



BANCA D'ITALIA
EUROSISTEMA

Annual Accounts

Ordinary Meeting of Shareholders
Rome, 31 March 2020

126th FINANCIAL YEAR

2019

Financial Year

126th



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CONTENTS

THE BANK OF ITALY'S ANNUAL ACCOUNTS	5
MANAGEMENT REPORT	5
Highlights of the Bank's annual accounts	6
Governance	7
The approval process for the annual accounts	7
Internal control system and risk management	8
Box: <i>Rules on risk sharing in monetary policy operations</i>	9
Background to Eurosystem monetary policy	11
Key developments in the Bank's annual accounts	14
Box: <i>Investments not relating to monetary policy</i>	17
Operating expense and other costs	23
Box: <i>Costs incurred and reimbursements for Eurosystem infrastructure</i>	24
Other information	25
ANNUAL ACCOUNTS	29
BALANCE SHEET	30
PROFIT AND LOSS ACCOUNT	32
NOTES TO THE ACCOUNTS	33
Legal basis, accounting policies and layout of the annual accounts	33
Notes on the items of the balance sheet	41
Box: <i>The IMF in the Bank of Italy's balance sheet</i>	43
Box: <i>Government deposits</i>	57
Box: <i>The National Resolution Fund</i>	62
Commitments, collateral granted and other off-balance-sheet accounts	62
Notes on the items of the profit and loss account	63
Box: <i>TLTRO2 and TLTRO3 remuneration</i>	66
Box: <i>Monetary income</i>	68
Post-balance-sheet events	73
PROPOSALS OF THE BOARD OF DIRECTORS	75
DOCUMENTS ATTACHED TO THE ANNUAL ACCOUNTS	77
REPORT OF THE BOARD OF AUDITORS	79
BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES *	82
REPORT OF THE AUDIT FIRM *	85
ADMINISTRATION OF THE BANK OF ITALY	89

* Official Italian version.

THE BANK OF ITALY'S ANNUAL ACCOUNTS

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

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

MANAGEMENT REPORT

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

The various items in the balance sheet highlight some of the main tasks carried out by the Bank of Italy. The implementation of the monetary policy decisions taken at Eurosystem level is reflected in the securities purchased for monetary policy purposes, in lending to credit institutions and, on the liability side, in the latter's deposits with the Bank of Italy.

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

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

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

Highlights of the Bank's annual accounts

Figure 1

Billions of euros



Governance

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

The Governing Board is a collegial body that adopts measures of external relevance concerning the exercise of the Bank's public functions, without prejudice to the Governor's powers and competencies as a member of the decision-making bodies of the 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 Directors is chaired by the Governor and is responsible for the general administration, the management supervision, and the internal control of the Bank. Neither the Board of Directors nor the shareholders may interfere in any matters or decisions relating to the exercise of the public functions assigned to the Governor and the Governing Board by law and by the Bank's Statute.

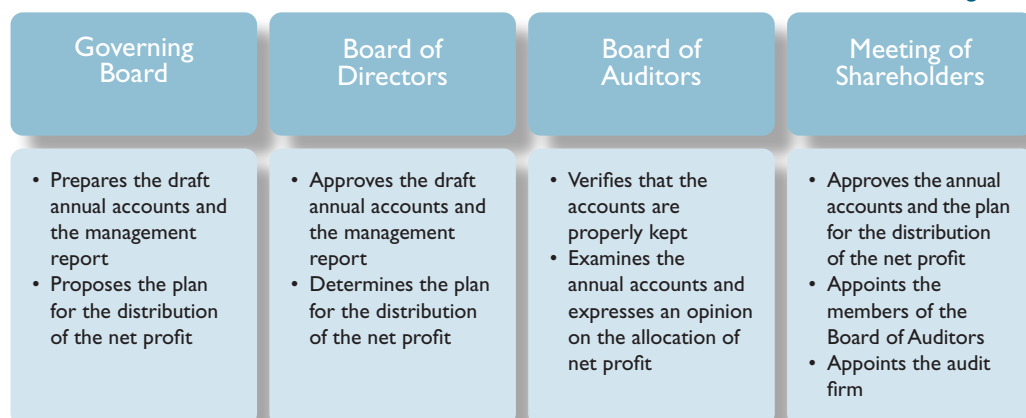
The Board of Auditors oversees the administration of the Bank to ensure compliance with the law, the Statute, and the General Regulations. It also verifies that the accounts are properly kept, examines the annual accounts, and expresses an opinion on the distribution of the net profit.

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

The approval process for the annual accounts

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

Figure 2



In accordance with Article 27 of the Statute of the European System of Central Banks (ESCB), the Bank's accounts are audited by an external auditor or by an audit firm, which issues a report on the annual accounts for the year (Article 42 of the Bank's Statute). The audit firm appointed for the years 2016-2022 is BDO Italia SpA.

Internal control system and risk management

The Bank has an internal control system aimed at improving the manner in which the Bank pursues its objectives, the quality of its services, and the efficiency in the use of its resources. It also manages the various risks and ensures compliance with internal and external regulations.

The internal control system is based on the internationally recognized Three Lines of Defence model. This model provides a global vision of the control system, defines roles and responsibilities, and encourages constant interaction between the control and risk management functions while respecting their independence.

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

The third line of defence is the internal audit function, which focuses on the continuous improvement of the control system in order to strengthen the effectiveness, efficiency and safety of operational processes. It works independently and is subject to external periodic review, in compliance with international standards. It also conducts audits defined within the context of the ESCB. An advisory committee on internal auditing has been set up to strengthen the system of controls. It provides advice and support to the Board of Directors and the Governor on matters concerning the oversight of the internal control system. It also issues opinions on internal audit policy and on the annual audit plan.

In 2019, the roles and functions of the structures comprising the second line of defence were analysed with the aim of sharing and harmonizing, to the extent possible, their respective methodologies, in order to facilitate the exchange of data and information and to foster further synergies.

Financial risk

The Bank of Italy manages the financial risks to which it is exposed on an integrated basis, taking into account the links between the various risk profiles. These risks stem

chiefly from the assets held for monetary policy purposes and the management of the foreign currency reserves and of the investment portfolio. The Statute of the ESCB provides that the risks attached to monetary policy operations may be shared with the other euro-area national central banks (NCBs) in proportion to their respective contributions to the capital of the ECB (see the box: ‘Rules on risk sharing in monetary policy operations’).

RULES ON RISK SHARING IN MONETARY POLICY OPERATIONS

Generally, the risks associated with refinancing operations are shared. Under Article 32.4 of the ESCB Statute any losses associated with these operations can, by decision of the Governing Council of the ECB, be shared among the Eurosystem NCBs in proportion to their shares in the ECB’s capital (capital key). The ESCB Statute states that all Eurosystem refinancing operations must be based on adequate collateral, in the form of the transfer of ownership or pledging of eligible financial assets. In accordance with the rules it established, 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 established, the risks attached to securities purchased under the Securities Markets Programme (SMP), the third Covered Bond Purchase Programme (CBPP3), and the Corporate Sector Purchase Programme (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 PSPP, the risks relating to securities issued by European institutions are shared among the Eurosystem NCBs, while those relating to other securities are borne by the NCB that made the purchases. The risk sharing system also applies indirectly to all the securities purchased by the ECB given that the NCBs hold its capital.

The Bank of Italy measures financial risk using a methodology very similar to the one developed by the Eurosystem, with some adaptations to ensure it conforms more closely with the specific features of the Bank. The methodology is based on two different perspectives: financial and accounting. The first approach assesses risk exposure without considering the accounting rules applied to the balance sheet items and evaluates its impact on the net equity of the Bank at current market values. The second approach, which is used for assessments relating to the size of the financial buffers when drawing up the annual accounts, instead estimates the impact of risk exposure on the profit and loss account and on net equity taking into consideration Eurosystem accounting rules. In both cases, it is a very conservative metric since it provides an estimate of potential losses characterized by low probability and high impact (expected shortfalls)¹ on the profit and loss account and the balance sheet. Table 1 sets out the risk control and impact mitigation measures taken for each type of risk.

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

Table 1

Financial risk map			
Component	Type	Source of the risk	Measures for risk control and impact mitigation
Credit risk	<ul style="list-style-type: none"> ▪ Default risk ▪ Migration risk (1) ▪ Counterparty risk 	<ul style="list-style-type: none"> ▪ Foreign currency reserves ▪ Investment portfolio 	<ul style="list-style-type: none"> ▪ Rigorous selection of investment instruments and counterparties ▪ Individual and segment exposure limits monitored daily
		<ul style="list-style-type: none"> ▪ Monetary policy assets ▪ Exceptional liquidity support operations (2) 	<ul style="list-style-type: none"> ▪ Collateralization of refinancing operations and stringent credit quality criteria for assets pledged as collateral and for issuers of monetary policy securities (3) ▪ Daily monitoring of collateral and use of control measures such as haircuts, variation margins and limits ▪ For securities purchase programmes, eligibility criteria and specific limits applying to issues and issuers ▪ Similar to what is done for monetary policy refinancing operations, for exceptional liquidity support operations the Bank defines adequate credit quality criteria for assets pledged as collateral, their daily monitoring and the use of haircuts, limits and margins in the presence of specific circumstances
Market risk	<ul style="list-style-type: none"> ▪ Risk of incurring losses owing to unfavourable changes in exchange rates and in the prices of gold and securities 	<ul style="list-style-type: none"> ▪ Foreign currency reserves ▪ Investment portfolio 	<ul style="list-style-type: none"> ▪ Risk measurement and monitoring ▪ Revaluation accounts (4) ▪ Foreign exchange forward sales (for foreign currency assets held as investments of own funds, when deemed necessary)
Liquidity risk	<ul style="list-style-type: none"> ▪ Risk of incurring losses owing to the impossibility of selling assets at market value in a rapid time frame 	<ul style="list-style-type: none"> ▪ Foreign currency reserves (5) 	<ul style="list-style-type: none"> ▪ High-liquidity financial instruments ▪ Very prudent criteria for selecting instruments and counterparties ▪ Tight restrictions on maturity ▪ Restrictions on purchases of individual issues

(1) Downgrade risk. – (2) They can take the form of emergency liquidity assistance (ELA) or collateralized securities lending. – (3) Credit risk control and management measures for monetary policy assets are defined at Eurosystem level, while those for exceptional liquidity support operations are set by the Bank of Italy. – (4) Revaluation accounts, which record the unrealized gains on assets valued at current exchange rates and prices, limit the impact on the year-end financial results of fluctuations in the prices and exchange rates of the assets to which the unrealized gains refer (see 'Legal basis, accounting policies and layout of the annual accounts'). Unrealized losses in excess of the corresponding revaluation accounts, instead, are recorded directly in the profit and loss account. – (5) Liquidity risk mainly affects foreign currency reserves, as these are traded more frequently compared with the investment portfolio.

Operational risk

Operational risk represents the risk that external events or inadequate procedures, systems and human resources pose to the Bank's reputation or the performance of its tasks, its operations and its capital. The Bank has in place a system for integrated operational risk management (ORM) in which each organizational unit identifies and assesses its own risk exposure in relation to the adequacy of existing safeguards. Business continuity principles and instruments are followed for those work processes that must be guaranteed without interruption. The Operational Risk Committee assists the Governing Board in promoting and coordinating ORM and business continuity measures and in monitoring their implementation and inclusion in the Bank's strategic planning process.

Starting in 2019, operational risks are assessed on an ongoing basis, upon the occurrence of significant changes in internal and external threats, in work processes and in the existing rules and controls. In that year as well, the Bank's risk tolerance matrix was aligned with that used by the Eurosystem and the Single Supervisory Mechanism (SSM) in order to make it easier to compare risk measurements across Europe. Operational risk is also quantified in terms of its potential economic impact using an internal advanced measurement approach (AMA) model similar to the ones envisaged by banks' prudential regulations.

In line with best international practices and with the general principles laid down by the Eurosystem, a function for ethical compliance and the prevention of corruption is operational within the Bank. The Bank's Anti-Corruption Plan for 2020-2022 is available on its website (*Piano triennale di prevenzione della corruzione*, available only in Italian).

Background to Eurosystem monetary policy

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

Decisions of the Eurosystem

In 2019, the ECB Governing Council adopted a series of expansionary measures to counter the downside risks to inflation stemming from the weakening of the economic outlook.

At its 7 March meeting the Governing Council announced the start of a new series of targeted longer-term refinancing operations (TLTRO3) to be conducted quarterly beginning in September 2019. The ECB Governing Council also extended at least until the end of 2019 the minimum time horizon over which it expected to keep its key interest rates unchanged and confirmed its intention to continue reinvesting in full the principal payments from maturing securities purchased under the expanded asset

purchase programme (APP)² for an extended period of time past the date when it starts raising the key ECB interest rates.

At its 12 September meeting, the Governing Council reinforced its accommodative stance by adopting a broad package of measures that:

- decreased the interest rate on the deposit facility by 10 basis points, from -0.40 to -0.50 per cent;³
- provided forward guidance by announcing that it expected to maintain interest rates at or lower than their current rates until the inflation outlook robustly converges to a level sufficiently close to, but below, 2% within the projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics;
- decided to restart the net purchases under the APP at a monthly pace of €20 billion as from 1 November. The Governing Council also indicated that it expected them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates;
- confirmed that it intends to continue reinvesting in full the principal payments from maturing securities purchased under the APP for an extended period of time past the first increase in interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.
- changed the features of the new series of TLTRO3 to make them more favourable by eliminating the 10-basis point spread initially envisaged and setting the interest rate for these operations at the level of the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO3. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO3 operations will be lower, and may be as low as the average interest rate on the deposit facility prevailing over the life of the respective operation. The maturity of the operations has been extended from two to three years.
- announced the introduction as of 30 October 2019 of a two-tier system for reserve remuneration in which a part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate and will be remunerated at a rate of 0.0 per cent.⁴

² The APP encompasses the third Covered Bond Purchase Programme (CBPP3), the Asset-Backed Securities Purchase Programme (ABSPP), the Corporate Sector Purchase Programme (CSPP), and the Public Sector Purchase Programme (PSPP). Further details on the APP are available on the ECB's website.

³ However the other key interest rates remained unchanged: the interest rate on the main refinancing operations at 0.0 per cent and the rate on the marginal lending facility at 0.25 per cent.

⁴ Specifically the Governing Council decided to exempt from the negative deposit facility rate a multiple of an institution's minimum reserve requirement, currently set at six. The multiplier and the interest rate applicable on the exempt excess reserve holdings (currently equal to 0.0 per cent) may be adjusted by the Governing Council. The liquidity holdings corresponding to the minimum reserve requirements is instead remunerated at the marginal rate of interest on main refinancing operations (MROs).

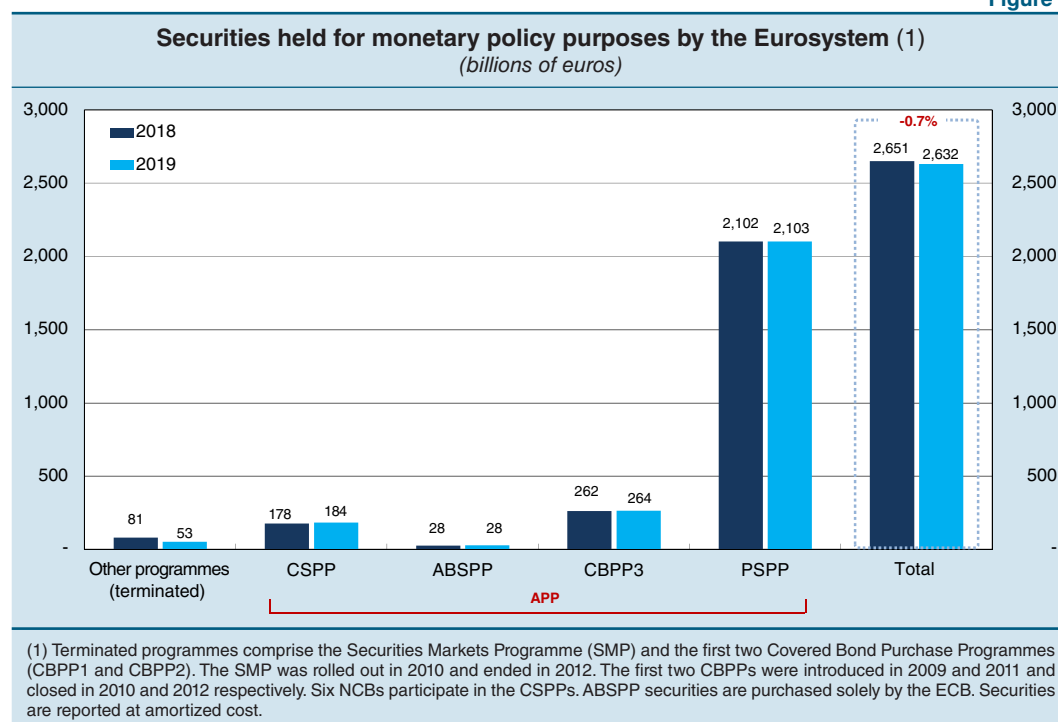
At its January 2020 meeting, the Governing Council reiterated that it stood ready to adjust all of its instruments as appropriate to ensure that inflation moves towards its inflation aim in a sustained manner.

