans (+5.9%) and advances and other loans (+21.5%) confirmed the above mentioned trend.

In this connection, it must be added that Biverbanca does not grant personal loans directly but it is an intermediary in the placement of products proposed by Consum.it (a Group company specialized in consumer credit). As a consequence, the number of personal loans dramatically fell, also because loans originally granted in the latest years came to final maturity without being replaced with new loans (as at 31 December 2010 total personal loans granted through Biverbanca amounted to 55.8 million euro, evidencing an increase over 25.3 million euro posted in 2009).

At year end, net loans to total assets ratio was 52.5% vis-à-vis 63.5% in 2009.

Impaired Loans (Credit Quality)

Credit quality, measured by non-performing loans to total loans ratio, stood at 2.4%. This gives evidence of the great attention paid to credit risk issues and the use of sophisticated measurement methods.

in millions of euro

Loans to customers: credit quality	2010			2009		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
- Non-performing loans	154.8	-98.2	56.6	128.0	-81.2	46.8
- Watchlist loans	73.2	-14.9	58.3	52.7	-12.2	40.5
- Restructured loans	8.4	-0.8	7.6	17.0	-2.8	14.2
- Past due loans	11.3	-0.6	10.7	16.7	-1.0	15.7
Impaired loans	247.7	-114.5	133.2	214.4	-97.2	117.2
Performing loans	2,255.2	-11.9	2,243.3	2,112.3	-13.1	2,099.2
Total	2,502.9	-126.4	2,376.5	2,326.7	-110.3	2,216.4

Impaired loans indicate gross and net exposure of customer loans, whilst value adjustments to total loans ratio evidences the relevant coverage rate of estimated risk. Loan loss provisions prudentially reduce loans for an amount equal to expected credit losses. Estimates of these losses have been assessed for all loan categories and examined analytically, for single item, on non-performing, restructured, watchlist and past due loans whilst synthetically on other kind of loans to customers.

Based on year-end figures, risk coverage for impaired loans is 46.2%, whilst non-performing loans are covered at 63.4%, watchlist loans at 20.4%, restructured loans at 9.5% and past due loans at 5.3%.

Collective adjustments represent 0.5% of total exposure relating to performing loans.

Financial Assets for Trading Purposes

Financial assets for trading purposes amount to 820.9 million euro (+307.2 million or +59.8% year-on-year) whose 5.8 percent (or 47.3 million euro) consists of financial assets held for trading whilst the remaining 94.2 per cent (or 773.6 million euro) is represented by financial assets available for sale.

in millions of euro

Financial assets for trading purposes	2010	2009	Changes	
			amount	%
- Bonds and other debt securities	35.4	411.3	-375.9	-91.4
- Capital securities and OICRs	0.0	0.0	0.0	-
Trading securities	35.4	411.3	-375.9	-91.4
- Bond and interest rate derivatives	5.8	7.1	-1.3	-18.3
- Currency derivatives	0.9	3.7	-2.8	-75.7
- Capital securities and stock index derivatives	0.0	0.0	0.0	-
Positive market value of credit derivatives	6.7	10.8	-4.1	-38.0
Positive market value of credit derivatives using F.V.O. (Fair Value Option)	5.2	0.8	4.4	-
Financial assets held for trading	47.3	422.9	-375.6	-88.8
- Bonds and other debt securities	700.9	15.0	685.9	-
- Capital securities and OICRs	56.5	57.4	-0.9	-1.6
Securities available for sale	757.4	72.4	685.0	-
- Equity investments	15.7	17.9	-2.2	-12.3
- Private equity investments	0.5	0.5	0.0	0.0
Equity investments available for sale	16.2	18.4	-2.2	-12.0
Financial assets available for sale	773.6	90.8	682.8	-
Total financial assets	820.9	513.7	307.2	59.8

Fixed and Intangible Assets

The aggregate denominated “fixed and intangible assets” accounted for total 61.8 million euro with a raise of 38.3 million euro y-o-y. For the most part, this important result is to be ascribed to the purchase of Banca Antonveneta’s branches.

This caption consists of:

- intangible assets for an amount of 5.5 million euro referring to the assets deriving from the acquired branches;
- goodwill for an amount of 34 million euro, in excess of the capital increase to serve the demerger transaction and the book value of transferred assets.

Net Interbank Position

At year-end 2010, Biverbanca’s net interbank position recorded a debit balance of 140.3 million euro, marking a drop from positive 405.3 the previous year.

More in detail, loans boosted by a record amount, passing from 560.3 million to 1,120.30 million euro y-o-y as well as deposits turned up to 1,260.6 from 154.9 million euro.

in millions of euro

Net interbank position	2010	2009	Changes	
			amount	%
- loans	638.8	313.4	325.4	-12.0
- deposits	-283.8	-65.3	213.5	-
Net interbank position payable on demand	355.0	248.1	106.9	43.1
- loans	481.5	246.8	234.7	95.1
- deposits	-976.8	-89.6	887.2	-
Net interbank position with a maturity date	-495.3	157.2	-652.5	-
Net interbank position	-140.3	405.3	-545.6	-

Customer Funding

2010 volumes confirmed the positive trend already registered at the end of 2009, meanwhile evidencing a move from direct to indirect funding. In fact, investors returned to show preference in investment diversification that varied according to different levels of propensity to risk and amount invested; however they remained attentive to protect capital.

in millions of euro

Customer funding	2010	2009	Changes amount	%
- Current accounts and deposits	1,564.3	1,560.2	4.1	0.3
- Other	31.8	19.4	12.4	63.9
- Repurchase agreements	102.9	141.2	-38.3	-27.1
Due to customers	1,699.0	1,720.8	-21.8	-1.3
Securities issued	578.3	981.0	-402.7	-41.0
Financial liabilities at fair value	531.6	177.7	353.9	
Total direct funding	2,808.9	2,879.5	-70.6	-2.5
Indirect funding (a)	3,243.0	2,959.9	283.1	9.6
Total customer funding	6,051.9	5,839.4	212.5	3.6
(a) of which: own shares	282.5	276.0	6.5	2.4

Total customer funding, including all customer trading activities, came to 6,051.9 million euro with a 3.6% growth over 2009.

More in detail, direct funding, which counts for 46.4% of total aggregate, slightly decreased by -2.5% on the previous year. As far as indirect funding is concerned, volumes posted at 31 December 2010 amounted to 3,243 million euro, with an increase of 9.6%.

Direct Funding

As before mentioned, during 2010 direct funding marked a slight reduction down to total 2,808.9 million euro (-2.5%) at year end.

From an analysis of the aggregates, the yearly performance of direct customer deposits indicates:

- current accounts and deposits (+4.1 million euro or +0.3%) remained more or less stable if compared with previous year; they together count for 55.7% of total aggregate;
- repurchase agreement volumes (-38.3 million euro or -27.1%) reduced as a result of higher customer risk propensity;
- Biverbanca Bonds, posted under securities issued and financial liabilities at fair value, showed 4.2% contraction as at 31 December 2010.

Finally, direct funding to total assets ratio was 62.1% opposite to 82.5% y-o-y.

Indirect Funding

As at 31 December 2010, the market value of indirect funding, excluding the cash component of managed funds (GPMs), Biverbanca Bonds and Certificates, upsurged by 9.6%, growing to 3,243 million euro from 2,959.9 million at year-end 2009, due to the fact that customers seemed to switch to less liquid financial instruments that could secure higher yields at the same time as protecting invested capital.

in millions of euro

Indirect funding	2010	2009	Changes	
			amount	%
- Mutual Funds and Sicav	436.8	400.8	36.0	9.0
- Pension Funds	3.7	3.7	0.0	0.0
- GPMs and GPFs	185.7	227.7	-42.0	-18.4
Managed Funds	626.2	632.2	-6.0	-0.9
Insurance products	554.9	412.9	142.0	34.4
Total managed funds	1,181.1	1,045.1	136.0	13.0
Assets under administration and in custody (a)	2,061.9	1,914.8	147.1	7.7
Total indirect funding	3,243.0	2,959.9	283.1	9.6
(a) of which: own shares	282.5	276.0	6.5	2.4

More specifically, assets under administration and in custody came to 2,061.9 million euro with a growth of 7.7% over the year before, thus counting for 63.6% of total indirect funding.

At the same time managed funds enhanced further up to 1,181.1 million euro (+13%). Likewise, insurance products boosted by 34.4%; especially traditional policies registered a large number of new contracts, backed by favourable market conditions characterized by declining interest rates. Also mutual funds and Sicavs performed well (+9%) whilst assets under management downturned by 18.4%, because of extreme world market volatility.

Financial Liabilities for Trading Purposes

This caption includes derivatives that are not accounted for as hedging instruments and technical overdrafts, designated at fair value. At year-end 2010 they amounted to 11.4 million euro with 21.3 million lessening (or -65.1%) vis-à-vis 31 December 2009.

in millions of euro

Financial liabilities for trading purposes	2010	2009	Changes	
			amount	%
Due to customers (technical overdrafts)	0.0	10.8	-10.8	-
- Debt-related and interest rate derivatives contracts	10.2	18.4	-8.2	-44.6
- Currency derivatives	0.8	3.3	-2.5	-75.8
- Equity and stock index derivatives	0.0	0.0	0.0	-
Negative market value of trading derivatives	11.0	21.7	-10.7	-49.3
Negative market value of derivatives using FVO (Fair Value Option)	0.4	0.2	0.2	-
Total	11.4	32.7	-21.3	-65.1

Purchase of Parent Company's Shares

Pursuant to the Shareholders Meeting's resolution of 30 November 2010, during the year under review, No. 512,441 Banca MPS shares were purchased on the market, at a nominal value of 343,335.47 euro and a book value of 446,549.33 euro, as a bonus share distribution to Biverbanca's employees.

