



BANCA D'ITALIA
EUROSISTEMA

Annual Accounts

Ordinary Meeting of Shareholders
Rome, 31 March 2023

129th FINANCIAL YEAR

2022

Financial Year

129th



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ISSN 2499-7951 (print)

ISSN 2499-796X (online)

Designed by the Printing and Publishing Division of the Bank of Italy

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* Official Italian version

THE BANK OF ITALY'S ANNUAL ACCOUNTS

The Bank of Italy's annual accounts consist of the balance sheet, the profit and loss account and the notes to the accounts and are accompanied by the management report pursuant to Article 37 of the Bank's Statute.

The draft annual accounts are transmitted to the Ministry of Economy and Finance in accordance with Article 117 of Royal Decree 204/1910 (Consolidated Law on the Bank of Issue).

MANAGEMENT REPORT

The Bank of Italy's functions and their implications for the annual accounts

The management report briefly describes the Bank of Italy's governance and contains information on assets, liabilities and profit and loss, which is aimed at helping readers to better understand the activity of the Bank. It illustrates the main risks to which the Bank is exposed and the available resources.

The items in the balance sheet highlight the main tasks carried out by the Bank of Italy. The implementation of the monetary policy decisions taken by the Governing Council of the European Central Bank (ECB) is reflected in the securities purchased for monetary policy purposes, in lending to euro-area credit institutions and, on the liability side, in the latter's deposits with the Bank of Italy.

The management of Italy's official reserves, which include gold, is reflected in assets and liabilities denominated in foreign currency. The item *Banknotes in circulation*, under liabilities, reflects the Bank of Italy's task of issuing currency, a role it shares with the other Eurosystem central banks. Liquidity is distributed across the euro area through the TARGET2 settlement platform developed and managed by the Bank of Italy together with other national central banks (NCBs). This generates intra-Eurosystem claims and liabilities in the Bank's balance sheet. The treasury services the Bank performs on behalf of the government are reflected in general government deposits recorded under liabilities.

The income arising from these activities, along with that generated by the investment portfolio, is entered in the profit and loss account together with the operating expenses connected to them and those incurred in relation to the other functions performed by the Bank, mainly in the domains of banking supervision and crisis resolution, economic research and statistical analysis, anti-money laundering, and financial education and customer protection in banking and finance.

The primary goal of the Eurosystem is to maintain price stability, not to generate a profit. A strong commitment to pursuing this mandate, as well as effective actions, are key determinants of credible monetary policy, even though this could temporarily lead to a reduction in the financial results of the individual central banks.

In recent months, the ECB Governing Council has repeatedly raised its key interest rates to ensure a timely return of inflation to the 2 per cent medium-term target. These interest rate increases are causing the interest expenses of the central banks to rise considerably, without being matched by an equivalent increase in interest income on their financial assets. In fact, their balance sheets contain liabilities whose remuneration immediately adjusts to increases in the key rates (e.g. bank deposits and the negative TARGET2 balance) and assets that instead generate income at a fixed rate (such as securities held for monetary policy purposes). As a result, central banks will have to manage a reduction in their net income and, in some cases, even face a net loss, before earnings will gradually increase again.

The magnitude of potential losses depends on many factors linked to the size, composition and structure of each central bank's balance sheet, which vary even significantly across the Eurosystem.

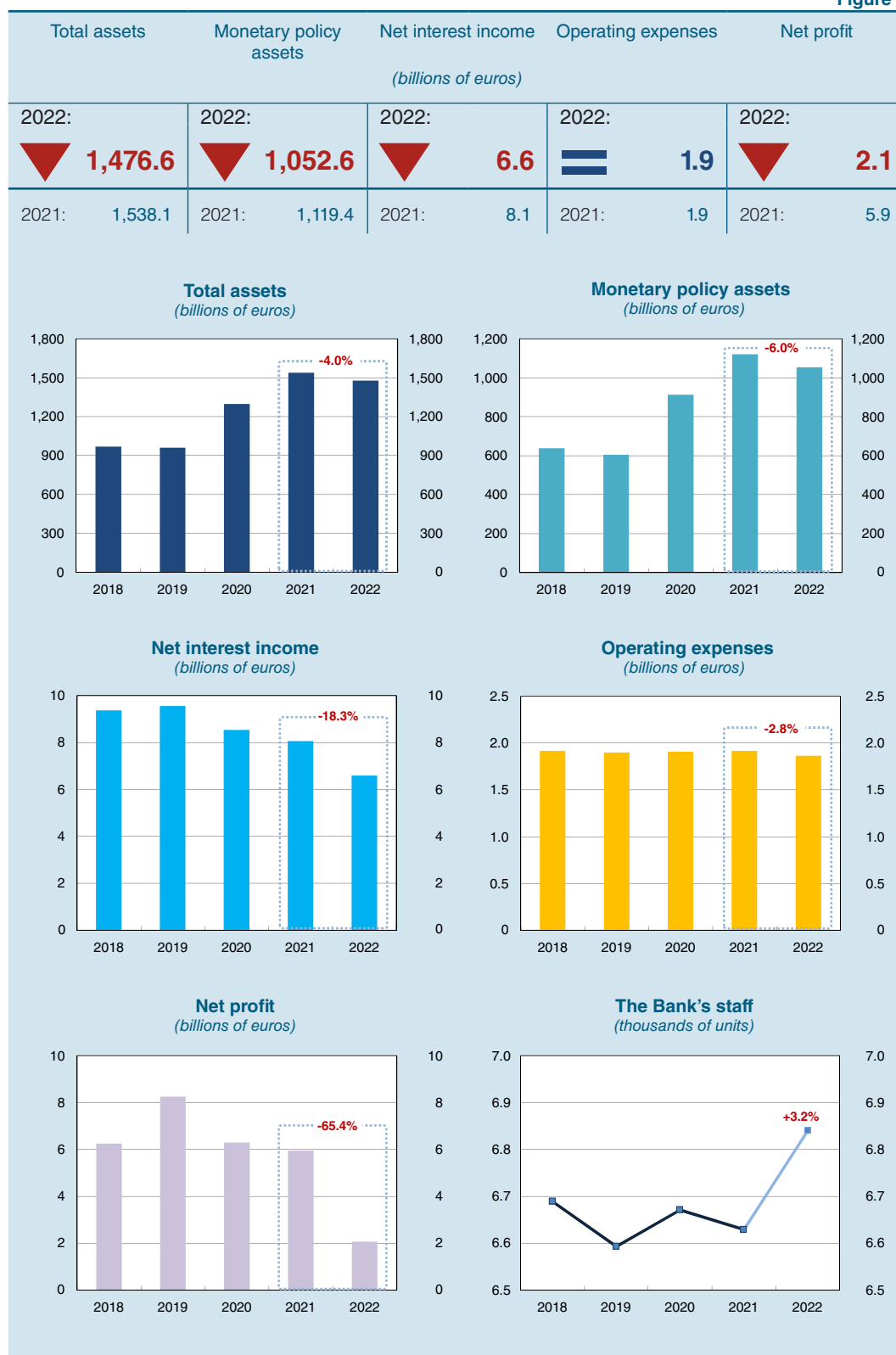
In recent years, thanks to high profit levels, the Bank of Italy and the other Eurosystem central banks have been able to build up financial buffers to strengthen their capital positions to prepare for the potential materialization of financial losses. The available financial buffers and other risk management frameworks contribute to preserving the financial independence of each central bank. Therefore, any financial losses incurred in implementing monetary policy operations will not impair in any way their ability to seek and maintain price stability.

The Bank of Italy has closed its 2022 accounts again with a net profit, albeit smaller than last year. The future gross losses, which are currently expected to be limited to 2023 and 2024, can be amply covered by the financial buffers built up to weather such an eventuality.

Further non-financial information can be found in the *Report on Operations and Activities of the Bank of Italy* and on the Bank's website (www.bancaditalia.it).

Highlights of the Bank of Italy's annual accounts

Figure 1



Governance

According to the Bank's Statute, its governing bodies are the Governing Board, the Board of Directors, the Board of Auditors and the Meeting of Shareholders.

The Governing Board is a collegial body that adopts measures of external relevance concerning the exercise of the Bank's public functions, without prejudice to the Governor's powers and competencies as a member of the decision-making bodies of the ECB. The Governing Board is made up of the Governor, the Senior Deputy Governor, and the three Deputy Governors.

The Board of Directors is chaired by the Governor and is responsible for the general administration, the management supervision, and the internal control of the Bank. Neither the Board of Directors nor the shareholders may interfere in any matters or decisions relating to the exercise of the public functions assigned to the Governor and the Governing Board by law and by the Bank's Statute.

The Board of Auditors oversees the administration of the Bank to ensure compliance with the law, the Statute, and the General Regulations. It also verifies that the accounts are properly kept,¹ examines the annual accounts, and expresses an opinion on the distribution of the profit.

The Meeting of Shareholders appoints the members of the Board of Directors, the Board of Auditors and the audit firm and approves the annual accounts and the distribution of the profit.

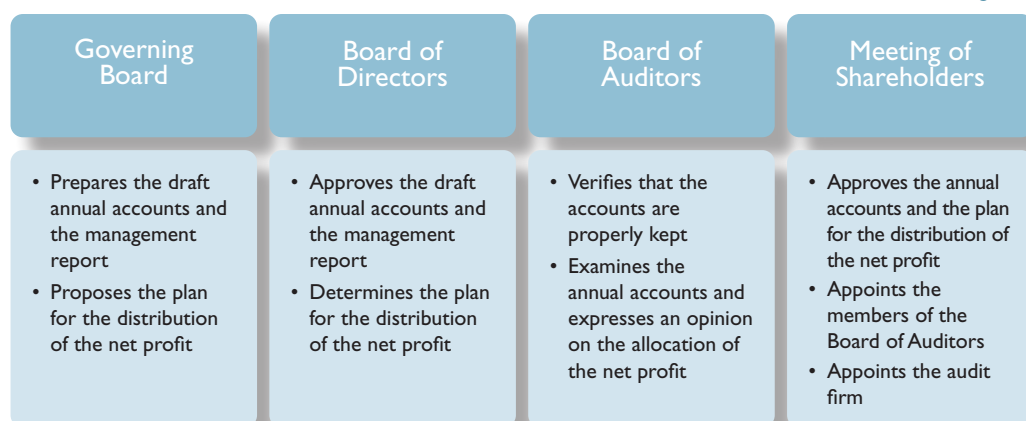
The approval process for the annual accounts

The draft annual accounts and the management report are approved by the Board of Directors, on a proposal of the Governing Board and having heard the Board of Auditors. The Board of Directors then submits them to the Ordinary Meeting of Shareholders for approval, together with the Report of the Board of Auditors and that of the audit firm. Figure 2 shows the tasks of the Bank's governing bodies relating to the annual accounts.

In accordance with Article 27 of the Statute of the European System of Central Banks (ESCB), the Bank's accounts are audited by an external auditor or by an audit firm, which expresses an opinion on the annual accounts for the year in a dedicated report (Article 42 of the Bank's Statute). The current audit firm is Deloitte & Touche SpA.

¹ In accordance with Article 42 of the Statute (approved by the Presidential Decree of 27 June 2022) and the related transitional provisions, the audit firm will be responsible for checking the proper keeping of the accounts as from the effective date of the contract for the auditing of the accounts for the years 2023-27.

Figure 2



Internal control system and risk management

The Bank has an internal control system designed to better achieve its objectives, the quality of its services, and efficiency in the use of its resources. It also manages the various risks and ensures compliance with internal and external regulations. The internal control system is based on the internationally recognized Three Lines model. This model provides a global vision of the control system, defines roles and responsibilities, and encourages ongoing interaction between the control and risk management functions while respecting their independence.

The first line consists of the units responsible for operational processes and for the identification, measurement and management of the related risks.

The second line consists of organizational functions that are separate from the process management units. These functions monitor specific types of risk (financial, operational, accounting, tax, IT, legal, workplace health and safety, crime prevention, corruption and privacy) for the entire Bank, taking a transversal view and reporting directly to the governing bodies. The activities carried out by these functions provide advice and support to the first line to manage risks and to calibrate the control measures in line with the proportionality criteria.

The third line is the internal audit function, which works independently of the first two lines and is subject to external periodic review, in compliance with international standards. It also conducts audits at the ESCB level. An advisory Committee on Internal Auditing (composed of three members of the Board of Directors and a member of the Board of Auditors as an observer) has been set up to strengthen the control system. It provides advice and support to the Board of Directors and to the Governor on matters concerning the oversight of the internal control system. In carrying out its oversight of the internal audit function, the Committee assesses the adequacy of its performance and its compliance with the audit policy and international standards.

Financial risk

The Bank of Italy manages its financial risks on an integrated basis, taking into account the interactions between the various risk profiles. These risks stem chiefly from the assets held for monetary policy purposes and for the management of the gold and foreign currency reserves and of the investment portfolio. The Statute of the ESCB provides that the risks associated with monetary policy operations may be shared with the other euro-area NCBs in proportion to their respective contributions to the capital of the ECB (see the box: ‘Rules on risk sharing in monetary policy operations’).

RULES ON RISK SHARING IN MONETARY POLICY OPERATIONS

Generally, the risks associated with refinancing operations are shared. Under Article 32.4 of the ESCB Statute any losses associated with these operations can, by decision of the Governing Council of the ECB, be shared among the Eurosystem NCBs in proportion to their shares in the ECB’s capital (capital key). The ESCB Statute states that all Eurosystem refinancing operations must be based on adequate collateral, in the form of the transfer of ownership or pledging of eligible financial assets. According to the rules established by the ECB Governing Council, NCBs may accept specific financial assets as collateral in addition to those considered eligible under the general framework, bearing the resulting financial risks at individual level. The Council also decided that the risks relating to securities purchased under some of the purchase programmes must be shared among the NCBs based on their capital key; for the remaining purchase programmes, the risks are borne by the individual NCBs. In particular for the NCBs, the following rules apply:

	Programme	Status	Risk sharing
SMP	Securities Market Programme	Terminated	YES
CB	Covered Bond Purchase Programme (CBPP1) (1)	Terminated	NO
	Covered Bond Purchase Programme (CBPP2) (1)	Terminated	NO
APP	Asset-Backed Securities Purchase Programme (ABSPP) (2)	Active	YES
	Covered Bond Purchase Programme (CBPP3)	Active	YES
	Corporate Sector Purchase Programme (CSPP) (3)	Active	YES
	Public Sector Purchase Programme (PSPP) supranational bonds	Active	YES
	Public Sector Purchase Programme (PSPP) government bonds	Active	NO
PEPP	Pandemic Emergency Purchase Programme covered bonds	Active	YES
	Pandemic Emergency Purchase Programme corporate bonds (3)	Active	YES
	Pandemic Emergency Purchase Programme asset-backed securities (2)	Active	YES
	Pandemic Emergency Purchase Programme supranational bonds	Active	YES
	Pandemic Emergency Purchase Programme government bonds	Active	NO

(1) Fully redeemed in 2022. – (2) These securities are reported solely in the ECB’s accounts. – (3) Includes commercial paper issued by non-financial corporations.

The risk sharing system includes indirectly all the securities purchased by the ECB, given that the NCBs hold its capital.

The Bank of Italy measures financial risk using a methodology very similar to the one developed by the Eurosystem, with some adaptations to ensure it conforms more closely with the specific features of the Bank. The methodology makes it possible to take account of the distinction between credit and market risks and is based on two different analytical perspectives: financial and accounting. The first approach, adopted to define the optimal composition of financial investment, estimates risk exposure without considering the accounting rules applied to the various balance sheet items and evaluates its impact on the net equity of the Bank at current market values. The second approach, which is applied in the preparation of the annual accounts in order to define the policies relating to the financial buffers (reserves and provisions), estimates the impact of risk exposure on the profit and loss account and on the net equity, taking into consideration Eurosystem accounting rules. In both cases, it is a very conservative metric since it provides an estimate of potential losses characterized by low probability and high impact on the profit and loss account and the balance sheet (expected shortfalls).² Table 1 sets out the risk control and impact mitigation measures taken for each type of risk.

At the end of 2022 the overall financial risk, measured according to an accounting perspective, remained high.

As the key interest rates rise, the risk of incurring losses in the coming years increases, since the Bank has on its balance sheet large variable-rate liabilities denominated in euros – which are highly sensitive to changes in interest rates – and fixed-rate assets with longer maturities and a remuneration that adjusts more slowly to rate increases.

Operational risk

The goal of the operational risk management (ORM) system is to prevent and contain the effects of adverse events that could negatively impact the Bank's ability to perform its tasks, its reputation or its capital. The ORM system operates closely with the business continuity management system, under the umbrella of the Bank's internal control system, to ensure that the work processes continue without interruption and at the designated levels of quality and security.

The Operational Risk Committee assists the Governing Board in promoting and coordinating ORM and business continuity measures and in monitoring their implementation and inclusion in the Bank's strategic planning process. Operational risks are assessed on an ongoing basis, upon the occurrence of significant changes in internal and external threats, in work processes and in the existing rules and controls.

² For example, an expected shortfall at 99 per cent represents the average expected loss in the worst 1 per cent of cases.

Table 1

Financial risk map			
Component	Type	Source of the risk	Measures for risk control and impact mitigation
Credit risk	<ul style="list-style-type: none"> • Insolvency risk • Downgrade risk • Counterparty risk 	<ul style="list-style-type: none"> • Foreign currency assets • Investment portfolio 	<ul style="list-style-type: none"> • Rigorous selection of investment instruments and counterparties • Individual and segment exposure limits monitored daily
		<ul style="list-style-type: none"> • Monetary policy assets • Refinancing operations (1) 	<ul style="list-style-type: none"> • Collateralization of refinancing operations and stringent credit quality criteria for assets pledged as collateral and for issuers of monetary policy securities (2) • Daily monitoring of collateral and use of control measures, such as haircuts, margins for reducing prices, and concentration limits • For securities purchase programmes, eligibility criteria and specific limits applying to issues and issuers • Similar to monetary policy refinancing operations, for exceptional liquidity support operations the Bank defines adequate credit quality criteria for assets pledged as collateral, their daily monitoring and the use of haircuts, margins for reducing prices and concentration limits
Market risk	<ul style="list-style-type: none"> • Risk of incurring losses owing to unfavourable changes in exchange rates and in the prices of gold and securities 	<ul style="list-style-type: none"> • Gold, assets and liabilities denominated in foreign currency • Investment portfolio 	<ul style="list-style-type: none"> • Risk measurement and monitoring (3) • Revaluation accounts (4) • Foreign exchange forward sales
	<ul style="list-style-type: none"> • Risk of incurring losses owing to the different sensitivity of the remuneration of assets and liabilities to changes in interest rates 	<ul style="list-style-type: none"> • Balance sheet assets and liabilities 	<ul style="list-style-type: none"> • Profitability projections for monitoring the impact on net interest income
Liquidity risk	<ul style="list-style-type: none"> • Risk of incurring losses owing to the impossibility of selling assets at market value in a rapid time frame 	<ul style="list-style-type: none"> • Foreign currency assets (5) 	<ul style="list-style-type: none"> • High-liquidity financial instruments • Very prudent criteria for selecting instruments and counterparties • Tight restrictions on maturity • Restrictions on purchases of individual issues

(1) They can take the form of emergency liquidity assistance (ELA) or collateralized securities lending. – (2) Credit risk control and management measures for monetary policy assets (securities and refinancing operations) are defined at Eurosystem level, while those for exceptional liquidity support operations are set by the Bank of Italy. – (3) Among the indicators used for this are: the elasticity of the bond portfolio to interest rate fluctuations (duration); the maximum potential loss estimated over a one-year horizon for the short-term and long-term components (cyclical VaR and structural VaR) and separately for the various classes of financial assets and portfolios; the average loss in the case of extreme events, i.e. particularly adverse market conditions with a low probability of occurring (expected shortfall). – (4) The revaluation accounts, which record unrealized gains on assets, valued at current market exchange rates and prices, limit the impact on the financial results for the period of fluctuations in the prices and exchange rates of the assets to which they refer. Unrealized losses in excess of the corresponding revaluation accounts, instead, are recorded directly in the profit and loss account. – (5) Liquidity risk mainly affects foreign currency reserves, which, owing to their functions, might have to be liquidated promptly.

In order to make a quantitative assessment of the financial impact of operational risk, the Bank is making refinements to its internal quantification model based on the advanced measurement approach (AMA), by expanding its dataset.

In 2022, work continued on updating the operational risk profiles, also taking into account the internal factors influencing change (e.g., the introduction of a hybrid work model that blends remote and in-office work) as well as external ones (e.g. cyber threats and energy crisis scenarios). The range of processes to which the Bank's business continuity regulatory framework applies was extended to align the reference period to the one used at ESCB and Single Supervisory Mechanism (SSM) levels.

A new Cyber Security Committee was formed, with the task of coordinating cyber risk-related activities both within the Bank and through international cooperation. The committee was also set up to separate responsibility for cyber security initiatives involving the financial system from those regarding the Bank's internal resilience, which instead is the job of the Operational Risk Committee.

In line with best international practices and with the general principles laid down by the Eurosystem, a function for ethical compliance and the prevention of corruption is operational within the Bank. The Bank's Anti-Corruption Plan for 2023-25 is available on its website ('Piano triennale di prevenzione della corruzione', only in Italian).

Background to Eurosystem monetary policy

The changes in the Bank's balance sheet figures, risks and financial results can only be analysed and assessed in relation to its institutional functions and, especially, to the decisions taken within the context of Eurosystem monetary policy.

Decisions of the Eurosystem

In the first half of 2022, the ECB Governing Council – against a backdrop of an improving economic outlook and higher medium-term inflation expectations – progressively accelerated the process of normalizing monetary policy, as announced in December 2021, and discontinued net asset purchases for monetary policy purposes at the end of June.

In the second half of the year, persistent inflationary pressures prompted the Governing Council to frontload the transition towards raising ECB key rates to levels that will ensure the timely return of inflation to its 2 per cent medium-term target. After a protracted period of extremely low interest rates, the Governing Council decided to raise the key rates four times consecutively, and stated that it

intends to increase them further. Since last November, it has also shifted towards less accommodative interest rate terms and conditions for the third series of targeted longer-term refinancing operations (TLTRO III).

Since last July, the Governing Council has raised the key interest rates by a total of 250 basis points, bringing them to 2.5 per cent on the main refinancing operations, 2.75 per cent on the marginal lending facility, and 2 per cent on the deposit facility at the end of 2022. At its February and March 2023 meetings, it decided on two further rate increases of 50 basis points each.

With regard to securities held for monetary policy purposes:

- net asset purchases under the pandemic emergency purchase programme (PEPP)³ were discontinued at the end of the first quarter of 2022. The Governing Council announced that it planned to fully reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024, and that the future roll-off of the portfolio will be managed to avoid interference with the monetary policy stance. The principal payments from maturing securities will continue to be reinvested flexibly, in order to counter risks to the monetary policy transmission mechanism;
- at its 9 June meeting, the Governing Council decided to end net asset purchases under its asset purchase programme (APP) at the end of the first half of 2022,⁴ while continuing reinvesting the principal payments from maturing securities. Last December, it announced that it would start, as of 1 March 2023, to reduce the APP portfolio at a measured and predictable pace by reinvesting only a portion of the principal payments from maturing securities. The reduction will amount to €15 billion per month on average until the end of the first half of 2023 and will be recalibrated over time;
- in July 2022, the transmission protection instrument (TPI) was approved. The singleness of monetary policy is a precondition for the Governing Council to be able to deliver on its price stability mandate. The TPI is an additional measure that can be activated to counter unwarranted fragmentation of capital markets along national lines, which poses a serious threat to the uniform transmission of monetary policy across all euro-area countries. Purchases are not restricted ex ante and will be concentrated in secondary markets for public securities with a remaining maturity of between one and ten years.

The ECB Governing Council continued to provide ample liquidity to credit institutions through refinancing operations with full allotment of the amounts

³ The same types of securities that are eligible for the APP are also eligible under the PEPP, namely: covered bonds, corporate bonds, government bonds, supranational bonds and asset-backed securities.