Also at that meeting, the Council decided to launch a review of the ECB's monetary policy strategy, which should be completed by the end of this year. The review will encompass the quantitative formulation of price stability, monetary policy toolkit, economic and monetary analyses and communication practices. Other considerations, such as financial stability, employment and environmental sustainability, will also be part of the review.

Overview of Eurosystem monetary policy

In 2019, the amount of Eurosystem refinancing operations for credit institutions fell by 15 per cent, from 734.4 billion at the end of 2018 to 624 billion at 31 December 2019. The decrease is mainly due to voluntary repayments on TLTRO2 operations, only partially offset by amounts allotted under the new TLTRO3 operations.⁵ The share of longer-term refinancing operations continued to represent almost the entirety of the overall exposure (98.7 per cent, in line with the end of 2018).

Figure 3



⁵ In 2019, banks made early TLTRO2 repayments of €208 billion at Eurosystem level, of which €56 billion by the Bank of Italy's counterparties. The two new auctions under the TLTRO3 programme allotted €101 billion in financing, of which €33 billion to Italian banks.

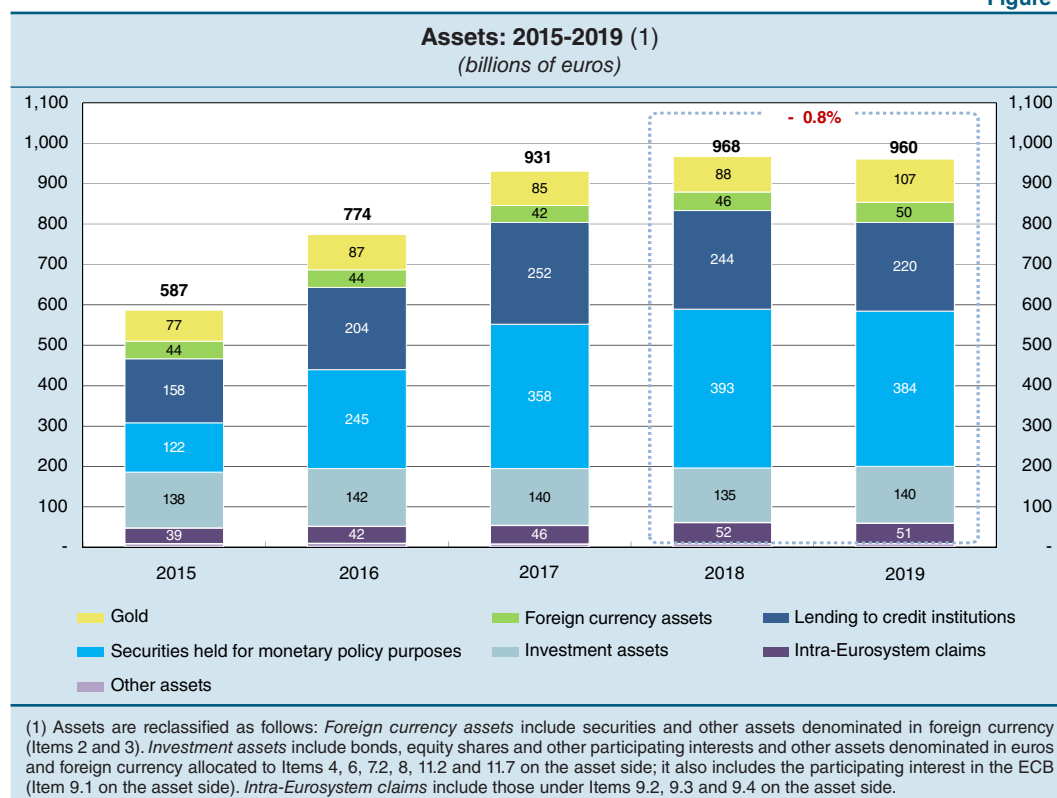
The portfolio of securities held for monetary policy purposes decreased by 0.7 per cent, from €2,651 billion to €2,632 billion (Figure 3). Taking into account that the net purchases under the APP were suspended for the first ten months of the year, this decline reflects repayments of securities maturing under programmes that are no longer active. At 31 December 2019, the securities held by the NCBs through the programmes subject to risk sharing amounted to €695.8 billion (€710.9 billion at the end of 2018), while those for which the risk is borne by the individual NCBs totalled €1,685.8 billion (€1,688.8 billion in 2018). Securities held by the ECB amounted to €250.4 billion (€251.7 billion in 2018).

Key developments in the Bank's annual accounts

Assets

In 2019, after four years of sustained growth, the Bank of Italy's total assets (Figure 4) declined slightly (-0.8 per cent) owing to the reduction in assets held for monetary policy purposes, especially refinancing operations for credit institutions. This decrease was only partly offset by the increase in the value of the gold reserves, foreign currency assets and the euro-denominated investment portfolio.

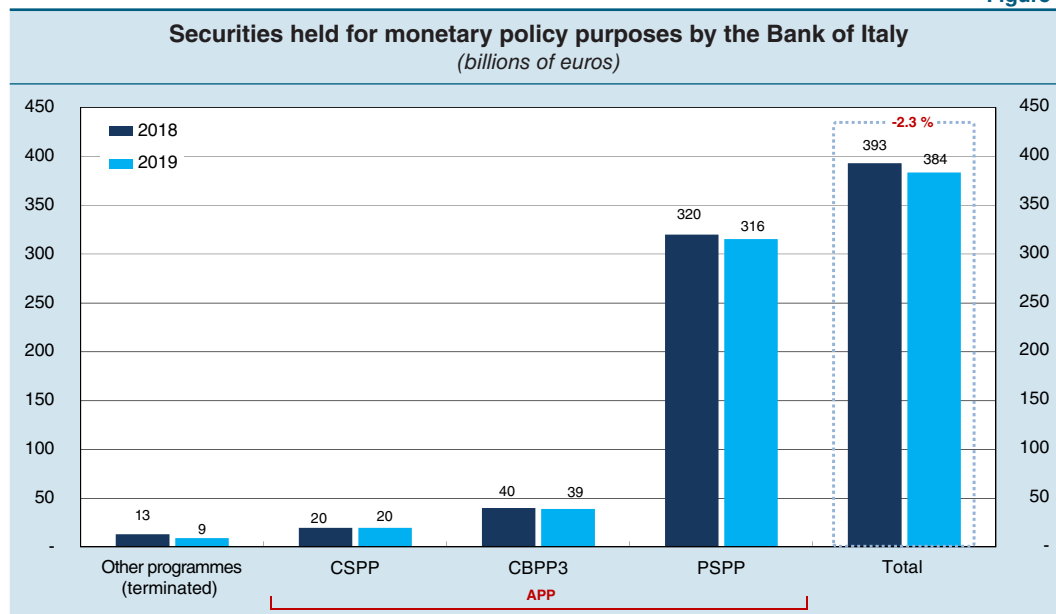
Figure 4



The slight fall in monetary policy assets (from €637 billion to €604 billion) is in line with the trend registered at the Eurosystem level. However, as in 2018, these continued

to represent a significant share (60 per cent) of assets: more than 20 per cent in the form of refinancing operations and 40 per cent in the form of securities (Figure 5).

Figure 5



The country's official reserves consist of gold and claims on non-euro-area residents denominated in foreign currency; they are held by the Bank of Italy under the Treaty on the Functioning of the European Union and the Statute of the ESCB. Management of the official 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 the credibility of the Eurosystem itself. The foreign currency reserves are managed primarily with the aim of guaranteeing high levels of liquidity and security while also considering long-term expected yield. The Bank also manages a part of the ECB's foreign currency reserves in accordance with the guidelines laid down by the Governing Council.

At 31 December 2019 the value of the gold reserves was €106.7 billion (€88.4 billion at the end of 2018); the increase was entirely due to the appreciation in the value of gold (20.8 per cent). Figure 6 shows the geographical distribution of the Bank's gold reserve.

Net assets denominated in foreign currency – for which the percentage composition is shown in Figure 7 – totalled €41.8 billion at end-2019 (€37.7 billion at end-2018). The increase was caused by both the larger holdings and the appreciation of all main foreign currencies in the portfolio against the euro.

Assets held for investment purposes consisted largely of securities (Table 2), which amounted to €137.3 billion at the end of 2019 (€133.8 billion at end-2018).

Figure 6

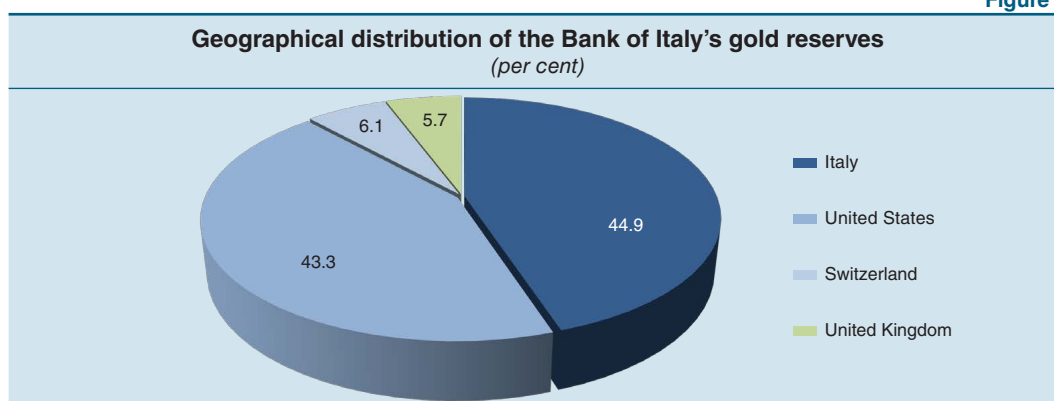


Figure 7

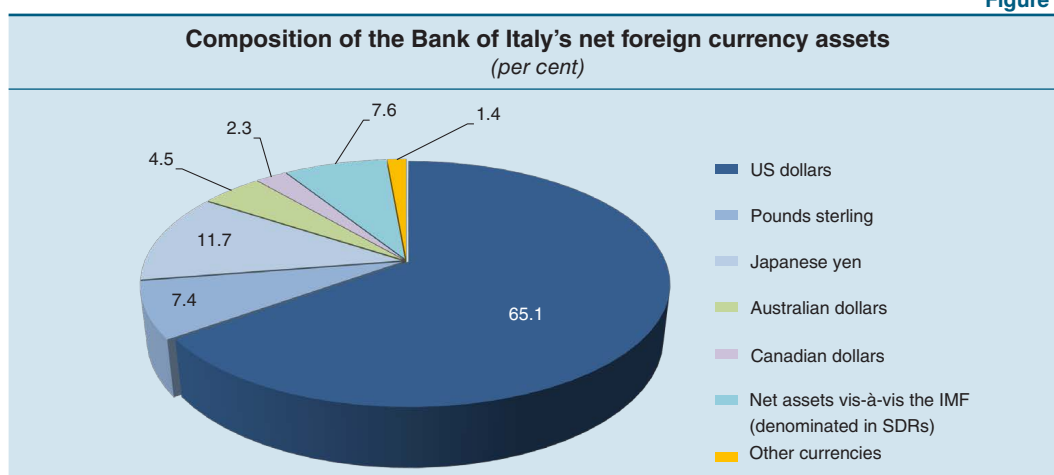


Table 2

Composition of the financial portfolio (1) (millions of euros)			
	31.12.2019	31.12.2018	Change
Government securities	122,860	121,238	1,622
Other bonds	3,001	2,971	30
Equity shares and other participating interests	9,918	8,308	1,610
ETFs and shares/units of CIUs	1,560	1,328	232
Total	137,339	133,845	3,494

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

The investment portfolio is mainly composed of bonds, especially Italian and other euro-area government securities; the part invested in equity instruments consists primarily of listed instruments (shares and, to a lesser extent, investment fund shares). Other bonds are those issued by international organizations and by private firms.

In 2019, the Bank revised its investment policy, increasing resources invested in firms with the best environmental, social and governance (ESG) practices. ESG factors

have been incorporated in the investment criteria already used for equity portfolios of shares issued by Italian and euro-area firms, giving priority to the principles of diversification and market neutrality. In particular, it was decided:

- to exclude those companies mainly operating in sectors not compliant with the principles of the UN Global Compact (such as tobacco companies and nuclear, chemical and biological weapons manufacturers);
- to favour companies with the highest ESG scores.

The Bank of Italy intends to look into extending the application of the ESG criteria to corporate bond investments.

Assets held for investment purposes also include €1,366 million in reverse repos associated with the new securities lending service launched in 2019, analogous to the practices followed by the other Eurosystem central banks. This service consists of carrying out combined repo and reverse repo intraday transactions using Italian government securities purchased under the monetary policy programmes. The goal is to reduce the cost to operators of borrowing these types of securities and to make the related market more efficient. The Bank's security lending activity also involves other euro-area bonds held for investment purposes.

INVESTMENTS NOT RELATING TO MONETARY POLICY

At the end of 2019, the Bank's net investments not relating to monetary policy, which are governed by a specific agreement (Agreement on Net Financial Assets – ANFA), totalled €93.4 billion, compared with €85.5 billion at the end of 2018. 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 functions under national law do not interfere with the conduct of the single monetary policy. NFAs are calculated as the algebraic sum of the balance sheet financial assets that are not directly related to monetary policy, including gold, net foreign currency assets and securities denominated in euros and non-monetary-policy liabilities.

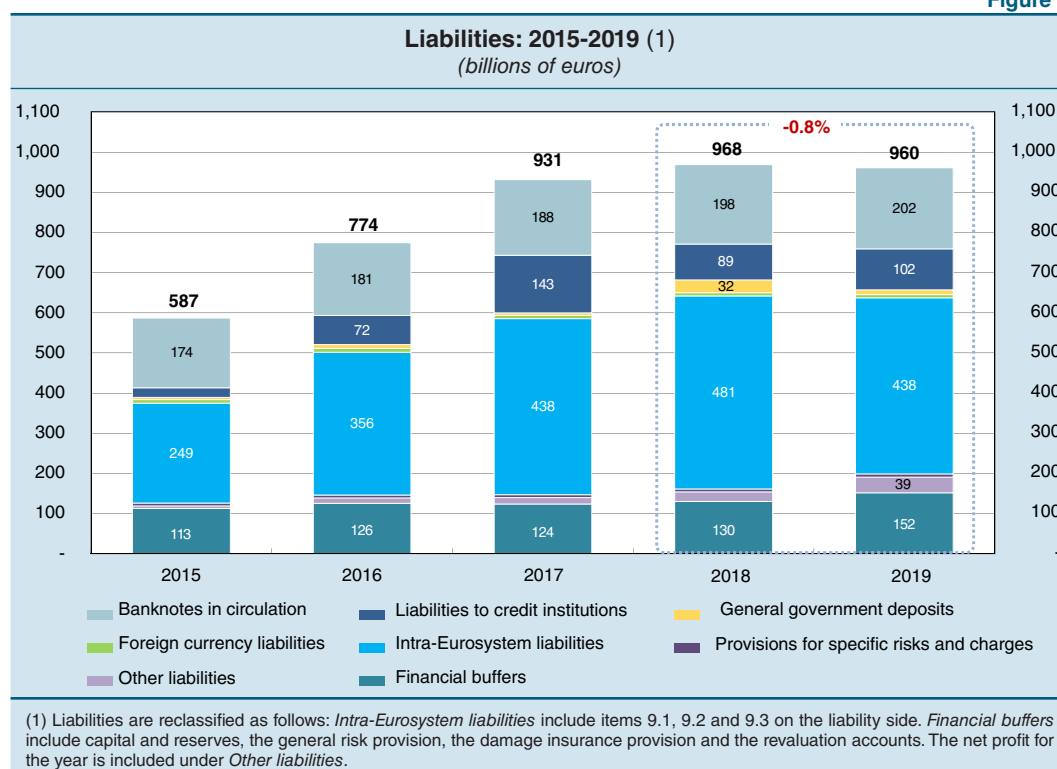
Further information on net financial assets can be found on the website of the ECB, which publishes for each NCB and for the ECB: (a) the monthly financial statement and (b) the annual average amount of NFAs.

