



BANCA D'ITALIA  
EUROSISTEMA

# Annual Accounts

Ordinary Meeting of Shareholders  
Rome, 31 March 2017

123<sup>rd</sup> FINANCIAL YEAR

2016

Financial Year

123<sup>rd</sup>



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EUROSISTEMA

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Ordinary Meeting of Shareholders  
2016 - 123<sup>rd</sup> Financial Year

Rome, 31 March 2017

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**Address**

Via Nazionale, 91 – 00184 Rome – Italy

**Telephone**

+39 0647921

**Website**

<http://www.bancaditalia.it>

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# CONTENTS

<b>MANAGEMENT REPORT AND ANNUAL ACCOUNTS</b>	5
Highlights of the Bank of Italy's annual accounts	5
<b>MANAGEMENT REPORT</b>	6
Governance	6
Shareholdings in the Bank's capital	7
Background to Eurosystem monetary policy	7
<b>Box:</b> <i>Rules on risk sharing in monetary policy operations</i>	8
Key developments in the Bank's annual accounts	10
<b>Box:</b> <i>Investments not relating to monetary policy</i>	13
Operating expenses and other costs	17
Internal audit and risk management system	19
Other information	22
<b>ANNUAL ACCOUNTS</b>	24
<b>BALANCE SHEET</b>	26
<b>PROFIT AND LOSS ACCOUNT</b>	28
<b>NOTES TO THE ACCOUNTS</b>	29
Legal basis, method of preparation and layout of the annual accounts	29
Notes on the items of the balance sheet	37
<b>Box:</b> <i>The IMF in the Bank of Italy's balance sheet</i>	39
<b>Box:</b> <i>Government deposits</i>	51
Commitments, collateral granted and other off-balance-sheet accounts	56
<b>Box:</b> <i>The National Resolution Fund</i>	57
Notes on the items of the profit and loss account	58
<b>Box:</b> <i>TLTRO II remuneration</i>	60
<b>Box:</b> <i>Monetary income</i>	62
Post-balance-sheet events	67
<b>PROPOSALS OF THE BOARD OF DIRECTORS</b>	68
<b>DOCUMENTS ATTACHED TO THE ANNUAL ACCOUNTS</b>	70
<b>REPORT OF THE BOARD OF AUDITORS</b>	73
<b>BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES</b>	76
<b>REPORT OF THE INDEPENDENT AUDITING COMPANY<sup>1</sup></b>	79
<b>ADMINISTRATION OF THE BANK OF ITALY</b>	83

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<sup>1</sup> Official Italian version.

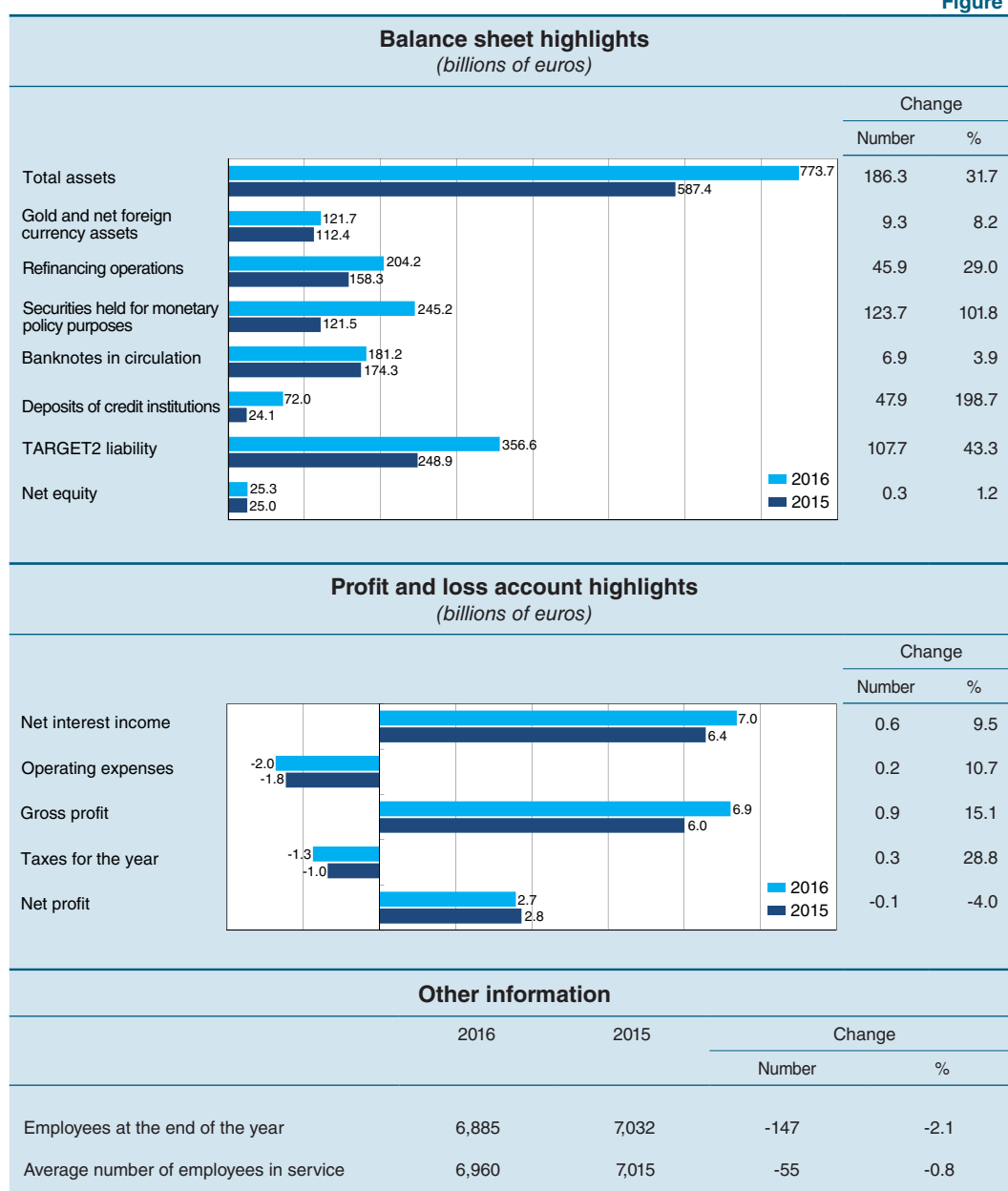


## MANAGEMENT REPORT AND ANNUAL ACCOUNTS

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, which is an integral part of the Bank's annual reporting. 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).

### Highlights of the Bank of Italy's annual accounts

Figure 1



## MANAGEMENT REPORT

The management report briefly describes the Bank's governance and contains information on assets, liabilities and profit and loss, which is designed to help readers better understand the work of the Bank. It illustrates the main risks to which the Bank is exposed in connection with its operations and the resources available. Further information on the functions, the activities and the administration of the Bank can be found on its website ([www.bancaditalia.it](http://www.bancaditalia.it)).

### *Governance*

According to the Bank's Statute, the central governing bodies responsible for the annual accounts are the Meeting of the Shareholders, the Board of Directors, the Governing Board and the Board of Auditors.

The Meeting of the Shareholders appoints the members of the Board of Directors, approves the annual accounts and the distribution of the net profit, and appoints the internal auditing bodies and the independent auditing company.

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 members of 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 Governing Board is a collegial body which 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 European Central Bank (ECB). The Governing Board is made up of the Governor, the Senior Deputy Governor, and the three Deputy Governors.

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, examines the annual accounts, and expresses an opinion on the distribution of the net profit.

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. They are then submitted to the Ordinary Meeting of Shareholders for approval, together with the Report of the Board of Auditors and that of the independent auditing company. The Bank's new Statute was approved by Decree of the President of the Republic on 15 February 2016. It brings forward the approval of the annual accounts by the Ordinary Meeting of Shareholders to the end of March.

In accordance with Article 27 of the Statute of the European System of Central Banks (ESCB), the Bank's accounts are audited by an independent company, which issues a report on the financial statements for the year pursuant to Article 42 of the Bank's Statute.

The Ordinary Meeting of Shareholders has appointed BDO Italia, which won the public tender announced by the Bank in 2015, auditor for the financial years 2016-22. The appointment was ratified by the Council of the European Union on the recommendation of the ECB Governing Council.

### *Shareholdings in the Bank's capital*

Law 5/2014 reformed the structure of the Bank's capital establishing, among other things, a maximum of 3 per cent on direct and indirect shareholdings. Shares held above this limit do not carry voting rights; the relative dividends – given that the transitional period provided for by law has ended – are allocated to the Bank's statutory reserves.

Since the introduction of the reform on 18 February 2017,<sup>1</sup> 27.53 per cent of the capital has been transferred. The three largest shareholders have sold about 23.90 per cent of the capital. There are now 116 shareholders, of whom 74 are new (2 insurance companies, 7 pension funds, 8 social security institutions, 15 banking foundations and 42 banks). At the above date, shareholdings that still exceeded the ceiling amounted to around €2.9 billion in nominal value.

In order to make the dividend distribution policy easier to implement,<sup>2</sup> the Board of Directors has put a proposal to the Shareholders' Meeting regarding the establishment of a special item to be used to stabilize over the long term the amount of dividends paid to shareholders (see 'Proposals of the Board of Directors'). This measure has been taken in conjunction with the dematerialization of the Bank's shares and the start-up of a secondary market where market makers will increase the liquidity of the shares.<sup>3</sup>

### *Background to Eurosystem monetary policy*

The movements in the balance sheet figures, the risks and the Bank's financial results are examined in relation to its institutional functions and, especially, to the decisions it takes within the context of Eurosystem monetary policy.

## **Decisions of the Eurosystem**

In response to strong downward pressures on actual and expected inflation, in 2016 the ECB Governing Council further relaxed monetary conditions, lowering official interest rates and increasing the size of the Eurosystem balance sheet.

<sup>1</sup> This was the last date for acquiring shares with the right to dividends for 2016.

<sup>2</sup> In 2015 the Board of Directors indicated that, in subsequent years, they plan to keep the annual dividend within a range of €340 million to €380 million, provided the net profit and the Bank's capital adequacy are sufficient.

<sup>3</sup> Market makers undertake to sell and buy the Bank's shares up to certain amounts. In accordance with the law, the Bank has decided to offer to purchase temporarily any shares exceeding the 3 per cent limit on shareholdings that the market makers might hold following purchases made in performing their function. Any shares purchased by the Bank will subsequently be sold on to investors, other than the selling market makers, who can purchase them without exceeding the 3 per cent ceiling. This formula was devised to ensure that the Bank would not suffer capital losses. The operations will be suitably publicized and, as required by law, the Bank will report on them annually to Parliament.



In March 2016 the Governing Council reduced the interest rates on the main refinancing operations and on the marginal lending facility to 0.0 per cent and 0.25 per cent respectively; the interest rate on the deposit facility was lowered to -0.40 per cent.<sup>4</sup> Throughout the year the Eurosystem continued to carry out main refinancing operations and three-month longer-term refinancing operations (LTROs) through fixed rate tender procedures with full allotment; this system will remain in effect at least until the end of the final reserve maintenance period for 2017.

The Governing Council also announced the second series of four targeted longer-term refinancing operations (TLTRO II) aimed at further encouraging lending to the real economy. These operations have a maturity of four years and have been conducted quarterly since June 2016; the interest rate applied to each operation can vary within a range between the rate on the main refinancing operations and the rate on the deposit facility prevailing at the time of the TLTRO, based on the increase in loans granted by each counterparty to firms and households.

The Governing Council also strengthened the expanded asset purchase programme (APP), raising the monthly amount to €80 billion (from €60 billion) and including in the list of eligible assets, beyond those of existing programmes,<sup>5</sup> investment grade bonds denominated in euros issued by non-bank companies located in the euro area (Corporate Sector Purchase Programme, CSPP).

At its December 2016 meeting the Governing Council decided to extend the APP to at least the end of December 2017 and in any case until it sees a sustained adjustment in the path of inflation consistent with its aim. Starting from April 2017 the net asset purchases will continue at a monthly rate of €60 billion.

During the year the Governing Council continued to provide forward guidance on official rates, stating that it expects them to remain at present or lower levels for an extended period of time and well past the horizon of the net asset purchases.

#### **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 national central banks (NCBs) in proportion to their shares in the ECB's capital (capital key). The ESCB Statute states that all Eurosystem refinancing operations with bank counterparties must be based on adequate collateral, in the form of the transfer of ownership or pledging of

<sup>4</sup> The negative deposit facility interest rate also applies to bank deposits in excess of the minimum reserve requirement and to certain accounts held with Eurosystem national central banks (NCBs), including government deposits exceeding a certain threshold.

<sup>5</sup> The existing programmes encompass the third Covered Bond Purchase Programme (CBPP3), the Asset-Backed Securities Purchase Programme (ABSPP) and the Public Sector Purchase Programme (PSPP). Under the PSPP, the ECB and the NCBs can buy, in the secondary market, euro-denominated securities issued by euro-area central governments with a residual life of 1 to 30 years and by euro-area agencies and European institutions. A decision issued on 3 December 2015 extends the programme to include bonds issued by euro-area regional and local authorities.

eligible financial assets. The Governing Council waives the principle of risk sharing where certain types of collateral are accepted by the NCBs at their own discretion.

As the Governing Council has already established, the risks attached to securities purchased under the Securities Markets Programme (SMP), the third Covered Bond Purchase Programme (CBPP3), and CSPP are shared among the NCBs according to their capital key. The risks associated with covered bonds purchased in the context of CBPP1 and CBPP2 are borne by the single NCBs. In the case of the Public Sector Purchase Programme (PSPP), the risks relating to public securities are borne by the single NCBs, while those of securities issued by European institutions are shared according to the capital key. The risk sharing system also applies indirectly to all the securities purchased by the ECB for monetary policy purposes, given that the NCBs hold its capital.<sup>1</sup>

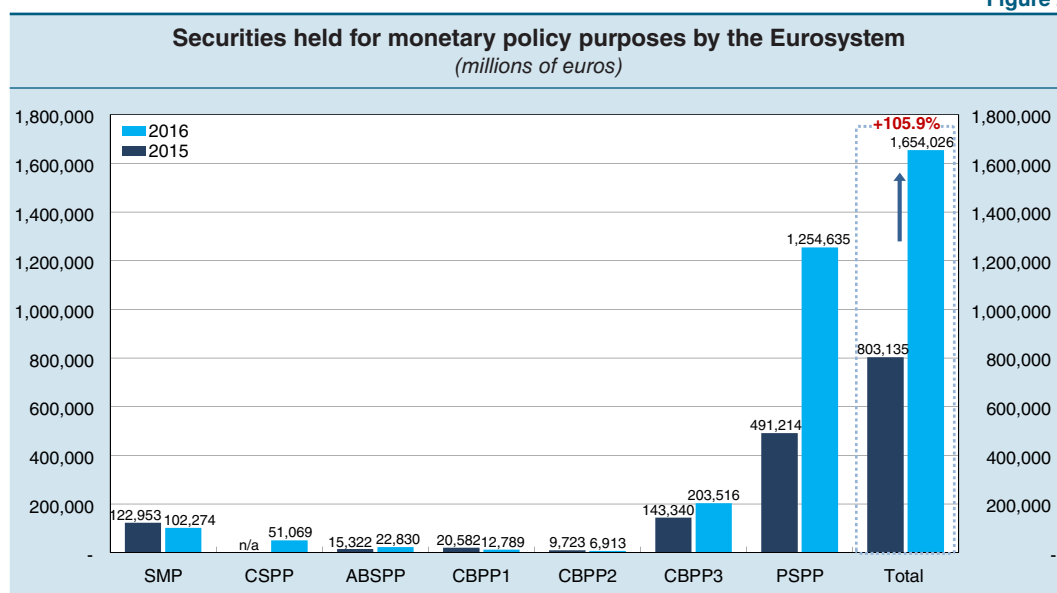
<sup>1</sup> The Asset-Backed Securities Purchase Programme (ABSPP) are only reported in the ECB's accounts.

## Highlights on Eurosystem monetary policy

In 2016 the Eurosystem's exposure to monetary policy counterparties increased. The volume of refinancing operations outstanding at the end of the year rises from €559 billion to €595.9 billion; the portion represented by longer-term refinancing operations, including TLTRO and TLTRO II, increases from 84 per cent to 93 per cent.

At the end of 2016 the securities held by the Eurosystem for monetary policy purposes total €1,654 billion (€803.1 billion at the end of 2015), broken down as shown in Figure 2. The securities held by the NCBs through the programmes subject to risk sharing amount to €472.5 billion (€305.7 billion at the end of 2015), while those for which risk is not shared total €1,020.7 billion.<sup>6</sup> The ECB holds €160.8 billion worth of securities.

Figure 2



<sup>6</sup> SMP, CBPP3, PSPP for the European government component only, and CSPP.

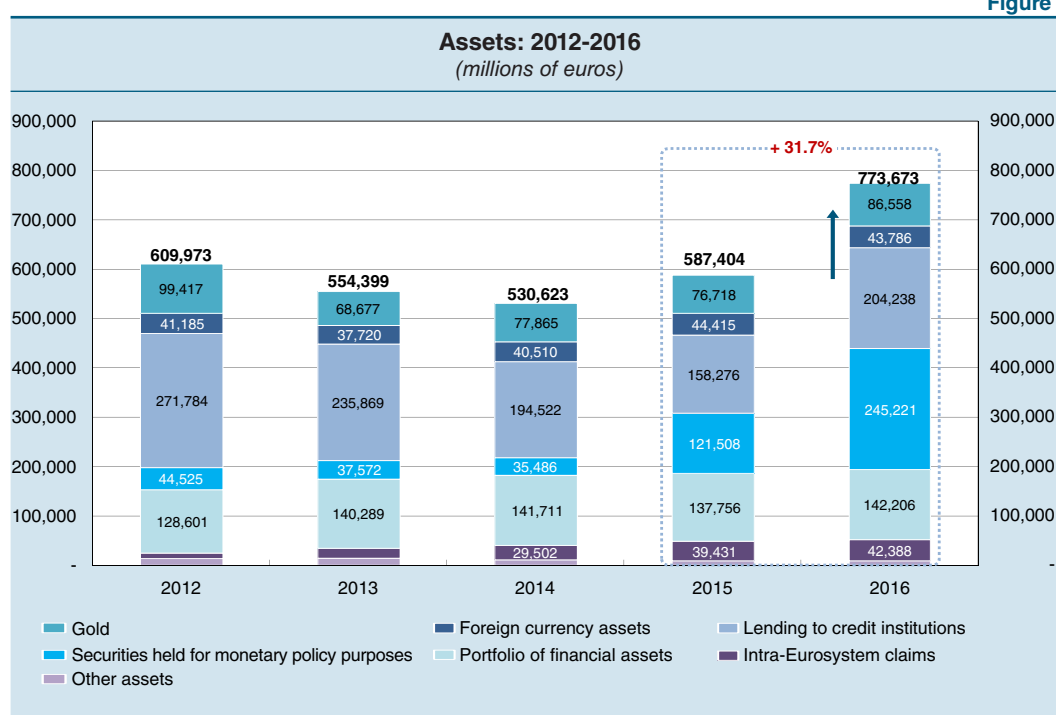
## Key developments in the Bank's annual accounts

### Assets

The accommodative monetary policy adopted in the euro area to tackle the effects of the financial crisis has continued to have a significant impact on the size of Bank's balance sheet. In 2016 total assets exceed the previous maximum level reported in 2012 (Figure 3),<sup>7</sup> mainly owing to the purchase of public securities under the PSPP, which raises the total to €773.7 billion; a similar trend is observed for the other euro-area central banks.

Banks continue to resort heavily to refinancing operations in 2016, while the value of the gold reserves has risen as a result of the increase in gold prices.