⁴ In the first three months of 2022, the Eurosystem continued to make net asset purchases at a pace of €20 billion per month; subsequently and taking account of the discontinuation of the purchases under the PEPP, it recalibrated these to €40 billion in April, €30 billion in May and €20 billion in June.

requested.⁵ The particularly favourable interest rates applicable under TLTRO III ended,⁶ as announced, in June 2022.

To ensure consistency with the broader monetary policy normalization process, at its 27 October meeting the Governing Council recalibrated the conditions of TLTRO III. Since 23 November, the interest rates on all remaining operations are the average indexed ECB key interest rates calculated as of that date⁷ and no longer that of the initial settlement of such operations.⁸ In any case, the Governing Council will regularly assess how TLTRO III operations are contributing to its monetary policy stance.

Following the return of the deposit facility rate to positive territory, which was decided at the 8 September meeting, the two-tier system for the remuneration of banks' excess reserves was no longer necessary. At its meeting of 27 October, the Governing Council decided to set the remuneration of the minimum reserve requirements to the same level as the deposit facility in order to align it more closely with money market conditions.

Overview of Eurosystem monetary policy

The abandonment of the accommodative monetary policy stance led to the gradual decline of net asset purchases and a change in the rate terms and conditions applied to TLTRO III. This latter change, which prompted some counterparties to repay early a share of the liquidity received, affected the total volume of refinancing operations, resulting in the first contraction in the Eurosystem's balance sheet after two years of strong expansion.

The amount of financing granted to credit institutions through Eurosystem refinancing operations dropped significantly from €2,202 billion at the end of 2021 to €1,324 billion at 31 December 2022. The reduction was due mainly to voluntary early repayments under TLTRO III, which amounted to €826.1 billion during

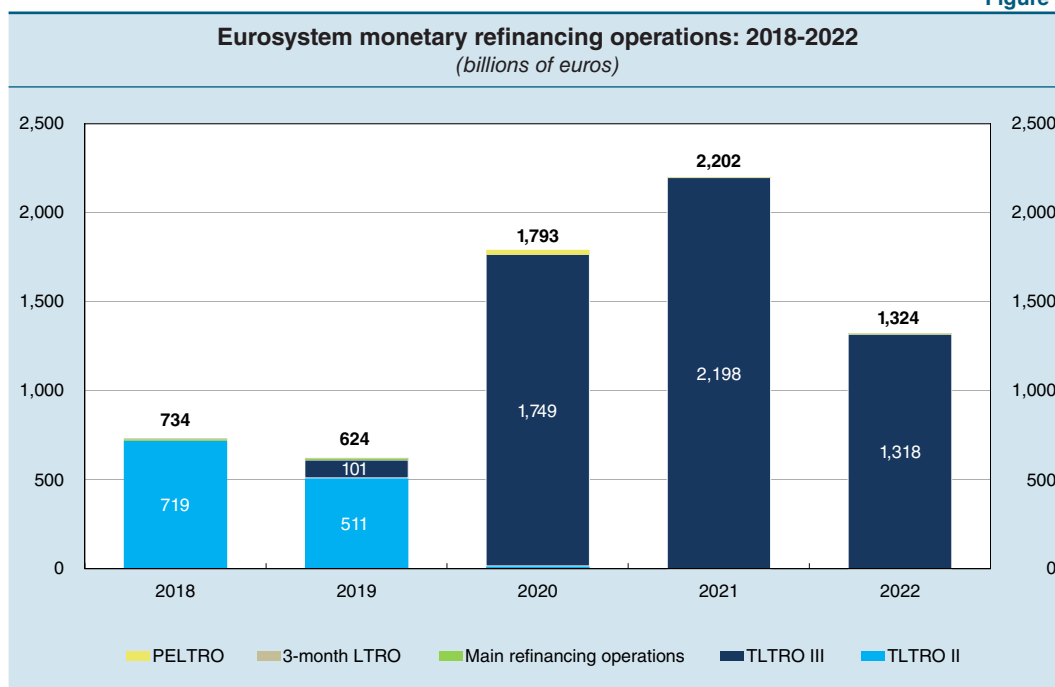
⁵ On 24 March 2022, the Governing Council also announced its decision to gradually phase out the temporary collateral easing measures introduced in April 2020 in response to the pandemic emergency to expand the range of the assets eligible for use as collateral for monetary policy operations.

⁶ Starting from September 2019 a total of ten TLTRO III operations have been carried out on a quarterly basis, each with a maturity of three years. Where the participants have reached certain targets regarding the volume of loans granted to firms and households, the interest rate on these operations has been reduced to as low as the average Eurosystem deposit facility rate. Between 24 June 2020 and 23 June 2022, the interest rate on the operations was reduced further, to 50 basis points below the deposit facility rate.

⁷ The interest rate applied to TLTRO III operations will be determined based on the average ECB key rates calculated between 23 November 2022 and the maturity date of each operation, in the range between the main refinancing rate and the deposit facility rate. This is based on the amount of net lending by the credit institutions assessed against a specific benchmark already communicated to the counterparties.

⁸ At the same time, the Governing Council published three new dates to offer counterparties additional opportunities to repay early, in full or in part, the amounts borrowed under TLTRO III prior to their maturity.

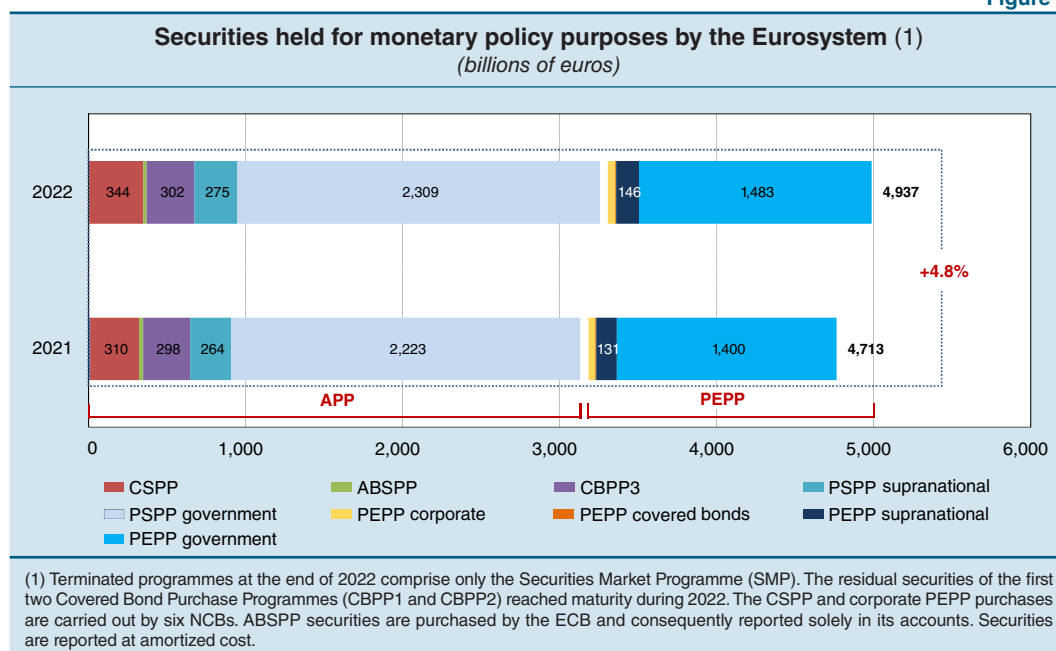
Figure 3



the year; the amounts repaid at maturity were instead €54.3 billion for TLTRO III operations and €2.3 billion for pandemic emergency longer-term refinancing operations (PELTRO). Participation in main refinancing operations and longer-term refinancing operations with 3-month maturities instead rose to €5.1 billion (from 0.5 billion at the start of the year). The percentage share attributable to TLTRO III nonetheless continued to represent almost the entirety of the overall exposure. The weighted average maturity of the refinancing operations fell by almost half compared with the previous year (from 635 to 319 days); there were no changes in how the allotments were made or in how counterparty eligibility was assessed.

The amount of securities held for monetary policy purposes instead increased by 4.8 per cent (27.6 per cent in 2021), from €4,713 billion to €4,937 billion, mainly as a result of purchases of public sector securities made under the PEPP and the APP (Figure 4). Net purchases under these two programmes were discontinued, respectively, at the end of the first and second quarter of 2022. Reinvestments of principal payments on maturing securities continued throughout the entire year. At 31 December 2022, the securities held by the NCBs through the programmes subject to risk sharing amounted to €1,095 billion (€1,033 billion at the end of 2021), while those for which the risk is borne by the individual NCBs totalled €3,385 billion (€3,235 billion in 2021). The securities held by the ECB amounted to €457 billion (€445 billion in 2021).

Figure 4



Last year, the Eurosystem's provision of US dollar liquidity totalled \$11.4 billion, equal to about €10.8 billion (through 7-day refinancing operations).⁹

In 2022, the euro area's daily excess liquidity – calculated as the sum of banks' reserves above the reserve requirements and the funds held in the deposit facility – averaged €4,508 billion. After having reached the historic high of €4,748 billion, the excess liquidity has gradually decreased since the second half of November, largely due to the effect of voluntary TLTRO III repayments. The excess liquidity at the end of the year was €3,830 billion. Since 14 September, the date of entry into force of the monetary policy decisions that raised the deposit facility rate to positive values, almost the entire excess liquidity has been held in the Eurosystem's deposit facility because of the more advantageous remuneration than that guaranteed by reserves.¹⁰

Key developments in the Bank's annual accounts

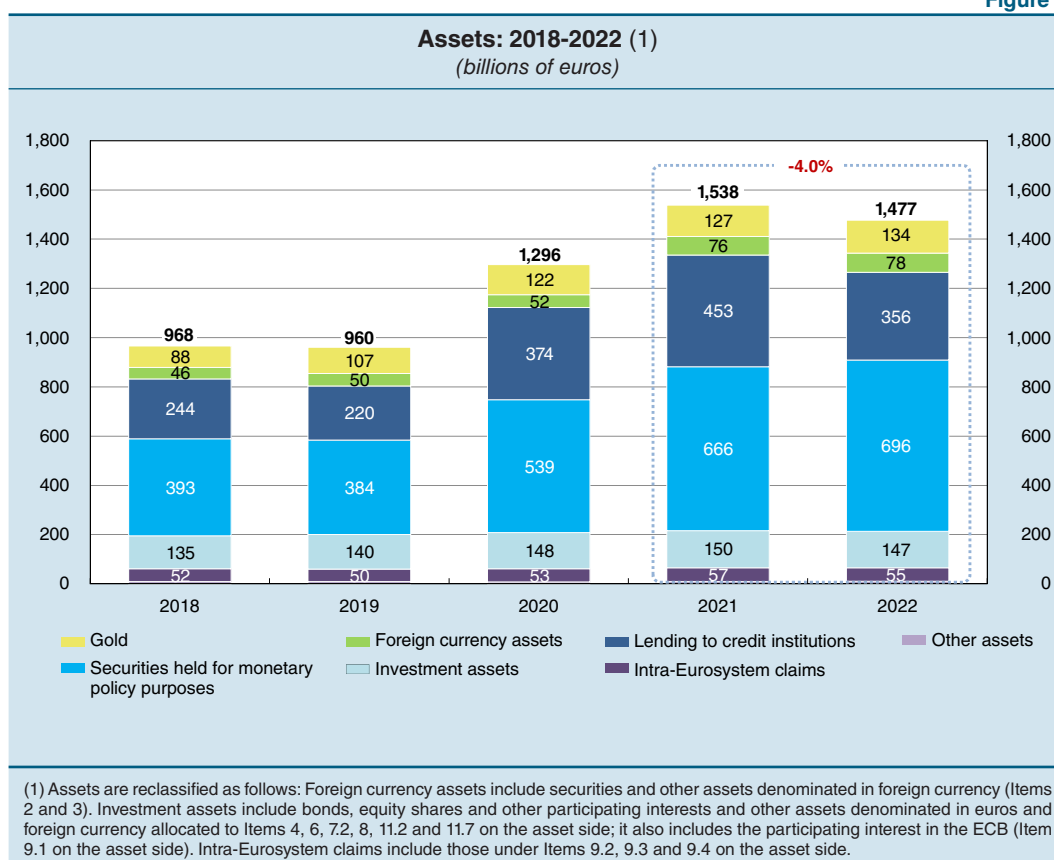
Assets

After two years of strong growth, the Bank's total assets fell, which is consistent with what was observed at Eurosystem level (Figure 5).

⁹ Italian counterparties requested \$0.7 billion, slightly lower than in 2021, worth €0.6 billion.

¹⁰ The excess liquidity on current account deposits is not remunerated.

Figure 5



Assets held for monetary policy purposes declined by 6 per cent (from €1,119 billion to €1,053 billion) and accounted for about 71 per cent of total assets. Specifically, the contribution of refinancing operations¹¹ decreased, while that of securities held for monetary policy purposes increased, albeit to a lesser extent. The reduction in refinancing operation volumes, caused mainly by voluntary early TLTRO III repayments, was lower than that registered at Eurosystem level (-21 per cent compared with -40 per cent); consequently, the Bank's share of the euro-area total rose from 21 per cent to 27 per cent.

The growth in the portfolio of securities held for monetary policy purposes, similarly to the Eurosystem (+4.5 per cent), was driven by net purchases of public sector securities, primarily under the PEPP (Figure 7).

¹¹ The weighted average maturity of the refinancing operations conducted by the Bank of Italy, in line with the rest of the Eurosystem, fell from 660 to 341 days.

Figure 6

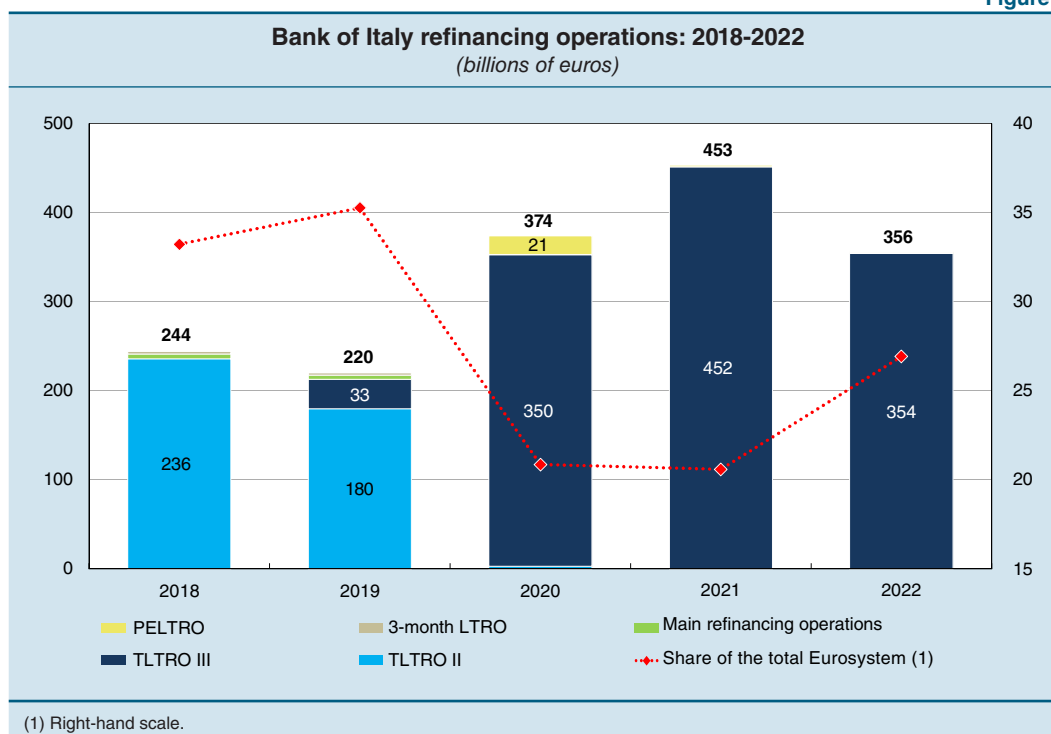
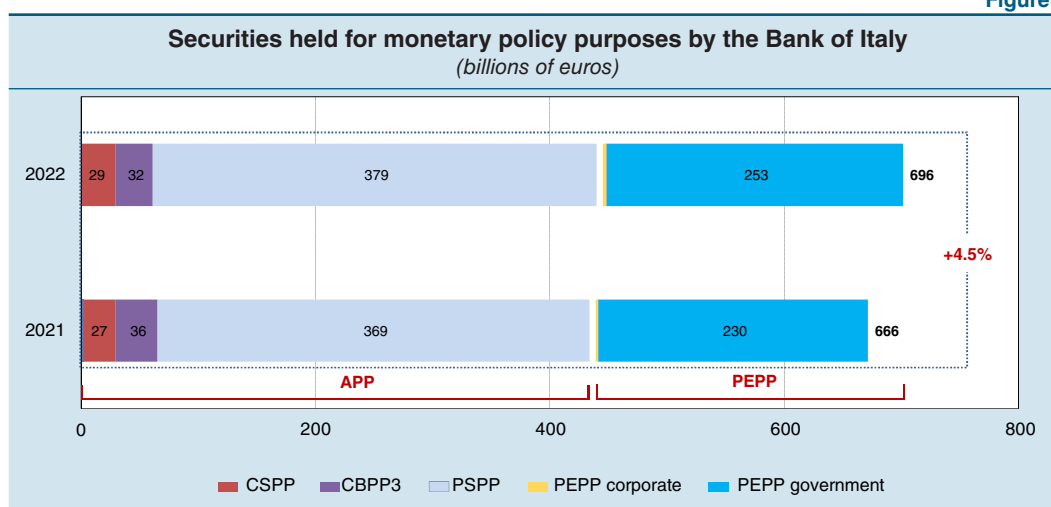


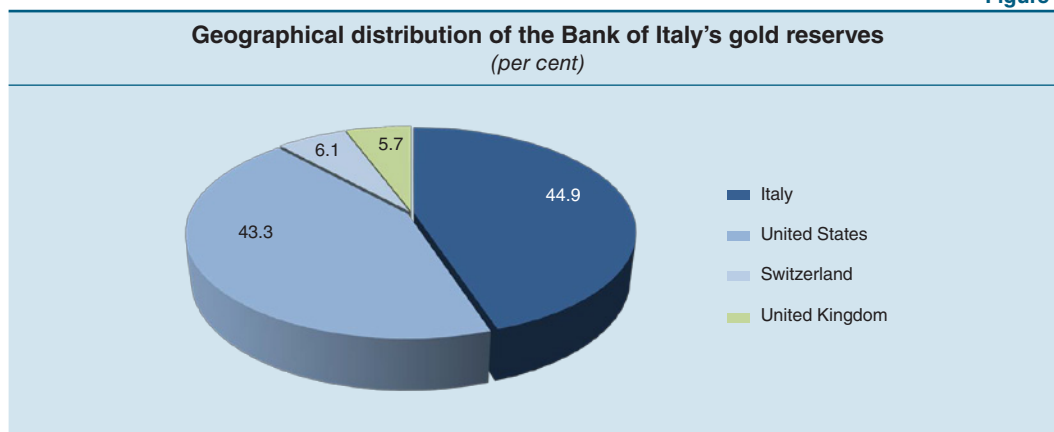
Figure 7



The higher value of gold and foreign currency assets (Figure 5) helped to limit the overall reduction in the balance sheet. At 31 December 2022, the gold reserves were worth €134.5 billion (€126.9 billion at the end of 2021). This increase was entirely due to the appreciation of gold by 6 per cent for the year.¹² Figure 8 shows the geographical distribution of the Bank's gold reserves.

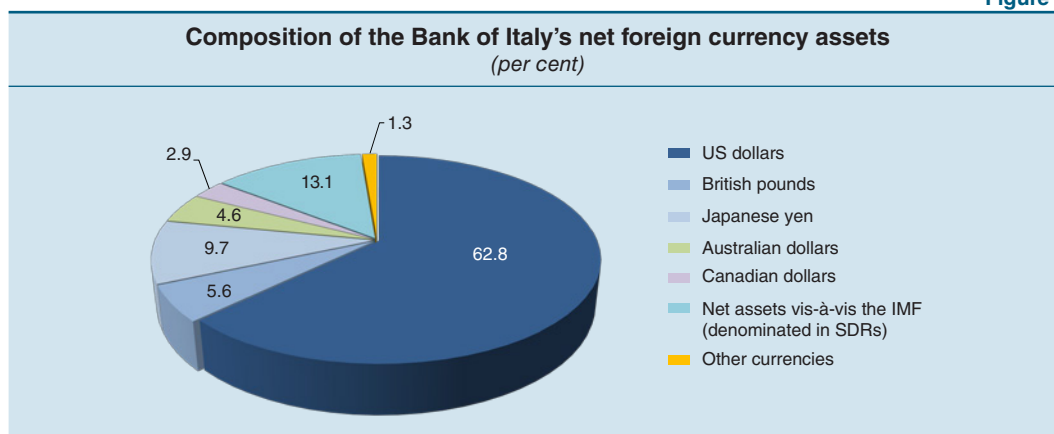
¹² In 2022, the price of gold fell from \$1,828.8 to \$1,824.7 per ounce, down by 0.2 per cent. The increase in the euro-denominated value of gold (6 per cent) is entirely attributable to the appreciation of the dollar against the euro.

Figure 8



Assets denominated in foreign currency (net of liabilities)¹³ – for which the percentage composition is shown in Figure 9 – totalled €51.1 billion (€49.1 billion at end-2021). The increase is due to the appreciation of the US dollar and of the special drawing rights (SDR), only partly offset by the depreciation of other currencies (especially the British pound and the Japanese yen). The increase in total holdings also contributed, although to a lesser extent.

Figure 9



The country's official reserves consist of gold and claims on non-euro-area residents denominated in foreign currency; they are held by the Bank of Italy under the Treaty on the Functioning of the European Union and the Statute of the ESCB. By managing the official reserves, the Bank can service the Italian Republic's foreign currency debt and meet its commitments to international organizations such as the International Monetary Fund (IMF). The official reserves are an integral part of the Eurosystem's reserves: their overall level and proper management help to safeguard the credibility of the Eurosystem itself. The foreign currency reserves are managed primarily with the aim of guaranteeing high levels of liquidity and security while also taking account of

¹³ Net assets denominated in foreign currency include aggregates for Asset Items 2 and 3 (foreign currency assets) and Liability Items 6, 7 and 8 (foreign currency liabilities).

long-term expected yields. The Bank also manages a part of the ECB's foreign currency reserves in accordance with the guidelines laid down by the Governing Council.

At the end of 2022, the assets held for investment purposes amounted to €147.4 billion (€150 billion at the end of 2021). These assets consist mainly of securities (€143.4 billion, compared with €147.3 billion in 2021; Table 2), as well as reverse repos and margins paid to guarantee repos connected with securities lending (€2.3 billion, compared with €1.3 billion in 2021).

Table 2

Composition of the financial portfolio (1) (millions of euros)			
	31.12.2022	31.12.2021	Change
Government bonds and other public sector securities	123,524	125,117	-1,593
Other bonds	2,644	2,573	71
Equity shares and other participating interests	14,853	16,798	-1,945
ETFs and shares/units of CIUs	2,391	2,825	-434
Total	143,412	147,313	-3,901

(1) In compliance with the prohibition on the monetary financing of Member States and euro-area public institutions, the securities of public-sector issuers are not acquired at issue. No investments are made in shares of banks and insurance companies.

The portfolio is mainly composed of Italian and other euro-area government bonds; the other bonds are those issued by international organizations and by private firms. The part invested in equity instruments consists primarily of listed instruments (equity shares and, to a lesser extent, investment fund shares). Compared with the previous financial year, the value of the portfolio decreased, mainly owing to the reduction in equity shares and government bonds valued at market prices, which more than offset new investments.

In 2019, the Bank of Italy decided to incorporate environmental, social and governance (ESG) profiles in its investment decisions, in line with its long-term investor profile, mindful of society and the environment, and conscious of the financial and reputational risks involved.