Consequently, on 21 December 2010, No. 512,441 free shares were distributed to employees, booked at the market value of 446,387.36 euro.

Shareholders' Equity

Shareholders' equity, including net income for the period, amounts to 247.9 million euro. It consists of share capital for 124.6 million euro, reserves for 86.5 million and valuation reserves for -11.8 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 31/12/2009	Change in the period	Reserves as at 31/12/2010
Financial assets available for sale	4.6	-16.4	-11.8
Fixed assets	0.0		-
Cash flow hedges	0.0		-
Special revaluation laws	0.0		-
Other	0.0		-
Total	4.6	-16.4	-11.8

Capital for Regulatory Purposes

in millions of euro

Capital for regulatory purposes and capital ratios	2010	2009
Tier I capital	197.0	195.4
Tier II capital	0.0	0.0
Capital for regulatory purposes	197.0	195.4
Credit and counterparty risk	103.1	115.0
Market risk	0.2	3.0
Operational risks	14.7	15.0
Prudential requirements	118.0	133.0
Capital surplus in excess of minimum requirements	79.0	62.4
Risk-weighted assets	1,475.0	1,662.5
Capital ratios %		
Core Tier I net of preference shares/ Total risk-weighted assets	13.36	11.75
Core Tier I / Total risk-weighted assets	13.36	11.75
Total capital / Total risk-weighted assets	13.36	11.75

At year-end 2010, capital for regulatory purposes amounted to 197 million euro while risk-weighted assets were equal to 1,475 million, mostly attributable to credit risks and to a lesser extent imputable to market and operation risks.

Total solvency ratio stood at 13.36% obtained by multiplying prudential capital requirements by the inverse regulatory minimum risk-based ratio of 8 per cent.

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

Human Resources

Biverbanca strongly relies on human resources to create value for the company and pursue corporate strategies.

Consequently, ahead of the guidelines set out in the 2008-2012 Industrial Plan and further to budgeting programme for 2010, human resources management was driven by constant search for a proactive involvement of all employees in the Bank's activities through a leadership practice able to listen to employees' demands, share common goals and professional paths while establishing personal transparent relations. All this to enhance employees' ability in facing problems as they occur and help them combine the pursuing of company's objectives and professional expectations with personal or familiar needs.

It is our understanding that this approach will consent the achievement of excellent performances with a strong belief that in a company activities are carried out thanks to the professional commitment of all employees, men and women, in the performance of daily duties, with dedication and sense of belonging, to pursue the Bank's core values, such as client orientation and territorial vocation.

To reach these objectives Biverbanca endeavoured to enhance efficacy in customer relationships and in the approach towards market in general through following actions:

- Evolution of distribution network through the expansion of the Bank's presence in the other provinces of Piedmont;
- Reorganization of the commercial model through the adoption of new service standards and the introduction of efficient commercial platforms to serve customer relationship managers;
- Improvement of structural efficiency at Head Offices through rationalization of activities and harmonization of operational units, driven by the effects produced by the migration of information procedures to the Montepaschi Group Operating Consortium and by the centralization of operating activities to the same Consortium, with the aim of reaching economies of scale and creating Group synergies while allowing the Bank to focus on its core activities (ongoing process).

In order to complete these changes the Bank needs motivated personnel with adequate level of professional competences with respect to the job role covered in terms of know-how, competence, attitude and potentialities.

Employees responded to changeover positively. They could face this important and complex event by proving great commitment and strong dedication while showing positive mental attitude, even beyond expectations.

Special praise goes to those colleagues, some no longer young, for whom changes and demand for flexibility had heavier impact because of longstanding habit and custom as well as consolidated operating behaviour.

In order to maximize benefits and make the most of opportunities given by organizational changes introduced, along with the migration to new information

procedures, it has been necessary to gain a broader and deeper knowledge of existing human resources in terms of:

- assessing adequate level of competence and skills with respect to the job role covered;
- acquiring better knowledge of professional expectations and personal needs of employees with a view of understanding proper motivational triggers.

To this end, preliminary assessment initiatives started, involving all people working at the Bank's Head office and some professional figures (covering responsibility role) in the commercial network. Since these actions gave positive results, it has been decided to continue similar activities during the course of 2011.

Once the results of the assessment process are available, starting from the first months of 2011 a new training programme will be defined, according to single specific needs, in order to fill in deficiencies, if any.

While examining principal activities performed during the year, in April employees benefited by earnings-based bonuses paid according to the Incentive Schemes 2009, consisting of a variable element of remuneration, related to the position covered and based on total earnings with respect to budget objectives.

Incentive Schemes, aimed at enhancing employee motivation and involvement in the company's short and long-term strategies, are linked to value creation indicators, objective criteria, the extent to which results are consistent over time, also associated to selection-based approach and focused on individual merit.

A yearly Corporate Bonus, linked to productivity or profitability indicators, has been paid, as foreseen by the National Labour Contract in the banking industry and according to specific arrangements with Trade Union Representatives. In 2010 it consisted of:

- a cash amount paid in April 2010;
- a free assignment of Banca Monte dei Paschi di Siena ordinary shares as stock granting. For this component, calculated on the basis of operating income recorded, objectives for 2009 have not been completely reached. Consequently, bonus has been graded according to the achievement of defined goals.

Workforce

As at the end of 2010, Biverbanca had a total 756 employees, added to 14 executives seconded from Banca MPS Group.

While women represent 52.2% of the total workforce, 71.7 percent of personnel consists of “front line” employees, working in our branch network or at our district directorates.

Workforce	2010		2009		Changes	
	number	%		%	number	%
Top managers	5	0.7	5	0.7	0	0
Executive cadres	237	31.3	209	29.6	28	13.4
3rd professional area	499	66.0	478	67.6	21	4.4
1st and 2nd professional areas	15	2.0	15	2.1	0	0.0
Total employees	756	100.0	707	100.0	49	6.9
Staff seconded from other Group companies	14		6		8	
Total personnel	770		713		57	8.0

It emerged that total employees increased by 57 people vis-à-vis 2009, as a consequence of the following changes:

- our total workforce fell by 18 employees, including 2 on term contracts, 4 voluntary resignations, 8 retirements and 4 transfers to Banca Monte dei Paschi di Siena (following the sale of our Rome branch);
- our total workforce grew by 75 people, as follows:
 - 11 new recruitments with fixed-term contracts (of them, 7 have been hired permanently at a later stage);
 - 8 additional executives seconded from our Parent Company;
 - 49 new resources formerly enrolled at the thirteen branches acquired from Banca Anonveneta during the year;
 - 7 new permanent enrollments.

Workforce by contract	31/12/10	Recruitments/Resignations/Transform.			31/12/09	Changes	
		1/1/2010 - 31/12/2010				number	%
Fixed-term contracts	754	52	16	18	700	36	5.1
Short-term contracts	2	15	2	-18	7	13	
Total workforce	756	67	18	0	707	49	6.9
of which: part-time contracts	88				86	2	2.3

Workforce by location	2010		2009		Changes	
	number	%		%	number	%
Headquarters	218	28.3	211	29.6	7	3.3
District directorates	13	1.7	10	1.4	3	30.0
Branch network	539	70.0	492	69.0	47	9.6
Total workforce	770	100.0	713	100.0	57	8.0

Workforce by age, job seniority and school degrees as at 31/12/2010

number

Workforce by age	Men	Women	Total
Up to 30 years	29	27	56
Between 31 and 40 years of age	52	55	107
Between 41 and 50 years of age	149	190	339
Over 50 years	131	123	254
Total employees	361	395	756
Average age	47	46	

number

Workforce by job seniority	Men	Women	Total
Up to 10 years	94	66	160
Between 11 and 20 years	59	87	146
Between 21 and 30 years	150	156	306
Over 30 years	58	86	144
Total	361	395	756

number

Workforce by school degrees	Men	Women	Total
University 2nd degree	52	43	95
University 1st degree	10	5	15
High school degree	250	330	580
Sundry degrees	0	12	12
Middle school degree	49	5	54
Total	361	395	756

Human resources development and training

While waiting for the assessment process to be completed, human resource development and training mainly focused on the delineation of growth plans through individual interviews that provided responses to particular personal requests of changing employee positions or increasing level of responsibility.

In addition, distance training courses continued to be provided through *Clic*, the Group online learning platform. They concerned important topics such as ISVAP, anti-money laundering, privacy policy, transparency, administrative responsibility of legal entities, health and safety at workplaces, for total 15,032 attendants and 15,640 hours.