The Bank also manages the investments of the defined-contribution pension fund for staff hired starting on or after 28 April 1993. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. Its investments and earmarked funding contributions are included in the Bank's balance sheet, under *Other assets* and *Other liabilities* respectively. Investments are carried out observing benchmarks. At the end of 2019 the fund's total assets and corresponding liabilities in the Bank's balance sheet amounted to €669 million.

Liabilities

On the liability side (Figure 8) the amount of banknotes in circulation continued to increase, albeit more slowly, as did liabilities towards credit institutions. The financial buffers also rose, mainly due to unrealized gains on gold and foreign currency assets, entered in their respective revaluation accounts. In contrast with previous years, the Bank's negative balance in connection with the TARGET2 payment system⁶ and general government deposits decreased.

Figure 8

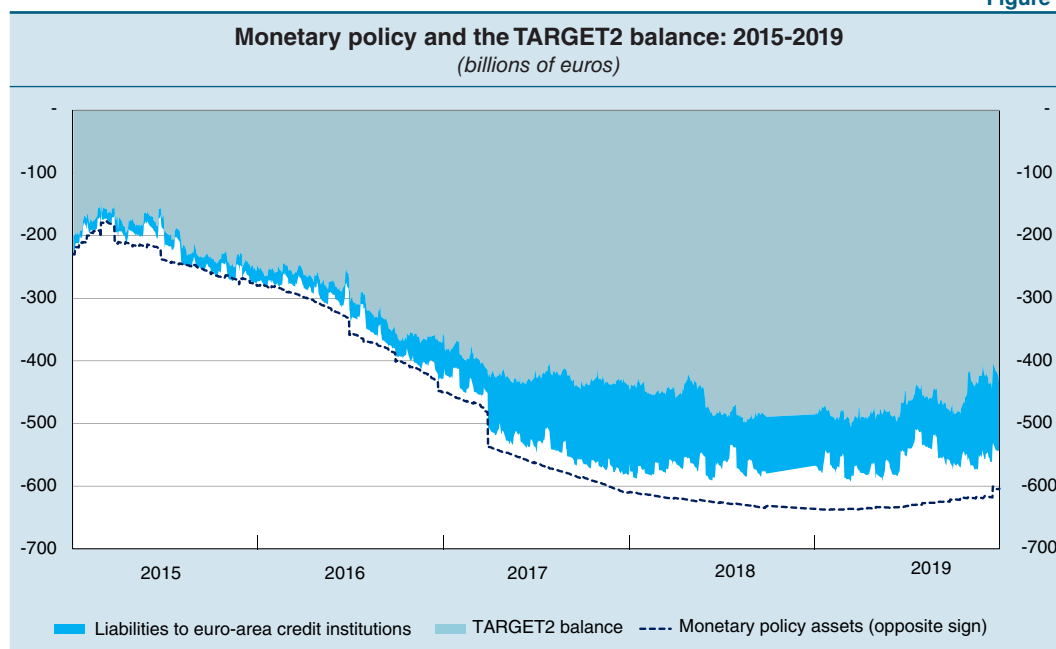


The Bank's negative TARGET2 balance, which was initially stable (€486 billion at the end of May), decreased in the second half of 2019, mainly as a result of the inflow of capital from abroad attributable primarily to the increase in foreign demand for Italian government securities and, in the final part of the year, to banks' net foreign funding. This funding was encouraged by the Eurosystem's new system for banks' reserve remuneration (see 'Decisions of the Eurosystem') and was also mirrored in the increase in liabilities to credit institutions.

The total value of euro banknotes in circulation is allocated within the Eurosystem according to the banknote allocation key. The ECB is allocated 8 per cent, while the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB (see 'Legal basis, accounting policies and layout of the annual accounts'). The total amount allocated to the Bank of Italy is shown under the liability item *Banknotes*

⁶ The TARGET2 balance can be viewed as the accounting counterbalance of all the transactions carried out between residents and non-residents in Italy.

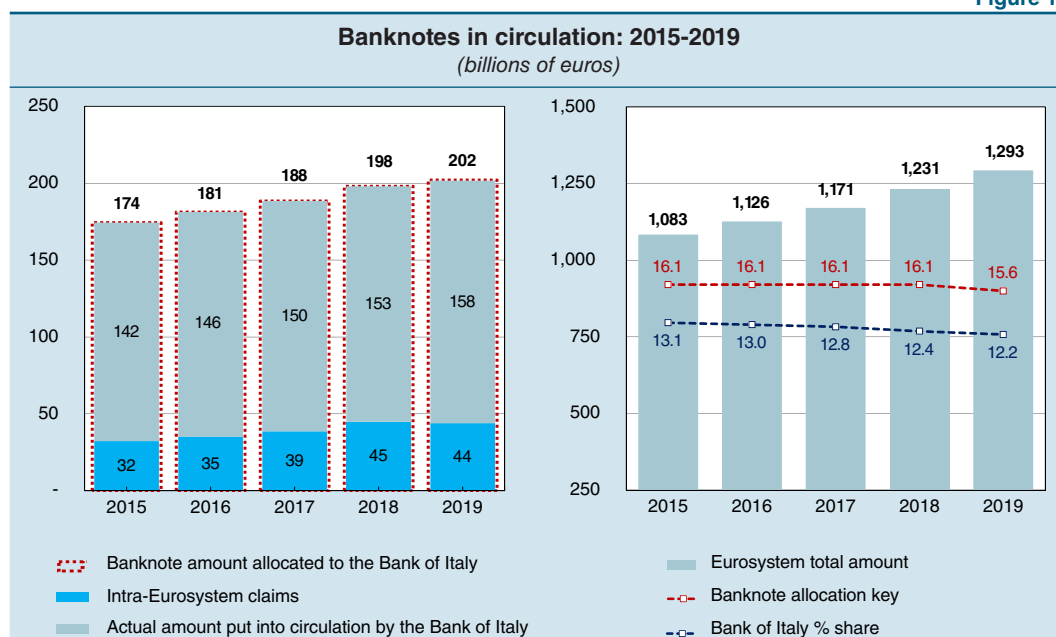
Figure 9



in circulation. The difference between the value of the banknotes allocated to the Bank of Italy and that of the banknotes the Bank actually puts into circulation gives rise to a remunerated intra-Eurosystem claim (liability) if positive (negative), which is recorded under *Net claims (liabilities) relating to the allocation of euro banknotes within the Eurosystem.*

The total value of banknotes allocated to the Bank of Italy has risen in the last five years, owing to the overall growth in banknote circulation at Eurosystem level. This increase was greater than that of the banknotes actually put into circulation by the

Figure 10



Bank. As a result, there was an increase in the Bank's intra-Eurosystem claim on the asset side of the balance sheet. The slight decline recorded in 2019 was caused by the decrease in the capital key in the meantime (Figure 10; see 'Notes on the items of the balance sheet' – *Banknotes in circulation*).

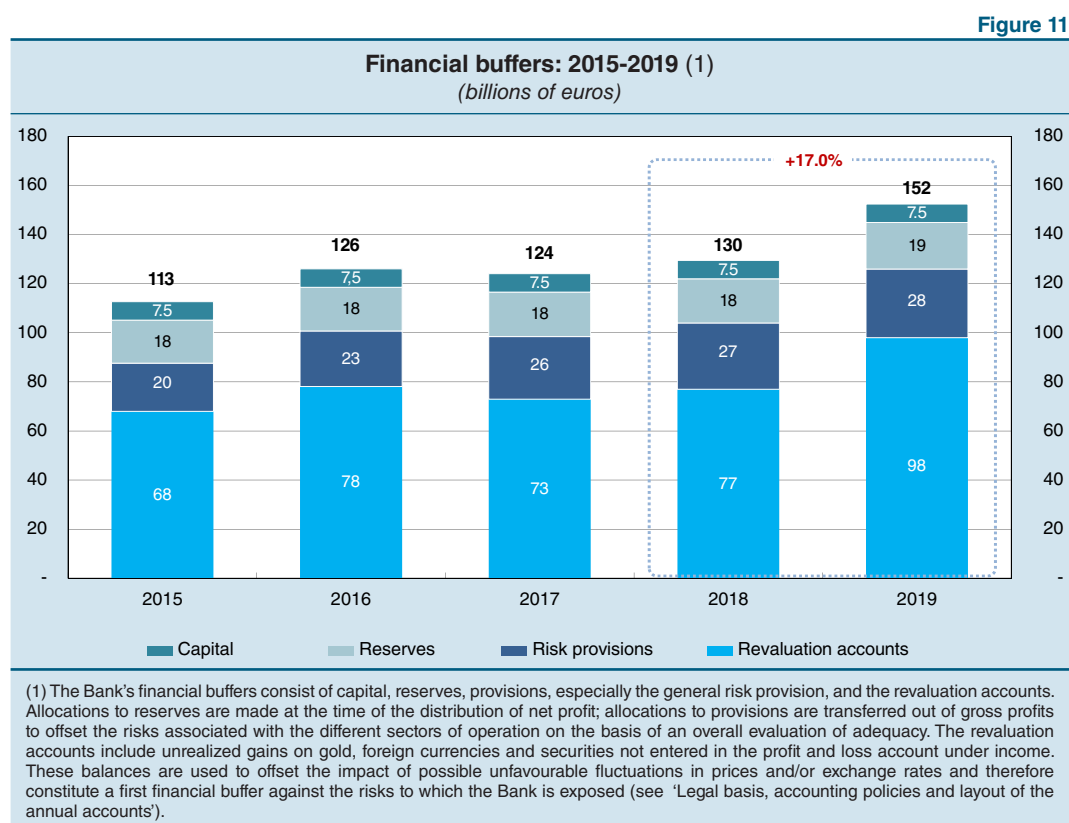
The average stock of banknotes put into circulation by the Bank of Italy in 2019 amounted to €150 billion, up from €145 billion in 2018, an increase of 3.2 per cent compared with 5.1 per cent registered for the euro area.

Financial risk

At the end of 2019 the overall financial risks, measured according to the accounting perspective, remained high owing to the size of monetary policy assets, which also reflect the resumption of net purchases of securities under the APP.

Financial buffers

Financial buffers rose in 2015-19 (Figure 11) thanks largely to movements in the revaluation accounts, driven by the increase in the price of gold and, to a lesser extent, in the general risk provision, funded over the years to cover the risks assumed by the Bank following the expansion of monetary policy operations. The increase of €22



billion in 2019 is attributable to the change in the revaluation accounts for €21 billion and to capital strengthening measures for the rest.

The Bank's capital

Law 5/2014 reformed the structure of the Bank's capital establishing, among other things, a threshold of 3 per cent on direct and indirect shareholdings. Shares held above this limit do not carry voting rights; the relative dividends are allocated by law to the Bank's statutory reserves. Dividends are due only to shareholders that owned shares at the end of the fortieth day before the first notice convening the Meeting of Shareholders (Article 38 of the Statute). Shareholders' ownership rights are limited to the value of the capital and to the dividends (Article 3 of the Statute). In the period between the introduction of the reform and 20 February 2020, the last date by which a shareholder could acquire shares with the right to dividends for 2019, 40.39 per cent of the capital was transferred. The three largest shareholders sold a combined 36.22 per cent of the capital. There are now 143 shareholders, of which 115 are new (6 insurance companies, 8 pension funds, 10 social security institutions, 29 banking foundations and 62 banks). At the above date, shareholdings that still exceeded the threshold amounted to €1,960,825,000 in nominal value.

The profit and loss account

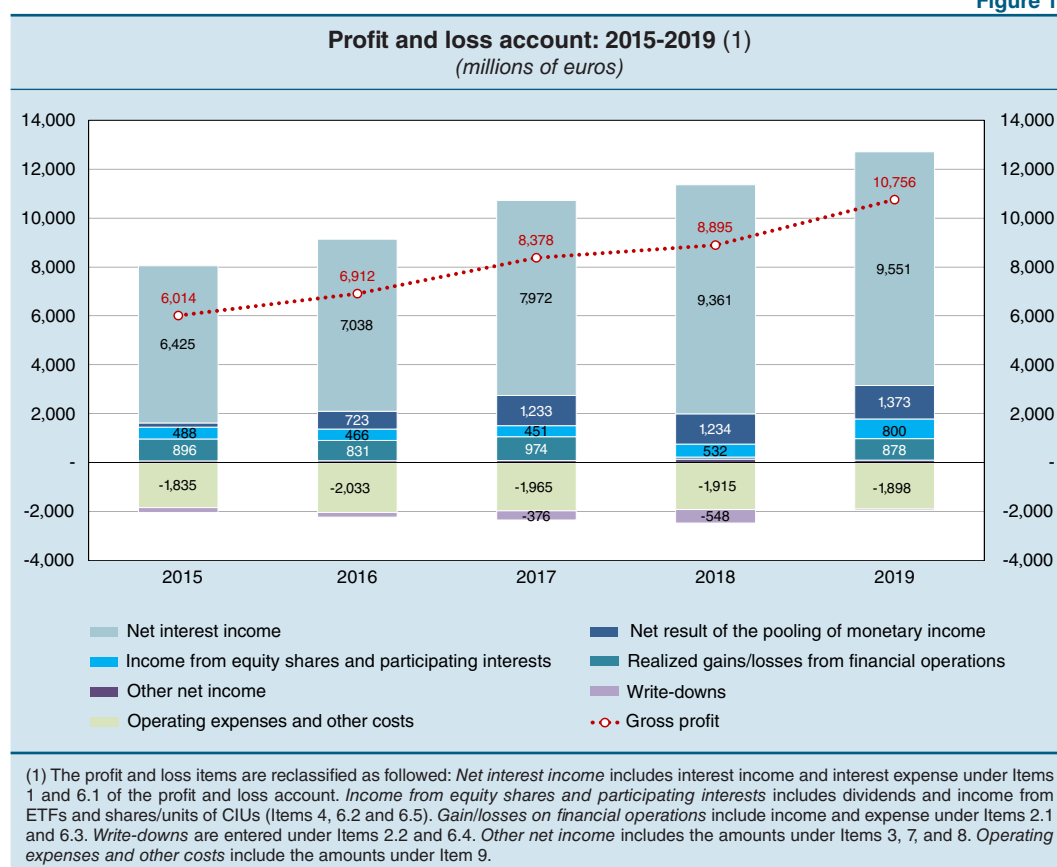
Over the period 2015-19, the sustained growth of the Bank's balance sheet, the changes in the composition of the financial assets and liabilities and the path of average interest rates have had a significant impact on the Bank's profit and loss account (Figure 12). Over the five-year period, the gross profit rose by about 80 per cent. Net interest income increased by around 50 per cent on account of purchases under the APP, despite the decline in the average interest rates and the zero interest rate on refinancing operations for an extended period of time.

The year 2019 closed with a net profit of €8,247 million, an increase of €2,007 million over the previous year (€6,240 million). The gross profit before tax and transfers to the general risk provision was equal to €10,756 million (€8,895 million in 2018).

Net interest income was up by €190 million compared with the previous year. The increase in interest income on PSPP securities and on securities denominated in foreign currency more than offset the decline in interest income on SMP securities and the rise in interest expense accrued on targeted longer-term refinancing operations (see 'Notes on the items of the profit and loss account' – *Net interest income*).