The Bank's sustainable investment policy is set out in the [Responsible Investment Charter](#), published in 2021 and available on the Bank's website. The Charter concerns financial assets managed under the Bank's own responsibility, namely its financial portfolio and foreign exchange reserves investments. It sets out the Bank's vision of sustainability and includes the principles and criteria underlying the sustainable management of its financial investments; it also outlines the precise commitments through which the Bank plans to make tangible contributions to sustainable growth. In 2022, the Bank published its first *Report on sustainable investments and climate-related risk*, which it plans to update annually with information on the ESG profiles used in making its investment decisions.

In 2022, the Bank reviewed the criteria for the composition of the equity shares and corporate bonds portfolios, in the light of indicators regarding companies' decarbonization commitments, their long-term transition plans and the results achieved. A thematic share portfolio, made up of companies operating in the sectors of renewables, energy efficiency systems, electric mobility and green construction, was created to contribute to the green transition.

The Bank also continued to subscribe shares of funds, offered by a leading asset management firm, that invest in funds specializing in Italian small and medium-sized enterprises.

NET FINANCIAL ASSETS

At the end of 2022, the Bank's net financial assets (NFAs), which are governed by a Eurosystem specific agreement (Agreement on Net Financial Assets – ANFA), totalled €72.1 billion, up on the €64.2 billion at the end of 2021. The increase was mainly due to the decline in general government deposits. NFAs are calculated as the algebraic sum of the balance sheet financial assets that are not directly related to monetary policy – including gold, net foreign currency assets and securities denominated in euros – and non-monetary-policy liabilities. ANFA is an agreement between the NCBs of the euro-area countries and the ECB. The agreement sets rules and limits that NCBs must follow to ensure that purchases of financial assets connected with their functions under national law do not interfere with the conduct of the single monetary policy.

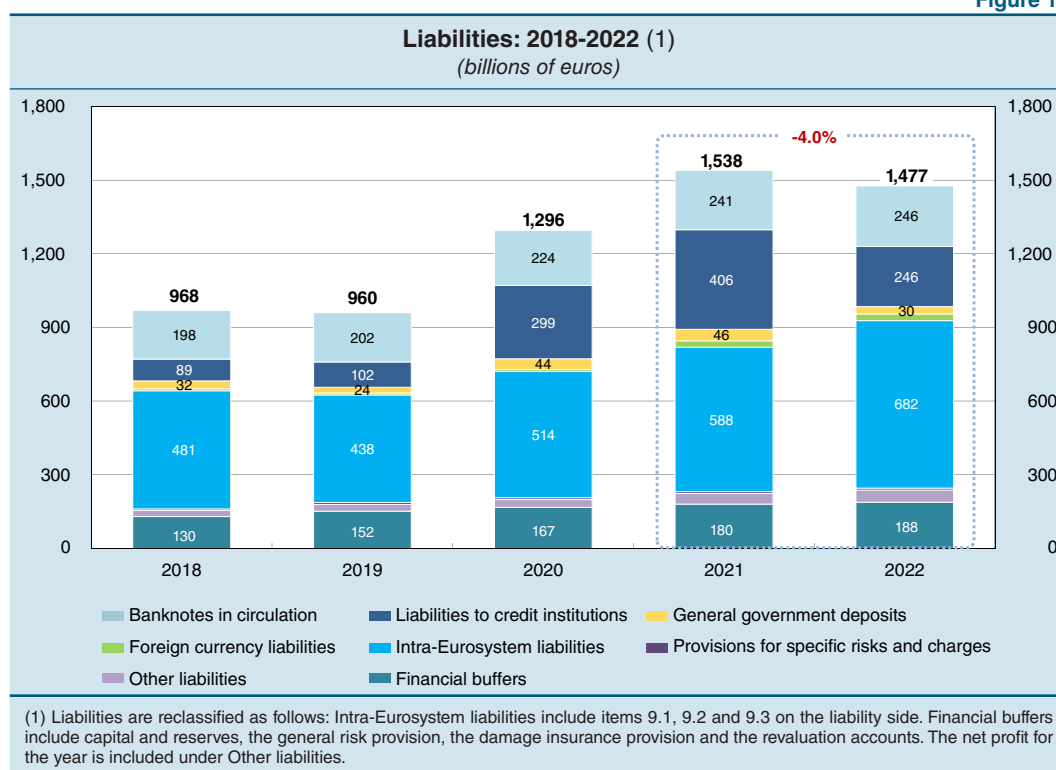
Further information on NFAs can be found on the website of the ECB, which publishes for each NCB and for the ECB: (a) the monthly financial statement and (b) the annual average amount of NFAs.

The Bank also manages the defined-contribution pension fund for staff hired starting on or after 28 April 1993. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. Its investments and earmarked funding contributions are included in the Bank's balance sheet, under *Other assets* and *Other liabilities* respectively. Investments are made observing benchmarks. At the end of 2022 the fund's total assets and corresponding liabilities in the Bank's balance sheet amounted to €835 million (€876 million in 2021).

Liabilities

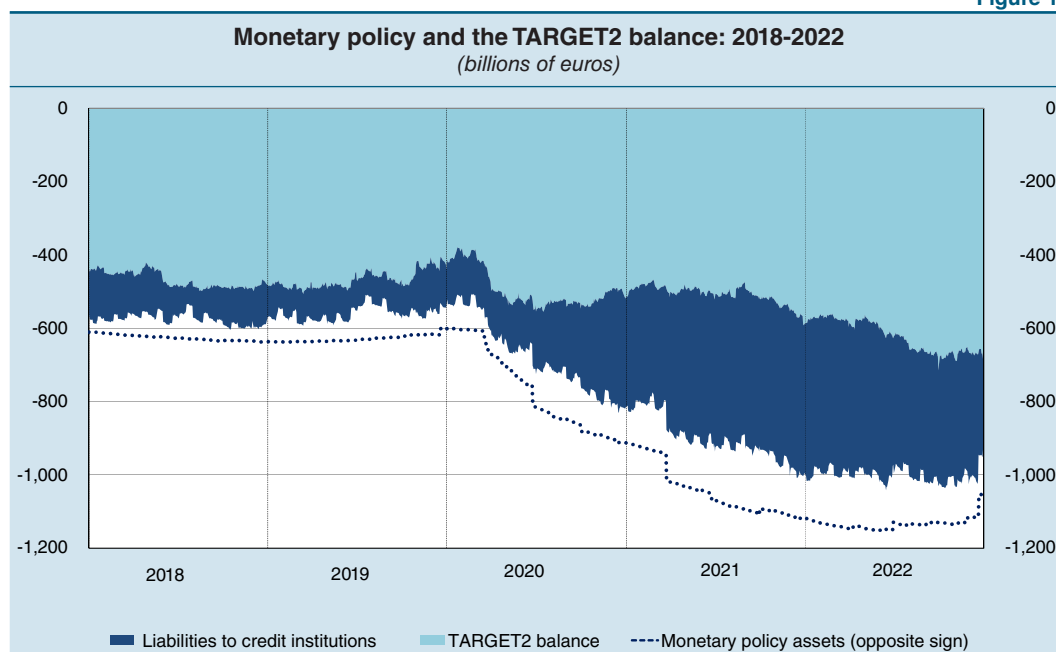
In 2022, liabilities fell mainly due to the decline in the deposits of credit institutions, in part attributable to repayments made under TLTRO III (Figure 10), while the Bank's negative balance in connection with the TARGET2 payment system, the amount of banknotes in circulation and the financial buffers increased. The financial buffers rose mainly due to unrealized gains on gold and US dollars, recognized in their respective revaluation accounts, partly offset by write-downs in the equity instruments portfolio. In contrast with previous years, the general government deposits decreased.

Figure 10



The Bank of Italy's negative balance on the TARGET2 European payment system¹⁴ rose to €684 billion at the end of the year, mainly owing to net disposals of

Figure 11

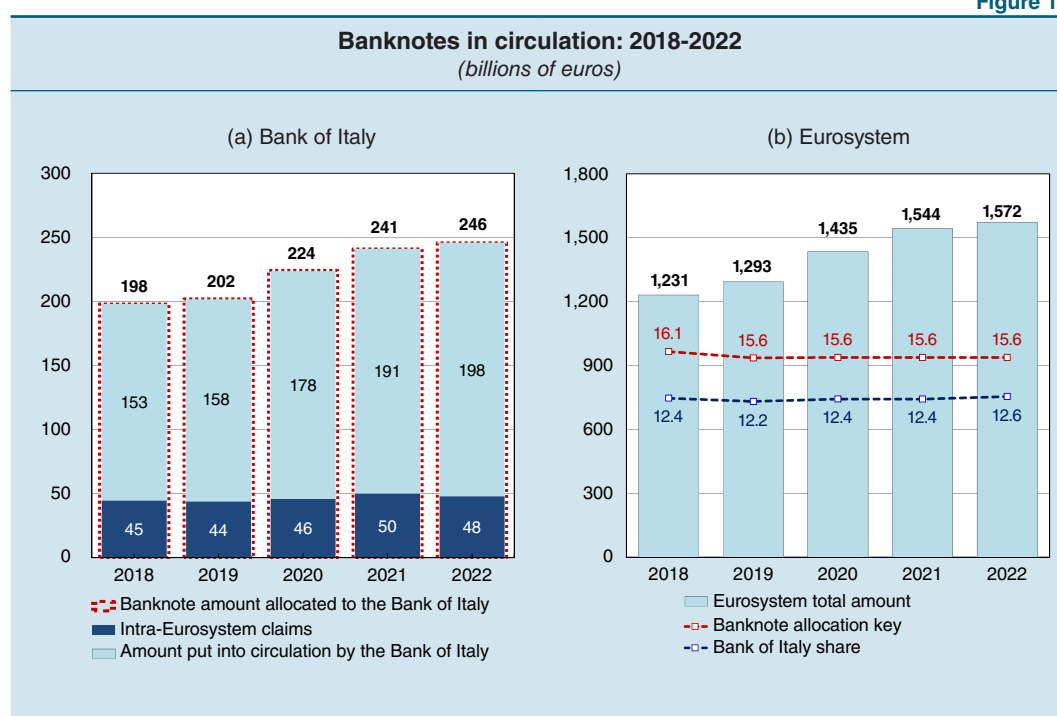


¹⁴ The TARGET2 balance can be considered as the accounting counterbalance of all the transactions carried out between residents and non-residents in Italy.

public securities by foreign investors – in an environment of very low net issuance by the Treasury – and investments in foreign securities by Italian residents, consisting primarily of long-term debt securities. These outflows were only partly offset by an increase in Italian banks' net funding on international markets via loans and deposits (Figure 11). In the final quarter of the year, the Bank's negative balance improved slightly also as a result of the payment of the second tranche of funding under the Recovery and Resilience Facility.

The total value of banknotes in circulation in the Eurosystem, amounting to €1,572 billion, is allocated among the central banks as follows: the ECB is allocated 8 per cent, while the remaining 92 per cent goes to the NCBs according to the banknote allocation key (see *Legal basis, method of preparation and layout of the annual accounts*). The total amount allocated to the Bank of Italy, €246 billion, is shown under the liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to the Bank of Italy and that of the banknotes the Bank actually puts into circulation gives rise to a remunerated intra-Eurosystem claim (liability) if positive (negative), which is recorded under *Net claims (liabilities) related to the allocation of euro banknotes within the Eurosystem*. The Bank's claim at the end of the year amounted to €48 billion (Figure 12).

Figure 12



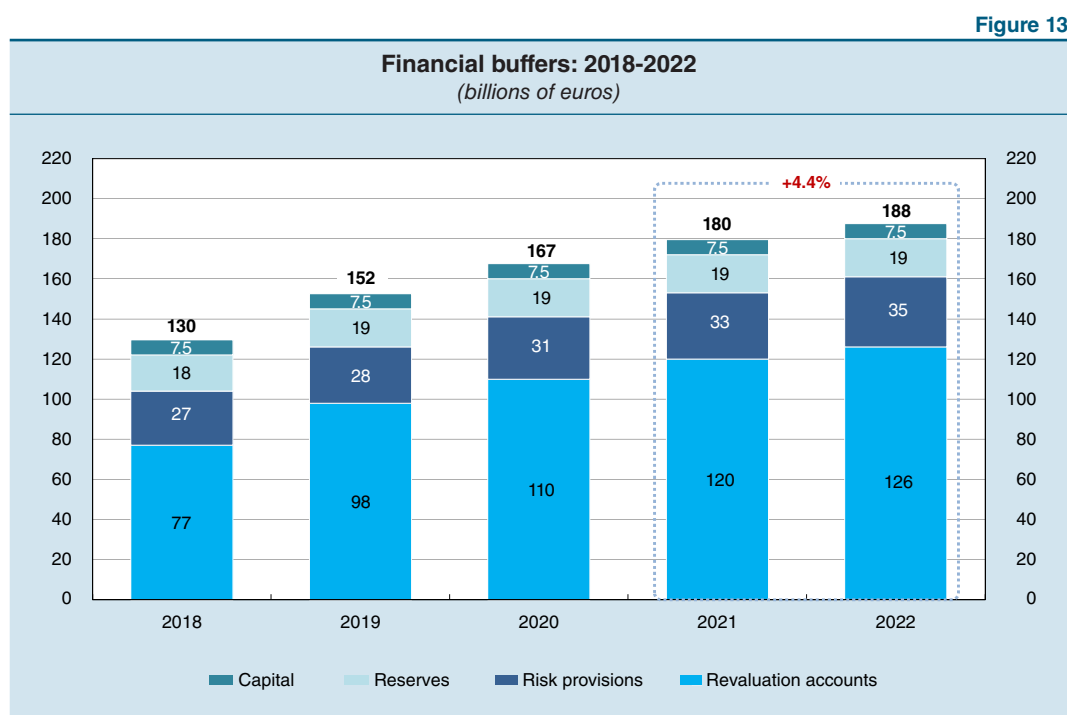
The total value of banknotes allocated to the Bank of Italy has risen in the last five years, owing to the overall growth in banknote circulation within the Eurosystem. Between 2018 and 2021, the increase was, in absolute terms, greater than that of the banknotes the Bank put in circulation. As a result, the Bank's intra-Eurosystem claim gradually rose. Over the last year, however, the amount put into circulation exceeded the amount allocated to the Bank, leading to a slight

drop in this claim¹⁵ (Figure 12; see ‘Notes on the items of the balance sheet’ – *Banknotes in circulation*).

The average amount of banknotes put into circulation by the Bank of Italy in 2022 amounted to €192 billion, up from €182 billion in 2021, an increase of 5.6 per cent compared with 6.4 per cent registered for the euro area.

Financial buffers

Financial buffers¹⁶ rose by 4.4 per cent in 2022 (Figure 13).



Financial buffers rose in 2018-2022 thanks largely to the revaluation accounts, driven by the increase in the price of gold and, to a lesser extent, in the general risk provision, funded over the years to cover the risks progressively taken on by the Bank following the expansion of monetary policy operations. The increase of about €8 billion in 2022 is attributable mainly to the revaluation accounts and to capital strengthening policies for the rest.

¹⁵ The decline in 2019 was caused by the decrease in the capital key following the five-yearly adjustment.

¹⁶ The Bank's financial buffers consist of capital, reserves, provisions, especially the general risk provision, and the revaluation accounts. Allocations to reserves are made at the time of the distribution of the net profit; allocations to provisions are transferred out of gross profits to offset the risks associated with the different sectors of operation on the basis of an overall evaluation of adequacy. The revaluation accounts include unrealized gains on gold, foreign currencies and securities not entered in the profit and loss account under income. These balances are used to offset the impact of possible unfavourable fluctuations in prices and/or exchange rates and therefore constitute a first financial buffer against the risks to which the Bank is exposed.

The Bank's capital

The Bank of Italy's capital is equal to €7,500,000,000 and is divided into 300,000 registered shares that by law can be held solely by: (a) banks with registered offices and head offices in Italy; (b) insurance and re-insurance companies with registered offices and head offices in Italy; (c) foundations as per Article 27 of Legislative Decree 153/1999; (d) social security and insurance bodies with registered offices in Italy and pension funds established under Article 4.1 of Legislative Decree 252/2005.

Shareholders' ownership rights are limited to the value of the capital and to the dividends (Article 3 of the Statute). The law establishes the maximum share of the capital that can be held, directly or indirectly, by each shareholder, currently set at 5 per cent.¹⁷ Shares held above this limit do not carry voting rights and the corresponding dividends are allocated by law to the Bank's statutory reserves.

Dividends are due only to shareholders that owned shares at the end of the fortieth day before the first notice convening the Meeting of Shareholders (Article 38 of the Statute). On 19 February 2022, the last date by which a shareholder could acquire shares with the right to dividends for 2021, no shareholding exceeded the legal limit. Since this date, 3.27 per cent of the capital has been transferred, mainly in connection with extraordinary operations involving some of the shareholders. They numbered 173 at 19 February 2023, the last date for acquiring shares with the right to dividends for 2022.

The profit and loss account

The performance of the Bank's profit and loss account depends in large part on developments in net interest income, which is crucially affected by the amount and composition of the financial assets and liabilities and their respective interest rates.

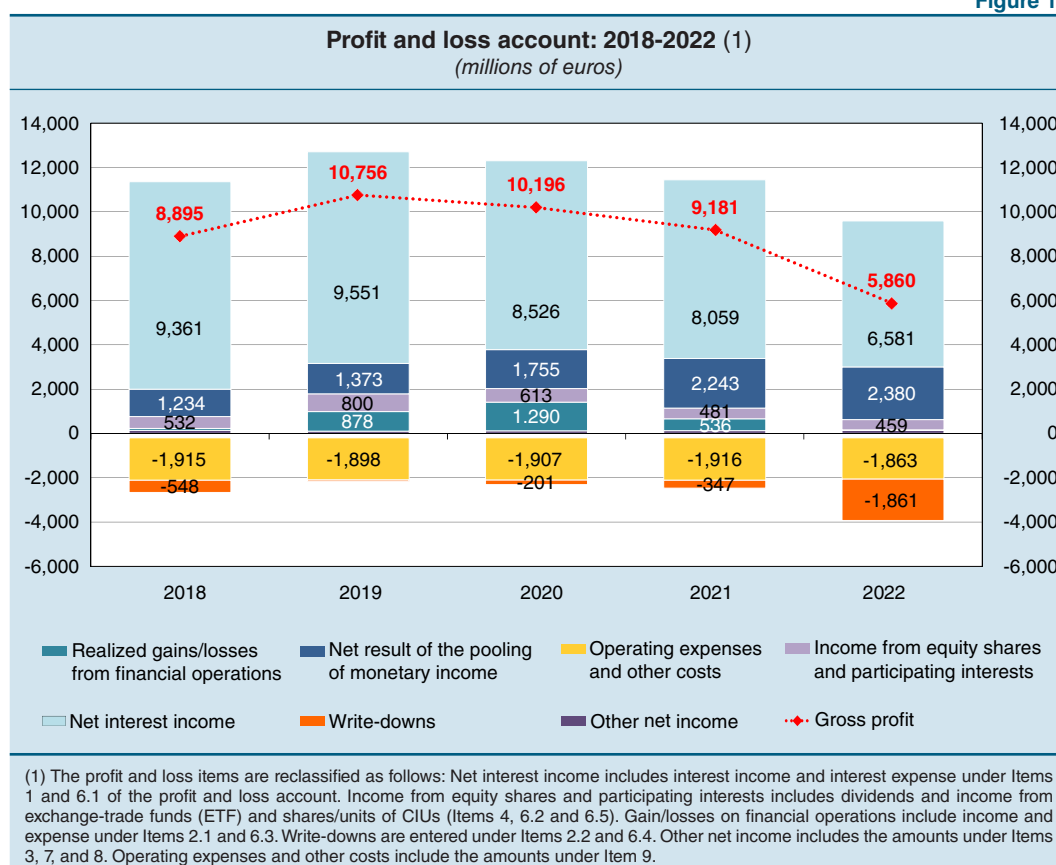
In the last five years, mainly as a result of monetary policy decisions, the following balance sheet items increased significantly: (a) financial liabilities denominated in euros that are directly sensitive to interest rate increases (such as banks' deposits and the negative TARGET2 balance); (b) fixed-rate assets with longer maturities, consisting in particular of securities held for monetary policy purposes which adjust more slowly. For this reason, the repeated key interest rate increases decided by the ECB Governing Council in the second half of 2022 caused net interest income to fall, a situation that is expected to worsen in the coming years.

Net interest income, which had already fallen the last two years owing to the negative interest rates on TLTRO III operations that were especially favourable for counterparties, continued to decline in 2022 (€-1,478 million, equal to -18 per cent), primarily due

¹⁷ With effect as of 1 January 2022, Law 234/2021 (State budget for the 2022 financial year and multi-year budget for the 2022-2024 three-year period) raised the limit on shareholdings set by Law 5/2014, which reformed the Bank's capital, from 3 to 5 per cent. The Bank's Statute was amended to reflect this change; the amendment was approved by the Decree of the President of the Republic of 27 June 2022.

to the increase in interest expense on the negative TARGET2 balance and on banks' deposits. The impact was only partly mitigated by: (a) lower interest expense on TLTRO III operations, which have become less costly owing to the progressive rise in the interest rates applied in the second half of the year in part due to the ECB Governing Council's decision to change the remuneration calculation method as from 23 November 2022 (see 'Decisions of the Eurosystem'); (b) higher interest income on securities held for monetary policy purposes, mainly owing to the higher amounts held, and on assets denominated in foreign currency, due largely to rising yields.

Figure 14



The gross profit before tax and transfers to the general risk provision was equal to €5,860 million (€9,181 million in 2021). In addition to the contraction on net interest income, the decrease in the gross profit was attributable to higher write-downs (€+1,514 million),¹⁸ lower net realized gains from financial operations (€-510 million)¹⁹ and reduced income from equity shares and participating interests (€-22 million).

¹⁸ Mainly attributable to the depreciation in US-dollar and euro-denominated bonds and in the equity shares portfolio.

¹⁹ The decrease is primarily due to realized price losses on US dollar-denominated government bonds and lower realized price gains on euro-denominated shares and on ETFs denominated in foreign currency.

This last was affected by the fall in dividends from the ECB (€-84 million),²⁰ which more than offset the increase in those received for the equity shares portfolio (€+62 million).

Conversely, a positive part was played by the net result arising from the redistribution of monetary income, which was once again favourable to the Bank and was €137 million higher than in the previous year. The increase was largely due to the redistribution of net income received from the other NCBs on deposits held by monetary policy counterparties (see 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

Total operating expenses and other costs amounted to €1,863 million, down from 2021 owing to the release to the profit and loss account of the excess amounts allocated to provisions as a result of adjustments to reflect the current best estimate (see *Operating expenses and other costs*).

In light of the size and composition of the balance sheet and given the negative profit projections as a result of the increase in the key interest rates, €2,500 million was allocated to the general risk provision (€2,000 in 2021). The financial buffers continued to be gradually strengthened to address, even in the most adverse scenarios, the risks to which the Bank of Italy is exposed, which essentially stem from managing monetary policy operations.

Taxes for the year amounted to €1,304 million (€1,236 million in 2021). The year 2022 closed with a net profit of €2,056 million, a decrease of €3,889 million compared with the previous year (€5,945 million in 2021).