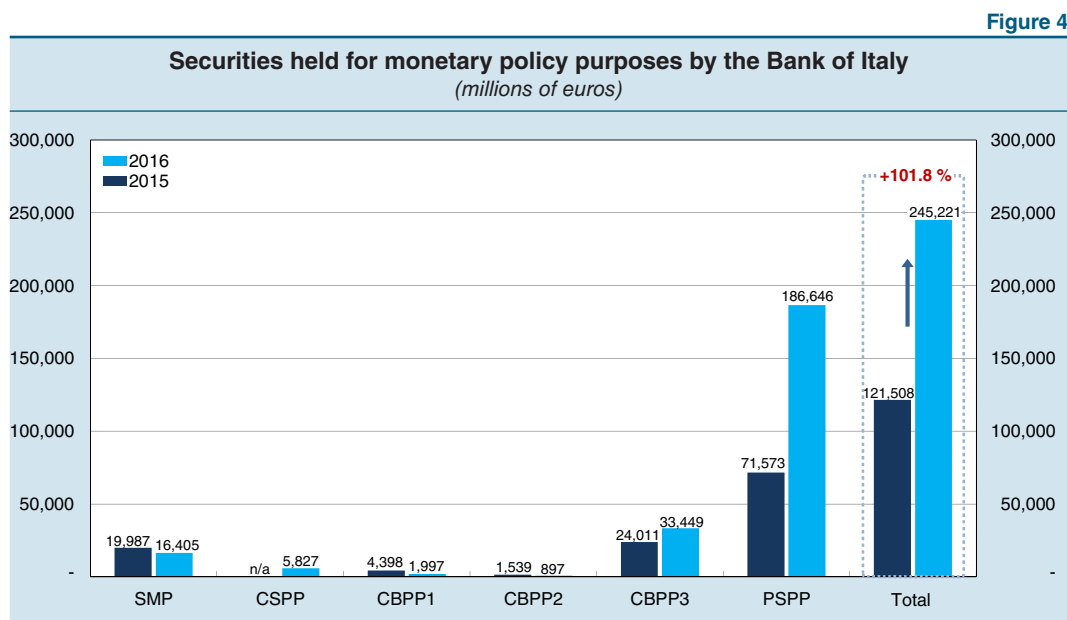
Figure 3



*Refinancing operations* are up from €158.3 billion at the end of 2015 to €204.2 billion at year-end 2016. Longer-term refinancing operations increase by €48.6 billion as a result of the TLTRO II allocations, more than offsetting the early repayment of the TLTROs allocated in 2015, while main refinancing operations are down by €2.7 billion. At the end of 2016 Italian counterparties hold 34 per cent of the total euro-area refinancing operations, up from the 28 per cent registered at the beginning of the year. The average volume is higher than in 2015 (see 'Notes on the items of the balance sheet' – *Monetary policy operations*).

<sup>7</sup> Assets are reclassified as follows: *Foreign currency assets* include securities and other assets denominated in foreign currency (Items 2 and 3). *Portfolio of financial assets* includes bonds, equity shares and other participating interests and other assets denominated in euros and foreign currency allocated to Items 4, 6, 7.2, 8 and 11.2 on the asset side; it also includes the participating interest in the ECB's capital (Item 9.1 on the asset side). *Intra-Eurosystem claims* include net claims vis-à-vis the Eurosystem under Items 9.2, 9.3 and 9.4 on the asset side.

Compared with 2015, the portfolios of *securities held for monetary policy purposes* increased by €123.7 billion as a result of purchases made under the APP (Figure 4), particularly those of public securities under the PSPP. Purchases of corporate sector securities under the CSPP began in 2016, and amount to €5.8 billion at the end of the year. The reduction in SMP, CBPP1 and CBPP2 holdings is due to the redemption of securities.<sup>8</sup>



The item *Gold and net foreign currency assets*, the composition of which is shown in Table 1, includes the official reserves plus other claims on euro-area residents denominated in foreign currency held by the Bank, net of foreign currency liabilities.

The country's official reserves (gold and claims on non-euro-area residents denominated in foreign currency) are held by the Bank of Italy under the Treaty on the Functioning of the European Union and the Statute of the ESCB. Management of the reserves makes it possible to service the Italian Republic's foreign currency debt and meet its commitments to international organizations such as the International Monetary Fund (IMF). In addition, the official reserves are an integral part of the Eurosystem's reserves: their overall level and proper management help to safeguard its credibility. The foreign currency reserves are managed primarily with the aim of guaranteeing high levels of liquidity and security while also considering the long-term expected yield. The Bank also manages a part of the reserves transferred to the ECB in accordance with the guidelines laid down by the Governing Council.

At 31 December 2016, gold and net foreign currency assets amount to €121.7 billion, compared with €112.4 billion a year earlier. The increase is due to the appreciation of gold (12.8 per cent), amounting to a change of €9.8 billion (see 'Notes on the items of the balance sheet' – *Gold, assets and liabilities denominated in foreign currency*).

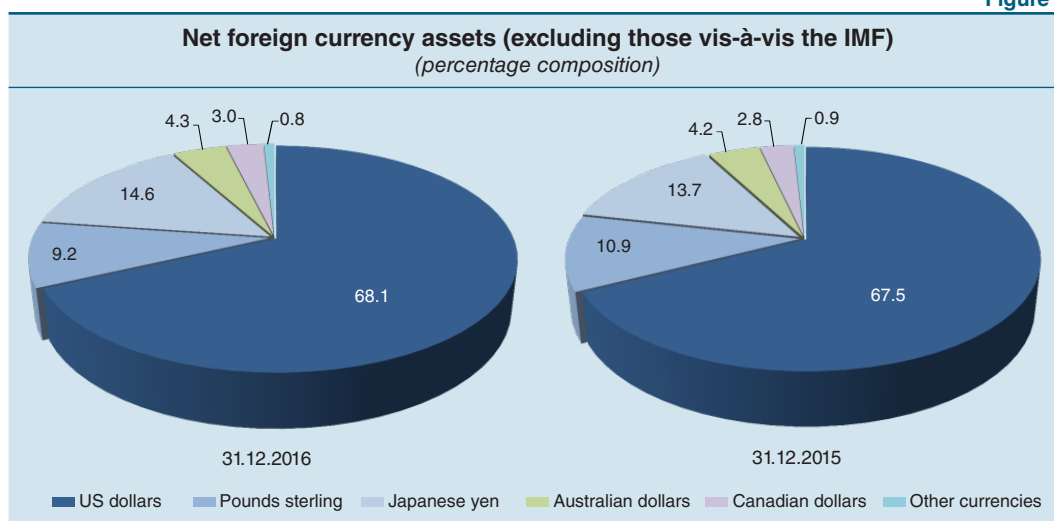
<sup>8</sup> The first two CBPPs were introduced in 2009 and 2011 and closed in 2010 and 2012 respectively. The SMP was rolled out in 2010 and ended in 2012. Six NCBs participate in the CSPPs: Bank of Italy, Deutsche Bundesbank, Banque de France, Banco de España, Suomen Pankki - Finlands Bank and Nationale Bank von Belgien/Banque Nationale de Belgique.

Table 1

<b>Gold and net foreign currency assets (1)</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
Gold	86,558	76,718	9,840
US dollars (2)	22,676	21,921	755
Pounds sterling	3,065	3,530	- 465
Japanese yen	4,879	4,447	432
Australian dollars	1,426	1,370	56
Canadian dollars	989	926	63
Chinese renminbi	184	187	- 3
South Korean won	91	89	2
Other currencies	4	3	1
Net assets vis-à-vis the IMF (including SDRs) (3)	1,782	3,196	- 1,414
<b>Total</b>	<b>121,654</b>	<b>112,387</b>	<b>9,267</b>

(1) Valued at market exchange rates and prices. The figures do not include financial assets denominated in foreign currency representing the investment of total capital funds, as they constitute a separate foreign currency position. – (2) The balance at 31 December 2016 includes reverse transactions in US dollars in the amount of €47 million, entered into under the agreement between the ECB and the Federal Reserve to provide short-term dollar liquidity to the banking system. – (3) Denominated in SDRs. Starting from October 2016 the SDR basket includes Chinese renminbi.

Figure 5



The Bank also holds a financial portfolio (Table 2) containing, among other things, investments of provisions, reserves and the pension and severance pay provision.

In compliance with the ban on the monetary financing of member states and euro-area public institutions, the securities of such issuers are not acquired at issue. No investments are made in shares of banks and insurance companies.

At the end of 2016, the book value of the portfolio is €140.8 billion (€136.3 billion in 2015). The portfolio is invested mainly in bonds, especially Italian and other euro-area government securities, while the part invested in equities consists primarily of listed shares. In 2016, the Bank has continued to restructure its share portfolio,

particularly by partly replacing euro-area collective investment instruments with direct investment in stocks. To further diversify its investments, the Bank has also purchased US dollar-denominated bonds along with the relative foreign exchange hedges. The bulk of the bond portfolio (86 per cent) consists of securities held to maturity and is therefore valued at amortized cost subject to impairment. If all listed financial instruments are valued at end-of-year market prices, the portfolio is worth €156.2 billion.

**Table 2**

<b>Composition of the financial portfolio</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
Government securities	127,971	123,009	4,962
Other bonds	3,034	3,107	-73
Equity shares and other participating interests	7,155	7,243	-88
ETFs and shares/units of UCITS	2,641	2,963	-322
<b>Total</b>	<b>140,801</b>	<b>136,322</b>	<b>4,479</b>

## INVESTMENTS NOT RELATING TO MONETARY POLICY

At the end of 2016, the Bank's net investments not relating to monetary policy, which are governed by a specific agreement (Agreement on Net Financial Assets – ANFA), total €124.1 billion, compared with €134.9 billion at the end of 2015. ANFA is an agreement on net financial assets (NFAs) between the national central banks 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 national functions do not interfere with the conduct of the single monetary policy. NFAs are calculated as the algebraic sum of the balance sheet assets that are not directly related to monetary policy, including gold, net foreign currency assets and securities denominated in euros, net of non-monetary policy liabilities.

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

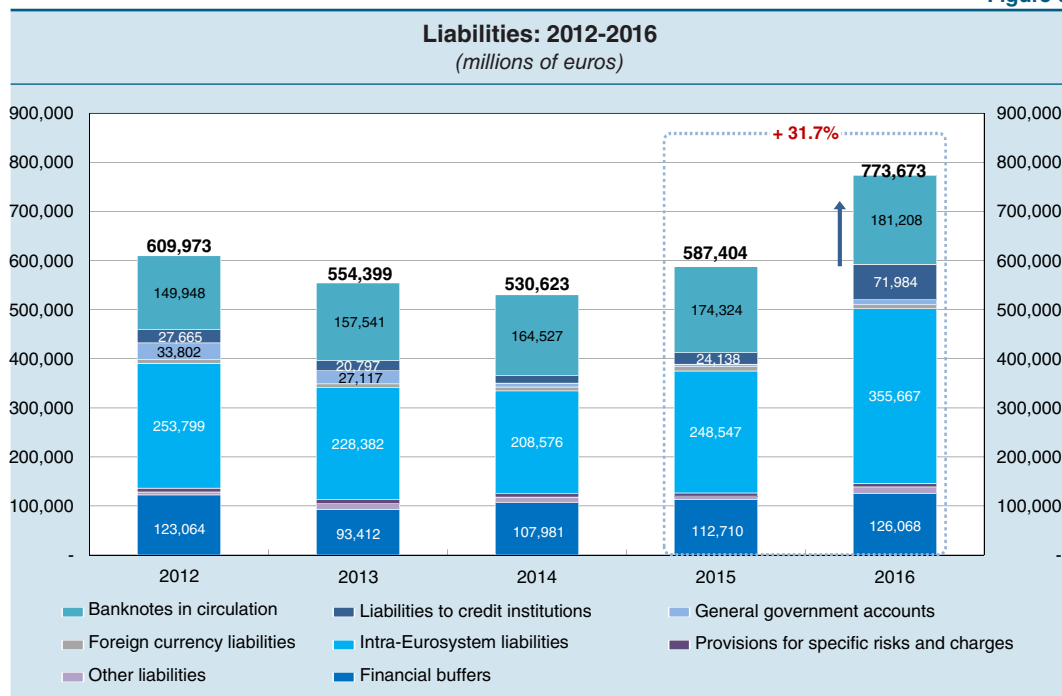
The Bank also manages the investments of the defined-contribution pension fund for staff hired starting from 28 April 1993. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. Its investments and earmarked funding contributions are included in the Bank's balance sheet, under *Other assets* and *Other liabilities* respectively. Investments are made observing benchmarks. At 31 December 2016 the fund's total assets and liabilities in the Bank's balance sheet amount to €0.4 billion.

## Liabilities and financial buffers

On the liability side (Figure 6), there is a further increase in the Bank's debit position with the Eurosystem in connection with the TARGET2 payment system and

in liabilities to credit institutions.<sup>9</sup> The Bank's share of banknotes in circulation is constantly rising (regarding TARGET2 and banknotes in circulation, see 'Legal basis, method of preparation and layout of the annual accounts').

Figure 6



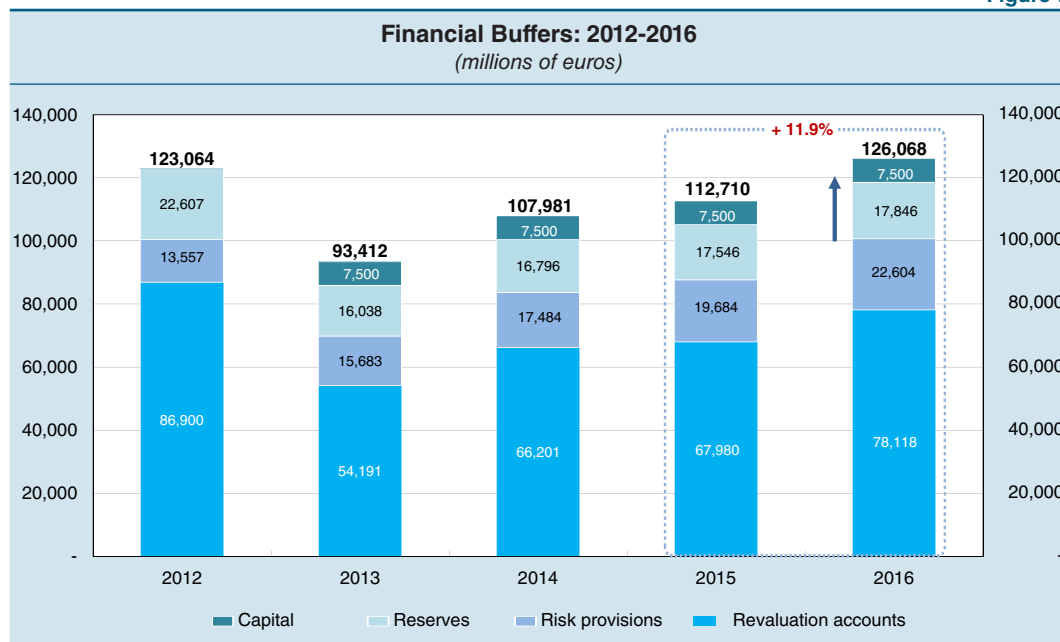
Compared with 2015 the Bank's debit balance with the TARGET2 payment system, part of its *intra-Eurosystem liabilities*, is up by €107.7 billion. This increase parallels the creation of additional liquidity through monetary policy operations. The outflows mainly consist of purchases of shares in investment funds and other foreign securities by Italian residents, reducing the percentage of government securities in their portfolios, and reflect the drop in Italian banks' net foreign funding. The growth in the debit balance is due to a smaller extent to the reduction in the amount of Italian government securities held by non-residents, mainly occurring in December 2016. The impact of these factors is only partly offset by the increase in the current account surplus. Deposits of credit institutions increase by €47.8 billion, those of general government by €5 billion, and the Bank's share of euro banknotes in circulation by €6.9 billion as a result of the rise in circulation at the Eurosystem level.

Changes in the Bank's financial buffers in the period 2012-16 (Figure 7) mainly reflect movements in the revaluation accounts, which in turn are affected by the

<sup>9</sup> Liabilities are reclassified as follows: *Intra-Eurosystem liabilities* include items 9.1, 9.2 and 9.3 on the liability side. *Financial buffers* include capital and reserves, the provision for general risks, the damage insurance provision and the revaluation accounts. The net profit for the year and the provision for specific risks and expenses are included under *Other liabilities*.

price of gold.<sup>10</sup> Excluding this component, the other capital funds have risen largely as a result of transfers to the provision for general risks to cover the increased risks assumed by the Bank following the expansion of monetary policy operations.

Figure 7



The increase in 2016 is primarily attributable to the €10.1 billion rise in the revaluation accounts linked to the higher value of the gold reserves.

## The profit and loss account

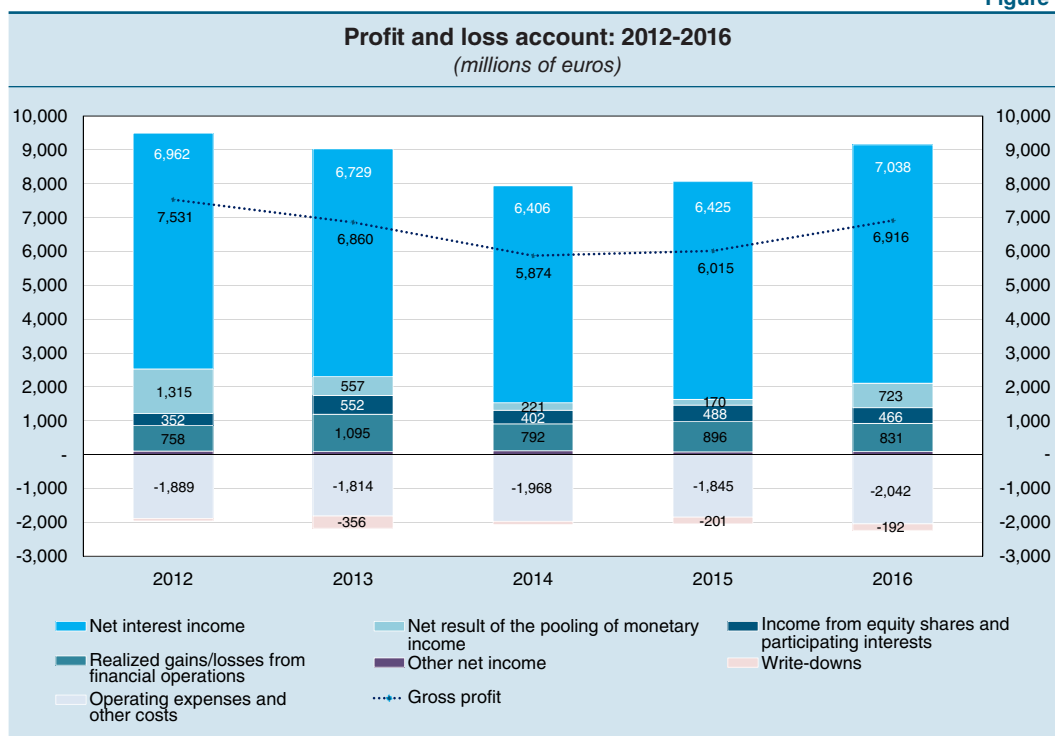
The growth of the Bank's balance sheet, the composition of the assets and liabilities and changes in the average yield rates are reflected in the gross profit (Figure 8).<sup>11</sup> The decrease in net interest income in the first part of the 2012-16 period is due to the reduction in the volume of monetary policy-related securities held through programmes that are no longer active. Over the last two years purchases under the APP have increased net interest income, despite a significant decline in average yield rates.

<sup>10</sup> The Bank's financial buffers consist of capital, reserves, provisions, especially the provision for general risks, and the revaluation accounts. Allocations to reserves are made at the time of the distribution of 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 capital buffer against the risks to which the Bank is exposed (see 'Legal basis, method of preparation and layout of the annual accounts').

<sup>11</sup> The profit and loss account is reclassified as followed: *Net interest income* includes interest income and interest expense under Items 1 and 6.1 of the profit and loss account. *Income from equity shares and participating interests* includes dividends and income from ETFs and shares/units of UCITS (Items 4, 6.2 and 6.5). *Gain/losses on financial operations* include income and expense under Items 2.1 and 6.3. *Write-downs* are entered under Items 2.2 and 6.4. *Other net income* includes the amounts under Items 3, 7, and 8. *Operating expense and other costs* include the amounts under Item 9.



Figure 8



The year 2016 closes with a net profit of €2,686 million compared with €2,797 million in 2015. Gross profit (Figure 8) before tax and transfers to the provision for general risks is equal to €6,916 million (€6,015 million in 2015).

Net interest income is up significantly with respect to the previous year (by €613 million). The increase is due mainly to interest income on PSPP securities, only partly offset by interest expense on TLTRO II operations (see 'Notes on the items of the profit and loss account' – *Net interest income*).

The net result for the Bank of the pooling of monetary income is up by €553 million. This change reflects the higher rate of growth in monetary income of other Eurosystem central banks and the consequent reallocation to the Bank of Italy.

Income from equity shares and participating interests is down by €22 million, and gains on trading by €65 million. Write-downs, arising mainly as a result of changes in the prices of foreign currency securities, remain stable.

Operating expenses and other costs amount to €2,042 million (see 'Operating expenses and other costs').

The provision for general risks, which, under the Statute, covers the Bank's overall exposure to risk, is increased by €2,920 million (€2,200 million in 2015) to accommodate the expansion of the balance sheet and the risk exposure associated with the progressive roll-out of monetary policy programmes.