The net result arising from the redistribution of monetary income was once again positive, higher than in the previous year (€1,373 million compared with €1,234 million in 2018; see 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

Figure 12



The increase in the net result is mainly attributable to: (a) the decrease in write-downs (€56 million, compared with €548 million in 2018), as a result of the improvement in share prices and the appreciation of the main currencies against the euro; (b) the increase in realized gains (€791 million more than in 2018) on the sale of shares and of units of CIUs; (c) the increase in income from equity shares and participating interests (up €268 million), owing largely to the adjustment on 1 January 2019 of the share in the capital of the ECB ('capital key') which is carried out every five years (see 'Notes on the items of the profit and loss account' – *Income from participating interests*).

Total operating expenses and other costs amounted to €1,898 million, down by 0.9 per cent compared with the previous year (see 'Operating expense and other costs').

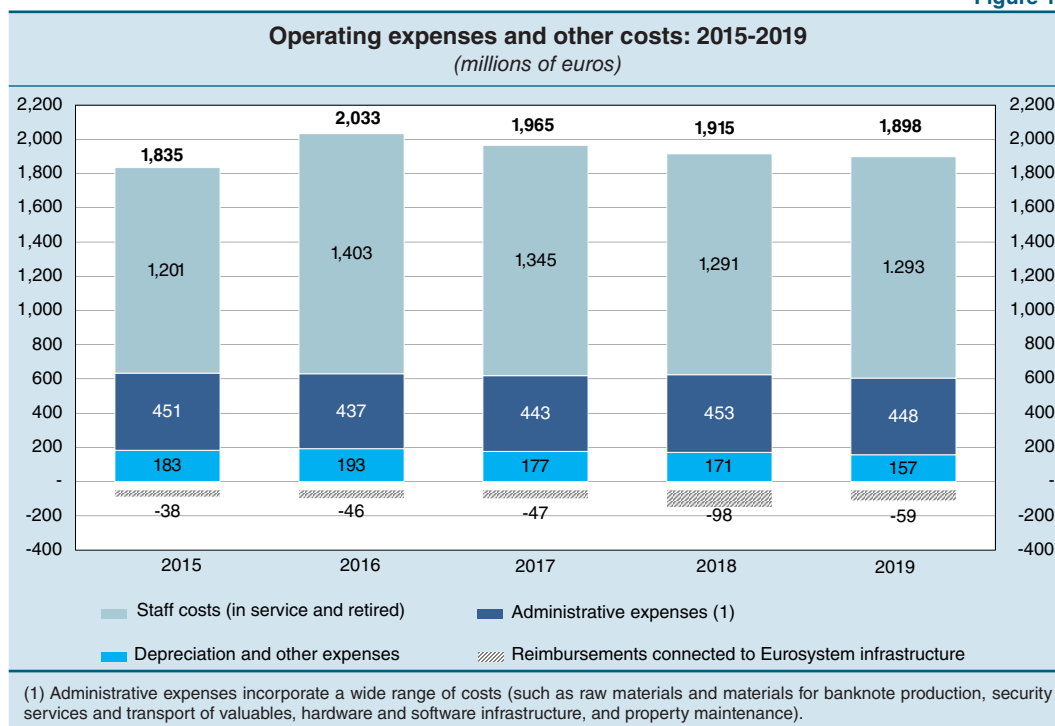
The general risk provision, which, under the Statute, covers the Bank's overall risk exposure, increased by €1,500 million (equal to that in 2018) to continue the gradual strengthening of the financial buffers, taking into account the size of the balance sheet and the Bank's overall risk exposure due mainly to the purchase of securities for monetary policy purposes, which was restarted last November.

Taxes for the year amounted to €1,009 million (€1,155 million in 2018).

Operating expense and other costs

In 2019, total operating expenses and other costs were down from €1,915 million to €1,898 million. Their trend and composition are detailed in Figure 13.

Figure 13



Staff costs were essentially stable. There were no new transfers to provisions for staff severance pay and pensions and for early retirement plans⁷ (totalling €41.9 million in 2018), while severance payments made during the year rose owing to participation in such incentive programmes and temporary measures to lower the retirement age allowed under current legislation.

Administrative expenses, which in 2019 represented 24 per cent of total costs, were down compared with 2018 (from €453 million to €448 million), owing to temporary lower costs for the purchase of raw materials for banknote production (see 'Notes on the items of the profit and loss account' – *Expenses and sundry charges*.)

Hardware and software infrastructure costs accounted for about 28 per cent of the total (same as in 2018). In 2019 as well, the Bank was involved in a number of national and Eurosystem initiatives: further progress was made in the project on the electronic traceability of cash movements between the NCBs and between the Bank's branches; a new infrastructure was developed to manage all electronic payments made by public entities (SIOPE+); and further improvements were made to the functionality of the TARGET2 and TARGET2-Securities (T2S) systems and to the TARGET Instant

⁷ These plans accompanied the reorganization of the head office and of the branch network.

Payments Settlement system (TIPS). In 2020 work will continue on consolidating the TARGET2 and T2S systems. At domestic level, the Bank will continue the project to gradually digitalize flows of information relating to appeals to the Banking and Financial Ombudsman (ABF) and complaints by bank customers, so as to improve the quality of the services provided.

COSTS INCURRED AND REIMBURSEMENTS FOR EUROSISTEM INFRASTRUCTURE

Together with some of the other national central banks, the Bank of Italy provides services for developing and managing the technological infrastructures of the Eurosystem. The costs incurred by the Bank for such services are included under administrative expenses and staff costs and are reimbursed by the Eurosystem. The reimbursements are recorded under *Other income* and amounted to €59 million in 2019 (€98 million in 2018; see Figure 13).

As a user of the Eurosystem's shared infrastructure, the Bank bears the corresponding costs in proportion to its share of the ECB's capital; such costs are under administrative expenses and amounted to €29 million in 2019 (€37 million in 2018).

Expenditure on property management and maintenance, included in administrative costs, increased slightly compared with 2018. Initiatives were pursued in 2019 to: (a) ensure that the work spaces assigned to the head office's directorates is coherent with the new organizational structure; (b) install video-recording systems for the cash handling process throughout the entire branch network; and (c) guarantee the business continuity of systems and equipment.

Depreciation and other expenses showed a downward trend over the last five years. The decline in 2019 is due to the fact that assets of artistic and historical interest classified by the Bank as 'artwork' are not subject to depreciation (see 'Notes on the items of the balance sheet' – *Other assets*).

The Bank's staff

At 31 December 2019 the Bank's employees numbered 6,593, of which 4,290 working at the head office, 2,102 at branch offices and 201 at other organizations. The total number of staff is down by 96 compared with the end of 2018. There were 303 new appointments. Terminations totalled 399 (up 19 per cent compared with 2018); of these 273 opted for early retirement offered to staff affected by the reorganization of the head office and of the branch network.

As at end-2019, the managerial and high-level professional area accounted for 49.8 per cent of total staff, with a slight increase compared with 2018 (48.6 per cent). The staff's average age was 48.3 years (48.8 years in 2018 and 49 years in 2015), confirming that generational turnover is under way. Women made up 37.8 per cent

Table 3

Composition of the Bank's staff												
AREAS	31.12.2019						31.12.2018					
	Men	Women	Total	At branches	At Head Office	At other organizations (1)	Men	Women	Total	At branches	At Head Office	At other organizations (1)
Managerial and High-Level Professional Area	2,104	1,179	3,283	713	2,383	187	2,110	1,139	3,249	725	2,335	189
<i>of which: Managing Directors and Principal Directors</i>	64	14	78	12	61	5	76	14	90	13	70	7
Operational Area	1,988	1,311	3,299	1,389	1,896	14	2,100	1,306	3,406	1,490	1,898	18
Contract workers	6	5	11	–	11	–	12	22	34	–	34	–
Total	4,098	2,495	6,593	2,102	4,290	201	4,222	2,467	6,689	2,215	4,267	207
(1) Staff seconded to other organisations. It includes members of the staff assigned to the Financial Intelligence Unit (UIF) and to the representative offices abroad and those seconded to other organizations or on leave of absence.												

of total staff (36.9 per cent in 2018 and 36.1 per cent in 2015), also confirming the gradual rebalancing that has been occurring in recent years. During the year, 6,300 members of staff received training, accounting for 95.6 per cent of the total (97.5 per cent including on-the-job training) for a total of about 270,000 hours of training, equal to an average of 43 hours per person. Initiatives to promote diversity also continued, including the mentoring programme targeting women and younger staff members to assist them in developing their careers.

Other information

Banknote production and circulation

In 2019, the Bank produced 843.3 million banknotes in denominations of €50, €100 and €200 for the second series, including a portion of the specimens produced in the course of international cooperation activities and projects. The Bank also continued its activities in its capacity as the Eurosystem's main R&D test-print centre and in the roles of quality tools test centre and of storage and distribution centre.

The generational turnover of the staff in this area has been significant: in 2018-19 around one third of the current workforce was renewed through 90 new hires. A multi-year investment plan was also launched in 2019 to modernize production facilities and innovate processes.

As regard international cooperation, the Bank continued its collaboration with Banco de España, undertaking initiatives regarding the production and circulation of banknotes. The Bank is continuing its efforts to reduce production costs: it has adopted a dual provisioning model for raw materials, in particular watermarked paper, through contracts with Europafi Sas (European supplier) and Valoridicarta SpA (Italian

supplier), companies in which the Bank holds a participating interest (see ‘Disclosure of relations with subsidiary and associate companies’). Under both contracts the suppliers must ensure that their price conditions are better than those of the market, as well as streamline the purchasing process and guarantee continuity of supply and quicker availability of raw materials.

The Bank’s branches continue to play an important role in meeting the demand for banknotes and in ensuring that the quality of those in circulation remains high. Last year 2.6 billion banknotes were put into circulation, for a total value of €90.6 billion. The banknotes returned and checked by the Bank of Italy amounted to 2.4 billion, worth €86.2 billion and €86 billion respectively; the banknotes withdrawn from circulation amounted to 0.9 billion, worth €35.4 billion.

Organizational measures

In March the Bank began the process of reorganizing the financial supervision carried out by the branch offices in order to enhance their supervisory role. The prudential supervision of decentralized banks and financial intermediaries will be managed by 11 panels comprised of a head branch, which is responsible for supervising intermediaries and is in charge of administrative proceedings, and one or more affiliated branches that assist the head branch in performing its supervisory tasks.

The reorganization of the Bank’s branches, begun in 2015, was completed, and between July and September the three detached supervision divisions of Cuneo, Udine and Vicenza were closed with the transfer of their tasks to the branches of Turin, Trieste and Venice, respectively.

In May, the head office’s organizational structure was adjusted to enhance integration between research done on the regional economies and that on the national economy. In July, the reorganization of the statistics function was carried out to improve the quality of the data produced by the Bank, to make production processes more efficient and to enhance the methodologies used by introducing cutting-edge techniques. Specifically, the Statistical Analysis Directorate added a new Research Data Centre and Innovation Lab Division to manage microdata and experiment with big data and innovative statistical methods.

In January 2020, the Financial Intelligence Unit for Italy (UIF) was reorganized. The aim is to make the UIF more effective, from the analysis of suspicious transaction reports to combating terrorist financing, from monitoring a number of specific sectors (money transfers, payment cards, online gaming, and virtual currencies) to drafting regulations and cooperating with other institutions. Its inspection and sanctioning functions were also enhanced.

In February two more reorganizations were decided: the first, intended to strengthen the Bank’s consumer protection and financial education functions, whose activities were transferred to a new directorate general; the second, designed to promote

the integration of traditional retail payment services and highly technological and innovative payment services, groups the relative activities within a single directorate general.

Environmental policy and workplace safety

For a number of years the Bank has been committed to reducing its ecological footprint through the rational use of energy resources, optimal waste management, reduced use of plastic, sustainable mobility and 'green' procurement. The Environment Report, available on the Bank's website, describes in greater detail the Bank's ecological footprint and the main measures it has adopted.

The Bank's focus on protecting the environment and sustainability also covers how it manages its own investment portfolio, thanks to the purchase of 'green' stocks (see 'Key developments in the Bank's annual accounts'). Furthermore, the Bank actively promotes an environment-friendly culture not only in the workplace but elsewhere as well, by means of analysis and research and by participating in national and international working groups. In keeping with this philosophy, the Bank is also involved in a corporate volunteering project through which head office and branch staff have carried out social and environmental protection projects together with a number of non-profit associations. Other projects have been planned for 2020.

In 2019, efforts continued to protect workplace health and safety. In particular, environmental studies were performed to help assess specific risk situations such as those connected with the manual movement of currency and with the use of new equipment. Finally, an extensive series of studies were done on the banknote production facility concerning the various and high levels of existing risk due to its industrial nature.

Disclosure of relations with subsidiary and associate companies

The Bank of Italy is the sole shareholder of Società Italiana di Iniziative Edilizie e Fondiarie SpA (SIDIEF), a real estate company whose main activity is the management and rental of its own properties. The Bank directs and coordinates the activities of the subsidiary, principally with regard to its corporate strategy, but it does not interfere in areas of operational autonomy. A special agreement regulates relations between the Bank of Italy and SIDIEF and sets out the rental policies applying to employees and to the buildings used by the Bank itself. In May 2019, the Bank fully subscribed the €60 million capital increase decided by SIDIEF. The company took this step to strengthen its capital in support of its 2018-2022 business plan, approved by the governing bodies, to enable it to maintain its performance and financial stability over time. Last year total rentals to SIDIEF amounted to about €1 million.

In June 2019, the Bank of Italy, following an agreement signed with the State printing office, Istituto Poligrafico e Zecca dello Stato SpA (IPZS), purchased a participating interest in the capital of Valoricarta Spa, a company formed in 2018

by IPZS to manufacture special papers and embedded holographic security and anti-counterfeiting features. The corporate structure, based on the in-house providing model governed by Directive 2014/24/EU, envisages a majority shareholder (IPZS) and a minority shareholder (Bank of Italy with 18.26 per cent) and a governance built around a board of directors made up of three members, two of whom, including the managing director, are nominated by IPZS and one, the chairman, nominated by the Bank, all elected unanimously by the meeting of the shareholders. The decisions of the board of directors on the most important matters must be unanimous.

The Bank of Italy also holds a 0.50 per cent participating interest in Europafi Sas, the paper manufacturer formed by Banque de France. A shareholders' agreement sets out the relationship between the shareholders with regard to their stakes in the company and the functioning of the corporate bodies.⁸

⁸ In this case as well, based on specific agreements, the Bank of Italy, together with other participating NCBs, exercises control according to the in-house providing rules set out in Directive 2014/24/EU.