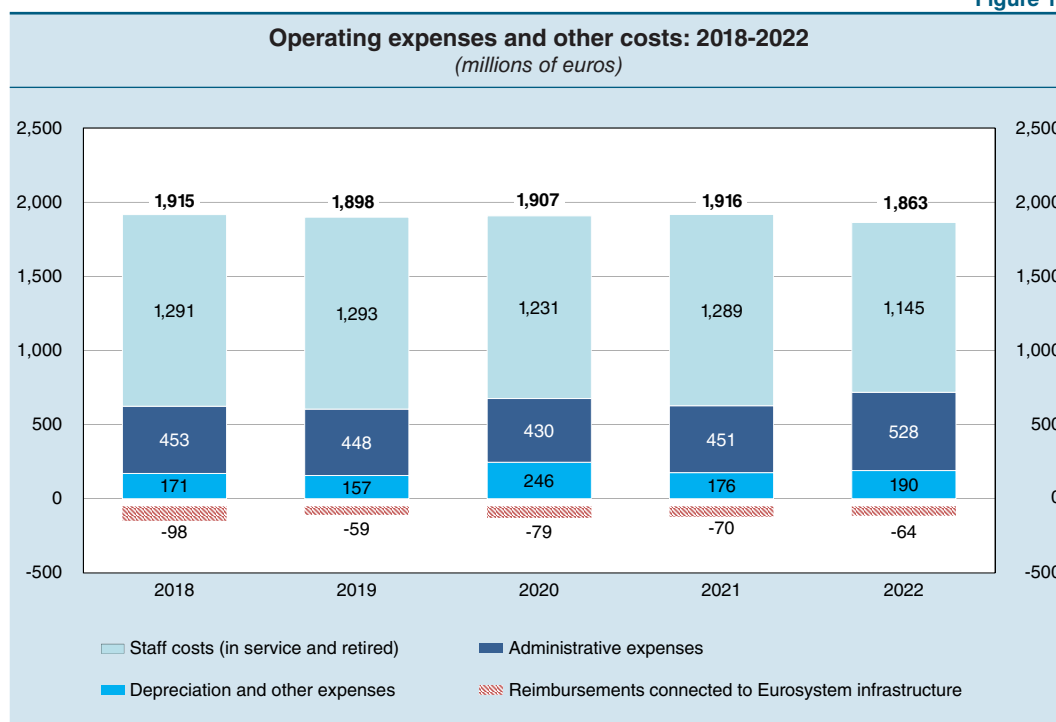
Operating expenses and other costs

In 2022, total operating expenses and other costs totalled €1,863 million (€1,916 million in 2021). Their trend and composition are detailed in Figure 15.

Staff costs, for both persons in service and retired, declined overall owing to the positive effect of the release to the profit and loss account of amounts allocated to provisions in previous years in excess of outstanding commitments at 31 December 2022. More specifically: (a) a €51 million decrease in the allocations to the provision for staff early retirement measures approved in previous years against the total remaining costs still to be paid; (b) a €115 million reduction in the allocations for staff severance pay and pensions, mainly as a result of the higher discount rate used in the actuarial valuation. Wage expenditure instead increased mainly as a result of inflation adjustments, net of developments in the

²⁰ As a result of the loss recorded in 2022, covered by the provision for financial risks, the ECB did not recognize, as an interim profit distribution, the income arising from seigniorage and from securities held for monetary policy purposes (€26 million in 2021); the balance for 2021 amounted to €7 million (down €58 million compared with the previous year).

Figure 15



price of imported energy, and of the increase in the average workforce; other staff expenditure rose due chiefly to the resumption of missions and transfers, the cost of which was, however, around 28 per cent lower than in 2019, the year before the outbreak of the pandemic. Pension expenses also increased, primarily as a result of adjustments connected with equalization; the salary adjustments and the different composition of staff leaving service affected the higher severance payments.²¹

Administrative expenses, equal to 28.3 per cent of total operating expenses, rose from €451 million in 2021 to €528 million in 2022. The increase is mainly due to rising energy prices, higher costs for IT infrastructures used to provide Eurosystem services (subject to charges and reimbursement), and to the purchase of raw materials for increased banknote production (see ‘Notes on the items of the profit and loss account’ – *Expenses and sundry charges.*)

Hardware and software infrastructure development and management costs accounted for about 29 per cent of total administrative expenses (27 per cent in 2021). In 2022, the Bank was involved in a variety of IT initiatives at both Eurosystem and national level. In terms of cyber resilience, solutions were implemented to protect data integrity and to monitor and prevent undesired changes to systems and software. New solutions for backing up and restoring virtual machines were also developed in the event it becomes necessary to recover compromised systems. As regards the systems for which the Bank acts as service provider at Eurosystem level, activity continued on upgrading the TARGET2-Securities (T2S) and TARGET Instant Payment Settlement (TIPS) systems

²¹ The number of terminations is broadly in line with the previous year.

and on the consolidation of the TARGET2 and T2S platforms in order to integrate securities and cash settlement services, to provide new functions to satisfy the latest market requirements, to make the services easier to use and more secure and to reduce operating expenses. At national level, the Bank launched a new support platform for the Banking and Financial Ombudsman's (Arbitro Bancario Finanziario, ABF) online complaint handling process and a new system for processing time series from the major statistics-producing entities (including the EBC, IMF, BIS and Istat). The Bank is currently working on re-engineering some of the IT systems of the Institute for the Supervision of Insurance (Istituto di vigilanza sulle assicurazioni, IVASS) and on a financial education e-learning platform for the public.

COSTS AND REIMBURSEMENTS FOR EUROSISTEM INFRASTRUCTURE

Together with some of the other national central banks, the Bank of Italy provides services for developing and managing the Eurosystem's technological infrastructures. As service provider, the Bank receives reimbursements from the Eurosystem that are recorded under *Other income* and that amounted to €64 million in 2022 (€70 million in 2021; see Figure 15).

As a user of the Eurosystem's shared infrastructures, the Bank receives fees and bears costs in proportion to its share of the ECB's capital. The fees amounted to €53 million (€28 million in 2021) and are recorded under fee income. The costs, €50 million (€28 million in 2021), are reported under administrative expenses.

Expenditure on property management and maintenance, included in administrative costs, increased slightly compared with 2021, a year in which higher prices for different materials had already caused the associated prices to rise. Construction material prices²² further increased in 2022, compounded by the extraordinary rise in energy costs. Some expenses were incurred to rationalize the layout of office space in order to maximize the opportunities presented by the new hybrid work model. Initiatives were undertaken to support the development of the Bank's activities. Work continued on improving the energy efficiency of the Bank's buildings in keeping with its goal of reducing its environmental footprint. Most of the safety measures that were modified in response to the pandemic were reinstated to their original form as the emergency ended. In order to support business continuity and the expected development of processing capacity needs, the decision was made to design and establish a new data processing centre for the Bank (see 'Disclosure of relations with subsidiary and associate companies').

Compared with 2021, *other expenses* rose mainly because of higher write-downs on property for sale or no longer usable for the Bank's activities as a result of price trends in individual markets, the effect of which was partly offset by lower charitable donations due to the termination of pandemic-related disbursements.

²² As required by law, it was also necessary to adjust the cost of goods and services purchased via public tenders to the new price lists.

The Bank's staff

At 31 December 2022, the Bank's employees numbered 6,840, of which 4,539 working at the head office, 1,983 at branch offices and 318 seconded to other organizations. The total number of staff was up by 211 compared with 2021. There were 356 new employees, of whom about 71 per cent hold a required university degree. Terminations totalled 145 (156 in 2021); of these 18 opted for early retirement offered to staff affected by the reorganization of the head office and of the branch network.

Table 3

Composition of the Bank's staff												
AREAS	31.12.2022						31.12.2021					
	Men	Women	Total	At branch- es	At Head Office	At other organi- zations (1)	Men	Women	Total	At branch- es	At Head Office	At other organi- zations
Managerial and High-Level Professional Area	2,346	1,303	3,649	740	2,637	272	2,271	1,261	3,532	714	2,562	256
<i>of which:</i> Managing Directors and Principal Directors	65	19	84	8	70	6	72	17	89	10	73	6
Operational Area	1,937	1,249	3,186	1,243	1,897	46	1,854	1,238	3,092	1,254	1,795	43
Contract workers	5	–	5	–	5	–	5	–	5	–	5	–
Total	4,288	2,552	6,840	1,983	4,539	318	4,130	2,499	6,629	1,968	4,362	299

(1) Includes members of staff on leave of absence and/or on secondment to: the ECB (41 per cent), international bodies (15 per cent), the general government sector (7 per cent) and, for the remainder, to IVASS or other entities. Also includes 4 employees posted to representative offices abroad.

As at end-2022, the managerial and high-level professional area accounted for 53.3 per cent of total staff, broadly in line with 2021. The staff's average age at the end of 2022 was 48.6 years (48.8 years in 2021) and 37.3 per cent of the Bank's employees were women (37.7 per cent in 2021). On average, 42 per cent of staff made use of remote working, a significant drop from 59 per cent in 2021, when working conditions were still heavily influenced by the pandemic. During the year, 6,035 staff members received training, or 88.2 per cent of all, for a total of more than 231,000 hours of training.

Other information

Strategic planning

In January 2023, the Bank published its [Strategic Plan for 2023-25](#), which sets out its vision, objectives and action plans to be achieved and provides a comprehensive and consistent framework for the overall governance of the Bank's resources in the performance of its many functions. Further details can be found on the Bank's website.

Organizational measures

Since April 2022, the new hybrid work model has been fully applied and the measures taken during the pandemic have been lifted.

As indicated in the Strategic Plan for 2023-25, the Bank is currently monitoring an array of measures undertaken in the areas of management and organizational systems, information and communication technology (ICT) and logistics in order to assess the effects one year after their introduction. The variables deemed most important in this assessment are: effectiveness, efficiency, risk management, social interaction, health and environmental sustainability. The lines of action for further improving the model envisage investments in: (a) planning, managing and monitoring work performance; (b) strengthening business continuity management; (c) adapting IT tools to enable effective on-site and remote interaction; and (d) making more flexible and efficient use of office space.

As regards the organizational structure, a number of reforms were undertaken in 2022 in order to: (a) strengthen cyber risk management through the creation of the new Cyber Security Committee; (b) systemize the branch network's role in the in-house credit risk assessment system (ICAS) for loans granted as collateral in Eurosystem monetary policy operations by forming dedicated divisions in some of the regional branches; (c) reinforce the planning, coordination and implementation of projects sponsored by the Milano Hub innovation centre; (d) support and reinforce the Financial Intelligence Unit (UIF) on both national and international scale, in part in response to the steep rise in the volume and complexity of suspicious transaction reports.

A new Anti-Money Laundering Supervision and Regulation Unit was formed. The reorganization of the Bank's anti-money laundering function was also planned as part of the process of reforming the regulatory and institutional structures begun at European level in preparation for the creation of the new Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA), with the goals of managing the increasingly complex anti-money laundering supervisory tasks and of ensuring a unified guidance and an effective coordination with the AMLA.

Banknote production and circulation

In 2022, a total of 807 million banknotes were produced, in denominations of €20 and €50 for the second series, consistent with the annual production schedule. The Bank also completed the production of the remaining notes scheduled for 2021 and produced banknotes on behalf of Banque de France according to the terms of the Swap Agreement signed by the two central banks.²³

²³ The Swap Agreement signed in 2021 with Banque de France, as part of a broader cooperation agreement, provided for exchanging euro banknote production for the 2021-2022 period to facilitate the production of the Bank's proportion of banknotes assigned for the year.

The Bank's banknote production plant continued to provide support to the Eurosystem in its capacity as main R&D test-print centre, quality tools test centre and storage and distribution centre.

In 2022, as in the year before, the watermarked paper needs were met through the Bank's two in-house paper manufacturers (Valoridicarta SpA and Europafi SaS).²⁴

Regarding the collaboration with Banque de France and Europafi SaS concerning banknotes, the existing agreements were renewed in 2022 in order to: (a) adopt the benchmark for the price of watermarked paper;²⁵ (b) reduce contract duration and minimum purchase percentages; (c) develop synergies between the two in-house paper manufacturers. As for the Bank's dealings with Banco de España, the two central banks continued to observe the existing cooperation agreements and specifically they worked on developing models for collaborating on banknote printing.

The Bank's branches continue to play an important role in meeting the demand for banknotes and in ensuring that the quality of those in circulation remains high. Last year, 2.3 billion banknotes were put into circulation, as in 2021. The banknotes returned and checked by the Bank of Italy amounted to 2 billion (1.9 billion in 2021), while 0.7 billion (the same number as in 2021) were withdrawn from circulation.

Environmental policy and workplace safety

For many years the Bank has been committed to reducing its ecological footprint through the rational use of energy and natural resources, optimized waste management, sustainable mobility and 'green' procurement. The *Environment Report*, published yearly and available on the Bank of Italy's website, summarizes the main measures adopted by the Bank and describes its ecological footprint.

The Bank values the environment and sustainability and this influences how it manages its investment portfolio, favouring companies that adopt environmental, social and governance (ESG) best practices. In May 2022, the Bank published the first *Report on sustainable investments and climate-related risks*, which follows through on the commitment made with the publication of the *Responsible Investment Charter*, to disclose the results of the management of its non-monetary policy investments and provide information on the methodologies used in considering ESG risks (see *Assets*).

The Bank's commitment to the environment is one of the stated objectives of the *Strategic Plan for 2023-25*. In the coming years, the Bank plans to step up

²⁴ The Bank holds participating interests in both Europafi and Valoridicarta (see 'Disclosure of relations with subsidiary and associate companies'). The Bank can take advantage of the special in-house procurement system if analogous joint control requirements are met and the supply terms are in line with the market price.

²⁵ Due to the lack of public tenders, which would have yielded a current market price, a European benchmark for the price of watermarked paper, developed based on data provided by each private and in-house banknote production plant, was established. This benchmark marks the cap on the prices charged by the Bank's two in-house paper suppliers.

sustainable finance initiatives and the fight against climate change, setting out a multi-year programme with measures and milestones to steadily achieve a net zero carbon emissions target.

In terms of workplace safety, in 2022 the Bank updated the internal protocols that it had adopted to limit the spread of COVID-19 infections, based on the course of the pandemic and the easing of restrictions by government and healthcare authorities. With regard to assessing business-related risks, the Bank continued its normal monitoring of its prevention and protection measures and revised the assessment criteria for certain risks as part of the annual updating of the documentation for each of the Bank's production units. The main tasks, based in part on the relevant regulations, involved adopting new criteria for assessing fire risks and its impact on the Bank's new workspace configurations, and making a number of significant changes in connection with the machinery and processes used by the technical and industrial units.

Disclosure of relations with subsidiary and associate companies

The Bank of Italy is the sole shareholder of Società Italiana di Iniziative Edilizie e Fondiarie SpA (SIDIEF), a real estate company whose main activity is the management and rental of the Bank's own properties. The Bank directs and coordinates the activities of the subsidiary, principally with regard to its corporate strategy, but it does not interfere in areas of operational autonomy. A special agreement regulates relations between the Bank of Italy and SIDIEF and sets out the rental policies applying to employees and to the buildings used by the Bank itself. Last year, total rentals remitted by the Bank to SIDIEF amounted to about €1 million.

The Bank also holds the entire share capital of Italtec 90 Srl following the purchase of its shares in 2022. The company will be liquidated since the sole purpose of the purchase is to acquire property that Italtec 90 owns, deemed suitable for the construction of the new data center.

The Bank of Italy holds a participating interest in the capital of Valoridicarta Spa, a company formed in 2018 by the State printing office, Istituto Poligrafico e Zecca dello Stato SpA (IPZS), to manufacture special papers and embedded holographic security and anti-counterfeiting components. The corporate structure, based on the in-house providing model governed by Directive 2014/24/EU, envisages a majority shareholder (IPZS) and a minority shareholder (the Bank of Italy, with 18.26 per cent). The Bank of Italy also holds a 0.50 per cent participating interest in Europafi Sas, the paper manufacturer formed by the Banque de France. In this case as well, the Bank of Italy exercises control according to the in-house providing rules. A shareholders' agreement sets out the relationship between the shareholders with regard to their stakes in the two companies and the functioning of the corporate bodies.

ANNUAL ACCOUNTS

BALANCE SHEET

ASSETS	NOTE	Amounts in euros	
		31.12.2022	31.12.2021
1 GOLD AND GOLD RECEIVABLES	[1]	134,487,837,464	126,873,606,438
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	76,712,655,037	74,171,654,987
2.1 Claims on the IMF		32,987,715,414	31,257,599,646
2.2 Securities		34,508,433,737	36,566,991,908
2.3 Current accounts and deposits		8,355,296,873	5,999,477,555
2.4 Reverse operations		858,053,628	343,722,409
2.5 Other assets		3,155,385	3,863,469
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	1,212,076,445	1,511,549,486
3.1 Financial counterparties		1,212,076,445	1,510,124,252
3.1.1 Securities		69,025,622	107,009,836
3.1.2 Reverse operations		178,136,133	423,803,638
3.1.3 Other assets		964,914,690	979,310,778
3.2 General government		–	–
3.3 Other counterparties		–	1,425,234
4 CLAIMS ON NON-EURO AREA RESIDENTS	[4]	1,917,836,710	1,793,967,418
4.1 Claims on EU central banks outside the euro area		–	–
4.2 Securities		1,913,513,287	1,789,643,993
4.3 Other claims		4,323,423	4,323,425
5 LENDING TO EURO-AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS	[2]	356,451,020,000	453,413,770,000
5.1 Main refinancing operations		712,000,000	14,000,000
5.2 Longer-term refinancing operations		355,739,020,000	453,399,770,000
5.3 Fine-tuning reverse operations		–	–
5.4 Structural reverse operations		–	–
5.5 Marginal lending facility		–	–
5.6 Credits related to margin calls		–	–
6 OTHER CLAIMS ON EURO-AREA CREDIT INSTITUTIONS	[3]	363,464,455	693,288,836
7 EURO-DENOMINATED SECURITIES ISSUED BY EURO-AREA RESIDENTS		760,908,451,066	731,898,261,778
7.1 Securities held for monetary policy purposes	[2]	696,149,770,691	665,966,224,436
7.2 Other securities	[4]	64,758,680,375	65,932,037,342
8 EURO-DENOMINATED GENERAL GOVERNMENT DEBT	[4]	13,288,674,307	13,419,329,128
9 INTRA-EUROSYSTEM CLAIMS	[5]	56,290,038,301	58,561,611,197
9.1 Participating interest in the ECB		1,509,624,881	1,405,980,047
9.2 Claims arising from the transfer of foreign reserves to the ECB		6,853,825,810	6,853,825,810
9.3 Net claims related to the allocation of euro banknotes within the Eurosystem		47,926,587,610	50,301,805,340
9.4 Other claims within the Eurosystem (net)		–	–
10 ITEMS IN COURSE OF SETTLEMENT		955	955
11 OTHER ASSETS	[6]	74,942,040,341	75,720,195,394
11.1 Euro-area coins		76,278,973	88,061,170
11.2 Financial assets related to the investment of reserves and provisions	[4]	63,450,917,339	66,318,857,346
11.3 Intangible fixed assets		61,117,044	69,181,489
11.4 Tangible fixed assets		1,650,317,174	1,736,981,888
11.5 Accruals and prepaid expenses		5,800,898,946	5,349,701,768
11.6 Deferred tax assets		355,583,841	303,038,256
11.7 Sundry		3,546,927,024	1,854,373,477
TOTAL		1,476,574,095,081	1,538,057,235,617

THE ACCOUNTANT GENERAL: PAOLO SESTITO

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, GIOVANNI LIBERATORE, GIUSEPPE MELIS, ANNA LUCIA MUSERRA, GAETANO PRESTI

BALANCE SHEET

LIABILITIES	NOTE	Amounts in euros	
		31.12.2022	31.12.2021
1 BANKNOTES IN CIRCULATION	[7]	245,700,897,735	241,379,809,870
2 LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS	[2]	245,002,349,587	404,822,134,344
2.1 Current accounts (covering the minimum reserve system)		22,428,356,174	304,513,134,344
2.2 Deposit facility		222,573,993,413	100,309,000,000
2.3 Fixed-term deposits		-	-
2.4 Fine-tuning reverse operations		-	-
2.5 Deposits related to margin calls		-	-
3 OTHER LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS		841,634,128	686,163,020
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS	[8]	62,991,641,411	72,295,030,052
4.1 General government		29,996,794,918	45,883,634,852
4.1.1 Treasury payment account		29,865,722,831	37,503,198,228
4.1.2 Other liabilities		131,072,087	8,380,436,624
4.2 Other counterparties		32,994,846,493	26,411,395,200
5 LIABILITIES TO NON-EURO-AREA RESIDENTS	[9]	6,868,122,239	3,708,351,588
5.1 Liabilities to EU central banks outside the euro area		-	-
5.2 Other liabilities		6,868,122,239	3,708,351,588
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	556,072,394	567,196,905
6.1 Financial counterparties		-	-
6.2 General government		556,072,394	567,196,905
6.3 Other counterparties		-	-
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	2,756,893	2,557,700
7.1 Current accounts and deposits		2,756,893	2,557,700
7.2 Other liabilities		-	-
8 COUNTERPART OF SDRS ALLOCATED BY THE IMF	[1]	26,310,769,601	25,978,653,152
9 INTRA-EUROSYSTEM LIABILITIES	[5]	681,925,185,605	587,710,453,026
9.1 Liabilities related to the issuance of ECB debt certificates		-	-
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
9.3 Other liabilities within the Eurosystem (net)		681,925,185,605	587,710,453,026
10 ITEMS IN COURSE OF SETTLEMENT		164,489	95,112
11 OTHER LIABILITIES	[10]	9,371,291,990	7,837,019,810
11.1 Cashier's cheques		49,895,788	50,463,860
11.2 Accruals and income collected in advance		5,524,816,668	5,366,600,778
11.3 Sundry		3,796,579,534	2,419,955,172
12 PROVISIONS	[11]	7,389,767,649	7,560,798,446
12.1 Provisions for specific risks		470,972,366	468,097,897
12.2 Staff-related provisions		6,918,795,283	7,092,700,549
13 REVALUATION ACCOUNTS	[12]	126,039,356,058	120,546,436,609
14 GENERAL RISK PROVISION	[11]	35,213,675,075	32,713,675,075
15 CAPITAL AND RESERVES	[13]	26,304,085,739	26,304,085,739
15.1 Capital		7,500,000,000	7,500,000,000
15.2 Statutory reserves		11,064,574,818	11,064,574,818
15.3 Other reserves		7,739,510,921	7,739,510,921
16 NET PROFIT FOR THE YEAR		2,056,324,488	5,944,775,169
TOTAL		1,476,574,095,081	1,538,057,235,617

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PROFIT AND LOSS ACCOUNT

	NOTE	Amounts in euros	
		2022	2021
1.1 Interest income		12,990,763,912	11,453,245,838
1.2 Interest expense		-7,203,602,696	-4,190,912,929
1 NET INTEREST INCOME	[14]	5,787,161,216	7,262,332,909
2.1 Realized gains/losses arising from financial operations		-41,085,115	138,066,101
2.2 Write-downs on financial assets and positions		-1,377,288,927	-173,607,731
2.3 Transfers to/from the general risk provision for financial risks		-2,500,000,000	-2,000,000,000
2 NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS	[15]	-3,918,374,042	-2,035,541,630
3.1 Fee and commission income		75,335,914	47,967,783
3.2 Fee and commission expense		-24,296,886	-21,207,901
3 NET INCOME FROM FEES AND COMMISSIONS	[16]	51,039,028	26,759,882
4 INCOME FROM PARTICIPATING INTERESTS	[17]	7,086,441	90,559,681
5 NET RESULT OF THE POOLING OF MONETARY INCOME	[18]	2,379,563,930	2,243,309,461
6.1 Interest income		793,951,461	796,609,434
6.2 Dividends from equity shares and participating interests		433,348,748	375,613,768
6.3 Realized gains/losses arising from financial operations		67,350,333	397,977,131
6.4 Write-downs on financial assets and positions		-483,661,997	-172,982,355
6.5 Other components		18,866,541	14,719,277
6 NET INCOME FROM FINANCIAL ASSETS RELATED TO THE INVESTMENT OF RESERVES AND PROVISIONS	[19]	829,855,086	1,411,937,255
7 OTHER TRANSFERS FROM PROVISIONS		-	-
8 OTHER INCOME	[20]	86,290,539	97,317,709
		TOTAL NET INCOME	5,222,622,198
			9,096,675,267
9.1 Staff wages and salaries		-692,779,438	-654,489,904
9.2 Social security and insurance		-173,156,732	-164,291,929
9.3 Other staff costs		-56,279,028	-48,233,040
9.4 Pensions and severance payments		-298,805,908	-280,316,772
9.5 Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses		75,592,879	-140,829,810
9.6 Emoluments paid to head office and branch collegial bodies		-2,866,176	-2,745,316
9.7 Administrative expenses		-527,658,106	-451,338,891
9.8 Depreciation of tangible and intangible fixed assets		-122,409,518	-118,282,537
9.9 Banknote production services		-	-
9.10 Other expenses		-64,231,051	-55,097,217
9 EXPENSES AND SUNDRY CHARGES	[21]	-1,862,593,078	-1,915,625,416
10 OTHER TRANSFERS TO PROVISIONS		-	-
		PROFIT BEFORE TAX	3,360,029,120
			7,181,049,851
11 TAXES ON INCOME FOR THE YEAR AND ON PRODUCTIVE ACTIVITIES	[22]	-1,303,704,632	-1,236,274,682
		NET PROFIT FOR THE YEAR	2,056,324,488
			5,944,775,169

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NOTES TO THE ACCOUNTS

Legal basis, method of preparation and layout of the annual accounts

Legal basis of the annual accounts. – The annual accounts of the Bank of Italy are drawn up in compliance with special regulatory provisions issued by the ECB. Where these do not provide any guidance, the Bank, where applicable, follows the rules in the Civil Code and refers to national accounting principles. The figures in the financial statement are presented in units of euros, while those in the notes to the accounts are given in millions of euros, unless otherwise stated.