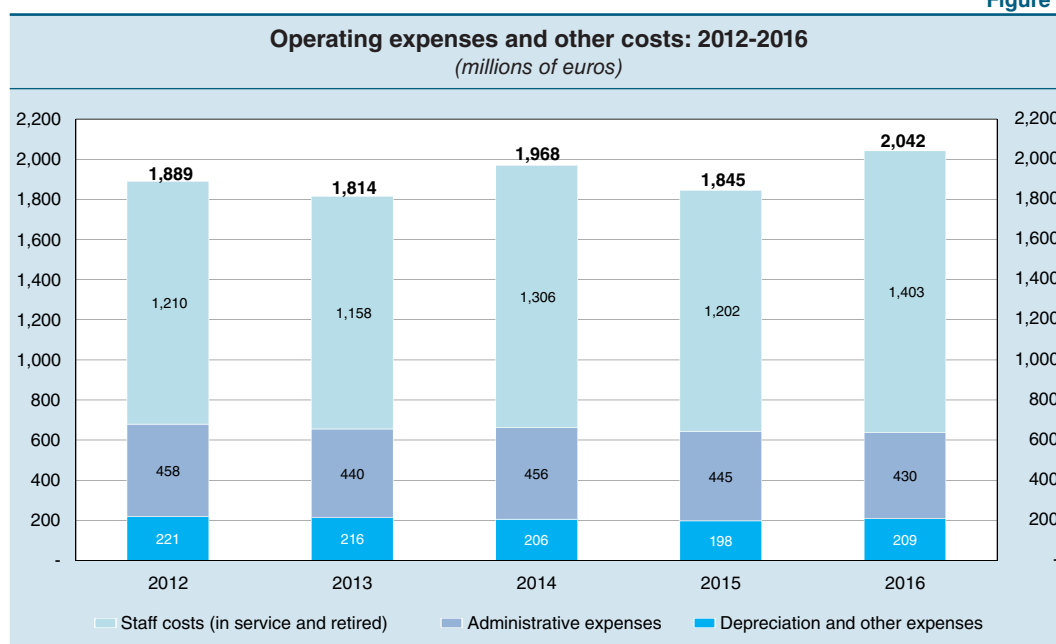
Taxes for the year amount to €1,310 million (€1,017 million in 2015).

Out of the net profit of €2,686 million, €150 million is allocated to the ordinary reserves, the shareholders are assigned a dividend of €340 million, €40 million is allocated to the special item for stabilizing dividends and €2,156 million is transferred to the State (see ‘Proposals of the Board of Directors’). The amount of €133 million, representing the dividends on shares exceeding the 3 per cent limit, is allocated to the ordinary reserve pursuant to Article 3.4 of the Statute (see ‘Shareholdings in the Bank’s capital’).

### Operating expenses and other costs

In 2016 operating expenses and other costs have risen from €1,845 million to €2,042 million. This increase is chiefly due to allocations to the staff pension and severance pay fund during the year to align the mathematical reserves with the new basis for computation and to changes in the economic and financial parameters, as well as to allocations associated with the early retirement plan approved in 2016 (see ‘Other information’ – *Reorganization within the Bank*). Net of these non-recurring components, the rise in operating expenses is slight. The trend and composition of operating expenses and other costs during the period 2012-16 are detailed in Figure 9, which also includes staff costs.

Figure 9



Administrative expenses,<sup>12</sup> which in 2016 represent 21 per cent of total costs, decrease compared with 2015 mainly owing to the drop in costs for the purchase of raw materials and materials for banknote production (see ‘Notes on the items of the profit and loss account’ – *Expenses and charges*).

<sup>12</sup> Administrative expenses incorporate a wide range of costs (such as raw materials and materials for banknote production, security services and transport of valuables, participation in TARGET2 and TARGET2-Securities, IT, property maintenance).

Total expenditure on IT resources is up slightly compared with 2015 as a result of the increase in charges for the use of the Eurosystem IT infrastructure. In 2016 a number of projects have come to an end, including the introduction of the new version of TARGET2, upgrades to procedures for managing collateral, and dematerialization relating to treasury services.

Expenditure on property management and maintenance increases slightly on the previous year as the Bank has continued to renovate, upgrade and reorganize several buildings in the Rome area in 2016. Organizational changes have also led to the creation of new technical secretariats within the Banking and Financial Ombudsman, new facilities for coin storage and handling, and historical archives at the regional branches. The Bank also continues to monitor and take action to prevent the risks associated with earthquakes. As in 2009, the Bank has responded to the recent series of earthquakes by offering the authorities use of its former branch facilities in Rieti and Terni and a portion of its building in Ascoli Piceno to help manage both the emergency itself and the subsequent reconstruction. Work to upgrade the security systems of the branch network and strategic Head Office buildings has been completed on schedule.

Depreciation and other expenses have been progressively decreasing over the last five years and are consistent with 2015.

### The Bank's staff

At 31 December 2016 the Bank's employees number 6,885: 4,568 working at the Head Office and 2,317 at branch offices. The total number of staff is down by 147 compared with the end of 2015. There are 212 new appointments, of which about 66 per cent hold a university degree. Terminations total 359 (up 68 per cent compared with 2015); of these 275 have opted for early retirement offered to staff affected by the reorganization of the branch network and by the new personnel classification system. This reform, which took effect on 1 July 2016, creates a new managerial area made up of those formerly classified as managers and officers; former coadjutors who pass a qualifying exam are also promoted to the new area.

Table 3

Composition of the Bank's staff					
AREAS (1)	At 31.12.2016				
	Men	Women	Total	At branches	At Head Office (2)
Managerial Area	2,038	1,085	<b>3,123</b>	710	2,413
<i>of which: Managing Directors and Principal Directors</i>	73	12	<b>85</b>	14	71
Operational Area	2,331	1,393	<b>3,724</b>	1,607	2,117
Contract workers	15	23	<b>38</b>	–	38
<b>Total</b>	<b>4,384</b>	<b>2,501</b>	<b>6,885</b>	<b>2,317</b>	<b>4,568</b>

(1) The new organizational structure is based upon the 2016 reform of the personnel classification system. – (2) Includes members of the staff assigned to the Financial Intelligence Unit (UIF) and the representative offices abroad and those seconded to other organizations or on leave of absence.

The staff's average age is 48.9 years and 36.3 per cent of the Bank's employees are women.

During the year, 5,400 members of staff have received training, that is 78 per cent of the total or 85 per cent including on-the-job training, for a total of about 208,000 hours of training, equal to 39 hours per person.

### *Internal audit and risk management system*

The Bank of Italy's internal control system is based on a functional approach in which each organizational unit is responsible not only for its own controls and for the management of its risk exposure but also for its results in terms of effectiveness and efficiency.

Specific types of risk (financial, operational, accounting, fiscal, IT, legal, and workplace health and safety) are also monitored by means of further targeted controls based on proportionality (so that the extent of the control is commensurate to the size of the potential risk) and on a comprehensive and transversal approach.

The audit function has the task of systematically verifying the adequacy of internal controls and promoting continuous improvement to increase the effectiveness, efficiency and security of all operational processes. It works independently and is subject to external periodical review, in compliance with international standards. It also conducts reviews within the context of the ESCB or on behalf of the ECB.

An advisory committee on internal auditing has been set up to strengthen the system of controls and the independence and objectiveness of the internal audit function. It provides advice and support to the Board of the Directors and the Governor on matters concerning the oversight of the internal audit system. It also issues opinions on internal audit policy and on the annual audit plan.

### **Financial risk**

The Bank of Italy manages financial risk on an integrated basis, taking into account the links between the various risk factors, notably between credit risk and market risk.

Financial risk stems chiefly from management of the foreign currency reserves and securities portfolio and from assets held for monetary policy purposes. The Statute of the ESCB provides that the risk attached to the latter assets may be shared with the other euro-area NCBs according to their contributions to the capital of the ECB (see the box 'Rules on risk sharing in monetary policy operations').

An ad hoc advisory committee assists the decision-making bodies of the Bank on issues concerning financial risk and investment strategy. It issues opinions on policy lines and on proposals concerning the limits of financial risk and asset allocation; it also provides an important link between financial decisions and the changes in the balance sheet, particularly in a medium- and long-term perspective.

Financial risk is measured using a methodology very similar to the one developed by the Eurosystem, with some minor adaptations to ensure it conforms more closely with the specific character of the Bank. The methodology proposes an analysis from two separate viewpoints: financial and accounting. The first assesses risk exposure without considering the accounting rules that govern the balance sheet items and evaluates its impact on the net equity of the Bank. The second method, which in drawing up the annual accounts is used for assessments relating to the size of the capital buffers, instead estimates the impact of risk exposure on the profit and loss account taking into consideration Eurosystem accounting rules.

It is a very conservative system of measurement that provides an estimate of potential losses characterized by low probability and high impact (expected shortfalls).

In addition to monitoring its risk position as a whole, the Bank performs controls and adopts mitigation measures for each type of risk.

*Credit risk.* – Exposure to credit risk is associated with monetary policy operations, holdings of foreign currency reserves, and investment in the portfolio of euro-denominated securities. Specifically, securities held for monetary policy purposes and other securities held to maturity are measured at amortized cost subject to impairment. Their book value is reduced only if a deterioration in the issuer's credit rating has a negative effect on expected cash flows.

The risk associated with monetary policy operations has become the focus of increasing attention in recent years following the adoption of non-standard measures.

The risk control measures introduced by the ECB Governing Council are designed to reduce the risk of financial losses when collateral assets are realized if the counterparties prove unable to repay the financing obtained. Under the rules on risk mitigation and management, assets eligible as collateral must be of high credit quality, they must be valued accurately and on a daily basis, and special control measures must be applied (such as haircuts, variation margins and limits).

The rules on assets eligible for use as collateral in Eurosystem refinancing operations have remained accommodative in 2016, allowing counterparties to tap a broad range of collateral. The eligible assets held by the Bank are up by 17 per cent during the year, in parallel with the increase in Italian banks' exposure to the Eurosystem. As a result, the rate of overcollateralization by domestic counterparties is down from 60 per cent to 46 per cent. The component represented by bank loans and covered bank bonds is up, while the government securities component has fallen although it continues to be the most popular form of collateral for Italian counterparties.

In the case of the programmes of securities purchases for monetary policy purposes, in addition to the high credit quality requirement specific limits are placed on issues and issuers and account is taken of the Eurosystem's periodical credit risk assessment.

The Bank monitors and mitigates the credit risk attached to foreign currency reserves and the financial portfolio by rigorously selecting the types of investment and

counterparties according to creditworthiness, which is assessed on the basis of credit ratings and market information. It also sets category and individual exposure limits that are monitored daily.

*Market risk.* – In the balance sheet, market risk affects financial assets valued at current prices and exchange rates (foreign currency reserves and securities not held to maturity and shares).<sup>13</sup> Market risk is measured and monitored using several indicators: (a) the elasticity of the bonds to interest rate fluctuations (duration); (b) the maximum potential loss estimated over a year for the long-term and short-term components (structural VaR and cyclical VaR) and separately for the various classes of financial assets and for different portfolios; and (c) the loss in the event of highly adverse market developments with low probability (expected shortfall).

The market risk attached to foreign currency reserves mainly stems from the volatility of the price of gold and of the exchange rates of the principal currencies. According to the Eurosystem's accounting rules, revaluation accounts limit the impact on the profit and loss account of fluctuations in the prices and exchange rates of the relative assets (see 'Legal basis, method of preparation and layout of the annual accounts').

The exchange rate risk of foreign currency assets held as investments of own funds is hedged through foreign exchange forward sales.

*Liquidity risk.* – The Bank of Italy is only exposed to liquidity risk associated with potential market tensions that make it difficult to dispose of assets at current prices. The liquidity of the financial instruments invested in is normally very high. The liquidity risk of the foreign currency reserves is managed by applying extremely prudent criteria in the selection of financial instruments and counterparties, with tight restrictions on the maturity of bank deposits, bank paper and commercial paper, and on acquisitions of individual issues.

*Financial risk in 2016.* – At the end of 2016, the overall exposure to credit and market risk, measured from both the accounting and the financial viewpoint, is assessed as greater than at the end of 2015. Under the accounting method, the increase is mainly attributable to the credit risk associated with monetary policy assets, specifically the greater exposure to sovereign risk arising from the purchase of government securities under the PSPP.

## **Operational risk**

Operational risk represents the risk that inadequate procedures, information systems and human resources pose to the Bank's reputation, its operations and its capital.

The Bank has in place a system for integrated operational risk management (ORM) in which each organizational unit assesses its own risk exposure in relation

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<sup>13</sup> Market risk encompasses exchange rate risk, commodity risk (gold) and share price risk, as well as yield curve risk.

to the adequacy of existing safeguards. The Operational Risk Committee assists the Governing Board in promoting and coordinating measures and in monitoring their implementation and inclusion in the yearly planning process.

Operational risk is also quantified in terms of its potential financial impact using an internal Advanced Measurement Approach (AMA) model similar to the ones that prudential regulations require banks to adopt.

### *Other information*

#### **Banknote production and circulation**

The Bank contributes, via its banknote printing facility, to meeting the Eurosystem's demand for banknotes and participates in the development of the new series. It is also involved in drafting common guidelines for the quality of the notes in circulation and measures against counterfeiting. In 2016, total production amounts to 1,036 million banknotes, in denominations of €50 of the first and second series. The average number of employees has fallen and there has been a considerable increase in applied research and development activities on behalf of the Eurosystem. The Bank's printing facility, as R&D main test-print centre for the Eurosystem, has carried out numerous projects assigned by the ECB relating to the development of the largest denominations of banknotes for the Europa series (€100 and €200) and the integration and testing of the new security features for these banknotes.

In 2017 production volumes are expected to remain large as they will reflect the quota assigned to the Bank for the year and the remainder of the share pertaining to 2016.

The Bank's branches play an important role in meeting the demand for banknotes and in ensuring that the quality of those in circulation remains high. During the year 2.6 billion banknotes have been put into circulation, for a total value of €90.9 billion. The return flow to the Bank amounts to 2.4 billion banknotes, worth €87 billion. Some 2.4 billion notes have been checked and 0.8 billion withdrawn from circulation.

#### **Reorganization within the Bank**

In 2016, a further phase of the second branch reorganization plan has been completed. The plan was approved in 2015 by the Board of Directors and envisages the closure of 22 branches and units (19 subsidiary branches and 3 detached supervision units). To ease the transition, these subsidiary branches and units have been replaced by temporary territorial service units (TSUs), under the jurisdiction of the regional branches, that are open to the public but do not engage in activities involving the handling of currency. In July 2016, 12 TSUs were closed, with the 10 remaining TSUs to be shut down in 2018. The branch network now consists of 39 regional branches throughout Italy, down from 97 in early 2008, before the reorganization began.

As part of the reorganization of the Bank, which includes the adoption of a new personnel classification system, on 30 March 2016 the Board of Directors approved an

early retirement incentive plan for employees of the Head Office and the branches not scheduled for closure.

In order to meet rising demand for consumer protection by bank customers, in December 2016 the Banking and Financial Ombudsman established four new panels with their technical secretariats at the Bank's branches in Bari, Bologna, Palermo and Turin, joining those already operating in Milan, Naples and Rome since 2008.

### **Environmental policy and workplace health and safety**

The Environmental Policy Document, updated in 2015, sets out the Bank's environmental policy objectives: sustainable use of resources, optimal waste management, sustainable mobility, 'green' procurement, and the promotion of an environment-friendly culture. The Environment Report describes the Bank's ecological footprint and the main measures adopted in 2016. Both documents are available on the Bank's website.

In 2016, workplace health and safety efforts have focused mainly on certain risk factors such as the search for the presence of asbestos, the manual handling of loads and work-related stress. The Bank has adopted a new methodology, based on that developed and recommended by National Industrial Accidents Insurance Institute (INAIL), to measure the risk posed by work-related stress.

### **Disclosure of relations with subsidiary and associate companies**

The Bank of Italy is the sole shareholder in Società Italiana di Iniziative Edilizie e Fondiarie (SIDIEF), a real estate company whose main activity is the management and rental of its own properties. The Bank exercises a role of direction and coordination with respect to the subsidiary, principally regarding its corporate strategy, but it does not interfere in areas of operational autonomy.

An ad hoc agreement regulates relations between the Bank and SIDIEF, sets out the rental policies applying to employees and third parties, and lists the properties for mutual benefit. In 2016 SIDIEF's renovation expenses and additional costs amount to €0.3 million for properties leased free of charge to the Bank, which bears the cost.

At 31 December 2015 the Bank's share in the capital of CDP Equity SpA (formerly Fondo Strategico Italiano - FSI) amounted to 20 per cent and consisted of two thirds of the preference shares. The shareholding was acquired in 2013 in exchange for the Bank's interest in Assicurazioni Generali SpA. Under the agreement signed in 2012 with FSI and its parent company Cassa depositi e prestiti SpA, FSI undertook to sell its entire shareholding in Generali at market price by 31 December 2015 and then to redeem the Bank's preference shares, subject to the exercise by the Bank of the right of withdrawal. In 2015, FSI put its entire Generali share package on the market. In 2016, the Bank entered into an agreement with CDP Equity SpA to sell its entire shareholding for €969.4 million. The purchase price is calculated on the basis of CDP Equity's net equity at 31 December 2015, adjusted to reflect the fair value of the assets and liabilities in its balance sheet as determined by an independent advisor. The sale was completed in December 2016.





## **ANNUAL ACCOUNTS**

## BALANCE SHEET

ASSETS	NOTE	Amounts in euros	
		31.12.2016	31.12.2015
<b>1 GOLD AND GOLD RECEIVABLES</b>	[1]	<b>86,557,643,700</b>	<b>76,718,154,604</b>
<b>2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY</b>	[1]	<b>42,497,728,952</b>	<b>43,202,004,549</b>
2.1 Claims on the IMF		10,163,468,189	11,566,633,733
2.2 Securities		28,519,589,578	26,370,614,392
2.3 Current accounts and deposits		3,315,721,507	3,862,484,430
2.4 Reverse operations		493,315,420	1,395,517,590
2.5 Other claims		5,634,258	6,754,404
<b>3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY</b>	[1]	<b>1,288,209,172</b>	<b>1,213,119,514</b>
3.1 Financial counterparties		1,288,209,172	1,213,119,514
3.1.1 Securities		292,835,163	547,209,564
3.1.2 Reverse operations		47,433,830	–
3.1.3 Other claims		947,940,179	665,909,950
3.2 General government		–	–
3.3 Other counterparties		–	–
<b>4 CLAIMS ON NON-EURO AREA RESIDENTS</b>		<b>1,554,356,308</b>	<b>1,521,207,653</b>
4.1 Claims on EU central banks		–	–
4.2 Securities	[4]	1,553,827,612	1,521,022,267
4.3 Other claims		528,696	185,386
<b>5 LENDING TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS</b>	[2]	<b>204,238,460,000</b>	<b>158,275,980,000</b>
5.1 Main refinancing operations		16,050,000,000	18,728,000,000
5.2 Longer-term refinancing operations		188,188,460,000	139,547,980,000
5.3 Fine-tuning reverse operations		–	–
5.4 Structural reverse operations		–	–
5.5 Marginal lending facility		–	–
5.6 Credits relating to margin calls		–	–
<b>6 OTHER CLAIMS ON EURO-AREA CREDIT INSTITUTIONS</b>	[3]	<b>35,260,222</b>	<b>100,969,841</b>
<b>7 SECURITIES OF EURO-AREA RESIDENTS</b>		<b>327,388,058,761</b>	<b>207,682,273,765</b>
7.1 Securities held for monetary policy purposes	[2]	245,220,714,306	121,507,952,093
7.2 Other securities	[4]	82,167,344,455	86,174,321,672
<b>8 GENERAL GOVERNMENT DEBT</b>	[4]	<b>14,080,834,910</b>	<b>14,214,809,553</b>
<b>9 INTRA-EUROSISTEM CLAIMS</b>	[5]	<b>43,720,535,794</b>	<b>40,763,256,989</b>
9.1 Participating interest in the ECB		1,332,644,970	1,332,644,970
9.2 Claims arising from the transfer of foreign reserves to the ECB		7,134,236,999	7,134,236,999
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem		35,253,653,825	32,296,375,020
9.4 Other claims within the Eurosystem (net)		–	–
<b>10 ITEMS IN COURSE OF SETTLEMENT</b>		<b>19,426,239</b>	<b>11,418,470</b>
<b>11 OTHER ASSETS</b>	[6]	<b>52,292,753,904</b>	<b>43,700,529,456 (1)</b>
11.1 Euro-area coins		128,668,789	144,326,815
11.2 Securities relating to the investment of reserves and provisions	[4]	43,036,006,461	34,411,765,143
11.3 Intangible fixed assets		103,655,213	99,812,868
11.4 Tangible fixed assets		2,179,613,002	2,284,342,958
11.5 Accruals and prepaid expenses		3,926,869,770	3,252,022,628
11.6 Deferred tax assets		2,108,677,001	2,714,975,615
11.7 Sundry		809,263,668	793,283,429 (1)
<b>TOTAL</b>		<b>773,673,267,962</b>	<b>587,403,724,394 (1)</b>

(1) The 2015 figures have been reclassified. The payments on account of direct taxes have been deducted from the liabilities for taxes to be paid, now shown under *Other liabilities*.