ANNUAL ACCOUNTS

BALANCE SHEET			
ASSETS	NOTE	Amounts in euros	
		31.12.2019	31.12.2018
1 GOLD AND GOLD RECEIVABLES	[1]	106,742,387,445	88,364,005,551
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	49,286,756,069	44,838,827,322
2.1 Claims on the IMF		11,266,706,089	10,657,548,281
2.2 Securities		32,468,271,396	27,691,809,623
2.3 Current accounts and deposits		5,403,321,193	6,076,822,225
2.4 Reverse operations		143,486,152	406,142,746
2.5 Other assets		4,971,239	6,504,447
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	967,045,342	1,142,015,469
3.1 Financial counterparties		965,613,926	1,140,700,043
3.1.1 Securities		38,771,351	231,551,267
3.1.2 Reverse operations		133,523,233	–
3.1.3 Other assets		793,319,342	909,148,776
3.2 General government		–	–
3.3 Other counterparties		1,431,416	1,315,426
4 CLAIMS ON NON-EURO AREA RESIDENTS		1,845,579,221	1,737,907,341
4.1 Claims on EU central banks		–	–
4.2 Securities	[4]	1,845,578,789	1,736,157,094
4.3 Other claims		432	1,750,247
5 LENDING TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	220,141,230,000	244,050,370,000
5.1 Main refinancing operations		4,718,000,000	5,116,500,000
5.2 Longer-term refinancing operations		215,423,230,000	238,933,870,000
5.3 Fine-tuning reverse operations		–	–
5.4 Structural reverse operations		–	–
5.5 Marginal lending facility		–	–
5.6 Credits relating to margin calls		–	–
6 OTHER CLAIMS ON EURO-AREA CREDIT INSTITUTIONS	[3]	51,227,967	70,345,258
7 SECURITIES OF EURO-AREA RESIDENTS		452,029,846,830	465,778,408,760
7.1 Securities held for monetary policy purposes	[2]	383,635,833,622	392,973,683,419
7.2 Other securities	[4]	68,394,013,208	72,804,725,341
8 GENERAL GOVERNMENT DEBT	[4]	13,682,273,552	13,814,570,830
9 INTRA-EUROSISTEM CLAIMS	[5]	52,149,206,820	53,317,294,924
9.1 Participating interest in the ECB		1,277,599,810	1,332,644,970
9.2 Claims arising from the transfer of foreign reserves to the ECB		6,839,555,945	7,134,236,999
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem		44,032,051,065	44,850,412,955
9.4 Other claims within the Eurosystem (net)		–	–
10 ITEMS IN COURSE OF SETTLEMENT		–	– (1)
11 OTHER ASSETS	[6]	63,488,008,468	54,662,039,032
11.1 Euro-area coins		120,351,830	126,999,445
11.2 Financial assets relating to the investment of reserves and provisions	[4]	53,426,371,461	45,492,877,470
11.3 Intangible fixed assets		63,194,318	72,582,267
11.4 Tangible fixed assets		1,958,957,397	2,033,751,519
11.5 Accruals and prepaid expenses		4,489,290,070	4,693,590,718
11.6 Deferred tax assets		886,031,677	1,230,192,527
11.7 Sundry		2,543,811,715	1,012,045,086 (1)
TOTAL		960,383,561,714	967,775,784,487 (1)

(1) The figures for 2018 have been reclassified for comparison purposes (see 'Notes on the items of the balance sheet' – Other assets).

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, ANNA LUCIA MUSERRA, GAETANO PRESTI, SANDRO SANDRI

BALANCE SHEET			
LIABILITIES	NOTE	Amounts in euros	
		31.12.2019	31.12.2018
1 BANKNOTES IN CIRCULATION	[7]	201,628,969,740	198,089,460,600
2 LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	101,775,196,674	88,702,704,513
2.1 Current accounts (covering the minimum reserve system)		100,477,196,674	80,848,182,513
2.2 Deposit facility		1,298,000,000	7,854,522,000
2.3 Fixed-term deposits		—	—
2.4 Fine-tuning reverse operations		—	—
2.5 Deposits relating to margin calls		—	—
3 OTHER LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS		57,110,100	—
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS	[8]	37,028,331,857	42,269,654,735
4.1 General government		11,519,082,042	31,691,229,048
4.1.1 Treasury payment account		11,459,021,641	31,633,471,422
4.1.2 Other liabilities		60,060,401	57,757,626
4.2 Other counterparties		25,509,249,815	10,578,425,687
5 LIABILITIES TO NON-EURO-AREA RESIDENTS	[9]	1,946,107,542	3,354,978,968
5.1 To EU central banks		—	—
5.2 Other liabilities		1,946,107,542	3,354,978,968
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	344,366,113	300,468,542
6.1 Financial counterparties		35,142	—
6.2 General government		344,330,971	300,468,542
6.3 Other counterparties		—	—
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	2,578,339	2,501,907
7.1 Current accounts and deposits		2,578,339	2,501,907
7.2 Other liabilities		—	—
8 COUNTERPART OF SDRs ALLOCATED BY THE IMF	[1]	8,114,263,622	7,992,605,565
9 INTRA-EUROSYSTEM LIABILITIES	[5]	437,846,064,987	480,539,032,598
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)		437,846,064,987	480,539,032,598
10 ITEMS IN COURSE OF SETTLEMENT		738,927	234,784 (1)
11 OTHER LIABILITIES	[10]	3,787,704,176	3,583,193,583
11.1 Cashier's cheques		111,413,144	115,287,399
11.2 Accruals and income collected in advance		2,064,691,326	1,894,409,369
11.3 Sundry		1,611,599,706	1,573,496,815 (1)
12 PROVISIONS	[11]	7,496,454,376	7,546,133,321
12.1 Provisions for specific risks		467,510,051	472,416,652
12.2 Staff-related provisions		7,028,944,325	7,073,716,669
13 REVALUATION ACCOUNTS	[12]	97,747,363,984	76,556,850,862
14 GENERAL RISK PROVISION	[11]	28,213,675,075	26,713,675,075
15 CAPITAL AND RESERVES	[13]	26,147,786,606	25,884,761,539
15.1 Capital		7,500,000,000	7,500,000,000
15.2 Statutory reserves		10,908,275,685	10,645,250,618
15.3 Other reserves		7,739,510,921	7,739,510,921
16 NET PROFIT FOR THE YEAR		8,246,849,596	6,239,527,895
TOTAL		960,383,561,714	967,775,784,487 (1)

(1) The figures for 2018 have been reclassified for comparison purposes (see 'Notes on the items of the balance sheet' – *Other liabilities*).

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, ANNA LUCIA MUSERRA, GAETANO PRESTI, SANDRO SANDRI

PROFIT AND LOSS ACCOUNT

	NOTE	Amounts in euros	
		2019	2018
1.1 Interest income		9,534,406,838	9,078,675,788
1.2 Interest expense		-939,376,172	-748,555,314
1 NET INTEREST INCOME	[14]	8,595,030,666	8,330,120,474
2.1 Realized gains/losses arising from financial operations		241,931,436	3,966,796
2.2 Write-downs on financial assets and positions		-20,847,620	-184,813,562
2.3 Transfers to/from the general risk provision for exchange rate, price and credit risks		-1,500,000,000	-1,500,000,000
2 NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS	[15]	-1,278,916,184	-1,680,846,766
3.1 Fee and commission income		40,858,582	38,740,960
3.2 Fee and commission expense		-17,679,883	-16,017,379
3 NET INCOME FROM FEES AND COMMISSIONS	[16]	23,178,699	22,723,581
4 INCOME FROM PARTICIPATING INTERESTS	[17]	484,177,497	258,556,760
5 NET RESULT OF THE POOLING OF MONETARY INCOME	[18]	1,372,852,174	1,234,398,266
6.1 Interest income		955,862,263	1,031,212,321
6.2 Dividends from equity shares and participating interests		286,314,461	249,165,111
6.3 Realized gains/losses arising from financial operations		636,371,289	83,026,179
6.4 Write-downs on financial assets and positions		-34,761,173	-363,235,025
6.5 Other components		29,826,480	24,511,941
6 NET INCOME FROM FINANCIAL ASSETS RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS	[19]	1,873,613,320	1,024,680,527
7 OTHER TRANSFERS FROM PROVISIONS		-	-
8 OTHER INCOME	[20]	83,640,335	120,080,485
TOTAL NET INCOME		11,153,576,507	9,309,713,327
9.1 Staff wages and salaries		-651,564,176	-647,821,674
9.2 Social security and insurance		-165,904,632	-165,100,299
9.3 Other staff costs		-42,806,219	-41,984,955
9.4 Pensions and severance payments		-359,216,213	-325,024,084
9.5 Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses		-73,468,615	-110,673,554
9.6 Emoluments paid to head office and branch collegial bodies		-2,853,289	-2,928,830
9.7 Administrative expenses		-448,136,840	-453,373,412
9.8 Depreciation of tangible and intangible fixed assets		-101,565,106	-122,560,731
9.9 Banknote production services		-	-
9.10 Other expenses		-52,000,474	-45,387,063
9 EXPENSES AND SUNDRY CHARGES	[21]	-1,897,515,564	-1,914,854,602
10 OTHER TRANSFERS TO PROVISIONS		-	-
PROFIT BEFORE TAX		9,256,060,943	7,394,858,725
11 TAXES ON INCOME FOR THE YEAR AND ON PRODUCTIVE ACTIVITIES	[22]	-1,009,211,347	-1,155,330,830
NET PROFIT FOR THE YEAR		8,246,849,596	6,239,527,895

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, ANNA LUCIA MUSERRA, GAETANO PRESTI, SANDRO SANDRI

NOTES TO THE ACCOUNTS

Legal basis, accounting policies and layout of the annual accounts

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

The main 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, its accounting and reporting criteria to comply with the rules established by the ECB pursuant to Article of the Statute of the ESCB and with the ECB recommendations issued in this regard. The annual accounts drawn up in accordance with this paragraph, particularly as concerns the methods used in their preparation, are also valid for tax purposes.' This validity is recognized by Article 114 of Presidential Decree 917/1986 (Consolidated Income Tax Law) as amended by Legislative Decree 247/2005, for the purposes of the corporate income tax (IRES), and by Article 6(7) of Legislative Decree 446/1997 for the purposes of the regional tax on productive activities (IRAP).

On the basis of the authority granted by Article 8, the Bank of Italy fully applies the accounting rules and recommendations issued by the ECB, including those on the layout of the profit and loss account and the layout of the balance sheet. The latter is the same as that used for the monthly financial statement approved by the Minister of Economy and Finance pursuant to Article 8(2) of Legislative Decree 43/1998. These rules adopted by the ECB are set out in Guideline No. 34 of 3 November 2016 (published in OJ L347 of 20 December 2016), as amended, which contains provisions mainly in relation to items of the annual accounts that refer to the institutional activities of the ESCB and non-binding recommendations for the other items of the annual accounts.

- the Bank's Statute, approved by the Presidential Decree of 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.

Accounting policies. – The accounting policies applied to the main balance sheet items in the annual accounts for 2019 are described below. Where provided for by law, they were agreed with the Board of Auditors.

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

Gold and foreign currency assets/liabilities

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

Assets denominated in foreign currencies, stated in the balance sheet sub-item *Financial assets 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 for each portfolio by applying the method of the daily average cost determined in the manner established by the ECB. In the case of bonds, account is taken of the amount of the premium/discount, which is recorded daily for those denominated in foreign currency;
- the year-end valuation is made:
 - 1) in the case of securities held for monetary policy purposes, at amortized cost subject to impairment (lasting reduction in recoverable value with respect to book value);
 - 2) in other cases:
 - a) at amortized cost subject to impairment, for non-marketable securities and those held to maturity;

- b) at cost subject to impairment, for non-marketable equity instruments and participating interests held as permanent investments. The participating interest in the capital of the ECB is valued at cost. The Bank's annual accounts are not consolidated with those of investee companies as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991;
- c) at market price recorded at the end of the year, for shares, investment fund shares and securities not held to maturity; for units of collective investment undertakings (CIUs), at the value available at the end of the year announced by the management company. Unrealized gains are included in the corresponding revaluation accounts; losses are covered first by earlier unrealized gains on the relative security and fund shares within each portfolio and any amount in excess is taken to the profit and loss account;

Dividends are recognized on a cash basis.

CLAIMS AND REVERSE TRANSACTIONS

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

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

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

TANGIBLE FIXED ASSETS

Buildings

- are stated at cost, including improvement expenses, plus revaluations made pursuant to specific laws. The depreciation of the Bank's premises and the depreciation of investment property, unusable for other purposes without radical restructuring, are 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 subject to depreciation and are valued at whichever is lowest of net book value and realizable value based on market prices.

Plant, furniture and equipment

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

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

INTANGIBLE FIXED ASSETS

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

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

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

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

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

ACCRUALS AND PREPAYMENTS

Accrued income and expenses are recorded in the period in which they arise and not in the period in which they are received or paid. Prepaid income and expenses represent costs or revenues that arise in future periods but that are paid or received in the current accounting period. Interest accrued on foreign exchange assets and liabilities is recorded on a daily basis and included in the net foreign exchange position.

BANKNOTES IN CIRCULATION

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

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

The ECB is allocated 8 per cent of the total value of euro banknotes in circulation, while the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB ('capital key'). The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to each NCB and that of the banknotes it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. From the year of the cash changeover of each Member State that has adopted the euro and for the five subsequent years, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the NCBs' relative income positions with respect to previous years. The adjustments take into account the differences between the average value of banknotes in circulation of each NCB in the reference period established by law and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual steps for five years starting from the year of the cash changeover, after which income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital (Decision ECB/2016/36 on the allocation of monetary income of the national central bank of Member States whose currency is the euro). The adjustments recorded in 2019 arise from the entry into the Eurosystem of the central bank of Lithuania in 2015; they will terminate at the end of 2020. The adjustments arising from the entry of the central bank of Latvia in 2014 were completed at the end of 2019.

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

The Governing Council of the ECB has ruled that the seigniorage income of the ECB arising from the 8 per cent share of banknotes allocated to the ECB and the income deriving from the securities held in connection with the SMP, CBPP3, ABSPP and 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 (Decision ECB/2014/57, OJ L53 of 25 February 2015, as amended). The seigniorage income and the income arising from the above securities purchase programmes are distributed in full unless they exceed the ECB's net profit for that year or the Council decides to transfer all or part of it to a provision for financial risks. 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-EUROSISTEM CLAIMS AND LIABILITIES

Intra-Eurosistem 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 Eurosistem’s real-time gross settlement system – giving rise to bilateral balances in the TARGET2 accounts of EU Member States’ central banks. These balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position with the ECB. The balance with the ECB arising from TARGET2 and the other intra-Eurosistem 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 Eurosistem (net)* or on the liability side under *Other liabilities within the Eurosistem (net)*.

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

The intra-Eurosistem 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 assessment of adequacy.

According to the Bank of Italy’s Statute, the general risk provision 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 estimated by the methods in use within the Eurosistem, with consideration also given to the size of the revaluation accounts.

TAX PROVISION

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

STAFF-RELATED PROVISIONS

The recorded amounts are determined as follows:

- transfers to the provision for severance pay and pensions of staff hired before 28 April 1993 are included in the annual accounts under Article 3 of the relevant

Rules for an amount that comprises the severance pay accrued at the end of the year, the mathematical reserves for the disbursements to pensioners, and those corresponding to the situation of staff having entitlement;

- the provision for grants to Bank of Italy pensioners and their surviving dependants is funded, as a rule, by the income arising from investment of the corresponding amount, in accordance with Article 24 of the Rules governing staff severance pay and pensions;
- transfers to the provisions for measures connected with the reorganization of the Bank's branch network and with voluntary early retirement for staff at the head office and at the branches not scheduled to be closed are calculated on the basis of the expected costs;
- transfers to the provision for severance pay for staff who do not participate in pension funds or who pay only a part of the contributions for retirement benefits are determined in accordance with Law 297/1982;
- transfers arising from lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund to be settled upon their leaving service. These transfers are funded on the basis of measures agreed upon with the trade unions and partly tied to the achievement of certain productivity, quality, efficiency and effectiveness targets;
- the provision for staff costs includes the costs accrued but not paid at year-end.

OTHER ASSETS AND LIABILITIES

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

Deferred tax assets and liabilities are included in the financial statements on the basis of their presumable tax effect in future years. The recognition of deferred tax assets in the balance sheet is based on the reasonable expectation of recovering them in the future. The amount of deferred tax assets and liabilities is calculated using the tax rates that are expected to be in force at the time in which the temporary differences that have generated them are reversed. 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, respectively, the investments and separate assets of the defined-contribution supplementary pension fund created for staff hired on or after 28 April 1993. The fund is invested in financial instruments, which are valued at year-end market prices. The resulting revaluation gains (losses) are treated as revenue (expense) and, like 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, due for the reference period, determined on the basis of a realistic estimate of the foreseeable costs under the tax rules in force. Any excess payments on account are recorded correspondingly under *Other assets*.

Other liabilities also includes the special item made up of allocations of the net profit in accordance with Article 38(2)(b) of the Statute, whose purpose is to stabilize over time the amount of net profit paid to the shareholders under the dividend policy in force.