The main relevant statutory provisions are:

- Article 8.1 of Legislative Decree 43/1998 ('Adaptation of Italian law to the provisions of the Treaty establishing the European Community for matters concerning monetary policy and the European System of Central Banks'). It states that 'in drawing up its annual accounts, the Bank of Italy may adapt, in derogation from the rules in force, its accounting and reporting criteria to comply with the rules established by the ECB pursuant to Article 26.4 of the Statute of the ESCB and with the ECB recommendations issued in this regard. The annual accounts drawn up in accordance with this paragraph, particularly as concerns the methods used in their preparation, are also valid for tax purposes.' This validity is recognized by Article 114 of Presidential Decree 917/1986 (Consolidated Income Tax Law) as amended by Legislative Decree 247/2005, for the purposes of the corporate income tax (IRES), and by Article 6.7 of Legislative Decree 446/1997 for the purposes of the regional tax on productive activities (IRAP).

On the basis of the authority granted by Article 8, the Bank of Italy fully applies the accounting rules and recommendations issued by the ECB, including those on the layout of the profit and loss account and the layout of the balance sheet. The latter is similar to that used for the monthly financial statement approved by the Minister of Economy and Finance pursuant to Article 8.2 of Legislative Decree 43/1998. These rules adopted by the ECB are set out in Guideline No. 34 of 3 November 2016 (published in OJ L347 of 20 December 2016), as amended, which contains provisions mainly in relation to items of the annual accounts that refer to the institutional activities of the ESCB and non-binding recommendations for the other items of the annual accounts.

- The Bank's Statute, approved by the Presidential Decree of 27 June 2022, which lays down the principles and rules for the allocation of the net profit for the year and the creation of reserves and provisions.

For matters relating to the preparation of the accounts not covered by the foregoing rules, Legislative Decree 127/1991, as amended, shall apply.

Accounting policies. – The accounting policies applied to the main balance sheet items in the annual accounts for 2022 are described below. Where provided for by law, they were agreed with the Board of Auditors.

GOLD, FOREIGN CURRENCY ASSETS/LIABILITIES, SECURITIES AND PARTICIPATING INTERESTS

Gold and foreign currency assets/liabilities

- holdings, including those consisting of securities, are valued by applying, for each currency and for gold, the method based on the daily average net cost determined in the manner established by the ECB, which requires account to be taken of operations carried out during the year but settled in the following year;
- gold and foreign currency assets/liabilities are valued on the basis of the year-end gold price and exchange rates communicated by the ECB. Unrealized gains are included in the corresponding revaluation account, while losses are covered first by earlier unrealized gains recognized on the same foreign currencies and any amount in excess is included in the profit and loss account.

Assets denominated in foreign currencies, stated in the balance sheet sub-item *Financial assets related to the investment of reserves and provisions*, are not included in the net foreign exchange position but shown as a separate item.

Securities and participating interests

- each security (identified by its International Securities Identification Number – ISIN) is valued for each portfolio by applying the method of the daily average cost determined in the manner established by the ECB. In the case of bonds, account is taken of the amount of the premium/discount, which is recorded daily for those denominated in foreign currency;
- the year-end valuation is made:
 - 1) in the case of securities held for monetary policy purposes, at amortized cost subject to impairment (lasting reduction in recoverable value with respect to book value);
 - 2) in other cases:
 - a) at amortized cost subject to impairment, for non-marketable securities and those held to maturity;
 - b) at cost subject to impairment, for non-marketable equity instruments and participating interests held as permanent investments. The participating interest in the capital of the ECB is valued at cost. The Bank's annual accounts are not consolidated with those of investee companies as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991;

- c) at market price recorded at the end of the year, for shares, investment fund shares and securities not held to maturity; for units of collective investment undertakings (CIUs), at the value available at the end of the year announced by the management company. Unrealized gains are included in the corresponding revaluation accounts; losses are covered first by earlier unrealized gains on the relative security and fund shares within each portfolio and any amount in excess is taken to the profit and loss account.

Dividends are recognized on a cash basis.

CLAIMS AND REVERSE TRANSACTIONS

Claims are recorded at their nominal value, except for decreases in value regarding particular situations attributable to the counterparty.

Reverse transactions represented by the purchase of securities for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date are recorded on the asset side as collateralized loans. Reverse transactions represented by the sale of securities for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date are recorded on the liabilities side as collateralized deposits.

Reverse transactions in connection with securities lending programmes are recognized in the balance sheet only where collateral has been provided in the form of cash deposited in an account of the central bank and this cash remains uninvested at the end of the year.

TANGIBLE FIXED ASSETS

Buildings

- are stated at cost, including improvement expenses, plus revaluations made pursuant to specific laws. The depreciation of the Bank's premises and the depreciation of investment property, unusable for other purposes without radical restructuring, is on a straight-line basis using the annual rate of 4 per cent established by the ECB. Land is not depreciated.

Buildings for sale and those no longer in use or usable for the Bank's activities are not amortized and are valued at whichever is lowest of net book value and realizable value based on market prices.

Plant, furniture and equipment

- are stated at cost, including improvement expenses. They are depreciated on a straight-line basis using the rates established by the ECB (plant, furniture, and equipment, 10 per cent; computers and related hardware and basic software and motor vehicles, 25 per cent). Artwork is not depreciated.

Depreciation begins in the quarter subsequent to that of acquisition both for buildings and for plant, furniture and equipment. Tangible fixed assets are subject to impairment in the event of a lasting reduction in value.

INTANGIBLE FIXED ASSETS

The procedures developed as part of the Eurosystem IT projects are capitalized at purchase price and, once completed, are amortized on the basis of amortization rates deemed consistent with the remaining useful life of the assets.

The costs relating to internally developed application software are recorded in the profit and loss accounts in the years in which they are incurred, even if the software's useful life covers a multi-year period.

Software licences are stated at cost and amortized on a straight-line basis over the life of the contract or, where no time limit is established, over the estimated useful life.

The costs of improvements to buildings owned by third parties and leased to the Bank are amortized on a straight-line basis over the remaining life of the rental contract.

Expenses of less than €10,000 are not capitalized, with the exception of those incurred for software licences.

ACCRUALS AND PREPAYMENTS

Accrued income and expenses are recorded in the period in which they arise. Prepaid income and expenses represent costs or revenues that arise in future periods but that are paid or received in the current accounting period. Interest accrued on foreign exchange assets and liabilities is recorded on a daily basis and included in the net foreign exchange position.

BANKNOTES IN CIRCULATION

The ECB and the euro-area NCBs, which together form the Eurosystem, issue euro banknotes (Decision ECB/2010/29 on the issue of euro banknotes, OJ L35 of 9 February 2011, as amended).

The total value of euro banknotes in circulation is allocated within the Eurosystem on the last working day of each month on the basis of the criteria set out below.

The ECB is allocated 8 per cent of the total value of euro banknotes in circulation, while the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB ('capital key'). The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to each NCB and that of the banknotes

it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. From the year of the cash changeover of each Member State that has adopted the euro and for the five subsequent years, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the NCBs' relative income positions with respect to previous years. The adjustments take into account the differences between the average value of banknotes in circulation of each NCB in the reference period established by law and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual steps for five years starting from the year of the cash changeover, after which income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital (Decision ECB/2016/36 on the allocation of monetary income of the national central bank of Member States whose currency is the euro). There were no adjustments arising from the entry of new central banks into the Eurosystem in 2022.

The interest income and expense on intra-Eurosystem balances are disclosed in the profit and loss account under *Net interest income*.

The Governing Council of the ECB has ruled that the seigniorage income of the ECB arising from the 8 per cent share of banknotes allocated to the ECB and the income deriving from the securities held in connection with the SMP, CBPP3, ABSPP, PSPP and PEPP must be recognized to the euro-area NCBs with reference to the financial year in which they accrued and are distributed in January of the following year, or later, in the form of an interim distribution of profit (Decision ECB/2014/57, OJ L53 of 25 February 2015, as amended). The seigniorage income and the income arising from the above securities purchase programmes are distributed in full unless, based on a reasonable estimate, the Governing Council expects the ECB to report a loss for the year or to report a net profit for the year that is lower than these incomes. The Governing Council can also decide to transfer all or part of the income to a provision for financial risks. It may also decide to reduce the seigniorage income to be recognized by the amount of the expenses incurred in connection with the issue and handling of banknotes.

The interim distribution of ECB profit is recorded on an accrual basis in the year to which the income refers, in derogation from the cash basis applied in general to dividends. The amount distributed to the NCBs is entered in the profit and loss account under *Income from participating interests*.

INTRA-EUROSISTEM CLAIMS AND LIABILITIES

Intra-Eurosystem balances arise mainly from cross-border payments in euros within the EU that are settled in central bank money. Most of these transactions are ordered by private individuals and settled in TARGET2 – the Eurosystem's real-time gross settlement system – giving rise to bilateral balances in the TARGET2 accounts of EU Member States' central banks. These balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position with the ECB. The balance with the ECB arising from TARGET2 and the other

intra-Eurosystem balances denominated in euros, including the provisional distribution of the ECB's profit to the NCBs and the result of the pooling of monetary income, are entered in the accounts as a single net position, appearing on the asset side under *Other claims within the Eurosystem (net)* or on the liability side under *Other liabilities within the Eurosystem (net)*.

The net intra-Eurosystem balance arising from the allocation of euro banknotes is included among the net claims or liabilities related to the allocation of banknotes within the Eurosystem.

The intra-Eurosystem claims arising from the subscription of the ECB's capital and the transfer of official reserves to the ECB are included under *Participating interest in the ECB* and *Claims arising from the transfer of foreign reserves to the ECB*.

PROVISIONS FOR RISKS

In determining the provisions for risks, the riskiness of each sector of the Bank's operations is taken into account in an overall evaluation of adequacy.

According to the Bank of Italy's Statute, the general risk provision covers risks connected with the Bank's overall activity, including those that cannot be determined individually or allocated objectively.

The riskiness of the foreign exchange position and that of the securities portfolio are estimated by the methods developed within the Eurosystem, with consideration also given to the size of the revaluation accounts. The risk of incurring losses in the profit and loss account owing to the different sensitivity of the balance sheet assets/liabilities to changes in rates is monitored periodically using profitability estimates conducted for different scenarios.

TAX PROVISION

The provision for taxation includes deferred tax liabilities for IRES and IRAP and any amounts arising from possible fiscal checks and disputes with the tax authorities.

STAFF-RELATED PROVISIONS

The recorded amounts are determined as follows:

- transfers to the provision for severance pay and pensions of staff hired before 28 April 1993 are included in the annual accounts under Article 3 of the relevant Rules for an amount that comprises the severance pay accrued at the end of the year, the mathematical reserves for the disbursements to pensioners, and those corresponding to the situation of staff having entitlement;
- transfers to the provisions for measures connected with the reorganization of the Bank's branch network and with voluntary early retirement for staff at the head

office and at the branches not scheduled to be closed are calculated on the basis of the expected costs;

- transfers to the provision for severance pay for staff who do not participate in pension funds or who pay only a part of the contributions for retirement benefits are determined in accordance with Law 297/1982;
- transfers arising from lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund, to be settled upon their leaving service. These transfers are funded on the basis of measures agreed upon with the trade unions and partly tied to the achievement of certain productivity, quality, efficiency and effectiveness targets;
- the provision for staff costs includes the costs accrued but not paid at year-end.

OTHER ASSETS AND LIABILITIES

Pursuant to Recommendation ECB/1999/NP7 of the ECB Governing Council, banknote production costs are not included in the valuation of stocks but are taken in full to the profit and loss account in the year in which they are incurred.

Deferred tax assets and liabilities are included in the financial statements on the basis of their presumable tax effect in future years. The recognition of deferred tax assets in the balance sheet is based on the reasonable expectation of recovering them in the future. The amount of deferred tax assets and liabilities is calculated using the tax rates that are expected to be in force at the time in which the temporary differences that have generated them are reversed.

The items *Other assets* and *Other liabilities* include, respectively, the investments and separate assets of the defined-contribution supplementary pension fund created for staff hired on or after 28 April 1993. The fund is invested in financial instruments, which are valued at year-end market prices. The resulting revaluation gains (losses) are treated as revenue (expense) and, in the same way as for other operating revenue (expense), add to (subtract from) the fund's assets.

Other liabilities include the amount of IRES and IRAP tax payables, net of payments on account, due for the reference period, determined on the basis of a realistic estimate of the foreseeable costs under the tax rules in force. Any excess payments on account are recorded correspondingly under *Other assets*.

Other liabilities also include the special item made up of allocations of the net profit in accordance with Article 38.2.b of the Statute, whose purpose is to stabilize over time the amount of net profit paid to the shareholders under the dividend policy in force.

The other components are stated at nominal value or at cost depending on their nature.

COMMITMENTS, COLLATERAL GRANTED AND OTHER OFF-BALANCE-SHEET ACCOUNTS

Commitments, collateral granted and other off-balance-sheet accounts are shown and explained in the notes to the accounts.

Commitments include the following types of operations:

Forward purchases and sales of foreign currency

- forward purchases and sales are recorded in off-balance-sheet accounts from the trade date to the settlement date, at the ECB reference rate at the trade date. The difference between this exchange rate and the forward exchange rate is recorded, on a *pro rata temporis* basis, under interest in the profit and loss account.
- forward sales of the currencies included in the special drawing rights (SDR) basket to cover the SDR position are valued in conjunction with the latter and therefore do not affect the net position in the single currencies.

Foreign currency swaps

- forward and spot purchases and sales are recorded in the off-balance-sheet accounts from the trade date to the settlement date, at the spot exchange rate agreed with the counterparty. The difference between this rate and the forward exchange rates is recorded, on a *pro rata temporis* basis, under interest in the profit and loss account.

At the time of the settlement of forward purchases and sales of foreign currency and foreign currency swaps, the entries in the off-balance-sheet accounts are transferred to the appropriate items of the balance sheet.

Futures contracts

- are recorded in the off-balance-sheet accounts at the trade date at their notional value and those denominated in foreign currency are translated at the end of the year at the exchange rate communicated by the ECB. Initial margins in cash are recorded in the balance sheet among claims, those in securities are recorded in the off-balance-sheet accounts. Positive and negative daily variation margins are communicated by the clearer and taken to the profit and loss account; those denominated in foreign currency are converted at the exchange rate of the day.

Forward foreign currency transactions and other financial instruments involving an exchange of one currency for another at a future date are included in the calculation, at the spot settlement date, of the outstanding net foreign currency positions for the purposes of applying the method of average cost determined daily and of determining the results of exchange rate valuation and foreign exchange trading.

Commitments in respect of foreign currency transactions are shown at the contractually agreed exchange rate.

Other off-balance-sheet accounts include:

- bonds of third parties denominated in euros held on deposit, stated at their nominal value; other securities are stated on a quantity basis, and other kinds are stated at face value or at conventional value;
- the total balance sheet assets of the National Resolution Fund (NRF), set up within the Bank of Italy under Article 78 of Legislative Decree 180/2015. The NRF has its own capital, which is independent and separate in all respects from that of the Bank but is managed by the Bank in its capacity as national resolution authority. The Fund issues an annual report, published in conjunction with the Bank's annual accounts.

Items denominated in foreign currency are converted at the year-end exchange rates communicated by the ECB.

Notes on the items of the balance sheet

The items *Gold, assets and liabilities denominated in foreign currency, Monetary policy operations* and *Securities portfolio* are aggregated according to their purpose or type of operation. Comments on the other items follow the layout of the balance sheet.

[1] Gold, assets and liabilities denominated in foreign currency

The value of gold amounted to €134,488 million at the end of 2022 (Table 4). The increase of €7,614 million compared with the end of 2021 was due to the 6 per cent rise in the metal's price (from €1,609.483 to €1,706.075 per ounce) solely caused by the appreciation of the US dollar against the euro.²⁶ The holding remained steady at 79 million ounces, equal to 2,452 tonnes.

Table 4

Gold, assets and liabilities denominated in foreign currency (1)			
<i>(millions of euros)</i>			
	31.12.2022	31.12.2021	Change
Gold (Item 1)	134,488	126,874	7,614
Net assets denominated in foreign currency	51,055	49,135	1,920
Assets denominated in foreign currency	77,925	75,683	2,242
Claims on the IMF (Sub-item 2.1)	32,988	31,258	1,730
Securities (Sub-items 2.2, 3.1.1 and 3.3)	34,578	36,675	-2,097
Current accounts and deposits (Sub-items 2.3 and 3.1.3)	9,320	6,979	2,341
Reverse operations (Sub-items 2.4 and 3.1.2)	1,036	767	269
Other assets (Sub-item 2.5)	3	4	-1
Liabilities denominated in foreign currency	26,870	26,548	322
Counterpart of SDRs allocated by the IMF (Item 8)	26,311	25,979	332
Advances of general government departments (Sub-item 6.2)	556	567	-11
Current accounts and deposits (Sub-item 7.1)	3	2	1
Off-balance-sheet instruments (2)	-1,874	-1,454	-420

(1) The figures do not include financial assets denominated in foreign currency related the investment of the overall amount of own funds as they constitute a separate foreign currency position. – (2) The item includes spot foreign exchange transactions contracted but not settled at year end and forward transactions.

²⁶ During the year, the price of gold fell from \$1,828.8 to \$1,824.7 per ounce, down by 0.2 per cent.

The value of net assets denominated in foreign currency increased from €49,135 million to €51,055 million (3.9 per cent) as a result of the increase in the holdings and, to a larger extent, of the appreciation of the US dollar and of the SDRs against the euro.²⁷ At the end of the year, the unrealized exchange rate gains recognized in the revaluation accounts were equal to €9,374 million, primarily due to the appreciation of gold and of the US dollar; unrealized losses amounted to €513 million and were entirely covered by the corresponding revaluation accounts.

Table 5

Unrealized foreign exchange gains and losses (millions of euros)					
	Revaluation accounts at 31 December 2021	Gains reported in the revaluation accounts	Losses reported		Revaluation accounts at 31 December 2022
			in the revaluation accounts	in the profit and loss account	
Gold	107,453	7,614	–	–	115,067
US dollars	3,531	1,727	–	–	5,258
British pounds	312	–	-172	–	140
Japanese yen	789	–	-303	–	486
Australian dollars	97	–	-16	–	81
Canadian dollars	124	–	-9	–	115
SDRs (1)	274	33	–	–	307
Chinese renminbi	58	–	-13	–	45
Total	112,638	9,374	-513	–	121,499

(1) Includes the valuation of the related hedging operations.

Claims on the IMF increased by €1,730 million (Table 6). The change was mainly due to the purchase of SDRs and their appreciation against the euro, only partly offset by the decrease in the Bank's loans to the IMF on behalf of the Italian government under the New Arrangements to Borrow (NAB). Furthermore, the drawdowns made by the IMF from the related holdings deposited in its account with the Bank contributed to the overall increase in this item.

Table 6

Accounts with the International Monetary Fund (millions of euros)			
	31.12.2022	31.12.2021	Change
Assets			
Claims on the IMF (Sub-item 2.1)	32,988	31,258	1,730
a) Reserve Tranche Position in the IMF	5,292	4,662	630
Quota in the IMF	18,863	18,625	238
IMF holdings	-13,571	-13,963	392
b) Participation in the PRGT	1,027	1,059	-32
c) Participation in the NAB	83	201	-118
d) SDRs	26,586	25,336	1,250
Liabilities			
Counterpart of SDRs allocated by the IMF (Item 8)	26,311	25,979	332

²⁷ Compared with the end of the previous year, the currencies that appreciated were the US dollar (from \$1.1326 to \$1.0666), the SDRs (from €1.2359 to €1.2517) and the South Korean won (from ₩1,346.38 to ₩1,344.09). Instead, the currencies that depreciated were the Japanese yen (from ¥130.38 to ¥140.66), the British pound (from £0.84028 to £0.88693), the Canadian dollar (from C\$1.4393 to C\$1.4440), the Chinese renminbi (from ¥7.1947 to ¥7.3582), and the Australian dollar (from A\$1.5615 to A\$1.5693).

THE IMF IN THE BANK OF ITALY'S BALANCE SHEET

Italy's position vis-à-vis the International Monetary Fund is recorded in the Bank of Italy's balance sheet according to arrangements drawn up with the Ministry of Economy and Finance. Specifically:

- a) Italy's reserve tranche position, subscribed in gold, SDRs and national currency and amounting to €5,292 million at the end of 2022, represents the difference between Italy's participation quota in the IMF (€18,863 million, equal to SDR 15,070 million) and the IMF's holdings deposited in its account with the Bank (€13,571 million, equal to SDR 10,843 million) which are funded by the participation quota subscribed over time in national currency;
- b) The contribution to the Poverty Reduction and Growth Trust (PRGT), amounting to €1,027 million (SDR 821 million), is used to grant long-term loans on favourable terms to countries facing structural difficulties in the balance of payments;
- c) loans to the IMF by the Bank of Italy on behalf of the Italian government under the NAB, amounting to €83 million (SDR 66 million), are used to strengthen the IMF's lending capacity to prevent and mitigate crises;
- d) Italy's SDR holdings have been allocated by the IMF in proportion to the country's participation quota since 1969. The most recent assignment made in 2021 (SDR 14,444 million) brought Italy's total holdings to SDR 21,020 million. Excluding withdrawals and new purchases, its holdings at the end of 2022 amounted to SDR 21,240 million, equal to €26,586 million. The amount assigned is recorded as a liability vis-à-vis the IMF under the item *Counterpart of SDRs allocated by the IMF* (Item 8), totalling €26,311 million at the end of the year.

The portfolio of securities denominated in foreign currency and classified as not held to maturity decreased from €36,675 million to €34,578 million (Table 7). The portfolio consists almost entirely of bonds and certificates of deposit issued by foreign government bodies and international organizations. Of the total portfolio, 75 per cent is denominated in US dollars, 10 per cent in Japanese yen, 5 per cent in Australian dollars, 4 per cent in each of British pounds and Canadian dollars, and 2 per cent in Chinese renminbi.

The other foreign currency assets (Sub-items 2.3, 2.4, 2.5, 3.1.2 and 3.1.3), denominated primarily in US dollars, Japanese yen and British pounds, consist of fixed-term deposits (€5,232 million), current accounts (€4,088 million), reverse operations (€1,036 million) and foreign banknotes (€3 million).

Among the other liabilities denominated in foreign currency, mainly in US dollars, the most important are the general government holdings (€556 million, Sub-item 6.2) for the management of foreign currency cross-border payments and receipts.