**THE ACCOUNTANT GENERAL:** ROBERTO RINALDI

**THE GOVERNOR:** IGNAZIO VISCO

*Audited and found correct.*

**THE BOARD OF AUDITORS:** LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, ANGELO RICCABONI, SANDRO SANDRI, DARIO VELO

## BALANCE SHEET

LIABILITIES	NOTE	Amounts in euros	
		31.12.2016	31.12.2015
<b>1 BANKNOTES IN CIRCULATION</b>		<b>181,208,154,400</b>	<b>174,323,726,100</b>
<b>2 LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS</b>	[2]	<b>71,983,519,691</b>	<b>24,138,402,283</b>
2.1 Current accounts (covering the minimum reserve system)		69,956,519,691	22,600,402,283
2.2 Deposit facility		1,997,000,000	1,538,000,000
2.3 Fixed-term deposits		–	–
2.4 Fine-tuning reverse operations		–	–
2.5 Deposits relating to margin calls		30,000,000	–
<b>3 OTHER LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS</b>		–	–
<b>4 LIABILITIES TO OTHER EURO-AREA RESIDENTS</b>	[8]	<b>15,649,429,988</b>	<b>7,709,060,030</b>
4.1 General government		9,779,685,154	4,820,695,247
4.1.1 Treasury payment account		9,733,536,062	4,751,990,725
4.1.2 Other liabilities		46,149,092	68,704,522
4.2 Other counterparties		5,869,744,834	2,888,364,783
<b>5 LIABILITIES TO NON-EURO-AREA RESIDENTS</b>	[9]	<b>2,565,236,028</b>	<b>23,062,440</b>
5.1 To EU central banks		–	–
5.2 Other liabilities		2,565,236,028	23,062,440
<b>6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY</b>	[1]	<b>304,095,162</b>	<b>373,191,898</b>
6.1 Financial counterparties		–	–
6.2 General government		304,095,162	373,191,898
6.3 Other counterparties		–	–
<b>7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY</b>	[1]	<b>3,142,681</b>	<b>2,589,316</b>
7.1 Current accounts and deposits		3,142,681	2,589,316
7.2 Other liabilities		–	–
<b>8 COUNTERPART OF SDRs ALLOCATED BY THE IMF</b>	[1]	<b>8,381,911,348</b>	<b>8,370,074,348</b>
<b>9 INTRA-EUROSYSTEM LIABILITIES</b>	[5]	<b>355,667,482,471</b>	<b>248,547,203,497</b>
9.1 Liabilities in respect of debt certificates issued by the ECB		–	–
9.2 Net liabilities relating to the allocation of euro banknotes within the Eurosystem		–	–
9.3 Other liabilities within the Eurosystem (net)		355,667,482,471	248,547,203,497
<b>10 ITEMS IN COURSE OF SETTLEMENT</b>		<b>36,553,002</b>	<b>29,975,075</b>
<b>11 OTHER LIABILITIES</b>	[10]	<b>2,094,559,470</b>	<b>1,544,550,130</b> (1)
11.1 Bank of Italy drafts		169,138,833	119,446,626
11.2 Accruals and income collected in advance		317,183,180	2,791,299
11.3 Sundry		1,608,237,457	1,422,312,205 (1)
<b>12 PROVISIONS</b>	[11]	<b>7,335,325,517</b>	<b>7,144,235,349</b> (1)
12.1 Provisions for specific risks		326,416,336	323,948,034 (1)
12.2 Staff-related provisions		7,008,909,181	6,820,287,315
<b>13 REVALUATION ACCOUNTS</b>	[12]	<b>78,118,157,673</b>	<b>67,980,555,616</b>
<b>14 PROVISION FOR GENERAL RISKS</b>	[11]	<b>22,293,675,075</b>	<b>19,373,675,075</b>
<b>15 CAPITAL AND RESERVES</b>	[13]	<b>25,346,243,254</b>	<b>25,046,243,254</b>
15.1 Capital		7,500,000,000	7,500,000,000
15.2 Statutory reserves		10,106,732,333	9,806,732,333
15.3 Other reserves		7,739,510,921	7,739,510,921
<b>16 NET PROFIT FOR THE YEAR</b>		<b>2,685,782,202</b>	<b>2,797,179,983</b>
<b>TOTAL</b>		<b>773,673,267,962</b>	<b>587,403,724,394</b> (1)

(1) The 2015 figures have been reclassified. The payments on account of direct taxes have been reclassified from the *Tax provision*, included under *Provisions for specific risks*, to *Other liabilities*, net of the relative payments on account.

**THE ACCOUNTANT GENERAL:** ROBERTO RINALDI

**THE GOVERNOR:** IGNAZIO VISCO

*Audited and found correct.*

**THE BOARD OF AUDITORS:** LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, ANGELO RICCABONI, SANDRO SANDRI, DARIO VELO

## PROFIT AND LOSS ACCOUNT

	NOTE	Amounts in euros	
		2016	2015
1.1 Interest income		6,384,047,763	5,568,804,375
1.2 Interest expense		-288,725,078	-133,306,453
<b>1 NET INTEREST INCOME</b>	[14]	<b>6,095,322,685</b>	<b>5,435,497,922</b> (1)
2.1 Realized gains/losses arising from financial operations		363,383,705	406,748,982
2.2 Write-downs on financial assets and positions		-145,881,460	-116,071,618
2.3 Transfers to/from the provisions for general risks for exchange rate, price and credit risks		-2,920,000,000	-2,200,000,000
<b>2 NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS</b>	[15]	<b>-2,702,497,755</b>	<b>-1,909,322,636</b>
3.1 Fee and commission income		25,548,983	23,734,400
3.2 Fee and commission expense		-13,736,253	-11,597,345
<b>3 NET INCOME FROM FEES AND COMMISSIONS</b>	[16]	<b>11,812,730</b>	<b>12,137,055</b>
<b>4 INCOME FROM PARTICIPATING INTERESTS</b>	[17]	<b>216,145,484</b>	<b>168,091,003</b>
<b>5 NET RESULT OF THE POOLING OF MONETARY INCOME</b>	[18]	<b>722,703,575</b>	<b>170,027,640</b>
6.1 Interest Income		943,166,644	990,045,268
6.2 Dividends from equity shares and participating interests		195,882,137	280,731,929
6.3 Gains and losses on financial operations		467,891,233	489,155,001
6.4 Write-downs on financial operations		-46,237,012	-85,249,258
6.5 Other components		53,998,264	39,429,133
<b>6 NET INCOME FROM FINANCIAL ASSETS RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS</b>	[19]	<b>1,614,701,266</b>	<b>1,714,112,073</b>
<b>7 OTHER TRANSFERS FROM PROVISIONS</b>		-	<b>764</b>
<b>8 OTHER INCOME</b>	[20]	<b>80,143,532</b>	<b>68,626,673</b> (1)
<b>TOTAL NET INCOME</b>		<b>6,038,331,517</b>	<b>5,659,170,494</b>
9.1 Staff wages and salaries		-623,136,632	-616,209,165
9.2 Social security and insurance		-160,624,677	-158,239,116
9.3 Other staff costs		-45,069,537	-40,754,000
9.4 Pensions and severance payments		-304,031,716	-290,474,011
9.5 Transfers to/from provisions for accrued expenses and staff severance pay and pensions		-270,021,961	-95,754,333
9.6 Emoluments paid to head office and branch collegial bodies		-2,977,335	-3,038,888
9.7 Administrative expenses		-429,977,625	-444,863,756
9.8 Depreciation of tangible and intangible fixed assets		-154,880,776	-152,798,431
9.9 Banknote production services		-	-
9.10 Other expenses		-51,496,968	-42,386,071
<b>9 EXPENSES AND CHARGES</b>	[21]	<b>-2,042,217,227</b>	<b>-1,844,517,771</b>
<b>10 OTHER TRANSFERS TO PROVISIONS</b>		-	-
<b>PROFIT BEFORE TAX</b>		<b>3,996,114,290</b>	<b>3,814,652,723</b>
<b>11 TAXES ON INCOME FOR THE YEAR AND ON PRODUCTIVE ACTIVITIES</b>	[22]	<b>-1,310,332,088</b>	<b>-1,017,472,740</b> (1)
<b>NET PROFIT FOR THE YEAR</b>		<b>2,685,782,202</b>	<b>2,797,179,983</b>

(1) The 2015 figures have been reclassified to eliminate the item *Extraordinary income and expense*.

**THE ACCOUNTANT GENERAL:** ROBERTO RINALDI

**THE GOVERNOR:** IGNAZIO VISCO

*Audited and found correct.*

**THE BOARD OF AUDITORS:** LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, ANGELO RICCABONI, SANDRO SANDRI, DARIO VELO

## 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 statutory provisions and, where these do not provide any guidance, the Bank applies the relevant rules laid down in the Civil Code, referring to generally accepted accounting principles. The figures in the financial statement are presented in euros, while those in the notes to the accounts are given in millions of euros, unless otherwise stated.

The main statutory provisions of reference 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'). The Decree states that 'in drawing up its annual accounts, the Bank of Italy may adapt, in derogation from the provisions in force, the criteria for recognizing amounts and drawing up the annual accounts to comply with the rules laid down by the ECB in accordance with Article 26.4 of the Statute of the ESCB and the recommendations issued by the ECB 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.

The special rules adopted by the ECB are set out in Guideline No. 34 of 3 November 2016 (published in OJ L347 of 20 December 2016), which contains provisions referring mainly to items of the annual accounts relating to the institutional activities of the ESCB and non-binding recommendations for the other items of the annual accounts.

On the basis of the authority granted by Article 8 of Legislative Decree 43/1998, the Bank of Italy applies in full 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 the same as that used for the monthly financial statement approved, pursuant to Article 8.2 of Legislative Decree 43/1998, by the Minister of Economy and Finance.

- the Bank's Statute, approved by the Presidential Decree of 15 February 2016, 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, the following provisions apply:

- Legislative Decree 127/1991, as amended,

- Article 65 (transactions involving government bonds) of Law 289/2002, as amended by Decree Law 203/2005, converted by Law 248/2005.

*Main changes to the 2016 annual accounts.* – Consistent with the changes to the Italian Civil Code arising from the transposition of Directive 2013/34/EU, the off-balance-sheet accounts reported at the end of the balance sheet have been eliminated, as has the profit and loss statement item *Extraordinary income and expense*. Information on off-balance-sheet accounts is still provided in the notes to the accounts. Profit and loss account items previously reported under *Extraordinary income and expense* have been reclassified, based on their nature, to other ordinary items.

*Accounting policies.* – The accounting policies applied to the main balance sheet items in the preparation of the annual accounts for 2016 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*

- stocks, including those consisting of foreign currency 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 *Securities relating 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 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) for securities held for monetary policy purposes, at amortized cost subject to impairment (i.e., lasting reduction in recoverable value with respect to book value)

- 2) for other securities:
  - a) held to maturity, at amortized cost subject to impairment
  - b) not held to maturity:
    - i) for shares, exchange-traded funds (ETFs) and marketable bonds, at the market price available at the end of the year; for units of UCITS, at the value available at the end of the year published 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 any amount in excess is taken to the profit and loss account
    - ii) for non-marketable bonds, at amortized cost subject to impairment
    - iii) for non-marketable shares and equity interests not represented by shares, at cost subject to impairment
- 3) participating interests in subsidiary and associated companies that constitute permanent investments are valued at cost subject to impairment. The participating interest in the capital of the ECB is valued at cost. The Bank's 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.

Dividends are recognized on a cash basis.

#### *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, basic software and motor vehicles, 25 per cent).

Depreciation begins in the quarter subsequent to that of acquisition both for buildings and for plant and equipment.



#### *INTANGIBLE FIXED ASSETS*

Procedures, studies and designs under development and related advances are capitalized where admissible and valued at purchase price or at directly allocable production cost. Those completed are amortized on the basis of amortization rates deemed congruent with the remaining useful life of the assets.

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 or it is exceptionally long, over the estimated useful life of the software.

Costs incurred in constructing and enlarging communication networks are amortized on a straight line basis over the foreseeable life of the network; one-off contributions included in multi-year contracts are amortized on a straight line basis over the life of the contract.

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 PREPAID EXPENSES*

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 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 (ECB Decision No. 29 of 13 December 2010 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 the weighting of each in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item *Banknotes in circulation*. On the basis of the banknote allocation key, 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 (ECB Decision No. 36 of 3 November 2016 on the allocation of monetary income of the national central banks of member states whose currency is the euro). The adjustments recorded in 2016 arise from the entry into the Eurosystem of the central banks of Latvia in 2014 and Lithuania in 2015; they will terminate at the end of 2019 and 2020 respectively. The adjustments relating to the 2011 entry of the central bank of Estonia ended in 2016.

The interest income and expense on intra-Eurosystem balances are cleared through the accounts of the ECB and 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, the CBPP3, the ABSPP and the PSPP must be recognized to the euro-area NCBs in full 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 (ECB Decision No. 57 of 15 December 2014, OJ L53 of 25 February 2015, as amended). The seigniorage income and the income arising from the above securities purchase programmes are distributed unless they exceed the ECB's net profit for that year or the Council decides to transfer all or part to a provision for exchange rate, interest rate, credit and gold price risk. 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 Governing Council of the ECB may also decide to reduce the seigniorage income for distribution by the amount of the expenses incurred in connection with the issue and handling of banknotes.

The amount distributed to the NCBs is entered in the profit and loss account under *Income from participating interests*.

#### *INTRA-EUROSYSTEM 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 the 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 intra-Eurosystem 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 relating 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's Statute, the provision for general risks also covers risks connected with the Bank's overall activity that cannot be determined individually or allocated objectively.

The riskiness of the foreign exchange position and that of the securities portfolio are evaluated by the methods in use within the Eurosystem, with consideration also given to the size of the revaluation accounts.

#### *TAX PROVISION*

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

#### *STAFF-RELATED PROVISIONS*

The amounts recorded under this item 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 relative 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
- the provision for staff costs includes the estimated amount of costs accrued but not paid at year-end

- 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 entered for the amounts determined on the basis of the expected costs
- transfers to the provision for grants to Bank of Italy pensioners and their surviving dependants are made in accordance with Article 24 of the Rules governing staff severance pay and pensions
- transfers to the provision for severance pay 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.

A defined-contribution supplementary pension fund exists for staff hired starting from 28 April 1993 (see below 'Other assets and liabilities').

#### *OTHER ASSETS AND LIABILITIES*

Receivables are stated at their nominal value, except in the case of diminutions in value connected with particular situations attributable to the counterparty.

Pursuant to Recommendation ECB/1999/NP7 of the Governing Council of the ECB, the costs incurred in connection with the production of banknotes 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. Deferred tax assets include those deriving from the application of Article 65.2 of Law 289/2002, as amended by Decree Law 203/2005, converted by Law 248/2005.

The items *Other assets* and *Other liabilities* include the investments and separate assets of the defined-contribution supplementary pension fund created for staff hired starting from 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* also includes the amount of IRES and IRAP tax payables, net of payments on account, owing 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*.

Securities lending transactions are entered in the balance sheet only if collateral is in the form of a cash deposit in an account of the central bank.

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

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 spot exchange rate of the transaction. The difference between the values at the spot and forward exchange rates 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 of the transaction. The difference between the values at the spot and 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 memorandum accounts include:

- bonds of third parties denominated in euros held on deposit are 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 balance sheet total of the National Resolution Fund, set up within the Bank of Italy under Article 78 of Legislative Decree 180/2015. The Fund has its own capital, which is independent and separate to all effects 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

**Table 4**

<b>Gold, assets and liabilities denominated in foreign currency</b> <i>(millions of euros)</i>	31.12.2016	31.12.2015	Change
<b>Gold (Item 1)</b>	<b>86,558</b>	<b>76,718</b>	<b>9,840</b>
<b>Net assets denominated in foreign currency</b>	<b>35,097</b>	<b>35,669</b>	<b>-572</b>
<b>Assets denominated in foreign currency</b>	<b>43,786</b>	<b>44,415</b>	<b>-629</b>
Claims on the IMF (Sub-item 2.1)	10,163	11,567	-1,404
Securities (Sub-items 2.2 and 3.1.1)	28,812	26,918	1,894
Current accounts and deposits (Sub-items 2.3 and 3.1.3)	4,264	4,528	-264
Reverse operations (Sub-items 2.4 and 3.1.2)	541	1,395	-854
Other assets (Sub-item 2.5)	6	7	-1
<b>Liabilities denominated in foreign currency</b>	<b>8,689</b>	<b>8,746</b>	<b>-57</b>
Counterpart of SDRs allocated by the IMF (Item 8)	8,382	8,370	12
Advances of general government departments (Sub-item 6.2)	304	373	-69
Current accounts and deposits (Sub-item 7.1)	3	3	-

The value of gold amounts to €86,558 million at the end of 2016. The increase of €9,840 million over the end of 2015, matched in revaluation accounts on the

liabilities side, is entirely due to the rise in the metal's price. The volume remains unchanged at 79 million ounces or 2,452 tons.<sup>14</sup> The value of net assets denominated in foreign currency is down from €35,669 million to €35,097 million as a result of the reduction in the net SDR position, which is only partly offset by the appreciation in some of the major foreign currencies against the euro, such as the US dollar and the Japanese yen.<sup>15</sup>

There are unrealized gains at the end of the year that are entered in the revaluation accounts for €10,688 million and unrealized losses that are covered by the corresponding revaluation accounts for €518 million (Table 5).

**Table 5**

<b>Unrealized foreign exchange gains and losses</b> (millions of euros)					
	Revaluation accounts at 31 December 2015	Gains reported in the revaluation accounts	Losses reported		Revaluation accounts at 31 December 2016
			in the revaluation accounts	in the profit and loss account	
Gold	57,297	9,840	–	–	67,137
US dollars	4,770	482	–	–	5,252
Pounds sterling	767	–	- 511	–	256
Japanese yen	786	248	–	–	1,034
Australian dollars	43	29	–	–	72
Canadian dollars	–	61	–	–	61
Special Drawing Rights (SDRs) (1)	352	27	–	–	379
Chinese renminbi	11	–	- 7	–	4
South Korean won	1	1	–	–	2
<b>Total</b>	<b>64,027</b>	<b>10,688</b>	<b>- 518</b>	<b>–</b>	<b>74,197</b>

(1) Includes the valuation of the related hedges.

Claims on the IMF are down by €1,404 million (Table 6). The change mainly reflects repayments by debtor countries to the IMF's holdings. There is a decrease in the Bank's loans to the IMF on behalf of the Italian government under the New Arrangements to Borrow (NAB). These repayments more than offset the increase in the Bank's quota in the IMF in early 2016, which was approved by Parliament in previous years. Italy's quota is thus raised from SDR7.9 billion to SDR15.1 billion: 75 per cent in euros, with an equal amount set against the IMF's holdings deposited in the Bank, and the remaining 25 per cent in deposits of equal parts of euros and SDRs (see the box 'The IMF in the Bank of Italy's balance sheet').

<sup>14</sup> Gold reserves are valued at the year-end market price in euros per fine ounce notified by the ECB. Compared with the end of 2015, gold appreciated by 12.83 per cent (from €973.225 to €1,098.046 per ounce).

<sup>15</sup> Compared with the end of the previous year the pound sterling has fallen from £0.7339 to £0.85618 against the euro and the Chinese renminbi from ¥7.0608 to ¥7.3202. The US dollar has risen from \$1.0887 to \$1.0541 against the euro, the yen from ¥131.07 to ¥123.40, the Canadian dollar from C\$1.5116 to C\$1.4188, the Australian dollar from A\$1.4897 to A\$1.4596, and the Korean won from ₩1,280.78 to ₩1,269.36 The value of SDRs has remained essentially stable, moving from €1.2728 to €1.2746.

Table 6

<b>Accounts with the International Monetary Fund</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
<b>Assets</b>			
<b>Claims on the IMF (Sub-item 2.1)</b>	<b>10,163</b>	<b>11,567</b>	<b>-1,404</b>
a) Reserve Tranche Position in the IMF	1,274	1,113	161
<i>Quota in the IMF</i>	19,208	10,032	9,176
<i>IMF holdings</i>	-17,934	-8,919	-9,015
b) Participation in the PRGT	1,130	1,168	-38
c) Participation in the NAB	1,223	1,656	-433
d) SDRs	6,536	7,630	-1,094
<b>Liabilities</b>			
<b>Counterpart of SDRs allocated by the IMF (Item 8)</b>	<b>8,382</b>	<b>8,370</b>	<b>12</b>

#### 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 €1,274 million at the end of 2016, represents the difference between Italy's quota in the Fund (€19,208 million, equal to SDR15,070 million) and the IMF's holdings deposited in its account with the Bank (€17,934 million, equal to SDR14,070 million) which are funded by the quota paid over time in national currency.
- b) The contribution to the Poverty Reduction and Growth Trust (PRGT), amounting to €1,130 million (SDR887 million), is used to grant long-term loans to countries facing structural balance of payments difficulties.
- c) Loans to the IMF by the Bank of Italy on behalf of the Italian government under the NAB, amounting to €1,223 million (SDR959 million), are used to strengthen the IMF's lending capacity to cope with the financial crisis.
- d) Since 1969 the IMF has allocated SDRs to Italy in proportion to its quota. The last allocations made in 2009 brought Italy's total holding to SDR6,576 million. Following a series of withdrawals, at the end of 2016 Italy's holdings amounted to SDR5,128 million, equal to €6,536 million.