Similarly, classroom courses about ISVAP 2010 (from beginners to advanced learners) continued throughout the year, involving 461 attendants for total 7,320 hours. Other classroom courses were attended by 515 people for total 2,361 hours. Among them, it is worth remembering a training course dedicated to heads of services, aimed at encouraging self-development of abilities needed to perform own professional role as well as improving personal attitude to optimize results with available resources (personal or assigned).

Finally, 13 newly recruited employees attended beginners' courses (71 participations, being 737 hours) and meetings were held to discuss about various topics (primarily commercial) for total 840 attendants and 2,750 hours.

In all, staff attended 17,510 training sessions (including e-learning modules) for total 36,247 hours.

Learning	hours	
	2010	2009
In-house training	3,099	751
Meetings	2,750	2,279
E-learning	15,640	6,445
ISVAP	7,320	9,270
Migration	4,496	31,973
Tuition at BMPS	2,716	7,226
Tuition at external companies	227	563
Total hours	36,247	58,507
Total attendants	17,510	9,109

In compliance with the historic role of guidance and point of reference in the economic and social life of local communities traditionally recognized to the Bank, during the year under review remarkable initiatives have been taken in that direction, confirming the privileged relationship existing between the Bank and local institutions. Among them, we can mention:

- following the agreement signed in January 2009 with the University of Turin, degree course in Economics and Enterprise Management at Città Studi in Biella, we sponsored orienteering training programs giving students the opportunity to attend on-the-job training at our premises;
- an additional agreement with Città Studi entailed specific courses, namely "Marketing and Sale Specialist", addressed to postgraduate students;
- we continued activities related to the 1st level University Master in Banking and Risk Management, started during the academic year 2009-2010, to be held at the University of Turin, Economics Department located in Biella (Città Studi). Our Bank was among main arrangers of the entire project. The master, attended by more than 30 graduate students, some coming from other Italian regions, lively combined classroom lessons and working stages. In this connection, Biverbanca hosted nine students (four of them has joined us again in 2011 to perform a post-degree training).
- In September the second year of the Master has started after a preliminary selection of candidates. It is currently attended by twelve students, many of them coming from abroad.

Trade Unions Relations

Relationship with trade union representatives are based on correct, respectful and transparent communication and inspired by common sense of responsibility to achieve global objectives.

Discussions mainly concerned issues relating to quality in work relationships, working environment, career paths, safety at work and environmental impact of activities. This approach favoured the settlement of issues arisen from the deep transformation the Bank experienced.

More specifically, during the course of the year, following topics were discussed:

- purchase of branches from Banca Antonveneta;
- sale of the branch in Rome to Banca Monte dei Paschi di Siena;
- reorganization process of the Head Office; in this connection meetings started at year-end and successfully ended in February 2011.

Additional meetings with trade union representatives have been arranged to discuss about other important issues that have interested all personnel in 2010 (i.e. evaluation system, corporate bonus, health insurance plan, incentive scheme and benefits).

Workplace safety and health

Within the workplace health and safety program, in 2010 the Bank:

- started the second phase of works to upgrade emergency exits in all branches;
- completed interventions to improve safety processes at the branches of Trino and Verrone;
- adopted the Group Workplace Health and Safety Management System;
- updated the Risk Assessment Document as at 1/12/2010 including branches acquired by Antonveneta in October;
- collected and analyzed data to assess work-related stress;
- performed activities to monitor and improve work environmental wellness (by checking electric equipment bonded to the ground, replacing outdated equipment, placing additional medical boxes, supplying workplaces with safety placards, etc.),

Operating Structure

At the end of December 2010, Biverbanca's network counted 121 branches. The Bank's presence was further strengthened by 127 ATM cash dispensers and 3,099 POS terminals.

Branch network	2010		2009		Changes	
	number	%	number	%	number	%
Region of Piedmont	115	95.0	101	93.5	14	13.9
Province of Biella	46		46			
Province of Vercelli	47		47			
Province of Alessandria	6		1			
Province of Novara	6		2			
Province of Turin	9		5			
Province of Verbania	1		0			
Region of Aosta Valley	5	4.1	5	4.6	0	0.0
Province of Aosta	5		5			
Region of Lombardy	1	0.8	1	0.9	0	0.0
Province of Milan	1		1			
Region of Lazio	0	0.0	1	0.9	-1	
Province of Rome	0		1			
Total branches	121		108		13	12.0
ATMs	127		111		16	14.4
POS terminals	3,099		3,083		16	0.5

Of all branches, 115 are in Piedmont, where the Provinces of Biella and Vercelli counted 46 and 47 outlets respectively whilst the remaining 22 branches are located in the neighbouring Provinces of Turin, Alessandria, Novara and Verbania.

Pursuant to Group guidelines concerning optimization of the distribution network and according to the principle of territorial exclusivity foreseen by the Industrial Plan 2008-2011, assigning Biverbanca the role of reference bank in Piedmont for the Montepaschi Group, on 18 February a new branch in Strambino started activities. Moreover, on 25 October 2010 thirteen branches - located in the province of Turin, Alessandria, Novara and Verbania - were purchased from Banca Antonveneta.

A breakdown by location shows that:

- 3 branches in the province of Turin: city of Turin (Agency No. 1 – Corso Taranto 42), Venaria Reale (Corso Garibaldi 157) and Borgaro Torinese (Via Lanzo 173);
- 5 branches in the province of Alessandria: town of Alessandria (Via dei Martiri 12), Tortona (Corso G. Garibaldi 9), Valenza (Viale Vicenza 4/a), Serralunga di Crea (Piazza Giovanni XXIII 1) and Cerrina Monferrato (Via Nazionale 91);
- 4 branches in the province of Novara: town of Novara (Corso XXIII Marzo 31 and Agency No.1 – Pernate – Piazza Fratelli Bandiera 21), Borgomanero (Viale A. Marazza 34) and Castelletto Sopra Ticino (Via caduti della Libertà 160/b);
- 1 branch in the province of Verbania, exactly in Pallanza (Viale G. Azari 40).

From an organizational point of view, new thirteen branches have been assigned to Alessandria District Directorate (formerly Development District Directorate). Moreover, two new Private and Corporate Centres have been created in the same District Directorate in order to assure continuity in customer relations.

Alessandria District Directorate and the two Centres are situated next to the branch in the same town. The Corporate Centre of Alessandria will have a base in Turin, as well.

As foreseen, on 18 October 2010 the branch in Rome was sold to Banca Monte dei Paschi di Siena.

Beyond Piedmont's borders, Biverbanca maintains an agency in the metropolitan area of Milan and 5 branches in the Valle d'Aosta region.

Moreover, on 16 November 2010 the Bank approved the plan to transform some outlets with restricted opening hours into full-service branches: Cerrione (BI), Viverone (BI), Rovasenda (VC) and Scopello (VC).

During the course of the year, the operating structure was interested by various interventions, especially restructuring/maintenance of the branch network and head office and initial search and feasibility study for the locations of branches of forthcoming opening.

In particular, activities performed in 2010 concerned:

- maintenance of real estate properties and equipment, such as:
 - requalification of workplace environment at Alice Castello branch;
 - renewal of insurance policies compliant with the Bank's new standards and amendment of provisions and contractual amounts;
 - restructuring project for the Agency No.3 in Biella, Via Dante;
 - works for replacing the roof at Asigliano branch;
 - design plan for the replacement of roof at Buronzo branch;
 - extraordinary maintenance of various buildings.
- development of interventions planned for the two-period 2009-2010, as foreseen by the Industrial Plan, such as:
 - opening of new branches involving:
 - starting activities in the new branches of Caluso (TO), Ciriè (TO) and Strambino (TO);
 - initial search of suitable locations for the opening of additional branches in the province of Turin and in the Verbano-Cusio-Ossola district;
 - activities backing the transformation of some outlets into full-service branches;
 - incorporation into the commercial network of the thirteen branches purchased by Banca Antonevanta and the sale of the branch in Rome to Banca Monte dei Paschi di Siena, involving:
 - on-the-spot inspection of acquired branches;
 - demands for various authorizations needed and replacement of signs;
 - development of logistics activities for the operating migration of the thirteen new branches into Biverbanca's network and relating to the sale of the branch in Rome.

Business Development

Throughout 2010 business activities developed along lines aimed at widening the Bank's presence in its core regions with efforts focused on households and businesses meant to sustain the impact of the difficult economic situation experienced by local districts where the Bank operates and promote growth, as well.

Here below, a market segment analysis will illustrate our marketing and communication activities more in detail.

Retail and Private Market

2010 was for the most part dedicated to improving customer services through the definition of specific "Service Models" organized by categories to better service homogeneous groups of customers through:

- appointment of dedicated customer relationship managers;
- customized business processes;
- appropriate product catalogue.

Improvements were made possible thanks to the migration to the new information system fit to consolidate commercial development activities.

As far as financial advisory services are concerned, we launched "MPS ADVICE", an advanced financial advisory service based on tailor-made investment solutions, performance assessment and balancing of portfolio to be compliant with customer-defined objectives. The platform appears to be the most innovative and exhaustive financial advisory service nowadays available in Italy.

Customer managers using Service Models received proper training with the purpose of improving quality and efficacy of customer advisory services enriched by deep and longstanding knowledge of clients and closeness to territory.