Table 7

Movements in securities denominated in foreign currency (millions of euros)				
	Non-euro-area residents (1)		Euro-area residents (2)	Total
	Bonds	Units of CIUs	Bonds	
Opening balance	36,370	197	108	36,675
Increases	50,935	6	21	50,962
Purchases (3)	50,126	1	21	50,148
Net exchange rate revaluation (4)	714	5	–	719
Premiums and discounts	95	–	–	95
Decreases	-52,987	-12	-60	-53,059
Sales and redemptions (3)	-51,689	–	-48	-51,737
Net losses	-244	–	–	-244
Net price revaluation (4)	-102	-7	–	-109
Net exchange rate revaluation (4)	–	–	-1	-1
Write-downs due to price changes (5)	-952	-5	-11	-968
Closing balance	34,318	191	69	34,578

(1) Sub-item 2.2. – (2) Sub-items 3.1.1, 3.2 and 3.3. – (3) Includes the adjustments to the average cost of currency. – (4) Increase/decrease in revaluation accounts. – (5) Recognized in the profit and loss account.

[2] Monetary policy operations

Table 8 shows the amounts outstanding at the end of the year and the average for the year regarding monetary policy operations.

Table 8

Monetary policy operations (millions of euros)						
	Balances			Averages		
	31.12.2022	31.12.2021	Change	2022	2021	Change
Lending to euro-area credit institutions (Item 5) (1)						
5.1 Main refinancing operations	712	14	698	173	30	143
5.2 Longer-term refinancing operations	355,739	453,400	-97,661	438,621	435,773	2,848
5.3 Fine-tuning reverse operations	–	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	1	–	1
5.6 Credits related to margin calls	–	–	–	–	–	–
Total	356,451	453,414	-96,963	438,795	435,803	2,992
Securities held for monetary policy purposes (Sub-item 7.1)	696,150	665,966	30,184	694,304	606,475	87,829
Liabilities to euro-area credit institutions (Item 2)						
2.1 Current accounts (covering the minimum reserve system)	22,428	304,513	-282,085	228,351	308,816	-80,465
2.2 Deposit facility	222,574	100,309	122,265	150,273	84,222	66,051
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–	–	–
Total	245,002	404,822	-159,820	378,624	393,038	-14,414

(1) At 31 December 2022, the collateral for lending to euro-area credit institutions, deposited with the Bank, amounted to €433 billion (€513 billion at the end of 2021).

Lending to euro-area credit institutions (Item 5), which grew slightly in terms of the average for the year, decreased in value at the end of the year and were almost exclusively represented by the third series of targeted longer-term refinancing operations (TLTRO III). At the end of the year, TLTRO III operations amounted to €354,308 million (€451,581 at the end of 2021), down by €97,273 million as a result of the repayments of the amounts allotted in previous years.²⁸ Within the longer-term refinancing operations, regular operations with a maturity of three months (€1,081 million) and PELTROs (€350 million) accounted for significantly smaller shares. Main refinancing operations instead increased both in terms of average holding and year-end value. At the end of 2022, the share of total euro-area refinancing provided to Italian credit institutions was equal to 27 per cent (21 per cent at the end of 2021), compared with a capital key of 16.99 per cent.

The year-end amount of *Securities held for monetary policy purposes* (Sub-item 7.1) increased from €665,966 million to €696,150 million; the average amount for the year also rose on the previous year. As in 2021, the purchases were concentrated above all in the public sector segment of the PEPP and, to a lesser degree, of the PSPP.

In 2022, the securities still held under CBPP1 and CBPP2 reached maturity. Net purchases under PEPP and APP continued, respectively, until the first and second quarter of the year, after which only the principal payments from maturing securities were reinvested.

Table 9

Movements in securities held for monetary policy purposes (Sub-item 7.1)								
<i>(millions of euros)</i>								
	Bonds (1)							Total
	CBPP1	CBPP2	CBPP3	SMP	PSPP	CSPP	PEPP	
Opening balance	250	335	35,723	1,452	368,846	27,048	232,312	665,966
Increases	–	–	2,308	11	48,591	3,389	53,624	107,923
Purchases	–	–	2,308	–	48,591	3,386	53,197	107,482
Transfers	–	–	–	–	–	–	427	427
Net gains	–	–	–	–	–	3	–	3
Net premiums and discounts	–	–	–	11	–	–	–	11
Decreases	-250	-335	-5,907	-985	-38,490	-1,686	-30,086	-77,739
Sales and redemptions	-250	-335	-5,700	-985	-35,945	-1,508	-27,453	-72,176
Transfers	–	–	–	–	-427	–	–	-427
Net premiums and discounts	–	–	-207	–	-2,118	-178	-2,633	-5,136
Closing balance	–	–	32,124	478	378,947	28,751	255,850	696,150

(1) The first two CBPPs were introduced in 2009 and 2011 and closed in 2010 and 2012 respectively. The SMP was rolled out in 2010 and ended in 2012. The other programmes are active.

In 2022, as agreed at Eurosystem level, the Bank transferred €427 million in government securities from the PSPP to the PEPP to comply with the limits set by the programmes.

²⁸ Of these, €87,115 million were voluntary early repayments.

Table 10

Comparison with market value of securities held for monetary policy purposes (Sub-item 7.1) (millions of euros)						
	31.12.2022		31.12.2021		Change	
	Amortized cost	Market value	Amortized cost	Market value	Amortized cost	Market value
CBPP1	–	–	250	251	-250	-251
CBPP2	–	–	335	338	-335	-338
CBPP3	32,124	29,549	35,723	36,740	-3,599	-7,191
SMP	478	514	1,452	1,571	-974	-1,057
PSPP	378,947	338,382	368,846	392,303	10,101	-53,921
CSPP	28,751	25,368	27,048	27,500	1,703	-2,132
PEPP corporate bonds	2,659	2,237	2,383	2,384	276	-147
PEPP government bonds	252,930	215,078	229,668	230,108	23,262	-15,030
PEPP covered bonds	261	221	261	263	–	-42
Total	696,150	611,349	665,966	691,458	30,184	-80,109

At the end of the year, the market value of the securities held for monetary policy purposes amounted to €611,349 million. The difference from the book value, which was negative by €84,801 million (-12 per cent), is mainly attributable to PSPP and PEPP public sector securities and is due to market price developments, which declined as a result of higher interest rates.

Tables 11 provides a breakdown by residual maturity of the securities held by the Bank of Italy for monetary policy purposes.

Table 11

Residual maturity of securities held for monetary policy purposes (millions of euros)							
	0-1 year	1-2 years	2-5 years	5-10 years	10-20 years	More than 20 years	Total
CBPP3	5,962	4,999	15,091	4,567	1,049	456	32,124
SMP	25	205	248	–	–	–	478
PSPP	41,284	45,061	97,426	102,195	61,757	31,224	378,947
CSPP	2,422	4,260	12,383	7,803	1,883	–	28,751
PEPP corporate bonds	58	198	988	1,042	373	–	2,659
PEPP government bonds	26,554	26,925	66,740	75,120	35,534	22,057	252,930
PEPP covered bonds	31	25	108	63	–	34	261
Total	76,336	81,673	192,984	190,790	100,596	53,771	696,150

In accordance with the ECB Governing Council's decisions, all securities acquired under the existing monetary policy programmes are valued at amortized cost subject to impairment in accordance with Eurosystem criteria. If indicators of impairment are observed, further analysis is carried out to identify any impact on the expected cash flows of the securities. The impairment tests conducted on these securities do not show evidence of any losses.

With regard to *Liabilities to euro-area credit institutions* (Table 8), accounts held by banks, including deposits made in accordance with the minimum reserve requirements, decreased both in terms of the year-end figure (from €404,822 million to €245,002 million) and of the annual average amount (from €393,038 million to €378,624

million), partly as a result of TLTRO III repayments. There was a significant decrease in *Current accounts* (Item 2.1), while the *Deposit Facility* (Item 2.2) recorded a marked increase in the year-end figure and in the average amount.²⁹ In 2022, the Bank did not make fixed-term deposits and did not activate any fine-tuning reverse operations.

[3] Other claims on euro-area credit institutions

Item 6 on the asset side, amounting to €363 million (€693 million in 2021), includes reverse repos with credit institutions (€230 million), current accounts in connection with the management of cross-border euro payments and receipts for government bodies (€128 million) and other current accounts denominated in euros (€5 million).

[4] Securities portfolio

Table 12

Securities portfolio (millions of euros)			
	31.12.2022	31.12.2021	Change
A. SECURITIES DENOMINATED IN EUROS (Sub-items 4.2 and 7.2 and Item 8)			
1. Securities held to maturity	75,432	75,960	-528
a) Government bonds and other public sector securities (Sub-item 7.2)	60,907	61,493	-586
b) Other bonds (Sub-items 4.2 and 7.2)	1,236	1,048	188
c) Government securities assigned to the Bank of Italy (Item 8)	13,289	13,419	-130
2. Securities other than those held to maturity	4,529	5,181	-652
a) Government bonds and other public sector securities (Sub-item 7.2)	3,543	4,082	-539
b) Other bonds (Sub-items 4.2 and 7.2)	986	1,099	-113
Total A	79,961	81,141	-1,180
B. SECURITIES DENOMINATED IN EUROS AND IN FOREIGN CURRENCY RELATED TO THE INVESTMENT OF RESERVES AND PROVISIONS (Sub-item 11.2)			
1. Securities held to maturity and other permanent investments	46,891	47,202	-311
a) Government bonds and other public sector securities	45,785	46,123	-338
b) Other bonds	421	426	-5
c) Shares and participating interests	660	653	7
- in subsidiary companies and entities	594	587	7
- in other companies and entities	11	11	-
- in other companies and entities denominated in foreign currency	55	55	-
d) ETFs and shares/units of CIUs	25	-	25
2. Securities other than those held to maturity and other permanent investments	16,560	18,970	-2,410
a) Shares and participating interests	14,193	16,145	-1,952
- in other companies and entities	14,193	16,145	-1,952
b) ETFs and shares/units of CIUs	2,367	2,825	-458
of which: denominated in foreign currency	2,367	2,825	-458
Total B	63,451	66,172	-2,721
Total (A+B)	143,412	147,313	-3,901

²⁹ Since 14 September 2022, almost all of the excess liquidity has been deposited overnight given the higher return for banks compared with current accounts.

Securities denominated in euros (Total A of Tables 12 and 13) consist exclusively of bonds shown as:

- Sub-item 4.2 (*Claims on non-euro-area residents – Securities*), which consists mostly of bonds issued by international organizations;
- Sub-item 7.2 (*Euro-denominated securities issued by euro-area residents – Other securities*), which consists mainly of bonds issued by the Italian government and by other Member States and public institutions of the euro area;
- Item 8 (*Euro-denominated general government debt*), which contains the Italian government securities assigned to the Bank following the bond conversion under Law 289/2002 and those arising from the termination of the management of mandatory stockpiling.

Table 13

A. Movements in securities denominated in euros						
<i>(millions of euros)</i>						
	Bonds					Total
	Held to maturity			Other than those held to maturity		
	(Sub-item 4.2)	(Sub-item 7.2)	(Item 8)	(Sub-item 4.2)	(Sub-item 7.2)	
Opening balance	1,048	61,493	13,419	742	4,439	81,141
Increases	395	10,217	–	163	933	11,708
Purchases	395	10,217	–	163	630	11,405
Transfers	–	–	–	–	295	295
Net gains	–	–	–	–	8	8
Decreases	-207	-10,803	-130	-228	-1,520	-12,888
Sales and redemptions	-200	-10,317	-50	-153	-821	-11,541
Transfers	–	-195	–	–	–	-195
Net losses	–	–	–	-6	–	-6
Net revaluations (1)	–	–	–	-12	-296	-308
Net premiums and discounts	-7	-291	-80	-4	-47	-429
Write-downs (2)	–	–	–	-53	-356	-409
Closing balance	1,236	60,907	13,289	677	3,852	79,961

(1) Increase/decrease in revaluation accounts. – (2) Recognized in the profit and loss account.

Securities related to the investment of reserves and provisions (Total B of Tables 12 and 14) are denominated in euros and in foreign currency (mainly US dollars). The Bank's foreign currency investments related to reserves and provisions constitute a separate foreign currency position with respect to the other foreign currency assets and liabilities (see *Gold, assets and liabilities denominated in foreign currency*). At year-end, 73 per cent of the portfolio consisted of bonds, mostly government securities, and 27 per cent of equity shares, participating interests, ETFs and shares/units of CIUs. The majority of issuers of the securities are residents of euro-area countries; almost all of the investments in equity instruments were listed securities.

The bond portfolio consists almost entirely (96 per cent) of securities held to maturity and is therefore valued at amortized cost subject to impairment. The annual impairment tests conducted on these securities applying the same criteria defined at Eurosystem level for securities held for monetary policy purposes did not show evidence of any losses.

Table 14

B. Movements in securities related to the investment of reserves and provisions						
(Sub-item 11.2)						
<i>(millions of euros)</i>						
VOCI	Bonds (1)	Equity shares and other participating interests		ETFs and shares/units of CIUs		Total
		Permanent	Other than permanent	Permanent	Other than permanent	
Opening balance	46,549	653	16,145	–	2,825	66,172
Increases	3,550	7	1,670	25	114	5,366
Purchases (2)	3,550	7	1,575	25	82	5,239
Net gains	–	–	95	–	–	95
Exchange rate adjustments (3)	–	–	–	–	32	32
Decreases	-3,893	–	-3,622	–	-572	-8,087
Sales and redemptions (2)	-3,453	–	-725	–	–	-4,178
Transfers	-100	–	–	–	–	-100
Net price revaluation (4)	–	–	-2,500	–	-488	-2,988
Net premiums and discounts	-340	–	–	–	–	-340
Write-downs due to price changes (5)	–	–	-397	–	-84	-481
Closing balance	46,206	660	14,193	25	2,367	63,451

(1) Entirely classified as held to maturity. – (2) Includes the adjustments to the average cost of currency. – (3) Unrealized gains and losses that are reported, net of the valuation of the relative hedges of exchange rate risk, respectively in the revaluation accounts and among write-downs in the profit and loss account. – (4) Increase/ decrease in revaluation accounts. – (5) Recognized in the profit and loss account.

If the financial instruments held to maturity were also valued at market prices, the total value of the portfolio (€133,443 million) would be lower than the book value by €9,969 million. The securities held to maturity, whose book value (€94,025 million) was higher than the market value at year-end (€82,337 million), were mainly government securities.

The equity shares portfolio includes participating interests in subsidiary and associate companies (see 'Disclosure of relations with subsidiary and associate companies'). The Bank of Italy is the sole shareholder of SIDIEF. The Bank's annual accounts are not consolidated with those of this company, as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991. Moreover, consolidation would be immaterial for the purpose of providing a true and fair view of the Bank's balance sheet, financial position and profit and loss account. Similarly, the Bank of Italy is the sole shareholder of Italtec 90, having purchased all its shares during the financial year with the sole purpose, after liquidating the company, of acquiring its land for the construction of the Bank's new data center.

The Bank of Italy also holds:

- a 0.50 per cent participating interest in Europafi. Based on shareholders' agreements, the Bank of Italy, together with other Eurosystem NCBs, exercises control according to the criteria of in-house providing set out in Directive 2014/24/EU.
- an 18.26 per cent participating interest in Valoricarta. The governance of this company is regulated by a shareholders' agreement signed with Istituto Poligrafico e Zecca dello Stato, the holder of the rest of the capital.

Table 15

Participating interests in subsidiary and associate companies					
	At end-2022			Subsidiary or associate company data for 2021 (millions of euros)	
	Number of shares held	% of capital held	Book value (millions of euros)	Net equity (1)	Profit/Loss
Società Italiana di Iniziative Edilizie e Fondiarie SpA - Rome (Capital of €567,000,000 represented by 567,000 shares with a par value of €1,000 each)	567,000	100	586.8	636.8	2.8
Europafi Sas - Longues, Vic-le-Comte, France (Capital of €133,000,000 represented by 1,330,000 shares with a par value of €100 each)	6,650	0.5	0.7	154.2	2.0
Valoridicarta SpA - Rome (Capital of €43,800,000 represented by 43,800,000 shares with a par value of €1 each)	8,000,000	18.26	8.0	43.4	0.2
Italtec 90 Srl - Rome (Capital of €2,860,000 represented by 2,860,000 shares with a par value of €1 each)	2,860,000	100	6.8	2.6	-0.2

(1) Includes the profit or loss for the year.

The other participating interests held as permanent investments include shares of the Bank for International Settlements (BIS), which are denominated in SDRs, valued at cost and translated at historic exchange rates. The Bank's stake is equal to 9.3 per cent of BIS's capital.

[5] Intra-Eurosystem claims and liabilities

Table 16 sets out in detail the Bank's claims and liabilities with respect to the Eurosystem and the changes that occurred during the year. On the asset side:

- *Participating interest in the ECB*³⁰ rose by €104 million, due to the payment of the second of two annual instalments for the increased subscription of the ECB's capital originally held by the Bank of England and subsequently reallocated among the ESCB central banks as a result of Brexit;³¹

³⁰ Pursuant to Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers and holders of the capital of the ECB. Subscriptions are determined on the basis of the key established in Article 29 of the Statute and adjusted every five years or when the composition of the ESCB changes.

³¹ With the reallocation between ESCB central banks of the share held by the Bank of England prior to Brexit, which took place on 1 February 2020, the Bank of Italy's share in the ECB's capital increased from 11.8023 to 13.8165 per cent. Considering only the NCBs belonging to the Eurosystem, the Bank of Italy's share increased from 16.9530 to 16.9885 per cent. In 2020, the ECB's paid-up capital remained unchanged at €7,659 million, as the remaining NCBs have covered only the withdrawn Bank of England's paid-up capital (€58 million). The ECB Governing Council also decided that the euro-area NCBs will pay up in full their increased subscriptions in two annual instalments in 2021 and 2022. The Bank of Italy paid its first instalment of €104 million on 29 December 2021 and the second instalment of €104 million on 28 December 2022.

- *Claims arising from the transfer of foreign reserves to the ECB*³² did not change.

On the liability side:

- *Other liabilities within the Eurosystem (net)* amounted to €681,925 million (compared with €587,710 in 2021) and represent the Bank's net position vis-à-vis the Eurosystem, mainly deriving from the operation of the TARGET2 system. In particular, at the end of 2022 the latter gave rise to a debtor position of €684,311 million (€589,983 million in 2021). The following contributed to the reduction in the overall debtor position: (a) a claim of €2,380 million (€2,243 million in 2021) deriving from the net result of the pooling of monetary income for the year (See 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*); (b) a claim of €6 million (€4 million in 2021) for managing loans from the European Commission under its instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). In 2021, the claim for the ECB interim profit distribution (€26 million) also contributed to the reduction in the overall debtor position. In 2022, as a result of the ECB's projected gross operating loss, the Governing Council decided not to distribute and to retain all income arising from seigniorage and securities held under monetary policy programmes (see *Legal basis, method of preparation and layout of the annual accounts*).

Table 16

Positions with the ECB and the other euro-area NCBs (millions of euros)			
	31.12.2022	31.12.2021	Change
Assets			
9.1 Participating interest in the ECB	1,510	1,406	104
9.2 Claims arising from the transfer of foreign reserves to the ECB	6,854	6,854	–
9.3 Net claims related to the allocation of euro banknotes within the Eurosystem	47,926	50,302	-2,376
9.4 Other claims within the Eurosystem (net)	–	–	–
Total	56,290	58,562	-2,272
Liabilities			
9.1 Liabilities related to the issuance of ECB debt certificates	–	–	–
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–	–
9.3 Other liabilities within the Eurosystem (net)	681,925	587,710	94,215
Total	681,925	587,710	94,215

³² *Claims arising from the transfer of foreign reserves to the ECB* represents the interest-earning claim denominated in euros recorded at the start of the third stage of the EMU following the transfer of gold, foreign securities and foreign currencies, as in the case of the other Eurosystem NCBs. Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of each NCB in the form of transfers of foreign reserve assets to the ECB shall be fixed in proportion to its share in the subscribed capital of the ECB. Therefore, the increase in the shares of the euro-area NCBs due to the Bank of England's exit would have resulted in additional contributions of foreign reserve assets. However, the ECB Governing Council decided to reduce the percentage of these contributions so as to leave the total amount of the foreign reserve assets already transferred at the current level.

[6] Other assets

The item *Other assets* contains all the assets that cannot be classified under any of the preceding items (Table 17). This item consists mostly of securities related to the investment of reserves and provisions (see *Securities portfolio*).

Table 17

Other assets (Item 11) (millions of euros)			
	31.12.2022	31.12.2021	Change
11.1 Euro-area coins	77	88	-11
11.2 Financial assets related to the investment of reserves and provisions (1)	63,451	66,319	-2,868
11.3 Intangible fixed assets	61	69	-8
11.4 Tangible fixed assets	1,650	1,737	-87
11.5 Accruals and prepaid expenses	5,801	5,350	451
11.6 Deferred tax assets	355	303	52
11.7 Sundry	3,547	1,854	1,693
Other investments for staff severance pay and pensions	69	71	-2
Supplementary pension fund	835	876	-41
Other components	2,643	907	1,736
Total	74,942	75,720	-778

(1) The balance at 31 December 2022 is composed entirely of securities.

The composition and movements of *Intangible fixed assets* (Sub-item 11.3) during the year are shown in Table 18. The same information for *Tangible fixed assets* (Sub-item 11.4) is given in Table 19 and Table 20. The estimated year-end market value of the Bank's property is €1,835 million (€1,843 million at the end of 2021).

Table 18

Movements in intangible fixed assets (Sub-item 11.3) (millions of euros)				
	Procedures (1)	Multi-year software licence fees	Assets under development (1) and related advances	Total
Opening balance	42	6	21	69
Increases	5	4	6	15
Purchases and improvement costs	–	4	6	10
Transfers	5	–	–	5
Decreases	-12	-6	-5	-23
Depreciation	-12	-6	–	-18
Transfers	–	–	-5	-5
Closing balance	35	4	22	61

(1) Relating to procedures developed as part of the Eurosystem's IT projects.

Table 19

Movements in tangible assets (properties)							
<i>(millions of euros)</i>							
	Premises		Investment property for allocations to severance and pension provision (1)		Other property (1)		Total
	Buildings	Land (2)	Buildings	Land	Buildings	Land	
Opening balance (gross)	2,707	901	4	1	401	55	4,069
Accumulated depreciation	-2,241	–	-2	–	-290	–	-2,533
Opening balance (net)	466	901	2	1	111	55	1,536
Increases	46	1	–	–	–	–	47
Transfers (cost)	43	–	–	–	–	–	43
Other changes (cost)	14	1	–	–	–	–	15
Other changes (accumulated depreciation)	-11	–	–	–	–	–	-11
Decreases	-75	–	–	–	-36	-7	-118
Sales and/or disposals (cost)	–	–	–	–	-46	-5	-51
Sales and/or disposals (accumulated depreciation)	–	–	–	–	34	–	34
Depreciation	-75	–	–	–	–	–	-75
Other changes (cost)	–	–	–	–	-35	-2	-37
Other changes (accumulated depreciation)	–	–	–	–	11	–	11
Closing balance (gross)	2,764	902	4	1	320	48	4,039
Accumulated depreciation	-2,327	–	-2	–	-245	–	-2,574
Closing balance (net)	437	902	2	1	75	48	1,465

(1) Buildings/land for sale and/or no longer in use or usable for the Bank's activities. – (2) Land, including that on which buildings stand, is not depreciated.

Table 20

Movements in tangible fixed assets (other)					
<i>(millions of euros)</i>					
	Equipment, furniture & furnishings	Plant	Artwork, coins and collections	Assets under development and related advances	Total
	Opening balance (gross)	196	638	22	
Accumulated depreciation	-169	-550	–	–	-719
Opening balance (net)	27	88	22	64	201
Increases	15	53	2	5	75
Purchases and improvement costs	15	35	2	5	57
Transfers (cost)	–	18	–	–	18
Decreases	-6	-23	–	-62	-91
Sales and/or disposals (cost)	-2	-16	–	–	-18
Sales and/or disposals (accumulated depreciation)	2	16	–	–	18
Depreciation	-6	-23	–	–	-29
Transfers (cost)	–	–	–	-62	-62
Closing balance (gross)	209	675	24	7	915
Accumulated depreciation	-173	-557	–	–	-730
Closing balance (net)	36	118	24	7	185

Accruals and prepaid expenses (Sub-item 11.5) are detailed in Table 21.