The amount of SDR6,576 million is entered as a liability vis-à-vis the IMF under the item *Counterpart of SDRs allocated by the IMF* (Item 8), totalling €8,382 million at the end of the year.



The portfolio of securities denominated in foreign currency classified as not held to maturity (Table 7) is made up for the most part of bonds and certificates of deposit issued by foreign government bodies. Of the total portfolio, 69 per cent is denominated in US dollars, 14 per cent in yen, 8 per cent in sterling, 4 per cent in Australian dollars and 3 per cent in Canadian dollars.

Table 7

<b>Movements in securities denominated in foreign currency</b> (millions of euros)				
	Non-euro-area residents (Sub-item 2.2)		Euro-area residents (Sub-item 3.1.1)	Total
	Bonds	Units of UCITS	Bonds	
<b>Opening balance</b>	<b>25,899</b>	<b>472</b>	<b>547</b>	<b>26,918</b>
<b>Increases</b>	<b>24,521</b>	<b>15</b>	<b>285</b>	<b>24,821</b>
Purchases	23,842	2	284	24,128
Net gains	83	–	1	84
Net price revaluation gains (1)	–	13	–	13
Net exchange rate revaluation gains (1)	596	–	–	596
<b>Decreases</b>	<b>-22,386</b>	<b>-2</b>	<b>-539</b>	<b>-22,927</b>
Sales and redemptions	-22,154	–	-478	-22,632
Net price revaluation losses (1)	-11	–	-1	-12
Net exchange rate revaluation losses (1)	–	-2	-54	-56
Premiums and discounts	-110	–	-6	-116
Write-downs due to price changes (2)	-111	–	–	-111
<b>Closing balance</b>	<b>28,034</b>	<b>485</b>	<b>293</b>	<b>28,812</b>

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

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, yen and sterling, consist of fixed-term deposits (€1,348 million), current accounts (€2,916 million), reverse operations<sup>16</sup> (€541 million) and foreign banknotes (€5 million). Among the other liabilities denominated in foreign currency, mainly in US dollars, the most important are the liabilities to general government (€304 million, Sub-item 6.2) in respect of advances received for the management of foreign currency cross-border payments and collections.

<sup>16</sup> Sub-item 3.1.2 (*Claims on euro-area residents denominated in foreign currency – reverse operations*) refers to reverse operations with Eurosystem counterparties connected with the short-term US dollar refinancing programme in the amount of €47 million (nil at the end of 2015). Under the programme, the Federal Reserve provides dollars to the ECB using liquidity swap lines for their respective currencies in order to offer short-term dollar funding to Eurosystem counterparties. At the same time the ECB initiates back-to-back swaps with the euro-area NCBs that use US dollar funds to provide liquidity to area counterparties through reverse operations or foreign currency swaps. Back-to-back swaps with the ECB are settled through intra-Eurosystem accounts.

## [2] Monetary policy operations

The amounts outstanding at 31 December 2016 and the average for the year of operations carried out by the Bank of Italy within the framework of the single monetary policy of the Eurosystem are shown in Table 8.

From the end of June 2016 allocations totalling €174 billion have been made for TLTRO II. Early repayments of the TLTROs conducted in previous years amounted to €111 billion. In terms of composition, longer-term operations again predominate. Of these, ordinary operations with a 3-month maturity have declined. Main refinancing operations are also down.

**Table 8**

<b>Monetary policy operations</b> (millions of euros)						
	Balances			Averages		
	31.12.2016	31.12.2015	Change	2016	2015	Change
<b>Lending to euro-area credit institutions (Item 5) (1)</b>						
5.1 Main refinancing operations	16,050	18,728	-2,678	13,905	14,062	-157
5.2 Longer-term refinancing operations	188,188	139,548	48,640	151,762	145,205	6,557
5.3 Fine-tuning reverse operations	–	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	2	13	-11
5.6 Credits relating to margin calls	–	–	–	–	–	–
<b>Total</b>	<b>204,238</b>	<b>158,276</b>	<b>45,962</b>	<b>165,669</b>	<b>159,280</b>	<b>6,389</b>
<b>Securities held for monetary policy purposes (Sub-item 7.1)</b>						
	<b>245,221</b>	<b>121,508</b>	<b>123,713</b>	<b>182,583</b>	<b>73,931</b>	<b>108,652</b>
<b>Liabilities to euro-area credit institutions (Item 2)</b>						
2.1 Current accounts (covering the minimum reserve system)	69,957	22,600	47,357	26,203	18,077	8,126
2.2 Deposit facility	1,997	1,538	459	1,874	147	1,727
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits relating to margin calls	30	–	30	–	–	–
<b>Total</b>	<b>71,984</b>	<b>24,138</b>	<b>47,846</b>	<b>28,077</b>	<b>18,224</b>	<b>9,853</b>

(1) At 31 December 2016 the collateral for lending to euro-area credit institutions amounts to €392 billion.

Sub-item 7.1 includes securities purchased for monetary policy purposes under the three CBPPs, the SMP, the PSPP and the CSPP (Table 9). The securities held under the ABSPP, which was launched at the end of 2014, are reported solely in the ECB's annual accounts.

Generally, the risks associated with monetary policy operations are shared among the NCBs as decided by the ECB Governing Council (see the box 'Rules on risk sharing in monetary policy operations').

In accordance with the Council's decisions, all securities acquired through the existing monetary policy programmes are valued at amortized cost subject to impairment based on Eurosystem criteria. They are therefore not subject to fluctuations in value associated with changes in interest rates.

The annual impairment tests conducted at the level of the Eurosystem on the portfolios held for monetary policy purposes do not show evidence of any losses. Based on the analysis performed, the indicators of impairment found did not have any impact on expected cash flows

Table 9

<b>Movements in securities held for monetary policy purposes (Sub-item 7.1)</b> (millions of euros)							
	Total bonds (1)						Total
	CBPP1	CBPP2	CBPP3	SMP	PSPP	CSPP	
<b>Opening balance</b>	<b>4,398</b>	<b>1,539</b>	<b>24,011</b>	<b>19,987</b>	<b>71,573</b>	<b>–</b>	<b>121,508</b>
<b>Increases</b>	<b>–</b>	<b>–</b>	<b>11,776</b>	<b>164</b>	<b>116,899</b>	<b>5,863</b>	<b>134,702</b>
Purchases	–	–	11,776	–	116,899	5,863	134,538
Net premiums and discounts	–	–	–	164	–	–	164
<b>Decreases</b>	<b>- 2,401</b>	<b>- 642</b>	<b>- 2,338</b>	<b>- 3,746</b>	<b>- 1,826</b>	<b>- 36</b>	<b>- 10,989</b>
Sales and redemptions	- 2,396	- 642	- 1,876	- 3,746	–	–	- 8,660
Net premiums and discounts	- 5	–	- 462	–	- 1,826	- 36	- 2,329
<b>Closing balance</b>	<b>1,997</b>	<b>897</b>	<b>33,449</b>	<b>16,405</b>	<b>186,646</b>	<b>5,827</b>	<b>245,221</b>

(1) The first two covered bond purchase programmes were approved in 2009 and 2011 and concluded in 2010 and 2012. The SMP was rolled out in 2010 and ended in 2012.

At the end of the year, the market value of the securities held for monetary policy purposes amounts to €247 billion.

Table 10

<b>Comparison with market price of securities held for monetary policy purposes (Sub-item 7.1)</b> (millions of euros)						
	31.12.2016		31.12.2015		Change	
	Amortized cost	Market price	Amortized cost	Market price	Amortized cost	Market price
CBPP1	1,997	2,119	4,398	4,626	-2,401	-2,507
CBPP2	897	992	1,539	1,662	-642	-670
CBPP3	33,449	33,675	24,011	23,790	9,438	9,885
SMP	16,405	18,607	19,987	22,756	-3,582	-4,149
PSPP	186,646	185,811	71,573	72,730	115,073	113,081
CSPP	5,827	5,756	–	–	5,827	5,756
<b>Total</b>	<b>245,221</b>	<b>246,960</b>	<b>121,508</b>	<b>125,564</b>	<b>123,713</b>	<b>121,396</b>

### [3] Other claims on euro-area credit institutions

Item 6 on the asset side, amounting to €35 million (€101 at the end of 2015), includes current accounts in connection with the management of cross-border euro payments and collections for government bodies (€22 million) and other current accounts denominated in euros (€13 million).

### [4] Securities portfolio

Table 11

<b>Securities portfolio</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
<b>A. SECURITIES DENOMINATED IN EUROS</b> (Sub-items 4.2 and 7.2 and Item 8)			
<b>1. Securities held to maturity</b>	<b>87,535</b>	<b>93,489</b>	<b>-5,954</b>
a) Government securities (Sub-item 7.2)	71,748	77,530	-5,782
b) Other bonds (Sub-items 4.2 and 7.2)	1,706	1,744	-38
c) Government securities assigned to Bank of Italy (Item 8)	14,081	14,215	-134
<b>2. Securities other than those held to maturity</b>	<b>10,267</b>	<b>8,421</b>	<b>1,846</b>
a) Government securities (Sub-item 7.2)	9,373	7,496	1,877
b) Other bonds (Sub-items 4.2 and 7.2)	894	925	-31
<b>Total A</b>	<b>97,802</b>	<b>101,910</b>	<b>-4,108</b>
<b>B. SECURITIES RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS (Sub-item 11.2)</b>			
<b>1. Securities held to maturity and other permanent investments</b>	<b>33,503</b>	<b>24,773</b>	<b>8,730</b>
a) Government securities	32,484	23,751	8,733
- of which: denominated in foreign currency	2,779	-	2,779
b) Other bonds	435	438	-3
c) Shares and participating interests	584	584	-
- in subsidiary companies and entities	527	527	-
- in other companies and entities	2	2	-
- in other companies and entities denom. in for. currency	55	55	-
<b>2. Securities other than those held to maturity and other permanent investments</b>	<b>9,496</b>	<b>9,639</b>	<b>-143</b>
a) Government securities	284	17	267
- of which: denominated in foreign currency	268	-	268
b) Shares and participating interests	6,571	6,659	-88
- in other companies and entities	6,571	6,659	-88
c) ETFs and shares/units of UCITS	2,641	2,963	-322
- of which: denominated in foreign currency	1,410	1,220	190
<b>Total B</b>	<b>42,999</b>	<b>34,412</b>	<b>8,587</b>
<b>Totale (A+B)</b>	<b>140,801</b>	<b>136,322</b>	<b>4,479</b>

Securities denominated in euros (Total A) consist exclusively of bonds and are detailed in:

- Sub-item 4.2 (*Claims on non-euro-area residents – securities*) consists mostly of bonds issued by international organizations

- Sub-item 7.2 (*Securities of euro-area residents – other securities*) consists mainly of bonds issued by the Italian government and by other euro-area governments
- Item 8 (*General government debt*) 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 12**

<b>A. Movements in securities denominated in euros</b> (millions of euros)						
	Total bonds					Total
	Securities held to maturity		(item 8)	Securities other than those held to maturity		
	(Sub-item 4.2)	(Sub-item 7.2)		(Sub-item 4.2)	(Sub-item 7.2)	
<b>Opening balance</b>	<b>1,143</b>	<b>78,131</b>	<b>14,215</b>	<b>378</b>	<b>8,043</b>	<b>101,910</b>
<b>Increases</b>	<b>–</b>	<b>378</b>	<b>–</b>	<b>217</b>	<b>3,213</b>	<b>3,808</b>
Purchases	–	378	–	206	3,197	3,781
Net gains	–	–	–	7	16	23
Net revaluations (1)	–	–	–	4	–	4
<b>Decreases</b>	<b>-34</b>	<b>-6,164</b>	<b>-134</b>	<b>-150</b>	<b>-1,434</b>	<b>-7,916</b>
Sales and redemptions	-20	-5,522	-50	-145	-1,208	-6,945
Net revaluations (1)	–	–	–	–	-109	-109
Net premiums and discounts	-14	-642	-84	-4	-83	-827
Write-downs (2)	–	–	–	-1	-34	-35
<b>Closing balance</b>	<b>1,109</b>	<b>72,345</b>	<b>14,081</b>	<b>445</b>	<b>9,822</b>	<b>97,802</b>

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

Securities relating to investments of reserves and provisions (Total B) are denominated in euros and in foreign currency (mainly US dollars and Japanese yen).<sup>17</sup> At year end, 77 per cent of the portfolio consists of bonds, mostly government securities, and 23 per cent of shares, participating interests, ETFs and shares/units of UCITS. Almost all of the investments in shares consist of listed securities. The majority of issuers are Italian and the remainder mainly from other euro-area countries.

<sup>17</sup> The Bank also makes investments denominated in foreign currency. The position is hedged against foreign exchange rate risk by forward sales of the corresponding currency. These assets constitute a separate position with respect to the foreign currency assets and liabilities described under the heading *Gold, assets and liabilities denominated in foreign currency*.

Table 13

<b>B. Movements in securities relating to the investment of reserves and provisions (Sub-item 11.2)</b> (millions of euros)						
	Total bonds		Shares and other participating interests		ETFs and shares/units of UCITS	Total
	Securities held to maturity	Securities other than those held to maturity	Permanent investments	Temporary investments		
<b>Opening balance</b>	<b>24,189</b>	<b>17</b>	<b>584</b>	<b>6,659</b>	<b>2,963</b>	<b>34,412</b>
<b>Increases</b>	<b>11,239</b>	<b>272</b>	<b>–</b>	<b>1,251</b>	<b>404</b>	<b>13,166</b>
Purchases	11,106	259	–	908	127	12,400
Net gains	–	–	–	193	246	439
Net price revaluation gains (1)	–	–	–	150	–	150
Exchange rate adjustments (2)	133	13	–	–	31	177
<b>Decreases</b>	<b>-2,509</b>	<b>-5</b>	<b>–</b>	<b>-1,339</b>	<b>-726</b>	<b>-4,579</b>
Sales and redemptions	-2,399	–	–	-1,317	-646	-4,362
Net price revaluation losses (1)	–	-1	–	–	-80	-81
Net premiums and discounts	-110	–	–	–	–	-110
Write-downs due to price changes (3)	–	-4	–	-22	–	-26
<b>Closing balance</b>	<b>32,919</b>	<b>284</b>	<b>584</b>	<b>6,571</b>	<b>2,641</b>	<b>42,999</b>

(1) Increase/decrease in revaluation accounts. – (2) Gains and losses that are reported, net of the valuation of the relative hedges of exchange rate risk, in the revaluation accounts or among write-downs in the profit and loss account. – (3) Taken to the profit and loss account.

Within the securities portfolio as a whole (Totals A and B), securities held to maturity are valued at amortized cost, subject to impairment based on Eurosystem criteria. The annual impairment tests conducted on these securities do not show evidence of any losses. The portfolio contains securities whose book value (€9,953 million) is higher than their market value at year end (€9,501 million).

The Bank of Italy is the sole shareholder of SIDIEF SpA (Table 14).

Table 14

<b>Participating interests in subsidiary companies</b>						
	At the end of 2016		Subsidiary company data for 2015			
	Shares held	% of capital held	Book value	Shareholders' equity	Profit	Dividends distributed
(millions of euros)						
<b>Società Italiana Di Iniziative Edilizie e Fondiarie SpA - Rome</b>						
(Capital of €507,000,000 represented by 507,000 shares with a par value of €1,000 each)	507,000	100	527	553	2	–

The Bank's accounts are not consolidated with those of the investee company as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991. Moreover, consolidation would not contribute in any way to providing a true and fair view of the Bank's balance sheet, financial position and profit and loss account. The other

interests held as permanent investments include shares of the Bank for International Settlements, which are denominated in SDRs, valued at cost and translated at historic exchange rates. The Bank's stake is equal to 9.4 per cent of the BIS's capital.

## [5] Intra-eurosystem claims and liabilities

Table 15

Positions with the ECB and the other euro-area NCBs (millions of euros)			
	31.12.2016	31.12.2015	Change
<b>Assets</b>			
9.1 Participating interest in the ECB	1,333	1,333	–
9.2 Claims arising from the transfer of foreign reserves to the ECB	7,134	7,134	–
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem	35,254	32,296	2,958
9.4 Other (net) claims within the Eurosystem	–	–	–
<b>Total</b>	<b>43,721</b>	<b>40,763</b>	<b>2,958</b>
<b>Liabilities</b>			
9.3 Other liabilities within the Eurosystem (net)	355,667	248,547	107,120
<b>Total</b>	<b>355,667</b>	<b>248,547</b>	<b>107,120</b>

On the asset side:

- the *Participating interest in the ECB*<sup>18</sup> is unchanged at €1,333 million. *Claims arising from the transfer of foreign reserves to the ECB*,<sup>19</sup> which are computed according to the Bank's subscription, also remained stable at €7,134 million.
- *net claims relating to the allocation of euro banknotes within the Eurosystem* amount to €35,254 million (see 'Banknotes in circulation').

On the liability side: *Other liabilities within the Eurosystem (net)* amount to €355,667 million (compared with €248,547 in 2015) and represent the Bank's net position vis-à-vis the Eurosystem, mainly deriving from the operation of the TARGET2 system. The latter gives rise to an overall debtor position of €356,559 million at the end of 2016 (compared with €248,859 million in 2015). At the end of the year the overall position is reduced by (a) a claim of €169 million (€142 million in 2015) for the ECB interim profit distribution pertaining to 2016 and (b) a claim

<sup>18</sup> 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 a new country joins the EU. At the end of 2016 the Bank of Italy's share of the ECB's subscribed capital amounts to 12.3108 per cent. Considering only the NCBs belonging to the Eurosystem, it amounted to 17.4890 per cent at the end of the year.

<sup>19</sup> *Claims arising from the transfer of foreign reserves to the ECB* represent the interest-earning claim denominated in euros recorded at the start of the third stage of EMU following the transfer of gold, foreign securities and foreign currencies to the ECB in proportion to the Bank's share of the ECB's capital, as in the case of the other Eurosystem NCBs. This item is adjusted when the participating interest in the ECB's subscribed capital is revised.

of €723 million (€170 million in 2015) deriving from the net result of the pooling of monetary income in 2016.

## [6] Other assets

Table 16

<b>Other assets (Item 11)</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
11.1 Euro-area coins	129	144	-15
11.2 Securities relating to the investment of reserves and provisions (1)	43,036	34,412	8,624
11.3 Intangible fixed assets	103	100	3
11.4 Tangible fixed assets	2,180	2,284	-104
11.5 Accruals and prepaid expenses	3,927	3,252	675
11.6 Deferred tax assets	2,109	2,715	-606
11.7 Sundry	809	794	15
Other investments for staff severance pay and pensions	109	114	-5
Supplementary pension fund	446	390	56
Other components	254	290	-36
<b>Total</b>	<b>52,293</b>	<b>43,701</b>	<b>8,592</b>

(1) The balance at 31 December 2016 was composed of securities amounting to €42,999 million and reverse operations of €37 million.

This item consists mainly of investments in securities of reserves and provisions (see *Securities portfolio*).

The composition of *Intangible fixed assets* (Sub-item 11.3) and movements during the year are shown in Table 17.

Table 17

<b>Movements in intangible fixed assets (Sub-item 11.3)</b> (millions of euros)				
	Procedures, studies and designs completed	Multi-year software licence fees	Assets under development and related advances	Total
<b>Opening balance</b>	<b>90</b>	<b>4</b>	<b>6</b>	<b>100</b>
<b>Increases</b>	<b>20</b>	<b>13</b>	<b>22</b>	<b>55</b>
Purchase and improvement costs (1)	–	13	22	35
Transfers	20	–	–	20
<b>Decreases</b>	<b>-25</b>	<b>-7</b>	<b>-20</b>	<b>-52</b>
Amortization	-25	-7	–	-32
Transfers	–	–	-20	-20
<b>Closing balance</b>	<b>85</b>	<b>10</b>	<b>8</b>	<b>103</b>

(1) Includes increases in internally developed intangible assets.



The composition of *Tangible fixed assets* (Sub-item 11.4) and movements during the year are shown in Tables 18 and 19.