During the course of the year, especially in favour of families, our offering was enhanced by new loans and residential mortgages, despite households still continued to bear effects of the global crisis, economic production was still depressing and real estate market remained gloomy. Catalogue products had strong commercial appeal on customers since they satisfied liquidity needs and protection demand: in this connection we can highlight "Mutuo Biver Protezione" – which combines low market floating interest rates with protection offered by interest rate cap – and "Tuttofare", a consumer loan by Consum.it, the MPS Group leading company in the consumer finance sector and monetics products. Among new products there is also "M'Honey" revolving card and fifth-of-salary backed loans (loans repaid through deduction of one fifth of the paycheck) to finance customers in possession of necessary requirements, giving the opportunity to perform transactions at lower cost and for bigger amounts, as well.

Similarly, as far as protection-oriented products are concerned, the Bank completely renewed its offerings concerning personal and capital protection in co-operation with AXA MPS Assicurazioni Vita and AXA MPS Assicurazione Danni: along with

traditional products sold with home mortgages and unsecured loans, Biverbanca's commercial network now is in the position to offer a complete catalogue able to efficaciously meet consumer protection needs.

Within the "Family" segment great attention has been paid to loan lending, through initiatives aimed at providing financial liquidity aid in support of difficult situations and directly backing entrepreneurs and workers, as well. To this end, we launched following initiatives:

- interventions within the "Combating the crisis" program for a temporary suspension of instalments to mortgage borrowers;
- support to the initiative promoted by the Piedmont Region for the sustain of workers unpaid for at least three months and excluded from social protection measures, by granting advances of overdue wages, backed by Region's collateral;
- adoption of ABI-CEI (Italian Banking Association – Italian Episcopal Conference) Agreement for granting of loans to families in difficult economic situation that meet requirements;
- loans in favour of parents of children born or adopted in the years 2009, 2010 and 2011, within the newborn children government fund;
- initiatives pursuant to the Ministerial Decree 132 of 2 September 2010 for the creation of a "Solidarity fund for first-home mortgages" by the Ministry of Economy and Finance, giving borrowers the opportunity to momentarily suspend the reimbursement of loan instalments;
- signing of an agreement among the Bank, the Foundation Cassa di Risparmio di Vercelli and the Confraternity of Saint Sebastian and Charity (Diocesan Caritas of Vercelli) for granting of loans addressed to citizens living in the municipality of Vercelli that usually have no access to traditional lending channels, subject to the approval, after an analysis of requirements, by Caritas' operating centres. In addition, subscribing parties created a special fund to guarantee loans.

As for wealth management, concerning investment-oriented customers, a new information platform (ADVICE) has successfully been launched to provide advanced advisory services along with a complete range of performing products. Other investment services were released from Group Montepaschi subsidiaries or external companies specifically designed for private-banking customers. In fact, their multi manager features assured objectivity and quality. While optimizing customer goals in compliance with MIFID provisions concerning risk objectives, these services allow investment diversification giving customers the opportunity to choose among:

- Biverbanca and Montepaschi Group Bonds;
- certificates of deposit;
- repurchase agreements;
- mutual investment funds with traditional and innovative formula; internationally well-known SICAVs designed for private-banking customers. In this connection most of distribution agreements were signed in 2010 and others will be executed during 2011;
- managed funds, both benchmark-oriented solutions and customized offerings fit to satisfy the most sophisticated requests from wealth customers;
- insurance products, such as low-risk policies (the so-called "separate managed accounts") or unit-linked policies, advanced products such as "Accumulator".

We consider Small Businesses as our core “capital”. Our strong linkage with this customer segment has developed during the years, reinforced by our good relationship with category associations and Confidi companies. Despite of the enduring economic crisis and strong tightening of economic activity in the Bank’s strongholds, volumes were enhanced by:

- marketing commercial loans;
- backing medium-and long- term investment programs through suitable financial solutions, with special attention to those businesses with high commercial potential;
- supporting agrarian credit through appropriate commercial proposals, also linked to the production of renewable energies, custom-made products and aggressive pricing;
- taking immediate measures in front of financial problems of borrowers, in order to help customers in the proper choice and handling of products to maintain high credit quality of granted loans.

During the year under review, Biverbanca maintained a leading position in the services of tax collection and cash facilities rendered to Public Administration. In fact, the Bank undertook 5 new entities on contract, increasing the total number of PAs serviced to 314.

Corporate Market

During the second half of 2010 we released an innovative instrument for handling commercial campaigns for corporate customers, namely “Method Platform”.

Main initiatives performed during the year were aimed at:

- encouraging the use of commercial and financial short-term credit limits;
- diversifying client portfolios by driving interest towards managed funds, especially bancassurance products;
- revising loan pricing in line with principles of risk management and cost of funding.

As far as corporate lending instruments are concerned, we closed important arrangements with Finpiemonte, as follows:

- lending facilities to artisans foreseen by Regional Law No. 01/09;
- new Lending Program pursuant to Regional Law No. 28/99 planned for traders;
- back of innovation projects, environmental sustainability and work safety for small and medium enterprises;
- creation of a guarantee fund for enterprises having more than 250 employees (Regional Law 34/2004);
- development of projects about “enterprise creation” and “independent work”;
- strengthening SME equity capital by means of participation loans.

Furthermore, we continued the revision process of arrangements with Confidi associations, pursuant the Article 107 of the Consolidated Law on Banking and further to mergers/incorporations occurred.

Among measures taken in favour of local entrepreneurs we can highlight an agreement with the Builders' Association in the province of Biella - ANCE BIELLA which entails the allocation of two credit limits (15 million euro for short-term transactions and 10 million euro for long-term projects) for loans to be granted to members.

Similarly, a 20 million credit limit has been approved in favour of the agrarian sector. This initiative was presented during a public meeting, held on 16 June 2010 at the Chamber of Commerce in Vercelli in presence of representatives of agrarian associations, public institutions and local entrepreneurial and financial sector.

Moreover, we signed an agreement with Ascom Biella entailing the granting of a credit limit for 1 million euro designed to finance traders interested into Urban Requalification Programs (P.Q.U.).

The offering of corporate products has been enriched by the launch of "CDP Loan", a medium-and long-term credit facility in favour of SMEs, funded by Cassa Depositi e Prestiti and consisting of unsecured or mortgage loans.

Commercial Communication

During the course of the year increasing attention was paid to communication:

- through advertisements and articles published in 25 assorted magazines and newspapers;
- vehicles graphics and bus wrap advertising;
- promotional materials like brochures, flyers and sandwich boards;
- brand advertising inside main sports facilities.

Finally, we committed in sponsoring various events, including sports competitions, particularly in the juvenile sectors, leisure and cultural activities, such as concerts, shows, historical commemorations, performances and conventions. Among them, we can highlight the agreement with Basketball Biella, FC Pro Vercelli 1892 and Libertas Biella. These actions allow the Bank to play a primary role in the development of local initiatives and contributes to the creation of value for the entire territory.

Central role was performed by the Bank's artistic and cultural initiative titled "Invitation to Art" (*Invito all'Arte*), an art exhibition held at the Chairman and General Management's premises, set up with the collaboration of our Parent Company. The exposition, displaying several famous Italian paintings, was open to the public, as well, and stirred great interest since its inauguration in December. In fact, after the first two months, more than 150 people have already visited it.

Evolution and Planning

The year under review was characterized by the Bank's structural reorganization occurred after the implementation of the new information system that required extraordinary efforts by all employees and produced deep technical functional and commercial changes in operating processes.

During the migration we encountered several difficulties that in some cases became serious, although the Bank and the Montepaschi Group Operating Consortium's personnel made strong efforts to reduce the impact by promptly resolving critical situations.

As a consequence, the migration made possible the integration of new technological solutions and services offered by Group information standards that enabled us to introduce, among other things, innovative functions of CMR approach to enhance customer relationship management and advanced software programs for credit analysis and lending management. Also, the migration allowed us to widen our product catalogue and make job processes more efficient.

In order to gain the most from Group synergies, we started a review of the customer portfolio management process involving commercial managers in order to assess a proper allocation of all client segments to the relevant structures.

Given the above, we could carry on strategic activities relating to the assessment of operating and organizational processes at head office and branches, essential to make job processes as efficacious and efficient as possible, in synergy with opportunities provided by the new information system.

Once the initial phase of migration have been concluded and in view of the foreseen evolution of the Industrial Plan, we set off other important projects, as follows:

- acquisition of 13 branches from Banca Antonveneta, as foreseen by the Industrial Plan within the branch expansion project;
- sale of the branch in Rome to our Parent Company, Banca Monte dei Paschi di Siena further to network rationalization;
- transformation of four outlets with reduced opening hours into full-service branches;
- technological adjustments and administrative actions for the reconfiguration of data network in order to migrate connectivity services from Verizon to Telecom Italia, in order to maximize functionalities and performance of information procedures now integrated into the Group Operating Consortium while significantly reducing costs;
- starting of a project aimed at integrating information infrastructures for human resources management into a new platform that the Group Operating Consortium is still developing and that will include some modules we currently use.

In order to enhance work processes we activated new standards for archiving paper files and contracts entailing their transfer, under specific rules, to external units forming the "documentation centre"; this solution, while assuring a more efficacious rationalization of interior spaces at branches, can assure easier access to documents since the latter are being scanned before being filed electronically.