Table 21

Accruals and prepaid expenses (Sub-item 11.5) (millions of euros)			
	31.12.2022	31.12.2021	Change
Accrued income	5,763	5,316	447
Interest accrued on securities denominated in euros	5,469	5,216	253
Interest accrued on monetary policy deposits	–	1	-1
Interest accrued on securities denominated in foreign currencies	122	87	35
Interest accrued on other foreign currency assets	172	5	167
Other	–	7	-7
Prepaid expenses	38	34	4
Administrative expenses	38	34	4
Total	5,801	5,350	451

The composition of *Deferred tax assets* (Sub-item 11.6) is detailed in Table 22.

Table 22

Deferred tax assets (millions of euros)								
	31.12.2022				31.12.2021			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Staff costs accrued but not paid	95	26	5	31	168	46	10	56
Gap between the civil law value and the tax value of the equity shares portfolio (1)	1,177	324	–	324	895	246	–	246
Other	1	–	–	–	4	1	–	1
Total	1,273	350	5	355	1,067	293	10	303

(1) Temporary differences arise mainly from non-deductible civil law write-downs.

Deferred tax assets (Sub-item 11.6) showed a net increase of €52 million, due to the higher deferred tax assets deriving from the gap between the civil law value and the tax value of the equity shares portfolio. The movements in deferred tax assets during the year are shown in Table 43 of ‘Notes on the items of the profit and loss account’.

Sundry (Sub-item 11.7 of *Other assets*) includes the total assets (€835 million) of the defined-contribution supplementary pension fund for staff hired on or after 28 April 1993, which is matched on the liability side by an equal amount recorded in Sub-item 11.3 of *Other liabilities*. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. The Bank manages its investments observing the reference benchmarks.

Other components include €2,081 million of reverse repo operations and margins paid to guarantee repo transactions carried out with financial institutions other than credit institutions, within the direct securities lending service (€555 million in 2021).

[7] Banknotes in circulation

This item represents the Bank of Italy's share of banknotes in circulation issued by the Eurosystem (see *Legal basis, method of preparation and layout of the annual accounts*). In 2022, it increased by €4,321 million (from €241,380 million to 245,701 million). The value of banknotes actually put into circulation by the Bank rose to a greater extent (by €6,696 million, from €191,078 to €197,774 million).

Since the amount of banknotes issued by the Bank was lower than the notional amount assigned to it, the difference of €47,926 million is shown as an interest-earning claim on the Eurosystem under Item 9.3 on the asset side, as *Net claims related to the allocation of euro banknotes within the Eurosystem*.

[8] Liabilities to other euro-area residents

Table 23

Liabilities to other euro-area residents (Item 4) (millions of euros)			
	31.12.2022	31.12.2021	Change
4.1 General government	29,997	45,884	-15,887
4.1.1 Treasury payment account	29,866	37,503	-7,637
4.1.2 Other liabilities	131	8,381	-8,250
4.2 Other counterparties	32,995	26,411	6,584
Total	62,992	72,295	-9,303

Liabilities to other euro-area residents, which amounted to €62,992 million at the end of 2022 (€72,295 million in 2021), refer mainly to the deposits held by the Treasury with the Bank of Italy (€29,866 million) and other liabilities to counterparties other than credit institutions (€32,995 million). Compared with 2021, the Treasury deposits with the Bank of Italy decreased in the year-end balance and, to a greater extent, in the annual average balance (from €72,695 million to €51,765 million). Other liabilities to general government (€131 million) consisted almost exclusively of debt positions with general government in respect of advances received for the management of collections and cross-border euro payments; the significant reduction compared with the previous year (-€8,250 million) was attributable to the decline in the deposit of the European Stability Mechanism (ESM).

Liabilities to counterparties other than credit institutions, amounting to €32,995 million, include repo transactions connected with the direct securities lending service for an amount equal to €15,605 million (€9,646 million at end-2021). The other deposits disclosed under this item, mainly consisting of those of clearing houses, also include the deposit of the NRF set up by the Bank of Italy in its capacity as national resolution authority.

GOVERNMENT DEPOSITS

Government deposits held with the central banks of the Eurosystem are regulated by Decision ECB/2014/8, as amended, and Decision ECB/2019/7. More specifically: (a) overnight and fixed-term government deposits are remunerated at an interest rate respectively no higher than the Euro Short-Term Rate (€STR) and the STOXX EUR GC Pooling term index with a comparable maturity; (b) the total amount of government deposits that can be remunerated is the higher of either the sum of €200 million or 0.04 per cent of GDP, and any amount in excess is remunerated with an interest rate of zero per cent or the lower of the interest rate on the deposit facility and the €STR, if negative. However, in order to promote a smooth and gradual reduction of government deposits, thereby minimizing the risk of adverse effects on the functioning of the repo market and ensuring the smooth transmission of monetary policy, the Governing Council of the ECB has decided that the following rates shall apply to excess amounts: (a) from 14 September 2022 to 30 April 2023, the lower of the overnight deposit facility rate and the €STR, even if positive; (b) as of 1 May, the €STR minus 20 basis points.

[9] Liabilities to non-euro area residents

Sub-item 5.2 (*Other liabilities*) amounted to €6,868 million (€3,708 million in 2021) and included accounts held by customers using the Eurosystem Reserves Management Services (ERMS)³³ and other deposits by non-euro area residents, including the Single Resolution Board (SRB) (respectively €700 million and €6,168 million).³⁴

[10] Other liabilities

The composition of this item is shown in Table 24. *Accruals and income collected in advance* (Sub-item 11.2) are detailed in Table 25.

Table 24

Other liabilities (Item 11) (millions of euros)			
	31.12.2022	31.12.2021	Change
11.1 Cashier's cheques	50	50	–
11.2 Accruals and income collected in advance	5,525	5,367	158
11.3 Sundry	3,796	2,420	1,376
Supplementary pension fund	835	876	-41
Special item for stabilizing dividends	240	200	40
Other components	2,721	1,344	1,377
Total	9,371	7,837	1,534

³³ Eurosystem NCBs can offer ERMS to central banks and government bodies of non-euro countries and to international organizations within a framework of harmonized terms and conditions.

³⁴ Contributions paid by Italian credit institutions and collected by the Bank, in its role as national resolution authority and on behalf of the Single Resolution Board, are allocated to the SRB's deposits. These contributions are then transferred to the SRB each year.

Table 25

Accruals and income collected in advance (Sub-item 11.2) (millions of euros)			
	31.12.2022	31.12.2021	Change
Accrued expenses	5,525	5,367	158
Interest accrued on refinancing operations	5,351	5,363	-12
Interest accrued on monetary policy deposits	39	–	39
Interest accrued on liabilities denominated in foreign currency	126	4	122
Other	9	–	9
Total	5,525	5,367	158

The interest expense accrued on refinancing operations refers mainly to TLTRO III operations (see ‘Notes on the items of the profit and loss account’ – *Net interest income*).

In *Other liabilities*, under sub-item *Sundry*, the entry *Other components* increased owing to the accrued interest expense on TARGET2 balances still to be settled at the end of the year. This sub-item includes the special item for stabilizing dividends, which amounted to €240 million. The special item is made up of net profit allocations. The establishment of this item was decided by the Meeting of Shareholders on 31 March 2017 in order to smooth the implementation of the dividend policy.³⁵

[11] General risk provision and other provisions

The balances and movements of provisions are shown in Tables 26, 27 and 28.

Table 26

Movements in provisions for specific risks (Sub-item 12.1) (millions of euros)			
	Damage insurance provision	Tax provision (1)	Total
Opening balance	310	158	468
Increases	–	12	12
Allocations	–	–	–
Other increases	–	12	12
Decreases	–	-9	-9
Releases	–	–	–
Other decreases	–	-9	-9
Closing balance	310	161	471

(1) The tax provision includes liabilities for deferred IRES and IRAP taxes. *Other increases* and *Other decreases* include the change in deferred tax liabilities.

³⁵ In 2015, the Board of Directors indicated that, in subsequent years, it planned to keep the annual dividend between €340 million and €380 million, provided that the net profit is sufficient and without prejudice to the Bank’s capital adequacy. On 31 March 2017, it was resolved that the difference between the upper bound of this range (€380 million) and the amount of the dividend decided would be allocated to the special item.

The *Other changes* item of the tax provision, which includes deferred tax liabilities, is reported in Table 27.

Table 27

Deferred tax liabilities (millions of euros)								
	31.12.2022				31.12.2021			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Realized gains on securities, property and other assets	1	–	–	–	3	1	–	1
Gaps between the civil law values and the tax values of property (1)	479	132	26	158	466	128	26	154
Other	10	3	–	3	12	3	–	3
Total	490	135	26	161	481	132	26	158

(1) Net temporary differences with regard to all the Bank's property.

Table 28

Movements in staff-related provisions (Sub-item 12.2) (millions of euros)				
	For staff severance pay and pensions	Fund for staff costs	For severance pay (1)	Total
Opening balance	6,806	285	2	7,093
Increases	–	99	–	99
Allocations	–	99	–	99
Decreases	-115	-158	–	-273
Releases	–	-107	–	-107
Other decreases	-115 (2)	-51	–	-166
Closing balance	6,691	226	2	6,919

(1) Includes severance pay accrued by contract staff and ordinary staff prior to joining the supplementary pension fund. – (2) Includes the transfer of the severance pay of new participants to the supplementary pension fund.

Staff-related provisions (Sub-item 12.2) amounted to €6,919 million. In particular:

- the provision for staff severance pay and pensions decreased by €115 million as a result of the remeasurement of the mathematical reserves due to changes in economic and financial parameters, especially the increase in the discount rate; a small surplus (€100 million) over the commitments for pensions and severance payments estimated at 31 December 2022 is prudentially left in this item;
- the provision for staff costs decreased by €59 million, mainly as a result of the release to the profit and loss account of the amount in excess (€51 million) of outstanding commitments for staff early retirement measures. This provision includes for €35 million (€32 million in 2021) charges for lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund, to be settled upon their leaving service.

Table 29

Movements in the general risk provision (Item 14) (millions of euros)		
	31.12.2022	31.12.2021
Opening balance	32,714	30,714
Increases	2,500	2,000
Allocations	2,500	2,000
Decreases	–	–
Releases	–	–
Closing balance	35,214	32,714

The general risk provision covers the Bank's financial and operational risks, which include those relating to litigation. The provision was increased by €2,500 million (€2,000 million in 2021) to address, also in the most adverse scenarios, the risks to which the Bank is exposed, which essentially stem from the assets held for monetary policy purposes. Specifically, in line with the Bank's gradual strengthening of its financial buffers against the size and composition of its balance sheet and its overall risk exposure, the provision also took into account the Bank's projected negative financial results due to the increase in monetary policy rates.

[12] Revaluation accounts

The item includes unrealized gains from the market price valuation of gold, foreign currency, securities and forward operations (see *Gold, assets and liabilities denominated in foreign currency* and *Securities portfolio*).

Table 30

Revaluation accounts (Item 13) (millions of euros)			
	Opening balance	Net revaluations	Closing balance
Exchange rate revaluations	112,639	8,898	121,537
<i>of which:</i> gold	107,453	7,614	115,067
net foreign currency assets (1)	5,185	1,247	6,432
financial assets related to the investment of reserves and provisions (1)	1	37	38
Price revaluations	7,907	-3,405	4,502
<i>of which:</i> foreign currency securities	125	-109	16
securities denominated in euros	362	-308	54
financial assets related to the investment of reserves and provisions	7,420	-2,988	4,432
Total	120,546	5,493	126,039

(1) Includes net revaluations related to operations to hedge exchange rate risks.

[13] Capital and reserves

The composition of this item is detailed in Table 31.

Table 31

Capital and reserves (Item 15) (millions of euros)			
	31.12.2022	31.12.2021	Change
15.1 Capital	7,500	7,500	–
15.2 Statutory reserves	11,064	11,064	–
Ordinary	6,469	6,469	–
Extraordinary	4,595	4,595	–
15.3 Other reserves	7,740	7,740	–
Monetary revaluation reserves (1)	3,813	3,813	–
Special fund for the renewal of tangible fixed assets	1,805	1,805	–
Surplus from the merger of UIC (Legislative Decree 231/2007)	2,122	2,122	–
Total	26,304	26,304	–

(1) Under Laws 72/1983, 408/1990, 413/1991, 342/2000 and 266/2005.

The Bank's Statute provides that shareholders' ownership rights be limited exclusively to the value of the capital and dividends; the latter cannot exceed 6 per cent of capital in a given year. Therefore, the equity reserves, regardless of their origin, may only be used to cover possible losses.

Table 32

	Shareholders in the Bank of Italy					
	At the end of 2022			At the end of 2021		
	Number	Shares	% of capital held	Number	Shares	% of capital held
Banks	98	142,999	47.7	101	167,879	56.0
Social security institutions	14	96,000	32.0	14	76,600	25.5
Pension funds	9	17,640	5.9	8	13,680	4.5
Insurance companies	10	17,940	6.0	10	17,940	6.0
Banking foundations	42	25,421	8.4	41	23,901	8.0
Total	173	300,000	100.0	174	300,000	100.0

The transactions carried out in 2022 in relation to Bank of Italy shareholdings led to the transfer of about 15.6 per cent of capital. At 31 December 2022, there were 173 shareholders³⁶ (174 at the end of 2021), of whom five were new: two pension funds, one banking foundation and two banks. There were six exiting shareholders, namely three banks following mergers, one pension fund and two banks placed under compulsory administrative liquidation.

At the end of 2022, the list of shareholders did not include entities with a total number of shares exceeding the 5 per cent cap established by Law 234/2021, which raised the limit on shareholdings from 3 to 5 per cent starting as of 1 January 2022 (see 'The Bank's capital').

³⁶ They numbered 173 at 19 February 2023, the last date for acquiring shares with the right to dividends for 2022.

Commitments, collateral granted and other off-balance-sheet accounts

Commitments and collateral granted by the Bank are reported in Table 33, which also shows the total third-party securities and valuables on deposit with the Bank and the balance sheet total of the NRF set up within the Bank of Italy pursuant to Article 78 of Legislative Decree 180/2015.

Table 33

Commitments and collateral granted (millions of euros)			
	31.12.2022	31.12.2021	Change
Orders in progress	1,735	79	1,656
Purchases	934	40	894
Sales	801	39	762
Forward operations	4,655	5,764	-1,109
Forward sales of foreign currencies	3,523	4,939	-1,416
Forward purchases of foreign currencies	1,121	724	397
Futures contracts	11	101	-90
Commitments	32,928	33,006	-78
To the IMF for loans granted	32,752	32,905	-153
Other	176	101	75
Collateral granted	18,381	9,296	9,085
Third-party securities and valuables on deposit with the Bank	57,444	72,309	-14,865
Total balance sheet of the National Resolution Fund	259	219	40
Commitments of the supplementary pension fund (1)	108	115	-7
Total	115,510	120,788	-5,278

(1) Foreign exchange and securities forward sales.

Forward sales of foreign currency include exchange-rate risk-hedging operations on the Bank's SDR position and on the foreign currency investments related to reserves and provisions (see *Securities portfolio*).

Commitments to the IMF for granting loans relate to measures by the IMF for financing to be disbursed on behalf of the Italian government. Other commitments mainly include the amounts to be paid for subscriptions of units of investment funds.

At the end of 2022, the market value of the securities lent by the Bank under the automatic securities lending programmes managed by specialized intermediaries amounted to €1,304 million for foreign currency securities, €169 million for covered bonds, and €12,962 million for PSPP, PEPP, CSPP and SMP securities. The market value of the securities lent via the securities lending service provided directly by the Bank of Italy at the end of the year amounted to €15,600 million for securities held for monetary policy purposes and €224 million for securities in the investment portfolio.³⁷

³⁷ In November, the limit on Eurosystem securities lending against cash collateral was raised by the ECB Governing Council from €150 billion to €250 billion. The amendment took into account the lack of good-quality collateral and contributed to a considerable increase in the Bank's securities lending activity.

THE NATIONAL RESOLUTION FUND

Legislative Decree 180/2015 transposing Directive 2014/59/EU (Bank Recovery and Resolution Directive) provides that one or more Italian resolution funds be set up to finance the resolution of credit institutions and investment firms in financial difficulty. These funds are financed mainly by contributions from financial intermediaries and provide the national resolution authority with the necessary financial resources to carry out resolutions. The Bank of Italy has been designated as national resolution authority. The Bank has accordingly established a Resolution and Crisis Management Unit that reports directly to the Governing Board. Its function is to draft and implement resolutions. On 18 November 2015, the Bank issued a measure creating the National Resolution Fund (NRF). The NRF has its own capital that is in all respects independent and separate from that of the Bank and from any other capital the Bank manages, as well as from the capital of each of the contributors to its resources. To ensure the necessary transparency vis-à-vis the public, an annual report is issued on the NRF's activities, audited by the Board of Auditors and by same audit firm that audits the Bank's annual accounts and published at the same time. The operating and administrative costs of the Unit are reported among those of the Bank, and so are the indirect costs for resolution activity. The NRF has separate fiscal personality for IRES and IRAP taxation purposes.

Notes on the items of the profit and loss account

[14] Net interest income

In 2022, *net interest income*³⁸ declined by €1,475 million, from €7,262 million to €5,787 million, owing to the significant increase in interest expense on intra-ESCB balances connected to TARGET2 operations and on banks' deposits; the effect of this increase, due to the rise in key ECB interest rates, was only partially offset by lower interest expense on TLTRO III operations and higher interest income on monetary policy securities and foreign currency assets.

Total interest income amounted to €12,991 million (Table 34), up by €1,538 million on 2021.

Total interest income on securities denominated in euros amounted to €11,092 million, of which €8,945 million on securities held for monetary policy purposes. The total increase of €1,693 million on the previous year was due to an increase in the average holdings – mainly owing to net purchases of securities held for monetary policy purposes under the PEPP and PSPP in the course of the year – and to an increase in average rates of return. The contraction in interest income on securities

³⁸ *Net interest income* (Item 1) represents the balance of interest income and interest expense accrued in the year, excluding interest on financial assets related to the investment of reserves and provisions, which is shown under Item 6.

Table 34

Interest income (Sub-item 1.1) (millions of euros)			
	2022	2021	Change
Securities denominated in euros	11,092	9,399	1,693
<i>of which: CBPP1, CBPP2, CBPP3</i>	283	322	-39
SMP	49	173	-124
PSPP	6,517	5,335	1,182
CSPP	329	277	52
PEPP corporate bonds	21	10	11
PEPP government bonds	1,746	997	749
Government bond conversion under Law 289/2002	713	713	–
Other bonds	1,434	1,572	-138
Main refinancing operations	2	–	2
Intra-ESCB balances	336	–	336
Current accounts (covering the minimum reserve system)	451	925	-474
Deposit facility	–	427	-427
State payments account	40	297	-257
Other in euros	38	152	-114
Securities denominated in foreign currency	514	187	327
Claims on the IMF	397	58	339
Other in foreign currency	121	8	113
Total	12,991	11,453	1,538

under terminated programmes (SMP, CBPP1 and CBPP2) and under CBPP3 was driven mainly by lower holdings due to maturing redemptions. The decrease in interest income on securities not held for monetary policy purposes was driven mainly by lower average returns on reinvestments than on matured securities.

Interest income on the main refinancing operations and the intra-ESCB balances was positive in 2022, as the ECB Governing Council raised the interest rate on the refinancing operations from 0.0 per cent to 2.5 per cent in the course of the year. Specifically, interest income on intra-ESCB balances amounted to €336 million, of which €302 million under *Net claims related to the allocation of euro banknotes within the Eurosystem* and €34 million under *Claims arising from the transfer of foreign reserves to the ECB* (see ‘Notes on the items of the balance sheet’ – *Intra-Eurosystem claims and liabilities*).³⁹

The interest on credit institutions’ current accounts (covering the minimum reserve requirement) continued to be positive at €451 million as a consequence of the application of negative interest rates on the non-exempted excess reserves until 26 July.⁴⁰ More specifically, the interest income on excess reserves received by the Bank of

³⁹ Balances from the allocation of euro banknotes within the Eurosystem are remunerated at the marginal rate of interest on main refinancing operations (MROs). The remuneration on claims arising from the transfer of reserves to the ECB is also based on the marginal interest rate on MROs, minus 15 per cent to take account of the part of reserves consisting of gold, which does not generate interest.

⁴⁰ As of June 2014, the reserves in excess of the requirement are remunerated at the interest rate on the deposit facility. A new two-tier remuneration system which has exempted part of the Bank’s excess reserve holdings from payment of the negative rate (currently six times the amount of the reserve requirement) has been in effect since 30 October 2019. When the overnight deposit rate returned positive on 14 September 2022, the ECB Governing Council decided to discontinue the two-tier remuneration system, as it was no longer necessary; holdings of excess reserves on current accounts are not remunerated.

Italy, equal to €564 million, was lower than that for 2021 (€925 million), while that on the minimum reserve requirement amounted to €113 million (it was nil in 2021).⁴¹

Unlike in 2021, the interest on the deposit facility showed a negative balance in 2022 and is therefore reported as an interest expense.

Net interest income on the Treasury payments account declined from €297 million to €40 million. Of this, the interest accrued from applying the positive €STR from 14 September 2022 to the part eligible for remuneration and to balances exceeding this part, decreased from €364 million in 2021 to €109 million (see 'Notes on the items of the balance sheet' – *Liabilities to other euro-area residents* and the box 'Government deposits'), while additional interest due to the Treasury constituted an interest expense of €69 million (€67 million in 2021).⁴²

Other interest denominated in euros, amounting to €38 million in 2022 (€152 million in 2021), was mainly in the form of interest income on the ESM deposit (€27 million) remunerated at negative interest rates until 13 September.

Interest income on securities denominated in foreign currency rose significantly from €187 million in 2021 to €514 million in 2022, mainly as a result of higher yield rates. Similarly, interest income related to claims on the IMF and to other assets denominated in foreign currency recorded a marked growth (from €58 million to €397 million, and from €8 million to €121 million respectively).

Table 35

Interest expense (Sub-item 1.2) <i>(millions of euros)</i>			
	2022	2021	Change
Longer-term refinancing operations	2,040	4,166	-2,126
Deposit facility	872	–	872
Intra-ESCB balances	3,922	–	3,922
Other in euros	17	9	8
Counterpart of SDRs allocated by the IMF	325	7	318
Other in foreign currency	28	9	19
Total	7,204	4,191	3,013

Interest expense amounted to €7,204 million (Table 35), representing an overall increase of €3,013 million with respect to 2021.

⁴¹ During the reserve maintenance period, the minimum reserve requirement was remunerated based on the average of the marginal interest rates on Eurosystem MROs. As of 21 December 2022, the ECB Governing Council decided to remunerate the minimum reserve requirement at the deposit facility rate instead of the rate of the MROs, in order to better align it with money market conditions.

⁴² Additional interest is paid to the Treasury under Presidential Decree 398/2003 (Consolidated law containing provisions and rules on the public debt). It is computed on the basis of the daily interest-bearing balances of the Treasury payments account at a rate equal to the difference, if positive, between the interest rate on the securities originally purchased by the Bank to set up the related holdings (and not yet matured) and the reference €STR used to compute the interest on the account.

Interest on longer-term refinancing operations registered a negative net balance of €2,040 million (€4,166 million in 2021), almost solely in connection with TLTRO III operations. The reduction was due to the gradual rise in remuneration rates from the second half of 2022, despite a slight increase in the average amount of these operations (see the box ‘The interest rate applied to TLTRO III’).

THE INTEREST RATE APPLIED TO TLTRO III

The interest rate applied to the third series of targeted longer-term refinancing operations (TLTRO III) is set based on an incentive mechanism designed by the ECB Governing Council to preserve favourable liquidity conditions for the real economy.