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

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

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

Commitments include the following types of operations:

Forward purchases and sales of foreign currency

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

Foreign currency swaps

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

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

Futures contracts

- are recorded in the off-balance-sheet accounts at the trade date at their notional value and those denominated in foreign currency are translated at

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

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

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

Other off-balance-sheet accounts include:

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

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

Notes on the items of the balance sheet

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

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

The value of gold amounted to €106,742 million at the end of 2019 (Table 4). The increase of €18,378 million over the end of 2018, recognized in the revaluation accounts, was entirely due to the rise in the metal's price. Compared with the end of 2018, gold appreciated by 20.8 per cent (from €1,120.961 to €1,354.104 per ounce). The holding remained steady at 79 million ounces, equal to 2,452 tons.

Table 4

Gold, assets and liabilities denominated in foreign currency (1) (millions of euros)			
	31.12.2019	31.12.2018	Change
Gold (Item 1)	106,742	88,364	18,378
Net assets denominated in foreign currency	41,793	37,685	4,108
Assets denominated in foreign currency	50,254	45,981	4,273
Claims on the IMF (Sub-item 2.1)	11,267	10,658	609
Securities (Sub-items 2.2, 3.1.1, 3.2 and 3.3)	32,508	27,925	4,583
Current accounts and deposits (Sub-items 2.3 and 3.1.3)	6,197	6,986	-789
Reverse operations (Sub-items 2.4 and 3.1.2)	277	406	-129
Other assets (Sub-item 2.5)	5	6	-1
Liabilities denominated in foreign currency	8,461	8,296	165
Counterpart of SDRs allocated by the IMF (Item 8)	8,114	7,993	121
Advances of general government departments (Sub-item 6.2)	344	300	44
Current accounts and deposits (Sub-item 7.1)	3	3	-
Off-balance-sheet instruments (2)	-698	-515	-183

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

The value of net assets denominated in foreign currency increased from €37,685 million to €41,793 million (10.9 per cent) as a result of the increase in the holdings and, to a lesser extent, the appreciation of the major foreign currencies in the portfolio against the euro.⁹ There were unrealized exchange rate gains at the end of the year recognized in the revaluation accounts for €19,286 million and unrealized losses amounting to €2 million, covered by the corresponding revaluation accounts (Table 5).

Table 5

Unrealized foreign exchange gains and losses (millions of euros)					
	Revaluation accounts at 31 December 2018	Gains reported in the revaluation accounts	Losses reported		Revaluation accounts at 31 December 2019
			in the revaluation accounts	in the profit and loss account	
Gold	68,943	18,378	–	–	87,321
US dollars	3,117	478	–	–	3,595
Pounds sterling	123	153	–	–	276
Japanese yen	943	133	–	–	1,076
Australian dollars	–	26	–	–	26
Canadian dollars	–	63	–	–	63
Special Drawing Rights (SDRs) (1)	215	52	–	–	267
Chinese renminbi	–	3	–	–	3
South Korean won	2	–	–2	–	–
Total	73,343	19,286	–2	–	92,627

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

⁹ Compared with the end of the previous year, the currencies that appreciated were the US dollar (from \$1.1450 to \$1.1234), the Japanese yen (from ¥125.85 to ¥121.94), the pounds sterling (from £0.89453 to £0.85080), the Australian dollar (from A\$1.622 to A\$1.5995), the Canadian dollar from (C\$1.5605 to C\$1.4598), SDRs from (€1.2154 to €1.2339), and the Chinese renminbi from (¥7.8751 to ¥7.8205). The South Korean won depreciated from (₩1,277.93 to ₩1,296.28).

Claims on the IMF increased by €609 million (Table 6). The change was mainly due to drawdowns by the IMF from the related holdings deposited in its account with the Bank and, to a lesser extent, to the appreciation of SDRs against the euro.

Table 6

Accounts with the International Monetary Fund (millions of euros)			
	31.12.2019	31.12.2018	Change
Assets			
Claims on the IMF (Sub-item 2.1)	11,267	10,658	609
a) Reserve Tranche Position in the IMF	3,003	2,380	623
Quota in the IMF	18,595	18,316	279
IMF holdings	-15,592	-15,936	344
b) Participation in the PRGT	774	902	-128
c) Participation in the NAB	439	637	-198
d) Special Drawing Rights (SDRs)	7,051	6,739	312
Liabilities			
Counterpart of SDRs allocated by the IMF (Item 8)	8,114	7,993	121

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 €3,003 million at the end of 2019, represents the difference between Italy's participation quota in the Fund (€18,595 million, equal to SDR15,070 million) and the IMF's holdings deposited in its account with the Bank (€15,592 million, equal to SDR12,636 million) which are funded by the participation quota subscribed over time in national currency.
- b) The contribution to the Poverty Reduction and Growth Trust (PRGT), amounting to €774 million (SDR627 million), is used to grant long-term loans on favourable terms 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 €439 million (SDR355 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 participation 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 2019 Italy's holdings amounted to SDR5,715 million, equal to €7,051 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 €8,114 million at the end of the year.

The portfolio of securities denominated in foreign currency and classified as not held to maturity increased from €27,925 million to €32,508 million (Table 7). The portfolio mostly consists of bonds and certificates of deposit issued by foreign government bodies and international organizations. Of the total portfolio, 72 per cent is denominated in US dollars, 11 per cent in Japanese yen, 8 per cent in pounds sterling, 5 per cent in Australian dollars, 3 per cent in Canadian dollars and 1 per cent in Chinese renminbi.

Table 7

Movements in securities denominated in foreign currency (millions of euros)					
	Non-euro-area residents (1)		Euro-area residents (2)		Total
	Bonds	Units of CIUs	Bonds	Units of CIUs	
Opening balance	27,220	472	233	–	27,925
Increases	38,166	151	77	–	38,394
Purchases	36,810	115	75	–	37,000
Net gains	107	36	–	–	143
Net price revaluation (3)	146	–	1	–	147
Net exchange rate revaluation (3)	928	–	–	–	928
Premiums and discounts	175	–	1	–	176
Decreases	-33,302	-239	-270	–	-33,811
Sales and redemptions	-33,284	-217	-247	–	-33,748
Net price revaluation (3)	–	-13	–	–	-13
Net exchange rate revaluation (3)	–	-9	-23	–	-32
Write-downs due to price changes (4)	-18	–	–	–	-18
Closing balance	32,084	384	40	–	32,508
(1) Sub-item 2.2. – (2) Sub-items 3.1.1, 3.2 and 3.3. – (3) Increase/decrease in revaluation accounts. – (4) Recognised 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, Japanese yen and pounds sterling, consist of fixed-term deposits (€3,417 million), current accounts (€2,780 million), reverse operations (€277 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 (€344 million, Sub-item 6.2) in respect of advances received for the management of foreign currency cross-border payments and collections.

[2] Monetary policy operations

The amounts outstanding at 31 December 2019 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.

Table 8

Monetary policy operations (millions of euros)						
	Balances			Averages		
	31.12.2019	31.12.2018	Change	2019	2018	Change
Lending to euro-area credit institutions (Item 5) (1)						
5.1 Main refinancing operations	4,718	5,116	-398	2,457	1,836	621
5.2 Longer-term refinancing operations	215,423	238,934	-23,511	236,539	245,619	-9,080
5.3 Fine-tuning reverse operations	—	—	—	—	—	—
5.4 Structural reverse operations	—	—	—	—	—	—
5.5 Marginal lending facility	—	—	—	51	—	51
5.6 Credits relating to margin calls	—	—	—	—	—	—
Total	220,141	244,050	-23,909	239,047	247,455	-8,408
Securities held for monetary policy purposes (Sub-item 7.1)						
	383,636	392,974	-9,338	389,647	378,185	11,462
Liabilities to euro-area credit institutions (Item 2)						
2.1 Current accounts (covering the minimum reserve system)	100,477	80,848	19,629	83,777	87,565	-3,788
2.2 Deposit facility	1,298	7,855	-6,557	8,691	19,805	-11,114
2.3 Fixed-term deposits	—	—	—	—	—	—
2.4 Fine-tuning reverse operations	—	—	—	—	—	—
2.5 Deposits relating to margin calls	—	—	—	—	14	-14
Total	101,775	88,703	13,072	92,468	107,384	-14,916
(1) At 31 December 2019 the collateral for lending to euro-area credit institutions, deposited with the Bank, amounted to €286 billion (€308 billion at the end of 2018).						

Lending to credit institutions (Item 5) had fallen in value at the end of the year and, to a lesser extent, so did the average for the year. The composition by maturity held constant, with about 98 per cent consisting of longer-term refinancing operations. As of the end of the year, almost all of these were TLTRO2 still outstanding (€179,885 million) and new TLTRO3 (€32,986 million), launched in September 2019.

The share of total euro-area refinancing provided to Italian credit institutions was 35 per cent at the end of the year (33 per cent at the end of 2018).

The amounts of *Securities held for monetary policy purposes* (Sub-item 7.1) decreased from €392,974 million to €383,636 million at the end of the year (Table 9). However, the average for 2019 was higher compared to the previous year (Table 8). On 1 November 2019, the Eurosystem restarted the net purchases of securities in the context of the APP at an average monthly pace of €20 billion. During the preceding ten months, the Eurosystem only reinvested the principal payments from maturing securities.

Table 9

Movements in securities held for monetary policy purposes (Sub-item 7.1) (millions of euros)							
	Bonds (1)						Total
	CBPP1	CBPP2	CBPP3	SMP	PSPP	CSPP	
Opening balance	674	557	40,115	12,069	320,003	19,556	392,974
Increases	–	–	1,787	78	19,174	1,133	22,172
Purchases	–	–	1,787	–	19,174	1,128	22,089
Net gains	–	–	–	–	–	5	5
Net premiums and discounts	–	–	–	78	–	–	78
Decreases	-370	-165	-2,716	-3,708	-23,700	-851	-31,510
Sales and re-demptions	-370	-165	-2,343	-3,708	-20,759	-637	-27,982
Net premiums and discounts	–	–	-373	–	-2,941	-214	-3,528
Closing balance	304	392	39,186	8,439	315,477	19,838	383,636
(1) The first two CBPPs were introduced in 2009 and 2011 and closed in 2010 and 2012 respectively. The SMP was rolled out in 2010 and ended in 2012.							

In 2019, the Bank sold securities included in the CSPP portfolio for an amount equal to €258 million and securities included in the PSPP portfolio for an amount equal to €55 million. The sales, agreed at Eurosystem level, were necessary to comply with the limits set by the programmes.

At the end of the year, the market value of the securities held for monetary policy purposes amounted to €401,824 million. The market value of €18,188 million is higher than the book value, largely on account of the public securities in the PSPP portfolio.

Generally, the risks associated with monetary policy operations are shared among the NCBs subject to a decision of the ECB Governing Council (see the box ‘Rules on risk sharing in monetary policy operations’). In accordance with

Table 10

Comparison with market price of securities held for monetary policy purposes (Sub-item 7.1) (millions of euros)						
	31.12.2019		31.12.2018		Change	
	Amortized cost	Market price	Amortized cost	Market price	Amortized cost	Market price
CBPP1	304	329	674	719	-370	-390
CBPP2	392	423	557	603	-165	-180
CBPP3	39,186	40,619	40,115	40,075	-929	544
SMP	8,439	9,075	12,069	13,054	-3,630	-3,979
PSPP	315,477	331,041	320,003	309,642	-4,526	21,399
CSPP	19,838	20,337	19,556	18,719	282	1,618
Total	383,636	401,824	392,974	382,812	-9,338	19,012

the Governing Council's decisions, all securities acquired through the existing monetary policy programmes are valued at amortized cost subject to impairment in accordance with Eurosystem criteria.

Based on the annual impairment test conducted at Eurosystem level on the securities purchased under the CSPP, the Governing Council deemed it appropriate to maintain a provision in the amount of €89 million (€161 million at end-2018) to cover the credit risks relating to an issuer of impaired securities. Consequently, the Bank adjusted its recorded share of the provision, reducing it from €28 million at the end of 2018 to €15 million (see also 'General risk provision and other provisions'). The annual impairment tests on the securities purchased under the CBPP3 found that an impairment indicator was triggered on a security issued by a credit institution that was in financial difficulty at the end of the year. The Governing Council of the ECB deemed that the identified impairment indicator had not affected the estimated future cash flows and therefore decided not to recognize impairment losses.

With regard to *Liabilities to credit institutions*, accounts held by banks, including deposits made in accordance with the minimum reserve requirements, increased from €80,848 million to €100,477 million at the end of 2019, while the annual average amount decreased from €87,565 million to €83,777 million). Overnight deposits instead recorded a significant decrease in both the end-year amount and the annual average amount. In 2019, the Bank did not make fixed-term deposits and did not activate any fine-tuning reverse operations.

[3] Other claims on euro-area credit institutions

Item 6 on the asset side, amounting to €51 million (€70 million in 2018), includes current accounts in connection with the management of cross-border euro payments and collections for government bodies (€31 million) and other current accounts denominated in euros (€20 million).

[4] Securities portfolio

Table 11

Securities portfolio (millions of euros)			
	31.12.2019	31.12.2018	Change
A. SECURITIES DENOMINATED IN EUROS (Sub-items 4.2 and 7.2 and Item 8)			
1. Securities held to maturity	77,276	80,796	-3,520
a) Government securities (Sub-item 7.2)	61,961	65,330	-3,369
b) Other bonds (Sub-items 4.2 and 7.2)	1,633	1,651	-18
c) Government securities assigned to the Bank of Italy (Item 8)	13,682	13,815	-133
2. Securities other than those held to maturity	6,646	7,560	-914
a) Government securities (Sub-item 7.2)	5,468	6,424	-956
b) Other bonds (Sub-items 4.2 and 7.2)	1,178	1,136	42
Total A	83,922	88,356	-4,434
B. SECURITIES RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS (Sub-item 11.2)			
1. Securities held to maturity and other permanent investments	42,543	36,183	6,360
a) Government securities	41,700	35,414	6,286
- of which: denominated in foreign currency	1,111	1,495	-384
b) Other bonds	190	184	6
c) Shares and participating interests	653	585	68
- in subsidiary companies and entities	587	527	60
- in other companies and entities	11	3	8
- in other companies and entities denominated in foreign currency	55	55	-
2. Securities other than those held to maturity and other permanent investments	10,874	9,306	1,568
a) Government securities	49	255	-206
- of which: denominated in foreign currency	49	255	-206
b) Shares and participating interests	9,265	7,723	1,542
c) ETFs and shares/units of CIUs	1,560	1,328	232
- of which: denominated in foreign currency	1,560	1,328	232
Total B	53,417	45,489	7,928
Total (A+B)	137,339	133,845	3,494

Securities denominated in euros (Total A of Table 11; Table 12) consist exclusively of bonds and are detailed in:

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

Table 12

A. Movements in securities denominated in euros (millions of euros)						
	Bonds				Total	
	Held to maturity		(Item 8)	Other than those held to maturity		
	(Sub-item 4.2)	(Sub-item 7.2)		(Sub-item 4.2)	(Sub-item 7.2)	
Opening balance	1,063	65,918	13,815	673	6,887	88,356
Increases	75	8,873	-	223	1,439	10,610
Purchases	75	8,873	-	207	886	10,041
Transfers	-	-	-	-	407	407
Net gains	-	-	-	3	54	57
Net revaluations (1)	-	-	-	13	92	105
Decreases	-14	-12,321	-133	-175	-2,401	-15,044
Sales and redemptions	-	-9,952	-50	-171	-2,341	-12,514
Transfers	-	-1,913	-	-	-	-1,913
Net premiums and discounts	-14	-456	-83	-4	-57	-614
Write-downs (2)	-	-	-	-	-3	-3
Closing balance	1,124	62,470	13,682	721	5,925	83,922

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

Securities relating to investments of reserves and provisions (Total B of Table 12; Table 13) are denominated in euros and in foreign currency (mainly US dollars). The Bank's foreign currency investments relating to reserves and provisions constitute a separate foreign currency position with respect to the other foreign currency assets and liabilities (see *Gold, assets and liabilities denominated in foreign currency*). At year-end, 79 per cent of the portfolio consisted of bonds, mostly government securities, and 21 per cent of shares, participating interests, ETFs and shares/units of CIUs. Almost all of the investments in equity instruments were listed securities. The majority of issuers of the securities related to investments of reserves and provisions were from euro-area countries.