As for monetics products, we will soon release new payment instruments, namely “Mondo card” and “Spider card”, that will be issued under the brand Biverbanca. On the other hand, last October we activated a new procedure to assess security in transactions effected with Europay cards scheduled to be blocked in case of fraudulent use abroad. This procedure will be soon extended to domestic circuit (i.e. the card is blocked if used within a short interval of time in two places that are far away from each other).

Due to several fraud attempts to install data-theft devices on our ATM machines to steal credit card information for card cloning and unauthorized usage, we completed the passage to microchip-embedded credit cards (by replacing the remaining magnetic stripe credit cards) and acquired anti-skimming devices to prevent frauds. As from December last year, all our ATMs are equipped with new technologies.

Further to recent Italian and European law provisions, in July we adjusted procedures to reflect novelties introduced by the European payment directive (PSD – Payment Service Directive). In addition, we further consolidated credit management process, especially at the initial stage of proposals issued at branches or at head office, through a reorganization of the Credit Lab, being a central structure appointed to define internal customer rating in compliance with Basel II requirements.

As from 1 April the Bank resumed activities relating to Quality Commitments, a series of initiatives promoted by PattiChiari (after a period of twelve months during which the Bank had suspended activities, as approved by the PattiChiari Consortium, during the migration period). Among novelties introduced as regards to credit cards there is the initiative concerning certain times of reimbursement in case of fraudulent usage of cards and the implementation of a sms application to receive text messages whenever a credit card transaction occurs.

For the first time disclosure documents for Biverbanca Bonds have been prepared in collaboration with Banca Monte dei Paschi di Siena’s Legal Department, without consulting external lawyers.

Once the migration process was concluded, within the Business Continuity Management project we carried on Business Impact Analysis (BIA) to set forth a new Business Continuity Plan (BCP) to ensure continuity in business operations during fatal emergency situations.

Against this background, the new information system consented us to avoid all administrative actions foreseen by the Disaster Recovery planning since it is the Group Operating Consortium that ensures continuing operations and infrastructural processes. Biverbanca will anyway continue to perform tests at least once a year (simulating one or several scenarios among those foreseen by the Bank of Italy) and local praesidium activities.

Risk Management and Internal Control

The Internal Control System mainly refers to the relevant Group Directive defining roles, duties and responsibilities of Corporate Bodies and Operating Structures pertaining to Group Holding and Subsidiaries. It also draws up general principles and guidelines that should inspire projecting, implementing and developing of an efficacious control system.

Biverbanca's Administrative Bodies approved the adoption of the above referred Directive by creating an Internal Control System (SCI) to be intended as a mixture of rules, procedures and organisational structures aimed at assuring sound corporate governance, in line with the Bank's mission, through a proper level of risk assessment, management and monitoring.

This methodology gives great relevance to the following principles: proper appointment of roles and responsibilities within corporate processes (control environment); planning of activities linked to risk disclosure, assessment, management and monitoring (risk assessment); setting up of rules and proper instruments with the purpose of securing an adequate level of internal controls (control activities); identification, collection and communication of all information allowing people to perform duties (information and communication); efficient and effective monitoring to promptly detect anomalies and suggest remedies in order to maintain the control system compliant to law regulations (monitoring).

Pursuant to the principal external regulations on the subject (Consolidated Law on Banking, Consolidated Law on Finance, Banking Supervisory Authority Act, etc.), the Internal Control System assigns a fundamental role to Corporate Bodies (Board of Directors, Board of Statutory Auditors and General Management) whilst specific responsibilities are allocated to the Bank's different functions, as follows:

- Business functions control all commercial processes (production, business, administration, operations, support and infrastructures) and are responsible of the control system governance inside single sphere of competence;
- Control functions¹ manage control systems for specific risk factors and are hierarchally organized in a way to assure independence from business functions;
- Internal Audit functions are empowered to assure efficacy and efficiency of the Internal Control System as a whole.

Among its objective, Internal Audit has to provide independent, objective assurance and consulting services to Corporate Bodies, having access to the Bank's records and structures.

¹ i.e. Compliance, Risk Assessment of the Accuracy of the Financial Information, Budgeting and Control and Risk Management.

Internal Control System: Internal Audit Activity

Following the definition of the Internal Control System's 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 – currently under revision in consequence of the organizational assessment owed to the migration of the Bank's operating procedures to the Montepaschi Group Information System - suggests that the mission of Internal Audit is to provide independent, objective assurance and consulting services designed to improve control and risk management processes, 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.

Among its activities, in constant co-operation with the Internal Control Division of the Group Holding, Internal Audit provides its support to the General Management by assessing that the Bank's strategies, policies and governance practices are compliant with risk control processing, also recommending adjustments, if necessary.

In addition, Internal Audit performs supervisory activity in relation to regulations in financial trading, such as Consob (Italian Companies and Stock Exchange Association) - Bank of Italy's Directive, namely "*Supervisory Regulations on Asset Management Companies/Collective Investment Undertakings*", Consob Resolution No. 16190 implementing the provisions on Intermediaries of Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) and Consob Resolution No. 17297 of 28 April 2010 concerning investment risk management and placement of financial instruments issued by credit institutions or insurance companies.

In addition, Internal Audit provides support to the Regulatory Authority constituted under Legislative Decree No. 231/2001, as regards to the so-called "administrative responsibility of legal entities", with the aim to evaluate the adequacy and effectiveness of the organizational model adopted and verifies that it would be maintained updated, efficacious and functional over time. Similarly, it assists the Board of Statutory Auditors whenever required.

Among its duties, the Internal Audit Department checks the Bank's accounting/administrative procedures in order to ascertain the correct fulfillment of obligations, then reporting to the Group Holdings's Internal Control Area for the issuance of certifications as foreseen by the Italian Savings Act No. 262/2005.

In addition, Internal Audit performs anti-money laundering activities and verifies that the Single Bank Database is correctly populated, by settling any anomalies with the assistance of branch staff or directly amending consolidated data (entries, amendments and cancellations). In particular, the Internal Audit Department also consists of the Anti-money Laundering Technical Function and carries out all activities connected to the mandate received by the General Management, in compliance with the article 28 of the legislative decree 231/2007 (enhanced due diligence measures) or related to suspicious transactions, as foreseen by the article 41 and 42 of the same decree, for further reporting to a Commission, specifically appointed, that has to verify

If information has to be forwarded to the Bank of Italy's Financial Information Unit.

In order to co-ordinate its countless activities, Internal Audit sets forth an Annual Audit Plan to be approved by the Board of Directors, after being evaluated by the Group Holding with specific reference to its adherence to Group current standards and adequacy to risk management processes.

After that, results of the analysis are reported to the General Management and the Chairman of the Board of Directors, in relation to the fact that the Internal Audit Staff is required to provide evidence of the analysis conducted with the method of "double reporting". Reports are also transmitted to the relevant Functions of the Bank based on the nature of each issue.

In addition, Internal Audit is required to prepare half-year reports for Corporate Bodies to outline activities performed and provide evaluation of the outcome of single components of the Internal Control System and assessment of the Control System as a whole. Copies of these reports are preventively submitted to our Parent Company.

In compliance with the resolution of the Board of Directors of 1 March 2010, as from 1 July 2010 the management of customer claims has been transferred from Internal Audit to Compliance Department. The reallocation of activities also required a change in the information procedures used to process customer claims. From a complete analysis it emerged that the number of claims have been in line with the preceding year and mainly concerned banking services different from investment securities trading. We would point out that claims received were not linked to specific Operating Units or connected to personnel negligence and system failure neither due to non-compliance with regulations.

Given the above, results from auditing investigation allowed us to express a positive judgment over the efficacy and efficiency of the Internal Control System.

In fact, credit risk linked to lending activities appeared more connected to the national and local economic stasis than to a general worsening of loan granting processes.

Moreover, favourable opinion about SCI was reinforced by outcomes of the project that involved the adoption of the Advanced Measurement Approach (AMA) for operational risk used by our Parent Company (self-assessment and scenarios, operational loss detection, etc.). These activities were revised during the year by the Internal Audit in order to assess their validity. It is worth reminding that risk assessment against those offences foreseen by the D.Lgs. 231/01 (administrative liabilities of legal persons) did not reveal any areas without proper risk management.

Furthermore, during the year critical issues risen from the change of information system services from Cedacri to the Group Operating Consortium have been absorbed, as foreseen by the Industrial Plan to reach a complete operational integration into the Parent Company.

In particular, outstanding items posted by the "central administration" are being settled while the Administration Structure is working on the rationalization of accounting items and existing records.

After reducing in the first half of the year (due to Procedural and organizational issues arisen from the "migration"), auditing activities strongly increased in the second half,

without reaching anyway expected volumes, backed by “remote controls” introduced by SIC (Information Control System) and supported by Group procedures (i.e. MAD for Market Abuse issues, Spy@net / Gianos / Kye related to anti-money laundering). Likewise, we intensified structured controls on investment services with the intent to further enhance this activity in 2011.

Finally, pursuant to Art. 33-36 and Annex B (Technical Document concerning minimum security measures) of D.Lgs 196 of 30 June 2003 – Code for protection of personal data, we completed the update of Programmatic Document on Security (DPS) relating to minimum security measures for the treatment of personal data.