Table 18

Movements in tangible assets (property)							
(millions of euros)							
	Premises		Investment property for allocations to severance and pension provision (2)		Other property (2)		Total
	Buildings	Land (1)	Buildings	Land	Buildings	Land	
<b>Opening balance (gross)</b>	<b>2,918</b>	<b>938</b>	<b>9</b>	<b>2</b>	<b>416</b>	<b>71</b>	<b>4,354</b>
Accumulated depreciation	-1,922	–	-4	–	-265	–	-2,191
<b>Opening balance (net)</b>	<b>996</b>	<b>938</b>	<b>5</b>	<b>2</b>	<b>151</b>	<b>71</b>	<b>2,163</b>
<b>Increases</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>34</b>	<b>24</b>	<b>59</b>
Transfers (cost)	1	–	–	–	127 (3)	24 (3)	152
Transfers (accum. depreciation)	–	–	–	–	-93 (3)	–	-93
<b>Decreases</b>	<b>-127</b>	<b>-24</b>	<b>–</b>	<b>–</b>	<b>-9</b>	<b>-5</b>	<b>-165</b>
Sales and/or disposals (cost)	–	–	–	–	-8	-2	-10
Sales and/or disposals (accum. depreciation)	–	–	–	–	5	–	5
Depreciation	-93	–	–	–	–	–	-93
Transfers (cost)	-127	-24	–	–	–	–	-151
Transfers (accum. depreciation)	93	–	–	–	–	–	93
Other changes (cost)	–	–	–	–	-6 (4)	-3 (4)	-9
<b>Closing balance (gross)</b>	<b>2,792</b>	<b>914</b>	<b>9</b>	<b>2</b>	<b>529</b>	<b>90</b>	<b>4,336</b>
Accumulated depreciation	-1,922	–	-4	–	-353	–	-2,279
<b>Closing balance (net)</b>	<b>870</b>	<b>914</b>	<b>5</b>	<b>2</b>	<b>176</b>	<b>90</b>	<b>2,057</b>

(1) Land, including that on which buildings stand, is not depreciated. – (2) Buildings/land for sale or no longer in use or usable for the Bank's activities. – (3) Transfers due to the closing of some TSUs. – (4) Write-downs net of reversals of previous valuation losses.

The year-end market value of the buildings owned by the Bank is estimated to be €3,631 million (€3,883 million in 2015).

Table 19

Revaluations of property				
	Premises		Investment property for allocations to severance and pension provision	
	Number	Revaluation amount (millions of euros)	Number	Revaluation amount (millions of euros)
Revaluation reserve under Law 72/1983	110	613	5	3
Revaluation reserve under Law 408/1990	140	643	3	–
Revaluation reserve under Law 413/1991	32	8	2	–
Revaluation reserve under Law 342/2000	144	891	5	2
Revaluation reserve under Law 266/2005	151	1,560	4	2

Table 20

<b>Movements in tangible fixed assets (other)</b>					
<i>(millions of euros)</i>					
	Equipment, furniture & furnishings	Plant	Coins and collections	Assets under development and related advances	Total
<b>Opening balance (gross)</b>	<b>211</b>	<b>535</b>	<b>2</b>	<b>10</b>	<b>758</b>
Accumulated depreciation	-163	-474	–	–	-637
<b>Opening balance (net)</b>	<b>48</b>	<b>61</b>	<b>2</b>	<b>10</b>	<b>121</b>
<b>Increases</b>	<b>5</b>	<b>20</b>	<b>–</b>	<b>16</b>	<b>41</b>
Purchase and improvement costs	5	12	–	16	33
Transfers (cost)	–	8	–	–	8
<b>Decreases</b>	<b>-11</b>	<b>-19</b>	<b>–</b>	<b>-9</b>	<b>-39</b>
Sales and/or disposals (cost)	-9	-7	–	–	-16
Sales and/or disposals (accum. depr.)	9	7	–	–	16
Depreciation	-11	-19	–	–	-30
Transfers (cost)	–	–	–	-9	-9
<b>Closing balance (gross)</b>	<b>207</b>	<b>548</b>	<b>2</b>	<b>17</b>	<b>774</b>
Accumulated depreciation	-165	-486	–	–	-651
<b>Closing balance (net)</b>	<b>42</b>	<b>62</b>	<b>2</b>	<b>17</b>	<b>123</b>

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

Table 21

<b>Accruals and income collected in advance (Sub-item 11.5)</b>			
<i>(millions of euros)</i>			
	31.12.2016	31.12.2015	Change
<b>Accrued income</b>	<b>3,913</b>	<b>3,241</b>	<b>672</b>
Interest accrued on securities denominated in euros	3,773	3,016	757
Interest accrued on refinancing operations	–	121	- 121
Interest accrued on reserve deposits	3	–	3
Interest accrued on securities denominated in foreign currencies	130	101	29
Interest accrued on other foreign currency assets	6	2	4
Other	1	1	–
<b>Prepaid expenses</b>	<b>14</b>	<b>11</b>	<b>3</b>
Administrative expenses	14	11	3
<b>Total</b>	<b>3,927</b>	<b>3,252</b>	<b>675</b>

*Deferred tax assets* (Sub-item 11.6) show a net decrease of €606 million, being the combined effect of:

- a decrease of €630 million as a result of offsetting the remaining tax loss for 2002 against taxable income for 2016
- a net increase of €24 million in prepaid taxes associated with other items of the profit and loss account.

Table 22

Deferred tax assets (millions of euros)								
	31.12.2016				31.12.2015			
	Temporary differences	IRES (1)	IRAP (2)	Total	Temporary differences	IRES	IRAP	Total
Tax loss for 2002	7,193	1,978	–	1,978	9,483	2,608	–	2,608
Staff costs accrued but not paid	224	62	12	74	162	45	9	54
Civil law depreciation not tax deductible (Revaluation reserve under Law 266/2005)	143	39	8	47	143	39	8	47
Other	28	8	2	10	19	5	1	6
<b>Total</b>	<b>7,588</b>	<b>2,087</b>	<b>22</b>	<b>2,109</b>	<b>9,807</b>	<b>2,697</b>	<b>18</b>	<b>2,715</b>
Deferred tax liabilities (millions of euros)								
	31.12.2016				31.12.2015			
	Temporary differences	IRES (1)	IRAP (2)	Total	Temporary differences	IRES	IRAP	Total
Realized gains on securities, property and other assets	4	1	–	1	5	2	–	2
Depreciation on differences generated by separating land and buildings (3)	36	10	2	12	27	7	1	8
Other	13	4	–	4	14	4	–	4
<b>Total</b>	<b>53</b>	<b>15</b>	<b>2</b>	<b>17</b>	<b>46</b>	<b>13</b>	<b>1</b>	<b>14</b>
(1) Calculated using a tax rate of 27.5 per cent. – (2) Calculated using the tax rates in force. – (3) Depreciation on the increased tax values generated by divesting land of buildings for sale or no longer in use or usable for the Bank's activities.								

The amount of deferred tax assets and liabilities is calculated using the tax rates that are expected to be in force at the time the temporary differences that have generated them are reversed. The bulk of the deferred tax assets included in the balance sheet derive from the carry-forward of the residual tax losses from the bond conversion under Law 289/2002. The rules governing the carry-forward of these losses are set out in Article 65 of Law 289/2002 as amended by Law 248/2005. They state that the losses may be utilized with no time restriction to offset up to 50 per cent of corporate taxable income (IRES) each year. The inclusion of deferred tax assets in the balance sheet is based on the reasonable expectation – considering the outlook for the Bank's income and the applicable tax law – of offsetting the full amount of the above-mentioned tax losses. The other items that give rise to deferred tax assets include allocations to the provision for staff costs and allowances for depreciation of tangible and intangible fixed assets not yet deducted from tax.

Movements during the year in deferred tax assets and liabilities are set out in Tables 43 and 44 of 'Notes on the items of the profit and loss account'.

*Sundry* (Sub-item 11.7 on the asset side) includes the balance sheet total of the defined-contribution supplementary pension fund for staff hired starting from 28 April 1993, which is matched on the liability side by an equal amount entered in Sub-item 11.3 of *Other liabilities*.

## [7] Banknotes in circulation

The total value of banknotes in circulation issued by the Eurosystem is distributed among the NCBs according to their respective shares (see 'Legal basis, method of preparation and layout of the annual accounts'). The item, which represents the Bank of Italy's share (16.1 per cent),<sup>20</sup> is up by €6,884 million (from €174,324 million to €181,208 million). To a lesser extent, the value of banknotes effectively put into circulation by the Bank is also up (from €142,027 million to €145,955 million). This amount is lower than the notional amount assigned to the Bank and the difference of €35,254 million is shown as a claim on the Eurosystem in Item 9.3 on the asset side, *Net claims relating to the allocation of euro banknotes within the Eurosystem*. The average stock of banknotes effectively put in circulation is up from €136,213 million to €139,895 million, an increase of 2.7 per cent compared with a 4.7 per cent increase for the euro area.

## [8] Liabilities to general government and other counterparties

Item 4 on the liability side, which amounts to €15,649 million at the end of 2016 compared with €7,709 in 2015, refers mainly to the deposits held by the Treasury with the Bank of Italy (€9,733 million) and euro-denominated deposits of counterparties other than credit institutions (€5,870 million).

Table 23

Liabilities to other euro-area residents (Item 4) (millions of euros)			
	31.12.2016	31.12.2015	Change
4.1 General government	9,779	4,821	4,958
4.1.1 Treasury payment account	9,733	4,752	4,981
4.1.2 Other liabilities	46	69	-23
4.2 Other counterparties	5,870	2,888	2,982
<b>Total</b>	<b>15,649</b>	<b>7,709</b>	<b>7,940</b>

The year-end balance on the Treasury deposits with the Bank of Italy is up with respect to 2015, but the annual average balance is down from €18,635 million to €14,867 million.

### GOVERNMENT DEPOSITS

Government deposits held with the Eurosystem are regulated by Decision ECB/2014/8 and Guideline ECB/2014/9 of 20 February 2014, amended by Guideline ECB/2014/22 and Decision ECB/2014/23 of 5 June 2014. Accordingly, (a) as of 1 December 2014, overnight and fixed term government

<sup>20</sup> This is equal to 92 per cent of the Bank's share in the capital of the ECB (17.4890 per cent) considering only the Eurosystem NCBs. The remaining 8 per cent is assigned to the ECB.

deposits are remunerated with an interest rate no higher than the Eonia and the Eurepo respectively and (b) as of June 2014, 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 with the interest rate on the deposit facility, if negative.

At 31 December 2016 *Other liabilities* consist exclusively of debt positions with general government in respect of advances received for the management of cross-border euro payments and collections amounting to €46 million (compared with €69 million in 2015).

*Liabilities to other counterparties* (Sub-item 4.2) amount to €5,870 million, up from €2,888 million in 2015. Other deposits making up the item include the holdings of the National Resolution Fund set up by the Bank of Italy as National Resolution Authority.

#### [9] Liabilities to non-euro-area residents denominated in euros

Sub-item 5.2 (*Other liabilities*) amounts to €2,565 million (€23 million in 2015) and includes accounts held by customers using the Eurosystem Reserve Management Services (ERMS)<sup>21</sup> for €1,701 million and other deposits by non-residents in the amount of €864 million, including the Single Resolution Board.<sup>22</sup>

#### [10] Other liabilities

As detailed below:

**Table 24**

<b>Other liabilities (Item 11)</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
11.1 Cashier's cheques	169	120	49
11.2 Accruals and income collected in advance	317	3	314
11.3 Sundry	1,609	1,422	187
<i>of which: Supplementary pension fund</i>	446	390	56
<b>Total</b>	<b>2,095</b>	<b>1,545</b>	<b>550</b>

<sup>21</sup> The 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.

<sup>22</sup> Contributions paid by Italian credit institutions and collected by the Bank, in its role as National Resolution Authority, on behalf of the Single Resolution Board pass through its accounts.

*Accruals and income collected in advance* (Sub-item 11.2) are detailed below:

Table 25

<b>Accruals and income collected in advance (Sub-item 11.2)</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
<b>Accrued expenses</b>	<b>317</b>	<b>2</b>	<b>315</b>
Interest accrued on refinancing operations	300	–	300
Interest accrued on reserve deposits	–	1	-1
Interest accrued on liabilities denominated in foreign currency	17	1	16
<b>Income collected in advance</b>	<b>–</b>	<b>1</b>	<b>-1</b>
Other	–	1	-1
<b>Total</b>	<b>317</b>	<b>3</b>	<b>314</b>

*Other liabilities* include the amount of IRES and IRAP tax payables, net of payments on account, due for the reference period. The interest accrued on refinancing operations refers to longer-term operations (see *Net interest income*).

## [11] Provisions for general risks and other provisions

The balances and movements of *Provisions* are shown in Tables 26 and 27.

Table 26

<b>Movements in provisions for specific risks (Sub-item 12.1)</b> (millions of euros)			
	Insurance provision	Tax provision (1)	Total
<b>Opening balance</b>	<b>310</b>	<b>14</b>	<b>324</b>
<b>Increases</b>	<b>–</b>	<b>4</b>	<b>4</b>
Other increases	–	4	4
<b>Decreases</b>	<b>–</b>	<b>-1</b>	<b>-1</b>
Other decreases	–	-1	-1
<b>Closing balance</b>	<b>310</b>	<b>17</b>	<b>327</b>

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

Movements in the *Tax Provision*, which only refers to deferred tax liabilities for IRES and IRAP, are shown in Table 44.

Table 27

<b>Movements in staff-related provisions (Sub-item 12.2)</b>					
<i>(millions of euros)</i>					
	For staff severance pay and pensions	For staff costs	For severance pay (1)	For grants to BI pensioners and their survivors	Total
<b>Opening balance</b>	<b>6,611</b>	<b>204</b>	<b>3</b>	<b>3</b>	<b>6,821</b>
<b>Increases</b>	<b>123</b>	<b>159</b>	<b>–</b>	<b>–</b>	<b>282</b>
Allocations	123	159	–	–	282
<b>Decreases</b>	<b>–</b>	<b>-94</b>	<b>–</b>	<b>–</b>	<b>-94</b>
Withdrawals	–	-94	–	–	-94
<b>Closing balance</b>	<b>6,734</b>	<b>269</b>	<b>3</b>	<b>3</b>	<b>7,009</b>

(1) Includes severance pay accrued by contract staff and ordinary staff prior to joining the supplementary pension fund.

*Staff-related provisions* (Sub-item 12.2) amount to €7,009 million. In 2016:

- the severance pay provision rises by €123 million, totalling €6,734 million at the end of 2016. The allocations made during the year aligns the mathematical reserves to the new basis for computation (revised personnel classification system and amendments to social security legislation) and to changes in the economic and financial parameters (specifically the updated GDP projections and modifications to the real rate of wage revaluation);
- the provision for staff costs increases by €65 million to €269 million at the end of 2016. This is attributable to net provisions of €81 million for costs associated with early retirement measures approved in 2016 and in prior years.

On 30 March 2016 the Board of Directors approved the trade union agreements of 29 February and 22 March 2016 setting out early retirement measures for Bank employees who meet certain requirements. The measures apply to Head Office staff and the personnel of the branches not affected by the reorganization of the branch network. The allocation for the year is computed on the basis of the best estimate of the number of staff likely to take advantage of the incentive plan.

Table 28

<b>Movements in the provision for general risks (Item 14)</b>		
<i>(millions of euros)</i>		
	31.12.2016	31.12.2015
<b>Opening balance</b>	<b>19,374</b>	<b>17,174</b>
<b>Increases</b>	<b>2,920</b>	<b>2,200</b>
Allocations	2,920	2,200
<b>Decreases</b>	<b>–</b>	<b>–</b>
Withdrawals	–	–
<b>Closing balance</b>	<b>22,294</b>	<b>19,374</b>

The financial buffers have been adjusted to reflect the increase in the size of the Bank's balance sheet and the risk exposure associated with the gradual rolling out of

the private and public securities purchases programmes established in connection with monetary policy decisions. In order to gradually increase the resources available to cope with the most adverse scenarios the *Provision for general risks* (Item 14) has been increased by €2,920 million (€2,200 million in 2015).

## [12] Revaluation accounts

These include unrealized gains deriving from the valuation at market prices of gold, foreign currency, securities and forward operations (see *Gold, assets and liabilities denominated in foreign currency* and *Securities portfolio*).

Table 29

Revaluation accounts (Item 13)			
<i>(millions of euros)</i>			
	Opening balance	Net revaluations	Closing balance
<b>Exchange rate revaluations</b>	<b>64,027</b>	<b>10,172</b>	<b>74,199</b>
<i>of which:</i> gold	57,297	9,840	67,137
net foreign currency assets (1)	6,730	330	7,060
securities relating to the investment of reserves and provisions (1)	–	2	2
<b>Price revaluations</b>	<b>3,954</b>	<b>-35</b>	<b>3,919</b>
<i>of which:</i> foreign currency securities	130	1	131
securities denominated in euros	688	-105	583
securities relating to the investment of reserves and provisions	3,136	69	3,205
<b>Total</b>	<b>67,981</b>	<b>10,137</b>	<b>78,118</b>

(1) Includes net revaluations relating to operations to hedge exchange rate risks on the Bank's SDR position and foreign currency investments relating to reserves and provisions.

## [13] Capital and reserves

As detailed below:

Table 30

Capital and reserves (Item 15)			
<i>(millions of euros)</i>			
	31.12.2016	31.12.2015	Change
<b>15.1 Capital</b>	<b>7,500</b>	<b>7,500</b>	<b>–</b>
<b>15.2 Statutory reserves</b>	<b>10,107</b>	<b>9,807</b>	<b>300</b>
Ordinary	5,496	5,196	300
Extraordinary	4,611	4,611	–
<b>15.3 Other reserves</b>	<b>7,739</b>	<b>7,739</b>	<b>–</b>
Revaluation reserve under Law 72/1983	694	694	–
Revaluation reserve under Law 408/1990	683	683	–
Revaluation reserve under Law 413/1991	17	17	–
Revaluation reserve under Law 342/2000	897	897	–
Revaluation reserve under Law 266/2005	1,521	1,521	–
Fund for the renewal of tangible fixed assets	1,805	1,805	–
Surplus from the merger of UIC (Law 231/2007)	2,122	2,122	–
<b>Total</b>	<b>25,346</b>	<b>25,046</b>	<b>300</b>



The movements in the ordinary and extraordinary reserves are detailed below:

Table 31

<b>Movements in ordinary and extraordinary reserves (Sub-item 15.2)</b> (millions of euros)			
	Balance at 31.12.2015	Allocation of 2015 profit (1)	Balance at 31.12.2016
Ordinary	5,196	300	5,496
Extraordinary	4,611	–	4,611
<b>Total</b>	<b>9,807</b>	<b>300</b>	<b>10,107</b>

(1) In accordance with the Statute.

The distribution of the shareholdings in the Bank of Italy's capital at 31 December 2016 is detailed in Table 32. At the end of 2016, 72.5 per cent of the shareholdings are held by credit institutions, 7.3 per cent by insurance companies, 19.4 per cent by social security institutions and 0.8 per cent by banking foundations.

Table 32

	<b>Shareholders in the Bank of Italy</b>			
	At the end of 2016		At the end of 2015	
	Number	Shares	Number	Shares
SpAs engaged in banking, including companies referred to in Article 1, Legislative Decree 356/1990	80	217,471	49	226,675
Social security institutions	10	58,360	7	48,500
Insurance companies	5	21,813	5	23,525
Banking foundations	7	2,356	3	1,300
<b>Total</b>	<b>102</b>	<b>300,000</b>	<b>64</b>	<b>300,000</b>

### *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 National Resolution Fund set up within the Bank of Italy pursuant to Article 78 of Legislative Decree 180/2015.

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

Commitments to the IMF for granting loans, which relate to measures by the IMF for financing to be disbursed on behalf of the Italian government, during the year owing to the reduction in commitments relating to the NAB.

The Bank participates in the automatic securities lending programmes managed by specialized intermediaries, involving securities forming part of foreign currency assets,

covered bonds purchased in connection with monetary policy operations, portfolios of securities purchased under the PSPP and, since 2016, under the CSPP and SMP. The market value of securities lent by the Bank under these programmes amounts to €842 million for foreign currency securities, €10,977 million for covered bonds, and €40,079 million for PSPP, CSPP and SMP securities.