Table 13

B. Movements in securities relating to the investment of reserves and provisions (Sub-item 11.2) (millions of euros)						
	Bonds		Equity shares and other participating interests		ETFs and shares/units of CIUs	Total
	Held to maturity	Other than those held to maturity	Permanent investments	Temporary investments		
Opening balance	35,598	255	585	7,723	1,328	45,489
Increases	11,740	17	68	3,148	386	15,359
Purchases (1)	10,234	14	68	1,199	12	11,527
Transfers	1,506	-	-	-	-	1,506
Net gains	-	-	-	532	92	624
Net price revaluations (2)	-	1	-	1,417	282	1,700
Net premiums and discounts	-	2	-	-	-	2
Decreases	- 5,448	- 223	-	- 1,606	- 154	- 7,431
Sales and redemptions (1)	- 5,167	- 214	-	- 1,572	- 152	- 7,105
Net premiums and discounts	- 266	-	-	-	-	- 266
Write-downs due to price changes (3)	-	-	-	- 34	-	- 34
Exchange rate adjustments (4)	- 15	- 9	-	-	- 2	- 26
Closing balance	41,890	49	653	9,265	1,560	53,417

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

Almost all of the bond portfolio (95 per cent) comprises securities held to maturity and is therefore valued at amortized cost subject to impairment. The annual impairment tests conducted on these securities applying Eurosystem criteria did not show evidence of any losses.

The portfolio of securities held to maturity contained listed bonds whose book value (€5,357 million) is higher than the market value at year-end (€5,277 million). However, if all the listed financial instruments were valued at market prices, the total value of the portfolio (€150,790 million) would be higher than the book value.

The equity shares portfolio includes a participating interest in the company SIDIEF SpA, of which the Bank is the sole shareholders (Table 14). In 2019, the Bank fully subscribed the €60 million capital increase decided by SIDIEF. The Bank's annual accounts are not consolidated with those of this company, as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991. Moreover, consolidation would be immaterial for the purpose of providing a true and fair view of the Bank's balance sheet, financial position and profit and loss account.

The Bank of Italy also holds a 0.5 per cent participating interest in Europafi Sas. Based on shareholders' agreements, the Bank of Italy, together with other Eurosystem NCBs, exercises control according to the rules on public contracts awarded to controlled legal persons set out in Directive 2014/24/EU ('in-house providing').

In 2019, the Bank acquired an interest in Valoridicarta SpA following an agreement signed in 2018 with Istituto Poligrafico e Zecca dello Stato SpA, the holder of the rest of the capital. A shareholders' agreement sets out the governance arrangements of the company (see 'Disclosure of relations with subsidiary and associate companies').

Table 14

Participating interests in subsidiary and associated companies					
	At end-2019			Subsidiary or associated company data for 2018 (millions of euros)	
	Number of shares held	% of capital held	Book value (millions of euros)	Net equity (1)	Profit
Società Italiana di Iniziative Edilizie e Fondiarie SpA - Rome (Capital of €567,000,000 represented by 567,000 shares with a par value of €1,000 each)	567,000	100	587	563	3
Europafi Sas - Longues, Vic-le-Comte, France (Capital of €133,000,000 represented by 1,330,000 shares with a par value of €100 each)	6,650	0.5	0.7	152	8
Valoridicarta SpA - Rome (2) (Capital of €43,800,000 represented by 43,800,000 shares with a par value of €1 each)	8,000,000	18.26	8.0		
(1) Includes the profit or loss for the year. – (2) The company's first annual accounts refer to 2019 and therefore are not available.					

The other participating interests held as permanent investments include shares in 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)			
	31.12.2019	31.12.2018	Change
Assets			
9.1 Participating interest in the ECB	1,278	1,333	-55
9.2 Claims arising from the transfer of foreign reserves to the ECB	6,839	7,134	-295
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem	44,032	44,850	-818
9.4 Other claims within the Eurosystem (net)	—	—	—
Total	52,149	53,317	-1,168
Liabilities			
9.2 Net liabilities relating to the allocation of euro banknotes within the Eurosystem	—	—	—
9.3 Other liabilities within the Eurosystem (net)	437,846	480,539	-42,693
Total	437,846	480,539	-42,693

Table 15 sets out in detail the Bank's claims and liabilities with respect to the Eurosystem and the changes in these items during the year. On the asset side:

- *Participating interest in the ECB*¹⁰ declined by €55 million¹¹ as a result of the five-year adjustment of the Bank's share. This adjustment is also the cause of the €295 million decrease in claims arising from the transfer of foreign reserves to the ECB,¹² determined in proportion to the share subscribed;
- *Net claims relating to the allocation of euro banknotes within the Eurosystem* amounted to €44,032 million (see *Banknotes in circulation*).

¹⁰ Pursuant to Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers and holders of the capital of the ECB. Subscriptions are determined on the basis of the key established in Article 29 of the Statute and adjusted every five years or when the composition of the ESCB changes. At the end of 2018 the Bank of Italy's share of the ECB's subscribed capital amounted to 12.3108 per cent; after the five-year adjustment on 1 January 2019, the share equalled 11.8023 per cent. Considering only the NCBs belonging to the Eurosystem, it amounted to 17.4890 per cent at the end of the year; on 1 January 2019, following the five-year adjustment, it fell to 16.9530 per cent.

¹¹ In addition to the sum of €55 million corresponding to the settled share capital of the ECB, the Bank received a further €174 million relating to the decrease in its share in the remaining components of the ECB's equity, which was recorded in the profit and loss account (see 'Notes on the items of the profit and loss account' – Income from participating interests).

¹² *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 the 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.

On the liability side:

- *Other liabilities within the Eurosystem (net)* amounted to €437,846 million (compared with €480,539 in 2018) and represent the Bank's net position vis-à-vis the Eurosystem, mainly deriving from the operation of the TARGET2 system. In particular at the end of 2019 these latter gave rise to a debt position of €439,449 million (€481,998 million in 2018). The following contributed to the reduction in the overall position: (a) a claim of €243 million (€208 million in 2018) for the ECB interim profit distribution pertaining to 2019 and (b) a claim of €1,360 million (€1,251 million in 2018) deriving from the net result of the pooling of monetary income for the year (See 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

[6] Other assets

The item *Other assets* contains all the assets that cannot be classified under any of the preceding items (Table 16). This item consists mostly of investments in securities of reserves and provisions (see *Securities portfolio*).

Table 16

Other assets (Item 11) (millions of euros)			
	31.12.2019	31.12.2018	Change
11.1 Euro-area coins	120	127	- 7
11.2 Financial assets relating to the investment of reserves and provisions (1)	53,427	45,493	7,934
11.3 Intangible fixed assets	63	72	-9
11.4 Tangible fixed assets	1,959	2,034	-75
11.5 Accruals and prepaid expenses	4,489	4,694	-205
11.6 Deferred tax assets	886	1,230	-344
11.7 Sundry	2,544	1,012	1,532
Other investments for staff severance pay and pensions	81	91	-10
Supplementary pension fund	669	542	127
Other components (2)	1,794	379	1,415
Total	63,488	54,662	8,826

(1) The balance at 31 December 2019 is composed of securities amounting to €53,417 million and reverse operations totalling €10 million. – (2) The balance at 31 December 2019 includes reverse repos with financial institutions other than credit institutions totalling €1,366 million.

The composition of *Intangible fixed assets* (Sub-item 11.3) and movements during the year are shown in Table 17. The same information for *Tangible fixed assets* (Sub-item 11.4) is shown in Tables 18 and 19. The year-end market value of the buildings owned by the Bank is estimated to be €3,343 million (€3,585 million in 2018).

Table 17

Movements in intangible fixed assets (Sub-item 11.3) (millions of euros)				
	Procedures (1)	Multi-year software licence fees	Assets under development and related advances (1)	Total
Opening balance	63	7	2	72
Increases	2	4	2	8
Purchases and improvement costs	–	4	2	6
Transfers	2	–	–	2
Decreases	- 8	- 7	- 2	- 17
Amortization	- 8	- 7	–	- 15
Transfers	–	–	- 2	- 2
Closing balance	57	4	2	63

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

Table 18

Movements in tangible assets (property) (millions of euros)							
	Premises		Investment property for allocations to severance and pension provision (1)		Other property (1)		Total
	Buildings	Land (2)	Buildings	Land	Buildings	Land	
Opening balance (gross)	2,779	911	6	1	508	85	4,290
Accumulated depreciation	-2,071	–	-2	–	-347	–	-2,420
Opening balance (net)	708	911	4	1	161	85	1,870
Increases	1	–	–	–	17	10	28
Purchases and improvement costs	1	–	–	–	–	–	1
Transfers (cost)	–	–	–	–	73	10	83
Transfers (accumulated depreciation)	–	–	–	–	-56	–	-56
Decreases	-92	-10	–	–	-18	-10	-130
Sales and/or disposals (cost)	–	–	–	–	-32	-6	-38
Sales and/or disposals (accumulated depreciation)	–	–	–	–	23	–	23
Depreciation	-75	–	–	–	–	–	-75
Transfers (cost)	-73	-10	–	–	–	–	-83
Transfers (accumulated depreciation)	56	–	–	–	–	–	56
Other changes (cost)	–	–	–	–	-9	-4	-13
Closing balance (gross)	2,707	901	6	1	540	85	4,240
Accumulated depreciation	-2,090	–	-2	–	-380	–	-2,472
Closing balance (net)	617	901	4	1	160	85	1,768

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

Table 19

Movements in tangible fixed assets (other) (millions of euros)					
	Equipment, furniture & furnishings	Plant	Artwork, coins and collections	Assets under development and related advances	Total
Opening balance (gross)	206	582	2	51	841
Accumulated depreciation	-177	-500	–	–	-677
Opening balance (net)	29	82	2	51	164
Increases	6	37	20	11	74
Purchases and improvement costs	6	22	–	11	39
Transfers (cost)	–	15	20	–	35
Decreases	-11	-21	–	-15	-47
Sales and/or disposals (cost)	-2	-1	–	–	-3
Sales and/or disposals (accumulated depreciation)	2	1	–	–	3
Depreciation	-10	-21	–	–	-31
Transfers (cost)	-20	–	–	-15	-35
Transfers (accumulated depreciation)	19	–	-19	–	–
Other changes (accumulated depreciation)	–	–	19	–	19
Closing balance (gross)	190	618	22	47	877
Accumulated depreciation	-166	-520	–	–	-686
Closing balance (net)	24	98	22	47	191

Since 2019, assets of artistic and historical interest classified by the Bank as ‘artwork’ are not subject to depreciation. This classification also applies to artwork already in the Bank’s collection at 1 January 2019 for which the relative accumulated depreciation, equal to about €19 million, was reversed to the item of the profit and loss account to which the year’s depreciation is allocated (see ‘Notes on the items of the profit and loss account’ – *Expenses and sundry charges*). The value of these assets at the end of the year was €20 million.

Accruals and prepaid expenses (Sub-item 11.5) are detailed in Table 20.

Table 20

Accruals and prepaid expenses (Sub-item 11.5) (millions of euros)			
	31.12.2019	31.12.2018	Change
Accrued income	4,464	4,669	-205
Interest accrued on securities denominated in euros	4,324	4,538	-214
Interest accrued on monetary policy deposits	–	9	-9
Interest accrued on securities denominated in foreign currencies	119	94	25
Interest accrued on other foreign currency assets	19	27	-8
Other	2	1	1
Prepaid expenses	25	25	–
Administrative expenses	25	25	–
Total	4,489	4,694	-205

The composition of *Deferred tax assets* (Sub-item 11.6) is detailed in Table 21.

Table 21

Deferred tax assets (millions of euros)								
	31.12.2019				31.12.2018			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Tax loss for 2002	2,253	620	–	620	3,261	897	–	897
Staff costs accrued but not paid	196	54	11	65	250	69	14	83
Gap between the civil law value and the tax value of the equity shares portfolio (1)	714	196	–	196	878	241	–	241
Other	16	4	1	5	29	8	1	9
Total	3,179	874	12	886	4,418	1,215	15	1,230

(1) Gaps are almost entirely due to non-deductible civil law write-downs.

Most 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 losses from bond conversion under Law 289/2002 are set out in Article 65 of that law 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 reasonable expectation of their recovery takes account of the Bank's expected profit and the applicable tax rules.

Deferred tax assets (Sub-item 11.6) show a net decrease of €344 million, being the combined effect of:

- a decrease of €277 million as a result of offsetting the remaining tax loss for 2002 against taxable income for 2019;
- the net decline of €67 million in deferred tax assets associated with other items of the profit and loss account.

The movements in deferred tax assets during the year are shown in Table 44 of 'Notes on the items of the profit and loss account'.

Sundry (Sub-item 11.7 of *Other assets*) includes the balance sheet total (€669 million) of the defined-contribution supplementary pension fund for staff hired on or after 28 April 1993, which is matched on the liability side by an equal amount recorded in Sub-item 11.3 of *Other liabilities*. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. The Bank manages its investments observing the reference benchmarks.

Other assets (Sub-item 11.7 – *Sundry*) includes the reverse repos with financial institutions other than credit institutions amounting to €1,366 million, connected

with the securities lending service launched in 2019 (see ‘Key developments in the Bank’s annual accounts’). Starting in 2019 this item also contains the balances for claims vis-à-vis customers, previously included under items in course of settlement (asset side). The corresponding balances for 2018 have been reclassified for comparative purposes.

[7] Banknotes in circulation

This item represents the Bank of Italy’s share of banknotes in circulation issued by the Eurosystem (see ‘Legal basis, accounting policies and layout of the annual accounts’). It increased by €3,540 million (from €198,089 to €201,629 million) in 2019. The value of banknotes actually put into circulation by the Bank also rose by €4,358 million (from €153,239 to €157,597 million).

Since the amount of banknotes issued by the Bank was lower than the notional amount assigned to it, the difference of €44,032 million is shown as a claim on the Eurosystem under Item 9.3 on the asset side, as *Net claims relating to the allocation of euro banknotes within the Eurosystem*.

[8] Liabilities to other euro-area residents

Table 22

Liabilities to other euro-area residents (Item 4) (millions of euros)			
	31.12.2019	31.12.2018	Change
4.1 General government	11,519	31,691	-20,172
4.1.1 Treasury payment account	11,459	31,633	-20,174
4.1.2 Other liabilities	60	58	2
4.2 Other counterparties	25,509	10,579	14,930
Total	37,028	42,270	-5,242

Item 4 on the liability side includes the deposits held by the Treasury with the Bank of Italy (€11,459 million) and euro-denominated deposits of counterparties other than credit institutions (€25,509 million). The decrease from €42,270 million to €37,028 million recorded in 2019 arose as a result of two opposite-sign changes: the €20,174 million decrease in the balance of the Treasury deposits (although the annual average rose from €27,106 million to €34,348 million) and the €14,930 million increase in deposits of non-bank counterparties. This increase is attributable to deposits made at the end of 2019 by the European Stability Mechanism (ESM) for €12,599 million and to repos connected with the securities lending service launched during the year for €1,424 million (see ‘Notes on the items of the balance sheet’ – *Other assets*). The other deposits disclosed under the item, mainly consisting of those of clearing houses, also include the deposit of the National Resolution Fund set up by the Bank of Italy as national resolution authority.

Other liabilities (Sub-item 4.1.2) amounted to €60 million (compared with €58 million in 2018) and represents almost exclusively debt positions with general government in respect of advances received for the management of cross-border euro payments and collections.

GOVERNMENT DEPOSITS

Government deposits held with the Eurosystem are regulated by Decision ECB/2014/8, as amended, and Decision ECB/2019/7. More specifically: (a) overnight and fixed-term government deposits are remunerated with an interest rate respectively no higher than the Eonia or, following its discontinuation, the Euro Short-Term Rate (€STR) and the STOXX EUR GC Pooling term index with a comparable maturity; (b) the total amount of government deposits that can be remunerated is the higher of either the sum of €200 million or 0.04 per cent of GDP, and any amount in excess is remunerated with an interest rate of zero per cent or with the interest rate on the deposit facility, if negative.