Credit Risk

Credit risk is an investor’s risk of loss deriving from a deterioration in the borrower’s financial condition so that the latter is not able to fulfill his engagements any more. In order to mitigate credit risk, Biverbanca accurately assesses the creditworthiness of debtors and periodically reviews their financial condition.

Both the creditworthiness process meant to grant new loans and the reviewing analysis of outstanding loans aimed at monitoring the performance of lending activities are backed by advanced procedures.

During 2010 the Board of Directors approved a resolution to adopt Group information systems for loan granting process released by the Group Operating Consortium (COG). The new methodology entails different levels of resolution powers based on counterparty rating with the possibility of improving customer rating or otherwise downgrading it in front of high risk positions. This approach enable us to transfer critical customers under control of centralized structures of the Bank.

In order to comply with the requirement of separateness foreseen by Supervisory Rules we created a central structure specifically empowered to assign customer rating.

The entire process of loan granting and monitoring is supported by advanced procedural systems, such as.

- “Electronic Loan Application” (PEF) including balance sheet indicators, financial highlights and qualitative performance analysis of debtors and their economic sectors. This procedure manages the entire process of loan granting;
- “CRIF Database”, integrated into the above electronic loan application, providing an updated breakdown of outstanding debt for business and consumer clients. For this latter segment the “PEF” procedure also evaluates creditworthiness through an internal scoring system based on customer balance sheet data, performance indicators and sociological factors;
- Internal scoring serves credit risk measurement and management by assessing debtors’ creditworthiness – through quantitative, qualitative and sector analysis – this latter being expressed with fixed-scale values depending on default probability ratio calculated on default rate of latest years for peer groups of customers;

- Customer rating allows to detect high risk positions thus being an essential instrument during loan granting and monitoring process. This system is used to calculate provisions on the basis of performing loan default probabilities;
- Monitoring procedure identifies, in an automatic and uniform way for all customers, critical positions presenting high default probabilities or anomalous performance;
- “CE.BI” platform (Centrale Bilanci) collects balance sheet data by grouping them according to schemes for deep analysis;
- “Groups of Customers Connected Together” (GCC) enabling us to sort customers by legal status, total assets and economic activities in order to consolidate relevant lending risks. Big loans have to be preventively approved by our Parent Company or need its final ratification in case they are granted under the art. 136 of Consolidated Law on Banking (T.U.B.) in respect of the obligations set forth for corporate executives.

Under the operational point of view, loan requests are to be approved by specific functions empowered with lending operational limits by the Board of Directors. There are different levels of authority attaining customer evaluation and loan approval, from customer asset managers, working at branches or at corporate/private centres, through to top executives.

At a first level, customer valuation and loan demands are effected by asset managers, that are the professional figures that maintain daily relationship with customers and can immediately take action to remove criticalities and restore normal activity or involve central control functions and general management’s corporate bodies appointed to define risk classification.

Delegating authorities are assigned considering loan type and amount, the presence of real or personal guarantees and rating.

Market Risk

The migration to the Group operating platform gave access to advanced metric measurement of market risk thus aligning Biverbanca to Group standardized methodology.

During the first half of 2010 operating limits assigned to Biverbanca’s Board of Directors were revised by empowering internal functions with a range of sub-limits. In addition, the process to handle overdrafts was outlined.

The current organization entails that methodology, risk measurement and limit management control are monitored by the Risk Management Area of our Parent Holding that daily transmits reporting flow to relevant functions of the Bank (Finance Service and Budgeting, Control and Risk Management) in charge of supporting the Finance and Market Risk Committee, designed to cooperate with the General Management.

According to the classification of market risk positions, financial assets held for trading are attributable to the Regulatory Trading Book (BB). Remaining positions are posted to the so-called “Banking Book – financial assets” (PB).

Risk metrics and limit categories, applied to positions according to their classification, are the following:

- Value-at-risk (VaR) measures the threshold loss margin on the 1 percent variation of the mark-to market value over the one-day time horizon; this cannot be compared with Biverbanca’s previously applied methodology since it adopts the method of historical simulation and includes credit spread risk;
- Stop loss defines the maximum loss with reference to the profit and loss account;
- Banking Book Value (VPB, previously denominated “Possible impacts to shareholders’ equity) calculates the maximum threshold loss on Banking Book (PB);
- Credit limits for issuer risk and bond concentration, calculated on nominal value and classified by issuer and rating, are applied to the entire portfolio (PB and PNV);
- Credit limits for hedge funds by aggregate amount and single issuer;
- Sensitivity limits applies to those indicators referring to the ratio between the consolidated shareholders’ equity for regulatory purposes and mark-to-market loss that Banking Book positions would suffer if a yield curve of interest rates turns negative for 200 basis points.

During the third quarter of 2010, further to new investment strategies for Proprietary Finance, limits assigned to Biverbanca have been revised and are currently classified with reference to the main portfolio aggregates, as follows:

Regulatory Trading Book

- VaR: -1 million euro, excluding Hedge Funds (separate lines);
- Monthly cumulative aggregate stop loss: -3 million euro;
- Annual cumulative aggregate stop loss: -8 million euro.

Banking Book

- first indicator of sensitivity (scenario of parallel variation of the yield curve): 20%
- second indicator of sensitivity (worst scenario of negative variation of the yield curve of interest rates by macro time series): 24%.

The sub-group including financial assets, net of loans & receivables, is linked to a VaR limit equal to -8 million euro (excluding hedge funds for which a separate line applies) and a maximum VPB threshold of -50 million euro.

Hedge Funds

Maximum limit, being total investment amount, is equal to 80 million euro, with a maximum value of 60 million euro assigned to single asset managers.

As at 31 December 2010, if we exclude few positions mostly imputable to technical issues, market risk metrics referred to Biverbanca presented an exposition value lower than assigned limits.

Operational Risks

During 2010, in close collaboration with our Parent Company, we completed preliminary activities to adopt the Group Advanced Measurement Approach (A.M.A.) that is scheduled to be introduced, presumably in 2011, to calculate capital requirements, after the approval of Regulatory Authority.

While continuing ordinary activities referring to the operational Loss Data Collection (L.D.C.), we carried out actions concerning:

- Self Risk Assessment and Risk Scenario Analysis for 2010;
- Operational risk management through assessment of LDC historical archive, information sources, self risk assessment and risk scenario analysis;
- Revision of the operational risk management process conducted by Biverbanca together with our Parent Company's auditing functions.

After that, during the first months of 2011, the new operational risk management process is scheduled to be presented to Regulatory Authority for approval. The latter will then provide a final valuation on the adoption of the advanced model for assessing capital requirements.

Once the Bank's reorganization process is completed, it will be possible to standardize the entire process of operational risk management, also in view of activities that will be centralized to our Parent Company.

Counterparty Risk

Further to the migration to the Group operational platform and centralization of treasury activities to our Parent Company, the Bank's exposure to financial counterparties has been drastically reduced compared to the first nine months of 2009.

During the second quarter of 2010, the Board of Directors adopted the Montepaschi Group model for counterparty risk. To this end, it approved a global revision of delegating authorities empowered to allocate credit limits.

The above mentioned model entails a preliminary phase during which, upon request of Finance Department or Foreign Department, Credit Department makes proposal of counterparties and relevant credit lines to be transmitted to Parent Company's relevant structures to obtain approval based on counterparty valuation and country risk assessment.

Afterward Credit Department, using the same information facilities of Banca Monte dei Paschi di Siena, submits written proposals with enclosed required documentation to the pertinent deliberating bodies (Board of Directors, Executive Committee or General Manager).

Once approved, counterparty credit limits are loaded on front office instruments to allow monitoring of underlying transactions effected by operating structures involved.

Liquidity Risk

During 2010, activities relating to asset liability management were oriented to adjust delegating authorities and operational limits to properly manage Banking Book interest rate risk. This impacted the management of market risk as a whole (please refer to dedicated section for further details).

The migration to the new Group information platform gave access to liquidity risk indicators already in use at Banca Monte dei Paschi di Siena. However, the adoption of Group directives and allocation of credit limits are subject to preventive examination of Biverbanca's particularities and entail the subscription of a service level agreement with the risk management structure of our Parent Company. The completion of these latter activities is expected by the end of 2011.

Funds with Specific Destination

Funds with specific destination amount to 49.5 million euro, including:

- Employee Termination Fund amounting to 18.4 million euro as at 31/12/2010 compared to 17.7 million at year-end 2009;
- Pensions Allowances for total 24.7 million euro as at 31/12/2010 vis-à-vis 28 million euro at year-end 2009; 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 6.4 million euro opposed to 7.8 million in the previous year. They concern provisions for claims, arbitrations, revocatory proceedings and personnel expenses.

ALLOWANCES FOR RISKS AND CHARGES

in millions of euro

Allowances for Risks and Charges	2010	2009	Changes	
			amount	%
1) Other allowances for risks and charges				
1.1 Legal proceedings	1.9	3.2	-1.3	-40.6
1.2 Employee expenses	4.3	4.4	-0.1	-2.3
2.3 Other	0.2	0.2	0.0	0.0
Total	6.4	7.8	-1.4	-17.9

During 2010 fiscal year, 17 claims relating to default bonds were settled for a total disbursement of 0.6 million euro, opposite to an initial request of 1.1 million and provisions for 0.7.