Until the 22 November 2022, the interest rate for each operation varied between the average MRO rate and the average deposit facility rate over the life of the single TLTRO III operation, with the exception of the special interest rate period (between 24 June 2020 and 23 June 2021) and the additional special interest rate period (between 24 June 2021 and 23 June 2022), in which an interest rate 50 basis points lower was applied. For banks that reached the lending threshold during these special periods, the interest rate could not in any case be higher than -1 per cent.

The effective interest rates were known only upon the maturity or early repayment of each operation. Prior to then, the estimate was reliable only if the data on the interest rates calculated based on the lending threshold during certain observation periods had already been communicated to the counterparties.

On 27 October 2022, the ECB Governing Council decided that, from 23 November 2022 to the maturity or early repayment of each outstanding TLTRO III operation, the interest rate would be indexed to the average of the key ECB benchmark rates applicable over this period.

Therefore, for the Annual Accounts 2022, the Eurosystem decided to use the following interest rates to calculate the interest earned on outstanding operations: (a) until 23 June 2022, the interest rates applied to the second special period already communicated to the counterparties; (b) from 24 June to 22 November 2022, the interest rate indexed to the average reference rate applicable from the initial settlement date until 22 November 2022; (c) from 23 November to 31 December 2022, the interest rate indexed to the average reference rate applicable over the same period. Furthermore, the impact of changes in 2022 rates on interest accrued prior to the first special period was also taken into account in the calculation of interest earned in 2022.

Interest expense on intra-ESCB negative balances in TARGET2 amounted to €3,922 million in 2022 (nil in 2021) as a result of the higher remuneration rate.⁴³

⁴³ The TARGET2 balance is remunerated at the marginal rate of interest on MROs, with the exception of non-remunerated balances relating to the settlement of operations with the ECB under foreign currency liquidity programmes for euro area counterparties.

Interest on the deposit facility recorded a negative balance of €872 million, reflecting both the rise in interest rates, which have been positive since 14 September 2022, and the higher average outstanding holdings registered in the last quarter, considering that it was no longer advantageous for banks to keep liquidity in excess of reserve requirements on current accounts as it was not remunerated.

The rise in yield rates led to an increase in the interest paid on SDR allocations by the IMF and in interest on other liabilities denominated in foreign currencies.

[15] Net result of financial operations, write-downs and transfers to/from risk provisions

The result for 2022 (Table 36) includes, specifically: (a) net realized exchange rate gains for €224 million, mainly on US dollars; (b) net realized price losses on securities denominated in foreign currency, predominantly in US dollars (€244 million); (c) write-downs due to price changes in securities for €1,377 million, mainly referring to US dollar-denominated securities as a result of the decrease in their market value following the rise in 2022 yield rates. Transfers to the general risk provision amounted to €2,500 million.

Table 36

Net result of financial operations, write-downs and transfers to/from risk provisions (Item 2) (millions of euros)			
	2022	2021	Change
Realized profits (+) and losses (-) on financial operations	-41	138	-179
Foreign exchange transactions	224	42	182
Transactions in securities denominated in euros	5	44	-39
Transactions in securities denominated in foreign currency	-244	54	-298
Derivatives contracts	-42	-11	-31
Other transactions	16	9	7
Write-downs (-) of financial assets and positions	-1,377	-174	-1,203
Due to exchange rate changes	-	-1	1
Due to price changes			
– securities denominated in euros	-409	-15	-394
– securities denominated in foreign currency	-968	-158	-810
Transfers to (-) the general risk provision for financial risks	-2,500	-2,000	-500
Total	-3,918	-2,036	-1,882

[16] Net income from fees and commissions

Net income from fees and commissions (Item 3) stood at €51 million. The increase compared with 2021 is due to higher fee income connected with the management of the TARGET2/T2S system.

Table 37

Net income from fees and commissions (Item 3) (millions of euros)			
	2022	2021	Change
Fee and commission income	75	48	27
TARGET2/T2S (1)	53	28	25
Financial services to the public sector	7	6	1
Management of securities used as collateral for monetary policy operations	7	7	–
Correspondent Central Banking Model	2	2	–
Other	6	5	1
Fee and commission expense	-24	-21	-3
Centralized securities and custodian services management	-20	-17	-3
Other	-4	-4	–
Total	51	27	24

(1) In 2022, the income components related to the Eurosystem's IT infrastructures (fee income, participation costs, reimbursements received as service provider) also include amounts accrued but not yet settled at year-end.

[17] Income from participating interests

Income from participating interests (Item 4) stood at €7 million, down by €84 million on the previous year, and included only the Bank's share of the ECB's profit earned in 2021 and distributed in 2022 (€65 million in the previous year).

The change was also affected by the ECB Governing Council's decision not to distribute the 2022 income arising from seigniorage and securities held for monetary policy purposes in the form of an interim profit distribution (€26 million in the previous year), as a result of the projected gross operating loss for the year.

[18] Net result of the pooling of monetary income

The result for 2022 (Item 5) was positive by €2,380 million and included:

- the net result of the allocation of monetary income in 2022, equal to €2,375 million (€2,233 million in 2021). This was the difference between the monetary income pooled by the Bank, amounting to a negative €1,162 million, and that redistributed to the Bank, equal to a positive €1,213 million;
- the positive effect of €5 million, pertaining to the recalculation of amounts for previous years.

MONETARY INCOME

The monetary income to be pooled by each NCB is equal to its annual income derived from the earmarkable assets held against its liability base. An NCB's earmarkable

assets comprise mainly: (a) lending to euro-area credit institutions relating to monetary policy operations; (b) securities held for monetary policy purposes; (c) intra-Eurosystem claims arising from the transfer of reserves to the ECB; (d) net intra-Eurosystem claims resulting from TARGET2 transactions; (e) net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and (f) a pre-set amount of gold holdings and gold receivables in proportion to each NCB's subscribed capital key. Gold is not considered to generate interest. Securities purchased under the first two covered bond purchase programmes (CBPP1 and CBPP2; Decisions ECB/2009/16 and ECB/2011/17 of the Governing Council) and public sector securities purchased under the public sector purchase programme (PSPP; Decision ECB/2015/10) and the pandemic emergency purchase programme (PEPP; Decision ECB/2020/17 et seq.) are considered to bear interest at the marginal rate used by the Eurosystem for MROs. An NCB's liability base consists primarily of: (a) banknotes in circulation; (b) liabilities to euro-area credit institutions related to monetary policy operations denominated in euros; (c) net intra-Eurosystem liabilities resulting from TARGET2 transactions; and (d) net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. The interest on the liabilities included in the liability base is deducted from the monetary income to be pooled. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference (gap) is considered to bear (or produce) interest based on the marginal rate used by the Eurosystem for MROs.

The total monetary income pooled by the NCBs in the Eurosystem is redistributed to each NCB according to its capital key. The difference between the monetary income pooled by each NCB and the amount redistributed to that NCB, which may be larger or smaller, is reported in Item 5 of the profit and loss account and is settled at the end of January of the year following the reference year. The amount of the difference depends on two factors: (a) the first (income effect) relates to possible differences between NCBs regarding the interest income received on specific earmarkable assets and the interest expense due on some components of the liability base; (b) the second (composition effect) arises from the fact that the amounts of the above assets and liabilities in the NCBs' balance sheets do not generally coincide with their capital keys.

Pursuant to Article 33.2 of the Statute of the ESCB, in the event of a loss incurred by the ECB which cannot be offset against the general reserve fund, the ECB Governing Council may decide to withhold part or all of the Eurosystem's monetary income to offset the shortfall in proportion and up to the amounts allocated to the NCBs.

[19] Net income from financial assets related to the investment of reserves and provisions

Item 6 of the profit and loss account amounted to €830 million, down by €582 million on 2021 (Table 38).

Table 38

Net income from financial assets related to the investment of reserves and provisions (Item 6) <i>(millions of euros)</i>			
	2022	2021	Change
Interest	794	796	-2
Dividends from equity shares and participating interests	433	376	57
Realized gains/losses	68	398	-330
Write-downs	-484	-173	-311
Other components	19	15	4
Total	830	1,412	-582

The change for the year reflects the lower net realized gains and the higher write-downs, which were only partially offset by the increase in dividends. The reduction in the net realized gains was due to the absence of gains on ETFs in foreign currency unlike the previous year and to the significant decline in realized gains on the euro equity portfolio. The largest write-downs mainly related to listed equities denominated in euro.

[20] Other income

Other income (Item 8) amounted to €86 million (€97 million in 2021). The item includes reimbursements from other Eurosystem NCBs for the development of IT platforms, applications and infrastructures by the Bank of Italy in its capacity as service provider. These reimbursements are mainly connected with the TARGET2 and T2S platforms and amounted to €64 million in 2021 (€70 million in 2021).

[21] Expenses and charges

Expenses and sundry charges (Item 9) decreased from the previous year and amounted to €1,863 million at the end of 2022.

Table 39

Expenses and sundry charges (Item 9) <i>(millions of euros)</i>			
	2022	2021	Change
Staff wages and salaries	693	655	38
Social security and insurance	173	164	9
Other staff costs (1)	56	48	8
Pensions and severance payments	299	281	18
Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses	-75	141	-216
Emoluments paid to head office and branch collegial bodies	3	3	-
Administrative expenses	528	451	77
Depreciation of tangible and intangible fixed assets	122	118	4
Banknote production services (2)	-	-	-
Other expenses	64	55	9
Total	1,863	1,916	-53

(1) Includes expenses for missions, transfers and corporate welfare. – (2) Costs for external banknote production services and for purchases of banknotes.

Wage expenditure increased mainly owing to inflation adjustments, net of developments in the price of imported energy, and to the increase in the average workforce (Table 40); other staff expenditure rose mainly due to the increase in missions and transfers, the cost of which was, however, around 28 per cent lower than in 2019, the year before the outbreak of the pandemic. Pension expenses and severance payments also increased, the former as a result of equalization, and the latter due to salary adjustments and the different composition of staff leaving service. The sub-item *Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses* was positive after the release to the profit and loss account of the amount in excess of outstanding commitments for staff early retirement measures (€51 million) and for staff severance pay provisions (€115 million), the latter mainly due to the higher discount rate used in the actuarial valuation (see 'Notes on the items of the balance sheet' – *General risk provision and other provisions*).

Table 40

The Bank's staff				
Composition of the Bank's staff	Average number of employees in service		Percentage composition	
	2022	2021	2022	2021
Managerial and High-Level Professional Area	3,602	3,489	53.2	52.5
Operational Area	3,160	3,156	46.7	47.4
Contract workers	5	6	0.1	0.1
Total (1)	6,767	6,651	100.0	100.0

(1) The average number of employees, counting part-time employees pro rata, totalled 6,734 (6,619 in 2021).

Emoluments paid to head and branch office collegial bodies comprise the emoluments paid to the Board of Directors (€412,230), standing members of the Board of Auditors (€137,430) and the Governing Board. Since 2014, the emoluments for members of the Governing Board have been set at €450,000 for the Governor, €400,000 for the Senior Deputy Governor and €315,000 for each of the three Deputy Governors. The members of the Governing Board also sit in the Joint Directorate of IVASS, which sets its guidelines and strategic targets and adopts insurance supervision measures. No additional emoluments arise from this activity.

Administrative expenses rose to €528 million from €451 million in 2021. The change is attributable to the increase in the following costs: (a) ICT services, in relation to the costs of using the Eurosystem's IT infrastructures; (b) utilities, owing to higher energy prices; (c) raw materials for the production of banknotes, due to the larger quantity produced compared with the previous year. As a result of higher prices and contractual adjustments, charges for the canteen and meal vouchers, as well as for security services, banknote escort and guards have also increased.

Other expenses, amounting to €64 million, include €29 million for local and indirect taxes. The increase on the previous year is due to higher write-downs on property for sale or no longer usable for the Bank's activities, amounting to €18 million. However,

Table 41

Administrative expenses (millions of euros)			
	2022	2021	Change
Services	459	394	65
ICT (1)	153	124	29
Security services, banknote escort and guards	75	70	5
Building and equipment maintenance	81	80	1
Utilities	46	24	22
Equipment rental	13	14	-1
Canteen and cleaning services	30	22	8
Other	61	60	1
Materials and consumables	69	57	12
Banknote production	49	39	10
Subscriptions to publications and information providers	17	15	2
Other supplies	3	3	–
Total	528	451	77

(1) Includes the costs of using the Eurosystem's IT infrastructures, which amounted to €50 million in 2022 (€28 million in 2021). The expenses relating to the rental and maintenance of hardware are included respectively in *Equipment rental* and in *Building and equipment maintenance*.

lower charitable donations, due to the termination of pandemic-related disbursements, contributed to a partial reduction.

[22] Taxes on income for the year and on productive activities

Taxes for the year (Item 11) amounted to €1,304 million and comprised the current taxes owed to the State, taxes for prior years and the change in deferred tax assets and liabilities (see 'Notes on the items of the balance sheet' – *Other assets* and *General risk and other provisions*).

Table 42

Composition of taxes on income for the year (Item 11) (millions of euros)						
	2022			2021		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (-)	-988	-352	-1,340	-731	-435	-1,166
Taxes for prior years (+/-)	-13	–	-13	-10	–	-10
Change in deferred tax assets (+/-)	57	-5	52	-53	–	-53
Change in deferred tax liabilities (+/-)	-3	–	-3	-5	-2	-7
Taxes for the year (-)	-947	-357	-1,304	-799	-437	-1,236

IRES amounted to €934 million in 2022 (€789 million in 2021). Current taxes amounted to €988 million; the net change in deferred tax assets and liabilities was

positive by €54 million, owing to the increase in deferred tax assets resulting from the gap between the civil law value and the tax value of the equity shares portfolio.

The total charge for IRAP was €357 million (€437 million in 2021). Current taxes amounted to €352 million and the net change in deferred tax assets and liabilities was negative by €5 million.

Table 43

Movements in deferred tax assets <i>(millions of euros)</i>			
	IRES	IRAP	Total
Initial amount	293	10	303
Increases	131	4	135
Deferred tax assets recognized during the year	131	4	135
Decreases	-74	-9	-83
Deferred tax assets cancelled during the year	-74	-9	-83
Final amount	350	5	355

Table 44

Movements in deferred tax liabilities <i>(millions of euros)</i>			
	IRES	IRAP	Total
Initial amount	132	26	158
Increases	10	2	12
Deferred tax liabilities recognized during the year	10	2	12
Decreases	-7	-2	-9
Deferred tax liabilities cancelled during the year	-7	-2	-9
Final amount	135	26	161

Post-balance-sheet events

Pursuant to Decision 2022/1211 of the Council of the European Union of 12 July 2022, adopted in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Croatia adopted the single currency on 1 January 2023. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts adopted by the ECB Governing Council on 30 December 2022, the Croatian Central Bank paid up its remaining share of the subscribed capital of the ECB. In accordance with Article 48.1, in conjunction with Article 30.1, of the Statute of the ESCB, the Croatian Central Bank transferred foreign reserve assets to the ECB for an amount corresponding to its share in the subscribed capital. Following Croatia's entry into the euro area, the Bank of Italy's share in the ECB's capital, considering only the Eurosystem countries, decreased from 16.9885 to 16.8518 per cent. This capital key is used to settle financial transactions between the Bank and the other Eurosystem NCBs, such as the distribution of the ECB's net profit and the pooling of monetary income.

In 2023, at the date of approval of the draft annual accounts by the Bank's Board of Directors, early repayments on the TLTRO III operations outstanding at 31 December 2022 stood at €26,904 million, while the total amount of loans repaid early at Eurosystem level was €99,345 million.

For developments in monetary policy rates, see 'Decisions of the Eurosystem'.

PROPOSALS OF THE BOARD OF DIRECTORS

The Board of Directors, having considered that:

- the Ordinary Meeting of Shareholders of 31 March 2017, following a proposal by the Board of Directors and having received the approval of the Board of Auditors, decided to create a special item in the balance sheet to be used to stabilize over the long term the amount of net profit paid to the shareholders under the dividend policy in force;
- the item may be credited annually with an amount equal to the difference between the upper bound of the range indicated in the dividend policy in force at the time and the dividend actually distributed;
- on the date indicated in Article 38.2.b of the Statute no shares exceeded the 5 per cent threshold, above which the dividend must be allocated to the Bank's statutory reserves;

acting on the proposal of the Governing Board and after hearing the opinion of the Board of Auditors, proposes the following allocation of the net profit for 2022 for approval by the Meeting of Shareholders:

	euros
– a dividend to the shareholders	340,000,000
– to the special item for stabilizing dividends	40,000,000
– the remaining amount to the State	<u>1,676,324,488</u>
Total	<u>2,056,324,488</u>

THE GOVERNOR
Ignazio Visco

**DOCUMENTS ATTACHED
TO THE ANNUAL ACCOUNTS**

REPORT OF THE BOARD OF AUDITORS
ON THE 129TH FINANCIAL YEAR OF THE BANK OF ITALY
AND THE ACCOUNTS FOR THE YEAR ENDING 31 DECEMBER 2022

To the shareholders,

We have examined the Annual Accounts of the Bank of Italy for the year ending 31 December 2022, drawn up in accordance with the accounting policies and valuation methods decided by the Board of Directors and agreed by us, which are described in detail in the Notes to the Accounts.

We have conducted our examination of the Annual Accounts in accordance with the rules and principles of conduct for the Board of Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili. We have also taken these principles into account in performing the regular audits, as provided by the transitional provision set out in Article 43 of the Bank of Italy's Statute, required by Article 20 of the previous Statute.

In our opinion, the Annual Accounts of the Bank of Italy for the year ending 31 December 2022 have been prepared in accordance with the accounting policies and valuation methods indicated in the Notes to the Accounts. They comply with the laws in force and with the harmonized accounting rules laid down by the ECB Governing Council and endorsed by Article 8 of Legislative Decree 43/1998 for reporting purposes.

We call particular attention to the following matters, which are covered extensively in the Notes to the Accounts and in the Management Report:

- a) the recognition of deferred tax assets in the balance sheet is based on the reasonable expectation of offsetting their full amount, considering the Bank's projected income. The net increase for the year of €52 million (from €303 million to €355 million) is due to the higher deferred tax assets resulting from the gap between the civil law value and the tax value of the equity shares portfolio;
- b) the Board of Directors approved the transfer of €2,500 million to the general risk provision expressly provided for in Article 39 of the Statute.

We attest that in our opinion the total amount of the Bank's specific risk and charges provisions, equal to €7,390 million, is prudent. Specifically, the provision for severance pay and pensions shows a €100 million excess amount after the release of the provision, which remains prudently allocated to the item.

We have examined the Management Report which accompanies the Annual Accounts and we consider it to be consistent with said Accounts.

During the financial year ending 31 December 2022 we monitored compliance with the law, with the Bank's Statute and General Regulations, and with the principles of proper management.

We have attended all the meetings of the Board of Directors and have performed the checks and controls within the scope of our authority, including those regarding the amount of cash and valuables belonging to the Bank and to third parties. In accordance with restrictions, we have monitored the activity of the Bank's peripheral units, in accordance with Articles 20 and 21 of the Statute, with the assistance of the examiners at the main and local branches, whom we warmly thank.

We have examined the adequacy of the organizational arrangements governing the administrative and accounting aspects of the Bank to ensure their smooth operation and have ascertained that the system in place is suitable to ensure a full and accurate accounting record of events. The accounts are kept in compliance with the standards and rules laid down by the laws in force. The individual items of the annual accounts, which have also been audited by an independent audit firm, have been compared by us with the accounting records and found to conform with them.

No material issues requiring specific comment emerged in the course of the performance of our duties or in exchanges with the audit firm or with the managers in charge of the various functions.

To the shareholders,

The accounts submitted for your approval show the following results:

Assets	€	1,476,574,095,081
Liabilities	€	1,448,213,684,854
Capital and reserves	€	26,304,085,739
Net profit for the year.....	€	<u>2,056,324,488</u>

Pursuant to Article 38 of the Statute, the Board of Directors proposes, with our positive opinion, the following allocation of the net profit:

– dividends to the shareholders	€	340,000,000
– to the special item for stabilizing dividends.....	€	40,000,000
– the remaining amount to the State	€	<u>1,676,324,488</u>
Total	€	<u>2,056,324,488</u>

We note that on the date indicated in Article 38.2.b of the Statute there were no shares exceeding the 5 per cent shareholding limit established by Article 3.4 of the Statute and that, as a result, the shareholders will be paid the entire dividend.

To the shareholders,

Bearing in mind the provisions of Article 37.2 of the Statute, we recommend that you approve the Annual Accounts for 2022 that have been submitted to you (the Balance Sheet, the Profit and Loss Account, the Notes to the Accounts and the accompanying Management Report) and the proposed allocation of the net profit for the year pursuant to Article 37.3 and Article 38.1 of the Statute.

Rome, 8 March 2023

THE BOARD OF AUDITORS

Gaetano Presti (Chairman)

Giuliana Birindelli

Giovanni Liberatore

Giuseppe Melis

Anna Lucia Muserra

RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE AI SENSI DELL'ART. 37 DELLO STATUTO DELLA BANCA D'ITALIA

Ai Partecipanti al capitale della Banca d'Italia

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della Banca d'Italia (di seguito anche "Istituto"), costituito dallo stato patrimoniale al 31 dicembre 2022, dal conto economico per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria dell'Istituto al 31 dicembre 2022 e del risultato economico per l'esercizio chiuso a tale data in conformità ai principi e criteri contabili dettati dalle norme speciali descritti nella nota integrativa.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto all'Istituto in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Responsabilità degli Organi di Amministrazione dell'Istituto e del Collegio Sindacale per il bilancio d'esercizio

Gli Organi di Amministrazione dell'Istituto sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità ai principi e criteri contabili dettati dalle norme speciali descritti nella nota integrativa e per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli Organi di Amministrazione sono responsabili per la valutazione della capacità dell'Istituto di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale.

Il Collegio Sindacale, nei termini previsti dallo Statuto dell'Istituto, svolge funzioni di controllo dell'amministrazione dell'Istituto per l'osservanza della legge, dello Statuto, del regolamento generale; verifica nel corso dell'esercizio la regolare tenuta della contabilità e la corretta rilevazione dei fatti di gestione nelle scritture contabili, esamina il bilancio ed esprime il proprio parere sulla destinazione dell'utile netto.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche prese dagli utilizzatori sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- Abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno.
- Abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno dell'Istituto.
- Abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli Organi di Amministrazione, inclusa la relativa informativa.
- Siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli Organi di Amministrazione del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità dell'Istituto di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio, ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione.

- Abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

DELOITTE & TOUCHE S.p.A.



Enrico Pietrarelli
Socio

Roma, 8 marzo 2023

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 2022

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Luigi Federico SIGNORINI	- SENIOR DEPUTY GOVERNOR
Alessandra PERRAZZELLI	- DEPUTY GOVERNOR
Piero CIPOLLONE	- DEPUTY GOVERNOR
Paolo ANGELINI	- DEPUTY GOVERNOR

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Francesco ARGIOLAS	Salvatore DI VITALE
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Nicola CACUCCI	Orietta Maria VARNELLI
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Giovanni LIBERATORE	Anna Lucia MUSERRA

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Luigi CANNARI	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS
Stefano DE POLIS	- ON SECONDMENT AS SECRETARY GENERAL OF THE INSURANCE SUPERVISORY AUTHORITY (IVASS)
Alberto MARTIELLO	- DIRECTOR GENERAL FOR HUMAN RESOURCES, COMMUNICATIONS AND INFORMATION
Sergio NICOLETTI ALTIMARI	- DIRECTOR GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
Marino Ottavio PERASSI	- GENERAL COUNSEL
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Ciro VACCA	- DIRECTOR GENERAL FOR PROPERTY AND TENDERS
Giuseppe ZINGRILLO	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
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Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT FOR ITALY

ADMINISTRATION OF THE BANK OF ITALY

AT 31 MARCH 2023

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Alessandra PERRAZZELLI	- DEPUTY GOVERNOR
Piero CIPOLLONE	- DEPUTY GOVERNOR
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Giuseppe ZINGRILLO	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
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