**Table 33**

<b>Commitments and collateral granted</b> (millions of euros)			
	31.12.2016	31.12.2015	Change
<b>Orders in progress</b>	<b>15</b>	<b>67</b>	<b>-52</b>
Purchases	9	34	-25
Sales	6	33	-27
<b>Forward operations</b>	<b>6,421</b>	<b>3,554</b>	<b>2,867</b>
Forward sales of foreign currencies	5,283	1,910	3,373
Forward purchases of foreign currencies	561	364	197
Futures contracts purchased	427	1,229	-802
Futures contracts sold	150	51	99
<b>Commitments</b>	<b>9,649</b>	<b>38,694</b>	<b>-29,045</b>
To the IMF for loans granted	9,649	38,694	-29,045
<b>Collateral granted</b>	<b>13</b>	<b>13</b>	<b>-</b>
<b>Third-party securities and valuables on deposit with the Bank</b>	<b>100,670</b>	<b>102,614</b>	<b>-1,944</b>
<b>Total balance sheet of the National Resolution Fund</b>	<b>1,797</b>	<b>1,752</b>	<b>45</b>
<b>Commitments of the supplementary pension fund</b>	<b>85</b>	<b>67</b>	<b>18</b>
<b>Total</b>	<b>118,650</b>	<b>146,761</b>	<b>-28,111</b>

## THE NATIONAL RESOLUTION FUND

Legislative Decree 180/2015 transposing Directive 2014/59/EU (Bank Recovery and Resolution Directive) provides for one or more Italian resolution funds to be set up to finance the resolution of credit institutions and investment firms in financial difficulty. These funds are financed mainly by ordinary and extraordinary contributions from credit institutions and investment firms and provide the National Resolution Authority with the necessary financial resources to carry out resolutions. The Bank of Italy has been designated as NRA and has accordingly established a Resolution and Crisis Management Unit reporting directly to the Governing Board. The Unit's function is to draft and implement resolutions. On 18 November 2015 the Bank issued a measure creating the National Resolution Fund. The Fund has its own capital that is to all effects and purposes 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, the Fund issues an annual report, audited by the same independent auditing company that audits the Bank's annual accounts, and that is published at the same time. Its operating and administrative costs figure among those of the Bank, as do the indirect costs for resolution activity. The Fund has separate fiscal personality for IRES and IRAP taxation purposes.

## Notes on the items of the profit and loss account

### [14] Net interest income

*Net interest income* (Item 1) is the balance of interest income and interest expense for the year, excluding interest on financial assets relating to the investment of reserves and provisions, which is entered under Item 6. In 2016, this item is up by €659 million, from €5,436 million to €6,095 million. The change is due mainly to the increase in interest on securities purchased under the APP, which is partly offset by the negative interest on TLTRO II operations recognized under interest expense.

Total interest income amounts to €6,384 million (Table 34), up a total of €815 million on 2015.

**Table 34**

<b>Interest income (Sub-item 1.1) (1)</b> (millions of euros)			
	2016	2015	Change
Securities denominated in euros	5,993	5,127	866
<i>of which:</i> CBPP1, CBPP2, CBPP3	372	324	48
SMP	995	1,188	-193
PSPP	1,427	358	1,069
CSPP	10	–	10
Government bond conversion under Law 289/2002	710	709	1
Other bonds	2,479	2,548	-69
Main refinancing operations	2	7	-5
Longer-term refinancing operations	–	132	-132
Intra-ESCB balances	4	19	-15
Current accounts (covering the minimum reserve system)	43	1	42
Other in euros	25	8	17
Securities denominated in foreign currency	284	257	27
Claims on the IMF	9	6	3
Other in foreign currency	24	12	12
<b>Total</b>	<b>6,384</b>	<b>5,569</b>	<b>815</b>

(1) Interest earned on *financial assets relating to the investment of reserves and provisions* is shown as a separate income item (see *Net income from financial assets relating to the investment of reserves and provisions*).

Total interest income on securities denominated in euros amounts to €5,993 million. The €866 million increase on 2015, in an environment of declining average yield rates, is due to a substantial rise in the volume of securities held for monetary policy purposes specifically relating to purchases under the PSPP.

The interest on main refinancing operations is down from €7 million to €2 million and there is a negative net balance on that on longer-term refinancing operations, which is classified as interest expense (€132 million in income in 2015).

Interest income on intra-ESCB balances shows a decrease from €19 million to €4 million as a result of the decline in the interest on *Net claims relating to the allocation of euro banknotes within the Eurosystem*, down from €16 million to €3 million, and on *Claims arising from the transfer of foreign reserves to the ECB*, down from €3 million to €1 million (see 'Notes on the items of the balance sheet' – *Intra-Eurosystem claims and liabilities*).<sup>23</sup> The decline is due to lower average interest rates.

Again in 2016 there is a positive balance of €43 million on interest on current accounts for the minimum reserve system (€1 million in 2015). More specifically, the interest paid on the minimum reserve requirement amounts to €1 million, while that on reserves in excess of the requirement comes to €44 million.<sup>24</sup>

Among other interest denominated in euros, interest income on the deposit facility and on deposits of non-bank intermediaries is up from €4 million to €22 million owing to negative interest rates.

There is an increase in interest income on assets denominated in foreign currency, particularly securities denominated in US dollars, owing to the higher interest rates recorded during the year.

Interest expense amounts to €289 million (Table 35). This represents an overall increase of €156 million with respect to 2015. The change is due mainly to the negative interest recorded in 2016 TLTRO II operations, which more than offsets the reduction reported in the other components.

**Table 35**

<b>Interest expense (Sub-item 1.2)</b> <i>(millions of euros)</i>			
	2016	2015	Change
Longer-term refinancing operations	243	–	243
Treasury payments account	7	25	-18
Intra-ESCB balances	27	102	-75
Counterpart of SDRs allocated by the IMF	7	4	3
Other liabilities denominated in foreign currency	5	2	3
<b>Total</b>	<b>289</b>	<b>133</b>	<b>156</b>

As previously stated, there is a negative net balance of €243 million on interest on longer-term refinancing operations, the result of €306 million in negative interest

<sup>23</sup> Balances from the allocation of euro banknotes within the Eurosystem are remunerated at the marginal rate of interest on MROs. The remuneration on claims arising from the transfer of reserves to the ECB is also based on the marginal interest rate on MROs, less 15 per cent to take account of the part of reserves consisting of gold, which does not generate interest.

<sup>24</sup> The accounts for the minimum reserves requirement are remunerated at the average of the marginal interest rates on Eurosystem MROs during the reserve maintenance period. Reserves in excess of the requirement are remunerated at the interest rate on the deposit facility, which is negative throughout 2016.

on the new TLTRO II operations and positive interest of €63 million on the other operations (€132 million in 2015). The contraction in these other operations is due to early repayments made on TLTROs assigned in past years and, to a marginal extent, on the reduction in average interest rates.

#### TLTRO II REMUNERATION

Targeted longer-term refinancing operations (TLTRO II) are remunerated on the basis of the interest rate on main refinancing operations prevailing at the time of allotment and this remuneration can be reduced up to the amount of the deposit facility rate depending on the increase in loans to households and firms by participating banks observed in January 2018 (see 'Background to European monetary policy'). Therefore, as the rate used to calculate the interest recognized in the profit and loss account was not known at the end of 2016 and could not be reliably estimated, it has been agreed at the Eurosystem level to use the negative deposit facility rate under the prudence principle.

The net interest expense on the Treasury payments account is down from €25 million to €7 million. The total for 2016<sup>25</sup> includes additional interest due to the Treasury<sup>26</sup> of €64 million (€62 million in 2015), net of €57 million (€37 million in 2015) interest income as a result of applying the negative interest rates on the deposit facility to the balance exceeding the part eligible for remuneration.

There is a significant contraction in interest expense on negative balances in TARGET2 again in 2016 (from €102 million to €27 million) owing to the rate of remuneration falling to zero from 10 March 2016.<sup>27</sup>

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

The result for 2016 (Table 36) includes: (a) net profit from foreign exchange trading for €251 million, (b) net profit from trading in securities denominated in euros for €23 million and in foreign currency for €84 million, and (c) write-downs due to exchange rate changes (€146 million). The net profits on foreign exchange trading refer mainly to trading in US dollars; those of trading in securities denominated in foreign currency, mainly to securities denominated in US dollars, yen and pound sterling. Write-downs due to price changes in securities denominated in foreign currency mainly refer to US dollar-denominated securities. Transfers to the provision for general risks amount to €2,920 million.

<sup>25</sup> See 'Notes on the items of the balance sheet' – *Liabilities to general government and other counterparties* and the box 'Government deposits'.

<sup>26</sup> Supplementary 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 balance on the Treasury's interest-bearing account as the difference, if positive, between the yield on the securities originally purchased by the Bank to set up the related holdings and not yet matured and the reference rate used to compute the interest on the account.

<sup>27</sup> The balance in TARGET2 is remunerated at the marginal rate of interest on MROs.

Table 36

<b>Net result of financial operations, write-downs and transfers to/from risk provisions (Item 2)</b>			
<i>(millions of euros)</i>			
	2016	2015	Change
Profits (+) and losses (-) on financial operations	364	407	-43
Foreign exchange trading	251	311	-60
Trading in securities denominated in euros	23	25	-2
Trading in securities denominated in foreign currency	84	65	19
Derivatives contracts	2	5	-3
Other transactions	4	1	3
Write-downs (-) of financial assets and positions	-146	-116	-30
Due to exchange rate changes	–	-80	80
Due to price changes			
– securities denominated in euros	-35	-2	-33
– securities denominated in foreign currency	-111	-34	-77
Transfers to (-) the provision for general risks for exchange rate, price and credit risk	-2,920	-2,200	-720
<b>Total</b>	<b>-2,702</b>	<b>-1,909</b>	<b>-793</b>

### [16] Net income from fees and commissions

The *Net income from fees and commission* (Item 3) amounts to €12 million, the same as in the previous year. *Fee and commission income* (Sub-item 3.1) includes the fees payable by participants in TARGET2 (€6 million), the fees payable for the management of securities used as collateral for monetary policy operations (€4 million), for financial services on behalf of general government (€4 million), for substitute protest declarations (€2 million), for Correspondent Central Banking Model services (€2 million), for the retail clearing system (€3 million) and the fees for use of Central Credit Register information (€2 million). *Fee and commission expense* (Sub-item 3.2) relates primarily to the centralized securities management service (€10 million).

### [17] Income from participating interests

*Income from participating interests* (Item 4) amounts to €216 million, up €48 million on the previous year:

- €47 million, being the Bank's share of the ECB's profits earned in 2015 and distributed in 2016 (€26 million in the previous year)
- €169 million, being the ECB's interim profit distribution for 2016 (€142 million in 2015).<sup>28</sup>

### [18] Net result of the pooling of monetary income

The result (Item 5) reflects the pooling of monetary income in 2016 amounting to €723 million (€170 million in 2015, of which €2 million relating to the recalculation

<sup>28</sup> The balance of €40 million was received in February 2017.

of amounts for previous years). This is the difference between the monetary income pooled by the Bank, amounting to €1,010 million, and that distributed, totalling €1,733 million.

## 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. The liability base of each NCB is mainly composed of (a) banknotes in circulation, (b) liabilities to euro-area credit institutions relating to monetary policy operations denominated in euros, (c) net intra-Eurosystem liabilities resulting from TARGET2 transactions, and (d) net intra-Eurosystem liabilities relating to the allocation of euro banknotes within the Eurosystem. The interest paid on the liabilities included in the liability base is deducted from the monetary income to be pooled. 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 relating to the allocation of euro banknotes within the Eurosystem, and (f) a limited 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 (Decision ECB/2009/16 and Decision ECB/2011/17 of the Governing Council) and public sector securities purchased under the PSPP (Decision ECB/2015/10) are considered to bear interest at the marginal rate used by the Eurosystem for MROs. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying the marginal rate used by the Eurosystem for MROs.

The total monetary income pooled by 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, which may be larger or smaller, redistributed to it depends on two elements. The first relates to possible differences between NCBs regarding the interest income from specific earmarkable assets and the interest expense for some components of the liability base. The second element arises from the fact that the amounts of the above assets and liabilities in the NCBs' balance sheets do not generally coincide with their share in the capital of the ECB.

The monetary income thus distributed, along with other income from investments (including investments of capital and reserves), contributes to the profit or loss for the year.

### **[19] Net income from financial assets relating to the investment of reserves and provisions**

Item 6 of the profit and loss account amounts to €1,615 million, down €99 million on 2015 (Table 37).

Table 37

<b>Net income from financial assets relating to the investment of reserves and provisions (Item 6)</b> (millions of euros)			
	2016	2015	Change
Interest	943	990	-47
Dividends from equity shares and participating interests	196	281	-85
Profits/losses from trading and disposals	468	489	-21
Write-downs	-46	-85	39
Other components	54	39	15
<b>Total</b>	<b>1,615</b>	<b>1,714</b>	<b>-99</b>

The decrease is due to the reduction in interest income, lower dividends and the decline in the net profit from trading. The latter includes a net profit of €85 million deriving from the sale of the Bank's interest in CDP Equity (formerly Fondo Strategico Italiano SpA) and a total of €242 million from the sale of UCITS. The further decline in income from interest is mainly due to lower interest rates, which more than offset the effect of the increase in the average stock of bond holdings.

## [20] Other income

*Other income* (Item 8) amounts to €80 million, up €11 million with respect to the previous year (Table 38).

Table 38

<b>Other income (Item 8)</b> (millions of euros)			
	2016	2015	Change
Rental income	5	5	–
Procedures, studies and designs completed	12	10	2
Other	63	54	9
<b>Total</b>	<b>80</b>	<b>69</b>	<b>11</b>

The item includes reimbursement from other Eurosystem NCBs for the development of platforms, applications and IT infrastructure by the Bank of Italy in cooperation with the other central bank providers. The increase is due for the most part to reimbursements for the TARGET2 and TARGET2-Securities platforms amounting to €46 million in 2016, against €38 million in 2015.

## [21] Expenses and charges

Expenses and charges (Item 9) amount to €2,042 million, against €1,845 in 2015.



Table 39

<b>Sundry expenses and charges (Item 9)</b> (millions of euros)			
	2016	2015	Change
Staff wages and salaries	623	616	7
Social security and insurance	161	158	3
Other staff costs	45	41	4
Pensions and severance payments	304	291	13
Transfers to/from provisions for accrued expenses and staff severance pay and pensions	270	96	174
Emoluments paid to head office and branch collegial bodies	3	3	–
Administrative expenses	430	445	-15
Depreciation of tangible and intangible fixed assets	155	153	2
Banknote production services (1)	–	–	–
Other expenses	51	42	9
<b>Total</b>	<b>2,042</b>	<b>1,845</b>	<b>197</b>

(1) Costs for external banknote production services and purchases of banknotes.

The increase in operating expenses is mainly due to non-recurring expenses under the Sub-item *Transfers to/from provisions for accrued expenses and staff severance pay and pensions*. This sub-item includes €123 million in allocations to the staff pension and severance pay fund and €81 million in charges associated with early retirement measures (see ‘Notes on the items of the balance sheet’ – *Provisions and provision for general risks*).

Gross employee compensation (including contract workers), comprising wages and salaries, overtime and accrued expenses not yet paid, amounts to €623 million, against €616 million in 2015. The average number of full-time equivalent employees (taking into account overtime, part-time and unpaid absences) is 7,258. The average gross per capita wage is €85,800, up from €84,100 in 2015.

Table 40

<b>The Bank's staff</b>				
Composition of the Bank's staff (1)	Average number of employees in service		Percentage composition	
	2016	2015	2016	2015
Managerial Area	2,607	2,095	37.7	30.0
Operational Area	4,314	4,883	62.3	70.0
<b>Total</b>	<b>6,921</b>	<b>6,978</b>	<b>100.0</b>	<b>100.0</b>
Contract workers	39	37		

(1) With the reform of the personnel classification system, in effect as of 1 July 2016, Bank employees are separated into two areas: managerial and operational.

Total staff costs, i.e. gross wages and salaries plus related costs (pension and social security contributions) and other staff expenses (including per diem expenses for missions and transfers), amount to €829 million, against €815 million in 2015.

*Emoluments paid to head and branch collegial bodies* include the emoluments paid to members of the Board of Directors (€412,230), the Board of Auditors (€137,430) and the Governing Board. The Board of Directors has fixed, as of 2014, the emoluments to be paid to future members of the Governing Board at €450,000 to the Governor, €400,000 to the Senior Deputy Governor and €315,000 to each of the three Deputy Governors. The Governor, the Senior Deputy Governor and the three Deputy Governors in office have voluntarily adjusted their emoluments accordingly for the duration of their term.

*Administrative expenses* amount to €430 million (€445 million in 2015). The decrease is due above all to lower costs for the purchase of raw materials and subsidiary materials for banknote production. The expenses associated with participation in Eurosystem technological infrastructure (rising from €12 million to €22 million) are included under hardware e software costs.

**Table 41**

<b>Administrative expenses</b> (millions of euros)			
	2016	2015	Change
<b>Services</b>	<b>366</b>	<b>365</b>	<b>1</b>
Hardware and software (1)	104	101	3
Security services, banknote escort and guards	61	64	-3
Building and equipment maintenance	75	71	4
Utilities	23	25	-2
Equipment rental and software leasing	13	14	-1
Canteen and cleaning services	23	23	–
Other	67	67	–
<b>Costs of materials and consumables</b>	<b>64</b>	<b>80</b>	<b>-16</b>
Banknote production	46	63	-17
Publications	12	12	–
Office supplies	3	3	–
Other	3	2	1
<b>Total</b>	<b>430</b>	<b>445</b>	<b>-15</b>

(1) Includes costs of using Eurosystem technological infrastructure.

*Other expenses*, amounting to €51 million, include €32 million for taxes, of which €26 million for IMU (municipal property tax) and TASI (municipal services tax).

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

Taxes for the year (Item 11) amount to €1,310 million and comprise current taxes due, prior-year taxes and the change in deferred tax assets and liabilities (see *Deferred tax assets* in 'Notes on the items of the balance sheet' – *Other assets*).

Table 42

Composition of taxes on income for the year (Item 11)						
<i>(millions of euros)</i>						
	2016			2015		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (-)	-418	-285	-703	-321	-219	-540
Prior-year taxes (+/-)	2	-	2	-5	-	-5
Change in deferred tax assets (+/-)	-610	4	-606	-478	9	-469
Change in deferred tax liabilities (+/-)	-2	-1	-3	-3	-	-3
<b>Taxes for the year (-)</b>	<b>-1,028</b>	<b>-282</b>	<b>-1,310</b>	<b>-807</b>	<b>-210</b>	<b>-1,017</b>

IRES for the year amounts to €1,028 million (€807 million in 2015), of which €418 million for current taxes and €612 million for the net change in deferred tax assets and liabilities. The latter is due almost exclusively to the reduction in deferred tax assets from offsetting past tax losses (€630 million).

The total charge for IRAP is €282 million (€210 million in 2015). Current taxes amount to €285 million and the net change in deferred tax assets and liabilities is positive by €3 million.

Table 43

Movements in deferred tax assets			
<i>(millions of euros)</i>			
	IRES	IRAP	Total
<b>Initial amount</b>	<b>2,697</b>	<b>18</b>	<b>2,715</b>
<b>Increases</b>	<b>46</b>	<b>9</b>	<b>55</b>
Deferred tax assets recognized during the year	46	9	55
<b>Decreases</b>	<b>-656</b>	<b>-5</b>	<b>-661</b>
Deferred tax assets cancelled during the year	-656	-5	-661
<i>of which: relating to tax losses carried forward</i>	-630	-	-630
<b>Final amount</b>	<b>2,087</b>	<b>22</b>	<b>2,109</b>

Table 44

Movements in deferred tax liabilities			
<i>(millions of euros)</i>			
	IRES	IRAP	Total
<b>Initial amount</b>	<b>13</b>	<b>1</b>	<b>14</b>
<b>Increases</b>	<b>3</b>	<b>1</b>	<b>4</b>
Deferred tax liabilities recognized during the year	3	1	4
<b>Decreases</b>	<b>-1</b>	<b>-</b>	<b>-1</b>
Deferred tax liabilities cancelled during the year	-1	-	-1
<b>Final amount</b>	<b>15</b>	<b>2</b>	<b>17</b>

### *Post-balance-sheet events*

The euro/US dollar exchange rate stands at 1.0597 at the end of February 2017, representing a depreciation in the value of the dollar since the end of 2016, when the exchange rate was 1.0541. By contrast, the values of the yen, Canadian dollar and Australian dollar have risen to 118.83, 1.3984, and 1.3807 respectively (123.40, 1.4188 and 1.4596 at end-2016). The pound sterling is stable at 0.85305 (0.85618 at the end of the year).

## PROPOSALS OF THE BOARD OF DIRECTORS

The Board of Directors, in accordance with the general principles set forth in the Statute concerning the need to preserve the Bank's capital resources (Article 37.2) and shareholders' ownership rights (Article 3.2), and having received the approval of the Board of Auditors, resolved on 28 November 2016 to propose to the Meeting of Shareholders the addition of a special item to be used to stabilize over the long term the amount of net profits paid to the shareholders under the dividend policy in force.

The item will be created when allocating the net profit in accordance with Article 38.2.b of the Statute. It will reflect the difference between the upper bound of the range indicated in the dividend policy in force at the time and the dividend actually distributed; the overall amount cannot exceed €450 million.