Important Events After the Close of the Financial Year

On 2 March 2011 we officially inaugurated the new branch in the town of Chivasso, in the province of Turin, already operative since 16 February.

With this new opening Biverbanca's Network counts 122 branches. Out of these, 10 are located in the province of Turin (8%).

Furthermore, within the plan for restructuring and strengthening of the Bank's business network, we restyled the historic agency of Via Dante in Biella, inaugurated with public ceremony on 16 march.

This important remake followed the transformation of four outlets with reduced opening hours into full-service branches. It concerned the branches of Cerrione and Viverone in the province of Biella and those of Rovasenda and Scopello in the province of Vercelli.

Further to these interventions, Biverbanca further strengthened its mission of territorial bank, by fortifying its presence in its traditional strongholds as well as in the new areas of recent expansion.

Foreseeable Evolution

According to Banca Monte dei Paschi di Siena's economic forecasts, in 2011 we will witness a national GDP increase by 1% (vis-à-vis 0.7% in 2010). Moreover, they will expect an Italian average inflation rate of 2% while short-term interbank rates should increase (estimated average 1-month Euribor – act/360 – is expected to rise to 1.06% opposite to 0.55% in 2010).

Consequently, on one hand the Bank will continue to focus on commercial actions and provide its ceaseless support to families and entrepreneurs in the areas where it operates; on the other hand it will endeavour to take advantage of expected interest rate rise in order to boost revenues, by bettering both funding and loan volumes without forgetting the relevance of financial equilibrium, credit quality, operating efficiency and cost control.

Relations with Group Companies

The below charts illustrate the transactions which were conducted among the Parent Company, the subsidiary and other affiliates, detailed by counterparties, 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	Securities	Total	Guarantees	Commitments
Controlling companies Banca Monte dei Paschi di Siena SpA	1,000,989		516	1,001,505	1,183,575			1,183,575		813
Companies directly owned by controlling company MPS Group Operating Consortium Banca Antonveneta Consum.it SpA MPS Capital Service Banca per le Imprese SpA			39	39	67,068			67,068		
							20,739	20,739		
Total	1,000,989	0	555	1,001,544	1,250,643	0	20,739	1,271,382	0	813

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	7,742	29	7,771	2,802		2,313	5,115
Companies directly owned by controlling company Consum.it SpA MPS Group Operating Consortium MPS Capital Services Banca per le Imprese MPS Commercial Leasing SpA MPS Leasing and Factoring MPS Fiduciaria		2,387	2,387			5,420	5,420
	14	826	840				
		58	58				
		4	4				
						5	5
Grand total	7,756	3,304	11,060	2,802	5	7,733	10,540

During the year under review, relations with the Parent Company and its affiliates further strengthened. Likewise, the Bank continued its co-operation with Foundation Cassa di Risparmio di Biella and Foundation Cassa di Risparmio di Vercelli to develop future strategies in support of initiatives for socio-economic growth of local territories.

Before concluding this report on operations, we wish to warmly thank Mr. Angelo Barbarulo, our General Manager, for his commitment and professionalism in steering Biverbanca in a still difficult year for the economy of the areas where it operates and leading it through all migration phases to the Group operational system. Also, let us express appreciation to the Deputy General Manager, Executives and all employees for their passionate dedication in properly addressing critical issues arisen during the year.

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.

Proposals to the Shareholders' Meeting

Proposal of Allocation of Profit

Dear Shareholders,

We hereby submit to your approval the Bank's Financial Statements for the period 1 January – 31 December 2010, 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 addition, dividend is distributed as follows:

Net profit	€	15,224,054.75
Unavailable Reserve pursuant to Law Decree 38/2005 ⁽¹⁾	€	-539,670.55
Net Profit to allocate	€	14,684,384.20

Destination:

to Legal reserve	€	891,533.70
to Extraordinary Reserve	€	838,540.09

The Board of Directors proposes to allocate the remaining profit:

to Shareholders	€	12,954,310.41
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As for dividend to be distributed among Shareholders, shares assigned pursuant to the acquisition of Banca Antonveneta's branches, as a result of capital increase for demerger purposes and capital contribution in cash, participate in the Bank's profits as from the demerger date of 25 October 2010.

After approval of the balance sheet and ratification of the above proposals, the Bank's Equity Capital shall consist of the following:

Equity Capital (divided into 124,560,677 shares)	€	124,560,677.00
Share Premium Reserve	€	33,397,002.21
Legal Reserve	€	24,912,135.40
Statutory Reserve	€	4,680,090.54
Extraordinary Reserve	€	39,804,082.81
Unavailable Reserve pursuant to ex art. 6 of Law Decree 38/2005	€	539,670.55
Contribution 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
Reserves pursuant to Law Decree 153/99	€	3,885,821.71
FTA IAS Reserve	€	-9,245,045.51
Valuation Reserve attributable to financial assets available for sale ⁽²⁾	€	-11,842,037.97
Total	€	234,887,293.91

⁽¹⁾ Pursuant to art. 6 c.1 let a) of Law Decree 38/2005 a part of net profit related to unrealized surplus on profit and loss account, net of taxes and linked to the use of the fair value option, was posted to unavailable reserve.

⁽²⁾ Reserves non attributable that can vary over time owed to valuation effects from balance sheet items posted to profit and loss account pursuant to the presence of enduring losses or realized losses.

Biella, 1/3/2011

THE BOARD OF DIRECTORS

AUDIT REPORT

Financial Statements have been audited by Reconta Ernst & Young S.p.A. that issued an unqualified audit opinion dated March 15, 2011 included in the Italian version of the Annual Report and to which readers should refer.

Financial Statements

BALANCE SHEET

in units of euro

	ASSETS	31.12.2010	31.12.2009	Changes	
				amount	%
10.	CASH AND CASH BALANCES	26,135,687	29,363,473	(3,227,788)	-10.99
20.	FINANCIAL ASSETS HELD FOR TRADING	47,316,354	422,893,037	(375,576,683)	-88.81
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	773,566,923	90,848,169	682,718,754	751.49
60.	DUE FROM BANKS	1,120,247,536	560,178,449	560,069,087	99.98
70.	LOANS TO CUSTOMERS	2,376,498,984	2,216,408,312	160,090,672	7.22
80.	HEDGING DERIVATIVES	10,930,959	3,785,885	7,145,074	188.73
110.	FIXED ASSETS	22,766,582	23,426,579	(659,997)	-2.82
120.	INTANGIBLES	38,985,353	83,909	38,901,444	46,361.47
	including:				
	- goodwill	33,999,998	0		
130.	TAX ASSETS	41,729,437	21,336,750	20,392,687	95.58
	a) current	2,402,745	1,575,275	827,470	52.53
	b) deferred	39,326,692	19,761,475	19,565,217	99.01
150.	OTHER ASSETS	64,942,505	123,124,210	(58,181,705)	-47.25
	TOTAL ASSETS	4,523,120,320	3,491,448,775	1,031,671,545	29.55

Notes:

2009 figures cannot be compared to 2010 since the latter includes effects deriving from the transfer of business as a going concern from Banca Antonveneta as from 25 October 2010 and the sale of the branch in Rome on 18 October 2010.

BALANCE SHEET

in units of euro

	LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2010	31.12.2009	Changes	
				amount	%
10.	DUE TO BANKS	1,260,653,135	154,905,476	1,105,747,659	713.82
20.	DUE TO CUSTOMERS	1,699,028,406	1,720,771,411	(21,743,005)	-1.26
30.	SECURITIES ISSUED	578,263,394	981,028,810	(402,765,416)	-41.06
40.	FINANCIAL LIABILITIES HELD FOR TRADING	11,408,157	32,684,370	(21,276,213)	-65.10
50.	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE	531,574,222	177,677,738	353,896,484	
60.	HEDGING DERIVATIVES	8,431,717	1,111,311	7,320,406	658.72
100.	OTHER LIABILITIES	136,408,354	145,715,123	(9,306,769)	-6.39
110.	EMPLOYEE TERMINATION INDEMNITIES	18,407,440	17,677,023	730,417	4.13
120.	ALLOWANCES FOR RISKS AND CHARGES:	31,103,891	35,850,321	(4,746,430)	-13.24
	<i>a) pensions and similar commitments</i>	24,710,288	28,035,310	(3,325,022)	11.86
	<i>b) other allowances</i>	6,393,603	7,815,011	(1,421,408)	18.19
	Total liabilities	4,275,278,716	3,267,421,583	1,007,857,133	30.85
130.	VALUATION RESERVES	(11,842,038)	4,627,784	(16,469,822)	-355.89
160.	RESERVES	86,501,908	81,991,234	4,510,674	5.50
170.	SHARE PREMIUM RESERVE	33,397,002	0	33,397,002	
180.	SHARE CAPITAL	124,560,677	117,500,000	7,060,677	6.01
200.	NET INCOME (LOSS)	15,224,055	19,908,174	(4,684,119)	-23.53
	Total shareholders' equity	247,841,604	224,027,192	23,814,412	10.63
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,523,120,320	3,491,448,775	1,031,671,545	29.55

Notes:

2009 figures cannot be compared to 2010 since the latter includes effects deriving from the transfer of business as a going concern from Banca Antonveneta as from 25 October 2010 and the sale of the branch in Rome on 18 October 2010.