The sum, which is entered in the balance sheet under *Other liabilities*, will be used to supplement the annual dividend if the latter falls below the lower bound of the range, but only to the extent necessary to make the payment equal to this lower bound. The Meeting of Shareholders will ask the Board of Directors to grant the shareholders, if the conditions are met and without further formalities, the supplement to the dividend immediately after the approval of the annual accounts and the related proposal for the allocation of net profit.

Accordingly, the Board of Directors, 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 2016 for approval by the Meeting of Shareholders.

	Euros
– to the ordinary reserve .....	150,000,000
– a dividend to the shareholders .....	340,000,000
<i>of which:</i> to the ordinary reserve (Art. 3.4 of the Statute) .....	132,609,067
– to the special item for stabilizing dividends .....	40,000,000
– to the State, the remaining amount of .....	<u>2,155,782,202</u>
<b>Total</b>	<b><u>2,685,782,202</u></b>

In accordance with Article 3.4 of the Statute, and the adjustment period provided by Article 43 of the Statute having ended, no dividend will be paid on the portions of shareholdings exceeding the 3 per cent limit and the sum will instead be allocated to the Bank's statutory reserves. There were 117,008 shares that exceeded this limit on the

date indicated in Article 38.2.b of the Statute; the corresponding dividend – equal to €132,609,067 – has been allocated to the ordinary reserve.

**THE GOVERNOR**

Ignazio Visco



**DOCUMENTS ATTACHED  
TO THE ANNUAL ACCOUNTS**





**REPORT OF THE BOARD OF AUDITORS**  
ON THE 123<sup>RD</sup> FINANCIAL YEAR OF THE BANK OF ITALY  
AND THE ACCOUNTS FOR THE YEAR ENDING 31 DECEMBER 2016

*To the shareholders,*

We have examined the annual accounts of the Bank of Italy for the year ending 31 December 2016, drawn up in accordance with the accounting standards 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 the same principles into account in performing the checks required by Article 20 of the Bank of Italy's Statute.

In our opinion the annual accounts of the Bank of Italy for the year ending 31 December 2016 have been prepared in accordance with the accounting standards and valuation methods indicated in the Notes to the Accounts. They comply with the law in force and with the harmonized accounting rules laid down by the Governing Council of the ECB and made applicable for the purposes of the annual accounts by Article 8 of Legislative Decree 43/1998.

We call particular attention to the following matters, which are treated at length in the Notes to the Accounts and the Management Report:

- a) The inclusion in the balance sheet of deferred tax assets, deriving chiefly from the carry-forward of the residual tax loss from the bond conversion under Law 289/2002, is based on the reasonable expectation, considering the outlook for the Bank's income, of offsetting their full amount. Regarding the result for the year, deferred tax assets diminish by €606 million (from €2,715 million to €2,109 million).
- b) The Board of Directors has approved the transfer of €2,920 million to the provision for general risks, which is now expressly provided for in Article 39 of the Statute.
- c) On 28 November 2016 the Board of Directors, in accordance with the general principles set forth in the Statute concerning the need to preserve the Bank's capital resources (Article 37.2) and shareholders' ownership rights (Article 3.2) – with our approval – resolved to propose to the Meeting of Shareholders the addition of a special item to be used to stabilize over the long term the amount of net profits paid to the shareholders under the dividend policy in force.

We attest that in our opinion the total amount of the Bank's general and specific risk provisions is prudent. In particular, the allocation of €123 million to the *Provision for staff severance pay and pensions* reflects the alignment of the mathematical reserves to the new basis for computation and to changes in the economic and financial parameters

with the consequent write-back of the excess allocated prudently to the provision for 2015.

We have examined the management report, required under Article 37 of the Statute, that accompanies the annual accounts and consider it to be consistent with said accounts.

During the financial year ending 31 December 2016 we verified compliance with the law, with the Bank's Statute and General Regulations, and with the principles of correct management.

We have attended all the meetings of the Board of Directors and performed the checks and controls within the scope of our authority, including checks on the quantities of cash and valuables belonging to the Bank and third parties. 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 thank warmly.

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

No significant facts warranting mention in this report have emerged in the course of our auditing activity, as described above, or from our discussions with the independent auditor and the heads of the corporate functions.

The accounts submitted for your approval show the following results:

Assets .....	€	773,673,267,962
Liabilities .....	€	745,641,242,506
Capital and reserves .....	€	<u>25,346,243,254</u>
Net profit for the year.....	€	<u>2,685,782,202</u>

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

– to the ordinary reserve .....	€	150,000,000
– a dividend to the shareholders .....	€	340,000,000
<i>of which:</i> to the ordinary reserve (pursuant to Art. 3.4 of the Statute) .....	€	132,609,067
– to the special item for stabilizing dividends.....	€	40,000,000
– the remaining amount to the State .....	€	<u>2,155,782,202</u>
Total .....	€	<u>2,685,782,202</u>

We note that on the date indicated in Article 38.2.b of the Statute there were 117,008 shares exceeding the limit indicated in Article 3.4 of the Statute, and that, since the adjustment period provided by Article 43 of the Statute has ended, the corresponding dividend – equal to €132,609,067 – will be allocated to the ordinary reserve.

Bearing in mind the provisions of Article 37.2 of the Statute, we recommend that you approve the annual accounts for 2016 that have been submitted to you (the balance sheet, the profit and loss account, the notes to the accounts and the management report) and the proposed allocation of the net profit for the year pursuant to Article 38 of the Statute.

Rome, 14 March 2017

THE BOARD OF AUDITORS

Dario Velo (Chairman)  
Lorenzo De Angelis  
Gian Domenico Mosco  
Angelo Riccaboni  
Sandro Sandri

## BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES

SIDIEF spa – SOCIETÀ ITALIANA DI INIZIATIVE EDILIZIE E FONDIARIE – ROMA

### STATO PATRIMONIALE AL 31 DICEMBRE 2015

ATTIVO	(importi in euro)	
	31.12.2015	31.12.2014
<b>A) Crediti verso soci per versamenti ancora dovuti</b>	–	–
<b>B) Immobilizzazioni</b>		
I <i>Immateriali</i>		
4) concessioni, licenze, marchi e diritti simili	79.194	26.928
7) altre	150.681	301.362
<i>Totale</i>	229.875	328.290
II <i>Materiali</i>		
1) terreni e fabbricati	525.207.806	509.950.509
2) impianti e macchinari	10.261	2.605
3) attrezzature industriali e commerciali	216.015	585
4) altri beni	263.554	250.197
<i>Totale</i>	525.697.636	510.203.896
III <i>Finanziarie</i>		
2) crediti		
d) verso altri	106.043	120.452
<i>Totale immobilizzazioni finanziarie</i>	106.043	120.452
<b>Totale attivo immobilizzato</b>	<b>526.033.554</b>	<b>510.652.638</b>
<b>C) Attivo circolante</b>		
I <i>Rimanenze</i>		
4) prodotti finiti e merci	–	1.045.771
5) acconti	–	30.098
<i>Totale</i>	–	1.075.869
II <i>Crediti</i>		
1) verso clienti		
– entro 12 mesi	8.772.792	7.414.137
4bis) crediti tributari		
– entro 12 mesi	819.949	39.733
4ter) imposte anticipate		
– entro 12 mesi	3.266.312	3.576.564
5) verso altri		
– entro 12 mesi	40.054	19.097
<i>Totale crediti</i>	12.899.107	11.049.531
III <i>Attività finanziarie che non costituiscono immobilizzazioni</i>		
6) altri titoli	6.062.940	27.515.490
<i>Totale</i>	6.062.940	27.515.490
IV <i>Disponibilità liquide</i>		
1) depositi bancari e postali	32.273.327	33.517.512
2) assegni	82.200	294.000
3) danaro e valori in cassa	1.702	1.373
<i>Totale</i>	32.357.229	33.812.885
<b>Totale attivo circolante</b>	<b>51.319.276</b>	<b>73.453.775</b>
<b>D) Ratei e risconti attivi</b>	<b>238.801</b>	<b>304.160</b>
<b>Totale attivo</b>	<b>577.591.631</b>	<b>584.410.573</b>

## STATO PATRIMONIALE AL 31 DICEMBRE 2015

PASSIVO	(importi in euro)	
	31.12.2015	31.12.2014
<b>A) Patrimonio netto</b>		
I Capitale Sociale	507.000.000	507.000.000
II Riserva da sovrapprezzo delle azioni	21.222.851	21.222.851
III Riserve di rivalutazione	16.668.304	16.668.304
IV Riserva legale	3.950.073	3.906.465
VII Altre riserve		
– Riserva straordinaria facoltativa	2.154.198	2.154.198
Totale		
IX Utile (perdita) d'esercizio	2.007.157	872.157
<b>Totale patrimonio netto</b>	<b>553.002.583</b>	<b>551.823.975</b>
<b>B) Fondi per rischi e oneri</b>		
2) per imposte, anche differite	698.341	524.719
3) altri	9.229.311	13.494.030
<b>Totale fondi per rischi e oneri</b>	<b>9.927.652</b>	<b>14.018.749</b>
<b>C) Trattamento fine rapporto di lavoro subordinato</b>	<b>1.951.578</b>	<b>1.835.166</b>
<b>D) Debiti</b>		
6) acconti		
– entro 12 mesi	15.209	192.071
7) debiti verso fornitori		
– entro 12 mesi	7.552.905	7.086.330
12) debiti tributari		
– entro 12 mesi	189.547	5.019.145
13) debiti verso istituti di previdenza e di sicurezza sociale		
– entro 12 mesi	221.746	324.312
14) altri debiti		
– entro 12 mesi	4.463.641	4.110.783
<b>Totale debiti</b>	<b>12.443.048</b>	<b>16.732.641</b>
<b>E) Ratei e risconti passivi</b>	<b>266.770</b>	<b>42</b>
<b>Totale passivo</b>	<b>577.591.631</b>	<b>584.410.573</b>
<b>CONTI D'ORDINE</b>		
3) beni di terzi presso l'impresa		
– beni di terzi presso l'impresa a titolo di deposito o comodato	1	1
4) altri conti d'ordine	5.461.120	5.073.910
<b>Totale conti d'ordine</b>	<b>5.461.121</b>	<b>5.073.911</b>

**CONTO ECONOMICO AL 31 DICEMBRE 2015**

	(importi in euro)	
	2015	2014
<b>A) Valore della produzione</b>		
1) ricavi delle vendite e delle prestazioni	30.348.526	31.068.688
5) altri ricavi e proventi (vari)	9.233.715	8.552.922
<b>Totale valore della produzione</b>	<b>39.582.241</b>	<b>39.621.610</b>
<b>B) Costi della produzione</b>		
6) per materie prime, sussidiarie, di consumo e di merci	118.421	67.730
7) per servizi	9.897.505	10.060.650
8) per godimento di beni di terzi	137.652	154.262
9) per il personale		
a) salari e stipendi	4.099.693	3.587.311
b) oneri sociali	1.190.650	1.141.568
c) trattamento di fine rapporto	309.993	271.499
d) trattamento di quiescenza e simili	39.439	32.040
e) altri costi	201.749	11.931
<i>Totale</i>	<i>5.841.524</i>	<i>5.044.349</i>
10) ammortamenti e svalutazioni		
a) ammortamenti delle immobilizzazioni immateriali	190.431	165.002
b) ammortamenti delle immobilizzazioni materiali	6.035.036	6.007.725
d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	424.209	1.780.096
<i>Totale</i>	<i>6.649.676</i>	<i>7.952.823</i>
12) accantonamenti per rischi	77.477	13.000
14) oneri diversi di gestione	12.383.321	11.375.494
<b>Totale costi della produzione</b>	<b>35.105.576</b>	<b>34.668.308</b>
<b>Differenza tra valore e costi di produzione (A-B)</b>	<b>4.476.665</b>	<b>4.953.302</b>
<b>C) Proventi e oneri finanziari</b>		
16) Altri proventi finanziari		
c) da titoli iscritti nell'attivo circolante	619.982	711.414
d) proventi diversi dai precedenti (altri)	295.356	591.985
<i>Totale</i>	<i>915.338</i>	<i>1.303.399</i>
17) Interessi e altri oneri finanziari (altri)	468.380	89.250
17 bis) Utile e perdite su cambi	-	4
<b>Totale proventi e oneri finanziari</b>	<b>446.958</b>	<b>1.214.145</b>
<b>D) Rettifiche di valore di attività finanziarie</b>		
19) svalutazioni		
c) di titoli iscritti nell'attivo circolante	-	131.250
<b>Totale rettifiche di valore di attività finanziarie</b>	<b>-</b>	<b>131.250</b>
<b>E) Proventi e oneri straordinari</b>		
20) proventi		
- plusvalenze da alienazione	3.597.753	745.570
- imposte esercizi precedenti	273.786	234.902
- varie	465.653	4.049.085
<i>Totale proventi straordinari</i>	<i>4.337.192</i>	<i>5.029.557</i>
21) oneri		
- imposte esercizi precedenti	-	80.600
- varie	989.800	1.667.098
<i>Totale</i>	<i>989.800</i>	<i>1.747.698</i>
<b>Totale delle partite straordinarie</b>	<b>3.347.392</b>	<b>3.281.859</b>
<b>Risultato prima delle imposte (A-B±C±D±E)</b>	<b>8.271.015</b>	<b>9.318.056</b>
22) imposte su reddito dell'esercizio, correnti, differite e anticipate		
a) imposte correnti	5.779.983	6.918.921
b) imposte differite	173.622	-210.622
c) imposte anticipate	310.253	1.737.600
<i>Totale</i>	<i>6.263.858</i>	<i>8.445.899</i>
<b>23) UTILE (PERDITA) DELL'ESERCIZIO</b>	<b>2.007.157</b>	<b>872.157</b>

**REPORT OF THE  
INDEPENDENT AUDITING COMPANY**





## Relazione della società di revisione indipendente ai sensi dell'art.37 dello Statuto di Banca d'Italia

Ai partecipanti al capitale di  
Banca d'Italia

### Relazione sul bilancio d'esercizio

Abbiamo svolto la revisione contabile dell'allegato bilancio d'esercizio di Banca d'Italia (di seguito, anche, l'"Istituto"), costituito dallo stato patrimoniale al 31 dicembre 2016, dal conto economico per l'esercizio chiuso a tale data e dalla nota integrativa.

### *Responsabilità degli Organi direttivi dell'Istituto per il bilancio d'esercizio*

Gli Organi direttivi 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 descritte nella nota integrativa.

### *Responsabilità della società di revisione*

È nostra la responsabilità di esprimere un giudizio sul bilancio d'esercizio sulla base della revisione contabile. Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia) elaborati ai sensi dell'art.11 del D.lgs.39/2010. Tali principi richiedono il rispetto di principi etici, nonché la pianificazione e lo svolgimento della revisione contabile al fine di acquisire una ragionevole sicurezza che il bilancio d'esercizio non contenga errori significativi.

La revisione contabile comporta lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nel bilancio d'esercizio. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nel bilancio d'esercizio dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione del bilancio d'esercizio dell'Istituto che fornisca una rappresentazione veritiera e corretta al fine di definire procedure di revisione appropriate alle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno di Banca d'Italia. La revisione contabile comprende altresì la valutazione dell'appropriatezza dei principi contabili adottati, della ragionevolezza delle stime contabili effettuate dagli Organi direttivi, nonché la valutazione della presentazione del bilancio d'esercizio nel suo complesso.

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

### *Giudizio*

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria di Banca d'Italia al 31 dicembre 2016 e del risultato economico per l'esercizio chiuso a tale data, in conformità ai principi e criteri contabili dettati dalle norme speciali descritte nella nota integrativa.

*Altri aspetti*

Il bilancio d'esercizio di Banca d'Italia per l'esercizio chiuso il 31 dicembre 2015 è stato sottoposto a revisione contabile ai sensi dell'articolo 37 dello Statuto da parte di un altro revisore, che il 12 aprile 2016 ha espresso un giudizio senza modifica su tale bilancio.

Roma, 14 marzo 2017

A handwritten signature in black ink, appearing to read 'Rosanna Vicari'. The signature is written in a cursive style with a large initial 'R' and a long horizontal stroke at the end.

BDO Italia S.p.A.  
Rosanna Vicari  
Socio

# ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 2016<sup>1</sup>

## GOVERNING BOARD - DIRECTORATE

Ignazio VISCO	GOVERNOR
Salvatore ROSSI	SENIOR DEPUTY GOVERNOR
FABIO PANETTA	DEPUTY GOVERNOR
Luigi Federico SIGNORINI	DEPUTY GOVERNOR
Valeria SANNUCCI	DEPUTY GOVERNOR

## BOARD OF DIRECTORS

Franca Maria ALACEVICH	Gaetano MACCAFERRI
Francesco ARGIOLAS	Cesare MIRABELLI
Nicola CACUCCI	Ignazio MUSU
Carlo CASTELLANO	Lodovico PASSERIN D'ENTREVES
Paolo DE FEO	Donatella SCIUTO
Giovanni FINAZZO	Orietta Maria VARNELLI
Andrea ILLY	

## BOARD OF AUDITORS

Dario VELO - CHAIRMAN	
Lorenzo DE ANGELIS	Angelo RICCABONI
Gian Domenico MOSCO	Sandro SANDRI

## ALTERNATE AUDITORS

Giuliana BIRINDELLI	Anna Lucia MUSERRA
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## HEAD OFFICE

### MANAGING DIRECTORS

Carmelo BARBAGALLO	- DIRECTOR GENERAL FOR FINANCIAL SUPERVISION AND REGULATION
Ebe BULTRINI	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
Luigi DONATO	- DIRECTOR GENERAL FOR PROPERTY AND TENDERS
Eugenio GAIOTTI	- DIRECTOR GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
Marino Ottavio PERASSI	- GENERAL COUNSEL
Umberto PROIA (until 30 November 2016)	- DIRECTOR GENERAL FOR HUMAN RESOURCES AND ORGANIZATION
Letizia RADONI	- DIRECTOR GENERAL FOR CURRENCY CIRCULATION
Paolo MARULLO REEDTZ	- ACCOUNTANT GENERAL
Giuseppe SOPRANZETTI	- MANAGING DIRECTOR WITH SPECIAL DUTIES AND MANAGER OF THE MILAN BRANCH
Emerico Antonio ZAUTZIK	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS

\* \* \*

Corrado BALDINELLI	- SECRETARY GENERAL OF THE INSTITUTE FOR THE SUPERVISION OF INSURANCE
Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT
Daniele FRANCO	- STATE ACCOUNTANT GENERAL

<sup>1</sup> Changes at 31 March 2017 are shown on the following page.

# ADMINISTRATION OF THE BANK OF ITALY

AT 31 MARCH 2017

## GOVERNING BOARD - DIRECTORATE

Ignazio VISCO	GOVERNOR
Salvatore ROSSI	SENIOR DEPUTY GOVERNOR
FABIO PANETTA	DEPUTY GOVERNOR
Luigi Federico SIGNORINI	DEPUTY GOVERNOR
Valeria SANNUCCI	DEPUTY GOVERNOR

## BOARD OF DIRECTORS

Franca Maria ALACEVICH	Gaetano MACCAFERRI
Francesco ARGIOLAS	Cesare MIRABELLI
Nicola CACUCCI	Ignazio MUSU
Carlo CASTELLANO	Lodovico PASSERIN D'ENTREVES
Paolo DE FEO	Donatella SCIUTO
Giovanni FINAZZO	Orietta Maria VARNELLI
Andrea ILLY	

## BOARD OF AUDITORS

Dario VELO - CHAIRMAN	
Lorenzo DE ANGELIS	Angelo RICCABONI
Gian Domenico MOSCO	Sandro SANDRI

## ALTERNATE AUDITORS

Giuliana BIRINDELLI	Anna Lucia MUSERRA
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## HEAD OFFICE

### MANAGING DIRECTORS

Augusto APONTE	- MANAGING DIRECTOR FOR INTERNAL AUDIT
Corrado BALDINELLI	- DIRECTOR GENERAL FOR HUMAN RESOURCES AND ORGANIZATION
Carmelo BARBAGALLO	- DIRECTOR GENERAL FOR FINANCIAL SUPERVISION AND REGULATION
Ebe BULTRINI	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
Luigi DONATO	- DIRECTOR GENERAL FOR PROPERTY AND TENDERS
Eugenio GAIOTTI	- DIRECTOR GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
Marino Ottavio PERASSI	- GENERAL COUNSEL
Paolo MARULLO REEDTZ	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS
Roberto RINALDI	- ACCOUNTANT GENERAL AD INTERIM DIRECTOR GENERAL FOR CURRENCY CIRCULATION
Giuseppe SOPRANZETTI	- MANAGING DIRECTOR WITH SPECIAL DUTIES AND MANAGER OF THE MILAN BRANCH

\* \* \*

Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT
Daniele FRANCO	- STATE ACCOUNTANT GENERAL