INCOME STATEMENT

in units of euro

	CAPTIONS	31.12.2010	31.12.2009	Changes	
				amount	%
10.	Interest and similar income	110,550,091	132,166,224	(21,616,133)	-16.36
20.	Interest and similar expense	(42,464,365)	(50,100,973)	7,636,608	-15.24
30.	NET INTEREST INCOME	68,085,726	82,065,251	(13,979,525)	-17.03
40.	Commission income	43,426,299	41,410,763	2,015,536	4.87
50.	Commission expense	(2,194,073)	(2,269,635)	75,562	-3.33
60.	COMMISSION INCOME	41,232,226	39,141,128	2,091,098	5.34
70.	Dividends and similar income	1,324,849	1,988,035	(663,186)	-33.36
80.	Net profit (loss) from trading	(10,967,334)	7,180,381	(18,147,715)	-252.74
90.	Net profit (loss) from hedging	(98,155)	954,315	(1,052,470)	-110.29
100.	Profit (Loss) from sale or repurchase of:				
	a) loans and receivables	2,476,181	(436,365)	2,912,546	-667.46
	b) financial assets available for sale	1,994,764	7,766	1,986,998	25,585.86
	d) financial liabilities	(5,270)	(484,157)	478,887	-98.91
110.	NET INCOME (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE	392,323	(436,848)	829,171	-189.81
120	NET INTEREST AND OTHER BANKING INCOME	104,435,310	129,979,506	(25,544,196)	-19.65
130.	Net losses/recoveries on impairment of:				
	a) loans and receivables	(15,785,298)	(15,506,298)	(279,000)	1.80
	b) financial assets available for sale	-	(4,886,695)	4,886,695	-100.00
	d) other financial transactions	232,425	268,303	(35,878)	-13.37
140.	NET INCOME FROM BANKING ACTIVITIES	88,882,437	109,854,816	20,972,379	-19.09
150.	Administrative expenses:				
	a) personnel expenses	(44,738,109)	(45,438,250)	700,141	-1.54
	b) other administrative expenses	(28,268,860)	(30,654,639)	2,385,779	-7.78
160.	Net provisions for risks and charges	(2,354,600)	(4,155,741)	1,801,141	-43.34
170.	Net adjustments to/recoveries on fixed assets	(1,925,231)	(2,236,679)	311,488	-13.92
180.	Net adjustments to/recoveries from intangibles	(141,152)	(37,742)	(103,410)	273.99
190.	Other operating expenses/income	5,706,687	6,840,203	(1,133,516)	-16.57
200.	OPERATING EXPENSES	(71,721,265)	(75,682,848)	3,961,583	-5.23
240.	Profits (Losses) on equity investments	121	5,024	(4,903)	-97.59
250.	INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	17,161,293	34,176,992	(17,015,699)	-49.79
260.	Taxes on income from continuing operations	(1,937,238)	(14,268,818)	12,331,580	-86.42
270.	INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	15,224,055	19,908,174	(4,684,119)	-23.53
290.	NET INCOME (LOSS)	15,224,055	19,908,174	(4,684,119)	-23.53

Notes:

2009 figures cannot be compared to 2010 since the latter includes effects deriving from the transfer of business as a going concern from Banca Antonveneta as from 25 October 2010 and the sale of the branch in Rome on 18 October 2010.

STATEMENT OF COMPREHENSIVE INCOME

in units of euro

	ITEMS	31.12.2010	31.12.2009
10	Net income (loss) for the year	15,224,055	19,908,174
	Other comprehensive income, net of taxes		
20	Financial assets available for sale	(16,469,822)	6,434,171
110	Total other comprehensive income, net of taxes	(16,469,822)	6,434,171
120	Total comprehensive income (tag 10+110)	(1,245,767)	26,342,345

CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2009

in units of euro

	As at 31.12.2008	Change in opening balance	As at 01.01.2009	Allocation of profit from previous year		Changes during the year							Shareholders' equity as at 31.12.2009
						Changes in reserves	Shareholders' equity transactions					Net income (loss) for the period	
							Reserves	Dividends and other allocations	New shares issue	Acquisition of own shares	Extr. Distribution of dividends		
Capital													
a) ordinary shares	117,500,000		117,500,000										117,500,000
b) other shares													
Share premium capital													
Reserves													
a) retained earnings	54,831,807		54,831,807	6,951,858									61,783,665
b) other	20,207,569		20,207,569										20,207,569
Valuation reserves													
a) available for sales	(1,806,387)		(1,806,387)									6,434,171	4,627,784
b) cash flow hedges													
c) other													
Equity instruments													
Own shares													
Net income (loss) for the period	27,044,358		27,044,358	(6,951,858)	(20,092,500)							19,908,174	19,908,174
Shareholders' equity	217,777,347		217,777,347		(20,092,500)							26,342,345	224,027,192

CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2010

in units of euro

	As at 31.12.2009	Change in opening balance	As at 01.01.2010	Allocation of profit from previous year		Changes during the year							Shareholders' equity as at 31.12.2009
						Changes in reserves	Shareholders' equity transactions					Net income (loss) for the period	
							Reserves	Dividends and other allocations	New shares issue	Acquisition of own shares	Extr. Distribution of dividends		
Capital													
a) ordinary shares	117,500,000		117,500,000				7,060,677						124,560,677
b) other shares													
Share premium capital							33,397,002						33,397,002
Reserves													
a) retained earnings	61,783,665		61,783,665	2,988,174	1,522,500								64,771,839
b) other	20,207,569		20,207,569										21,730,069
Valuation reserves													
a) available for sales	4,627,784		4,627,784									(16,469,822)	(11,842,038)
b) cash flow hedges													
c) other													
Equity instruments													
Own shares													
Net income (loss) for the period	19,908,174		19,908,174	(2,988,174)	(16,920,000)							15,224,055	15,224,055
Shareholders' equity	224,027,192		224,027,192		(16,920,000)	1,522,500	40,457,679					(1,245,767)	247,841,604

STATEMENT OF CASH FLOWS

	31.12.2010	31.12.2009
A. OPERATING ACTIVITIES		
- net income (+/-)	15,224,055	19,908,174
- capital gains and losses on financial assets held for trading and on assets/liabilities designated at fair value (-/+)	(6,263,618)	(1,303,451)
- capital gains and losses on hedging transactions (-/+)	98,155	(954,315)
- net impairment losses/recoveries (+/-)	20,245,859	22,710,069
- net adjustments to/net recoveries on fixed assets and intangibles (+/-)	2,066,383	2,274,420
- net provisions for risks and charges and other costs/revenues (+/-)	4,485,407	9,135,910
- tax not paid(+)	1,937,238	14,268,000
- net adjustments to/net recoveries on discontinued operations, net of tax effects (-/+)	-	-
- other adjustments (+/-)	(9,855,272)	807,240
1. Cash flow from (used in) financial assets		
- financial assets held for trading	381,983,843	57,026,663
- financial assets available for sale	(697,876,903)	2,777,505
- due from banks	(558,282,129)	(155,170,544)
- loans to customers	(173,464,988)	98,521,206
- other assets	34,232,014	(51,332,732)
2. Cash flow from (used in) financial liabilities		
- due to banks	1,104,561,828	(234,279,524)
- due to customers	(22,449,301)	152,556,668
- securities issued	(409,809,129)	(141,224,788)
- financial liabilities held for trading	(21,276,213)	(1,534,963)
- financial liabilities designated at fair value	349,908,367	176,542,581
- other liabilities	(4,023,233)	52,373,090
Net cash flow from (used in) operating activities	11,442,363	23,101,209
B. INVESTING ACTIVITIES		
1. Cash flow from		
- sale of equity investments	-	-
- dividends collected on other equity investments	-	-
- sale of held to maturity investments	-	-
- sale of fixed assets	-	-
- sale of intangibles	-	-
- sale of subsidiaries or business investments	2,100,000	-
2. Cash flow used in		
- purchase of equity investments	-	-
- purchase of business investments	-	-
- purchase of fixed assets	(1,265,234)	(653,719)
- purchase of intangibles	(5,042,598)	(26,912)
- purchase of subsidiaries or business investments	(33,999,998)	-
Net cash flow from (used in) investing activities	(38,207,830)	(680,631)
C. FINANCING ACTIVITIES		
- issue/purchase of own shares	40,457,679	-
- dividend distribution and capital reserves	(16,920,000)	(20,092,500)
Net cash flow from (used in) funding activities	23,537,679	(20,092,500)
TOTAL NET CASH FLOW	(3,227,788)	2,328,078
RECONCILIATION		
Captions	31.12.2010	31.12.2009
Cash and cash equivalents at beginning of period	29,363,475	27,035,397
Net increase (decrease) in cash and cash equivalents	(3,227,788)	2,328,078
Cash and cash equivalents at end of period	26,135,687	29,363,475

LEGENDA: (+) from (-) used in

Cash flows from interest income amount to approximately 106 million euro whilst those deriving from dividends are equal to about 1.3 million euro. Cash flows used in interest expenses add up to about 44 million euro while those deriving from tax payment consist of about 17 million euro.

The above cash flows are included into operating activities.