[9] Liabilities to non-euro area residents

Sub-item 5.2 (*Other liabilities*), amounted to €1,946 million (€3,355 million in 2018) and included accounts held by customers using the Eurosystem Reserves Management Services (ERMS)¹³ and other deposits by non-euro area residents (respectively €252 million and €1,694 million), including the Single Resolution Board (SRB).¹⁴

[10] Other liabilities

The composition of this item is detailed in Table 23. *Accruals and income collected in advance* (Sub-item 11.2) are detailed in Table 24.

Table 23

Other liabilities (Item 11) (millions of euros)			
	31.12.2019	31.12.2018	Change
11.1 Cashier's cheques	111	115	-4
11.2 Accruals and income collected in advance	2,065	1,894	171
11.3 Sundry	1,612	1,574	38
Supplementary pension fund	669	542	127
Special item for stabilizing dividends	120	80	40
Other components	823	952	-129
Total	3,788	3,583	205

¹³ 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.

¹⁴ Contributions paid by Italian credit institutions and collected by the Bank, in its role as national resolution authority and on behalf of the Single Resolution Board, are allocated to the SRB's deposits. These contributions are then transferred to the SRB each year.

The interest accrued on refinancing operations refers mainly to TLTRO2 operations (see ‘Notes on the items of profit and loss account’ – *Net interest income*).

Table 24

Accruals and income collected in advance (Sub-item 11.2) (millions of euros)			
	31.12.2019	31.12.2018	Change
Accrued expenses	2,065	1,894	171
Interest accrued on refinancing operations	2,051	1,876	175
Interest accrued on liabilities denominated in foreign currency	14	18	-4
Income collected in advance	–	–	–
Total	2,065	1,894	171

The sub-item *Sundry* under *Other liabilities* includes the special item for stabilizing dividends, which amounted to €120 million. The establishment of this item was decided by the Meeting of Shareholders on 31 March 2017 in order to smooth the implementation of the dividend policy.¹⁵ In 2019, the balances for liabilities vis-à-vis suppliers, previously included under items in the course of settlement (liability side), were allocated to *Sundry* (Sub-item 11.3 of *Other liabilities*). The corresponding balances for 2018 have been reclassified for comparative purposes.

[11] General risk provision and other provisions

The balances and movements of provisions are shown in Tables 25 and 27.

Table 25

Movements in provisions for specific risks (Sub-item 12.1) (millions of euros)				
	Damage insurance provision	Tax provision (1)	Provision for Eurosystem monetary policy operations	Total
Opening balance	310	134	28	472
Increases	–	13	–	13
Other increases	–	13	–	13
Decreases	–	-5	-13	-18
Other decreases	–	-5	-13	-18
Closing balance	310	142	15	467

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

¹⁵ In 2015 the Board of Directors indicated that, in subsequent years, it plans to keep the annual dividend between €340 million and €380 million, provided that the net profit is sufficient and without prejudice to the Bank's capital adequacy. On 31 March 2017 it was resolved that the difference between the upper bound of this range (€380 million) and the amount of the dividend decided would be allocated to the special item.

Based on the annual impairment test conducted at Eurosystem level on the securities purchased under the CSPP, the Governing Council revised the total provision amount estimated the year before, which the NCBs had entered in their accounts in proportion to their respective shares of the capital of the ECB at the end of 2018. This provision amounted to €89 million (€161 million at the end of 2018) based on the level of risk outstanding at 31 December 2019. Since the reduction in the provision is recognized in the profit and loss accounts of the NCBs following the same proportionality criterion used to record their respective provisions, the Bank of Italy's share of the provision decreased from €28 million to €15 million (Table 25; see 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

Table 26

Deferred tax liabilities (millions of euros)								
	31.12.2019				31.12.2018			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Realized gains on securities, property and other assets	9	3	–	3	6	2	–	2
Gaps between the civil law values and the tax values of buildings (1)	412	113	23	136	392	108	21	129
Other	12	3	–	3	12	3	–	3
Total	433	119	23	142	410	113	21	134

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

Table 27

Movements in staff-related provisions (Sub-item 12.2) (millions of euros)					
	For staff severance pay and pensions	Fund for staff costs	For severance pay (1)	For grants to BI pensioners and their survivors	Total
Opening balance	6,751	318	2	3	7,074
Increases	–	83	–	–	83
Allocations	–	83	–	–	83
Decreases	–	-128	–	–	-128
Withdrawals	–	-128	–	–	-128
Closing balance	6,751	273	2	3	7,029

(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) amounted to €7,029 million. In 2019:

- the provision for severance pay and pensions remained unchanged at €6,751 million, an amount about €55 million in excess of the total commitments for staff severance pay and pensions estimated at 31 December 2019. This excess amount remains prudently allocated to the item;
- the provision for staff costs decreased by €45 million, largely on account of releases made to pay for the early retirement measures approved in previous years. This

provision includes transfers equal to €22 million (€18 million in 2018) for lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund to be settled upon their leaving service.

In 2019, the Bank continued to gradually strengthen its financial buffers against the size of its balance sheet and its overall risk exposure. Specifically, the general risk provision was increased by €1,500 million (the same in 2018) to address, in even the most adverse scenarios, the risks to which the Bank is exposed, essentially connected to implementing programmes for the purchase of public and private sector securities for monetary policy purposes, which were restarted last November.

Table 28

Movements in the general risk provision (Item 14) (millions of euros)		
	31.12.2019	31.12.2018
Opening balance	26,714	25,214
Increases	1,500	1,500
Allocations	1,500	1,500
Decreases	–	–
Withdrawals	–	–
Closing balance	28,214	26,714

[12] Revaluation accounts

The item includes unrealized gains 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) (millions of euros)			
	Opening balance	Net revaluations	Closing balance
Exchange rate revaluations	73,401	19,251	92,652
of which: gold	68,943	18,378	87,321
net foreign currency assets (1)	4,400	906	5,306
financial assets relating to the investment of reserves and provisions (1)	58	-33	25
Price revaluations	3,156	1,939	5,095
of which: foreign currency securities	147	134	281
securities denominated in euros	313	105	418
financial assets relating to the investment of reserves and provisions	2,696	1,700	4,396
Total	76,557	21,190	97,747

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

[13] Capital and reserves

The composition of this item is detailed in Table 30.

Table 30

Capital and reserves (Item 15) (millions of euros)			
	31.12.2019	31.12.2018	Change
15.1 Capital	7,500	7,500	–
15.2 Statutory reserves	10,908	10,645	263
Ordinary (1)	6,313	6,050	263
Extraordinary	4,595	4,595	–
15.3 Other reserves	7,740	7,740	–
Monetary revaluation reserves (2)	3,813	3,813	–
Special fund for the renewal of tangible fixed assets	1,805	1,805	–
Surplus from the merger of UIC (Legislative Decree 231/2007)	2,122	2,122	–
Total	26,148	25,885	263

(1) The €263 million increase is due to the allocation of the profit for 2018. – (2) Under Laws 72/1983, 408/1990, 413/1991, 342/2000, and 266/2005.

Article 4 of Law 5/2014 (which reformed the Bank of Italy's ownership structure) and the ensuing changes to the Statute provide that shareholders' ownership rights be limited exclusively to the value of the capital and dividends; the latter cannot exceed 6 per cent of capital in a given year. Therefore, the equity reserves, regardless of their origin, may only be used to cover possible losses. The transactions carried out in 2019 in relation to Bank of Italy shareholdings, including those relating to the reorganization of a number of banking groups, led to the transfer of about 12.9 per cent of capital.

At 31 December 2019, there were 121 shareholders¹⁶ (119 at the end of 2018), of whom 7 were new: 4 banking foundations and 3 banks; the 5 entities no longer shareholders includes 4 banks (as a result of the banking group mergers mentioned above) and a banking foundation. At the end of 2019, four shareholders still held, at individual and consolidated level, shares exceeding the 3 per cent threshold set by law. As a result of these developments, at year-end 60.8 per cent of the shareholdings were held by banks, 7.1 per cent by insurance companies, 22.3 per cent by social security institutions, 3.3 per cent by pension funds, and 6.5 per cent by banking foundations. The distribution of the shareholdings in the Bank of Italy's capital at 31 December 2019 is detailed in Table 31.

¹⁶ They numbered 143 at 20 February 2020, the last date for acquiring shares with the right to dividends for 2019.

Table 31

Shareholders in the Bank of Italy				
	At the end of 2019		At the end of 2018	
	Number	Shares	Number	Shares
Banks	69	182,542	70	187,920
Social security institutions	11	66,760	11	62,960
Pension funds	7	9,880	7	9,880
Insurance companies	10	21,292	10	22,514
Banking foundations	24	19,526	21	16,726
Total	121	300,000	119	300,000

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

Commitments and collateral granted by the Bank are reported in Table 32, 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.

Table 32

Commitments and collateral granted (millions of euros)			
	31.12.2019	31.12.2018	Change
Orders in progress	638	298	340
Purchases	448	191	257
Sales	190	107	83
Forward operations	3,575	3,715	-140
Forward sales of foreign currencies	2,873	2,643	230
Forward purchases of foreign currencies	616	715	-99
Futures contracts purchased	66	330	-264
Futures contracts sold	20	27	-7
Commitments	35,214	34,602	612
To the IMF for loans granted	35,213	34,601	612
Other	1	1	–
Collateral granted	1,273	13	1,260
Third-party securities and valuables on deposit with the Bank	81,155	73,983	7,172
Total balance sheet of the National Resolution Fund	399	430	-31
Commitments of the supplementary pension fund	106	88	18
Total	122,360	113,129	9,231

THE NATIONAL RESOLUTION FUND

Legislative Decree 180/2015 implementing Directive 2014/59/EU (Bank Recovery and Resolution Directive) provides that one or more Italian resolution funds be set up to finance the resolution of credit institutions and investment firms

in financial difficulty. These funds are financed mainly by 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 national resolution authority. The Bank has accordingly established a Resolution and Crisis Management Unit that reports directly to the Governing Board. Its function is to draft and implement resolutions. On 18 November 2015, the Bank issued a measure creating the National Resolution Fund (NRF). The NRF has its own capital that is in all respects independent and separate from that of the Bank and from any other capital the Bank manages, as well as from the capital of each of the contributors to its resources. To ensure the necessary transparency vis-à-vis the public, an annual report is issued on the NRF's activities, audited by the same audit firm that audits the Bank's annual accounts and published at the same time. The operating and administrative costs of the Unit are reported among those of the Bank, as do the indirect costs for resolution activity. The NRF has separate fiscal personality for IRES and IRAP taxation purposes.

Forward sales of foreign currency include exchange-rate risk-hedging operations on the Bank's SDR position and on the foreign currency investments relating to reserves and provisions (see *Securities portfolio*). Commitments to the IMF for granting loans relate to measures by the IMF for financing to be disbursed on behalf of the Italian government.

The Bank participates in the automatic securities lending programmes managed by specialized intermediaries, involving foreign currency securities and securities held for monetary policy purposes. The market value of securities lent by the Bank under these programmes amounted to €1,801 million for foreign currency securities, €78 million for covered bonds, and €3,584 million for PSPP, CSPP and SMP securities at the end of 2019. The Bank launched a securities lending service in July 2019. The market value of the securities lent via this channel totalled €1,424 million at the end of the year and consisted solely of securities held for monetary policy purposes.

Notes on the items of the profit and loss account

[14] Net interest income

In 2019, *Net interest income*¹⁷ rose by €265 million, from €8,330 million to €8,595 million. The rise is due mainly to the increase in interest income on PSPP securities, which more than offset the decline in that on SMP securities and the rise in interest expense on targeted longer-term refinancing operations. Higher interest income on securities denominated in foreign currency also contributed.

¹⁷ *Net interest income* (Item 1) represents the balance of interest income and interest expense accrued in the year, excluding interest on financial assets relating to the investment of reserves and provisions, which is shown under Item 6.

Total interest income amounted to €9,534 million (Table 33), up by €455 million on 2018.

Table 33

Interest income (Sub-item 1.1) (millions of euros)			
	2019	2018	Change
Securities denominated in euros	8,275	7,982	293
<i>of which:</i> CBPP1, CBPP2, CBPP3	370	354	16
SMP	563	734	-171
PSPP	4,393	3,870	523
CSPP	234	195	39
Government bond conversion under Law 289/2002	711	711	–
Other bonds	2,004	2,118	-114
Current accounts (covering the minimum reserve system)	223	293	-70
Treasury payments account	73	40	33
Other in euros	115	125	-10
Securities denominated in foreign currency	628	435	193
Claims on the IMF	108	90	18
Other in foreign currency	112	114	-2
Total	9,534	9,079	455

Total interest income on securities denominated in euros amounted to €8,275 million. The increase of €293 million on 2018 was due to the average increase in securities holdings, mainly those purchased for monetary policy purposes under the PSPP and the rise in average yields, especially those related to the PSPP. The decline in interest income on SMP securities is attributable solely to repayments of maturing securities. Interest income on securities not held for monetary policy purposes decreased due to lower holdings and yields.

The ECB Governing Council kept the interest rate on refinancing operations at 0.0 per cent throughout 2019. As an effect, interest income remained nil, as in the previous two years, on the main refinancing operations and on the intra-ESCB balances under *Net claims relating to the allocation of euro banknotes within the Eurosystem* and under *Claims arising from the transfer of foreign reserves to the ECB* (see ‘Notes on the items of the balance sheet’ – *Intra-Eurosystem claims and liabilities*).¹⁸

The interest on longer-term refinancing operations continued to show a negative net balance in 2019 and is classified as an interest expense.

¹⁸ Balances from the allocation of euro banknotes within the Eurosystem are remunerated at the marginal rate of interest on MROs (nil in 2019). 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.

There was a positive balance of €223 million for interest on current accounts covering the minimum reserve requirement (€293 million in 2018). This was entirely due to interest on reserves held in excess of the minimum reserve requirement, as interest on the minimum reserve requirement itself was nil.¹⁹

The net interest on the Treasury payments account continued to be positive in 2019, amounting to €73 million (€40 million in 2018). Of this, the interest accrued from applying negative deposit facility rates to the part eligible for remuneration and to balances exceeding this part was positive by €143 million (€108 million in 2018; see 'Notes on the items of the balance sheet' – *Liabilities to other euro-area residents* and the box: 'Government deposits') while additional interest due to the Treasury gave rise to an interest expense of €70 million (€68 million in 2018).²⁰ The increase in interest on the balances of the Treasury payment account exceeding the part eligible for remuneration was due mainly to the higher average value of the account.

Other interest denominated in euros, amounting to €115 million in 2019 (€125 million in 2018), was mainly in the form of interest income on the overnight deposits and on the other deposits of non-bank intermediaries, owing to negative interest rates.

There was a considerable increase in interest income on securities denominated in foreign currency compared with 2018 owing to the higher remuneration rates recorded during the year and the higher average holding of securities in portfolio. Those relative to claims on the IMF also rose for the same reasons. Interest income on other assets denominated in foreign currency, mainly on current accounts and deposits, was substantially unchanged.

Interest expense amounted to €939 million (Table 34), representing an overall increase of €190 million with respect to 2018.

Table 34

Interest expense (Sub-item 1.2) (millions of euros)			
	2019	2018	Change
Longer-term refinancing operations	837	661	176
Other in euros	2	–	2
Counterpart of SDRs allocated by the IMF	81	74	7
Other in foreign currency	19	14	5
Total	939	749	190

¹⁹ The accounts for the minimum reserve requirement are remunerated at the average of the marginal interest rates on Eurosystem MROs during the reserve maintenance period. Since June 2014 the reserves in excess of the requirement are remunerated at the interest rate on the deposit facility, which was negative throughout 2019 (-0.40 per cent until 18 September 2019 and -0.50 per cent until the end of year). A two-tier system for reserve remuneration that exempts part of the banks' holdings of excess liquidity from payment of the negative rate was introduced as of 30 October 2019. This part, remunerated at the same interest rate as the minimum reserve requirement, has been set at six times the minimum reserve requirement amount.

²⁰ Additional interest is paid to the Treasury under Presidential Decree 398/2003 (Consolidated law containing provisions and rules on the public debt). It is computed on the basis of the daily interest-bearing balance of the Treasury payments account at a rate equal to the difference, if positive, between the interest rate on the securities originally purchased by the Bank to set up the related holdings (and not yet matured) and the reference rate used to compute the interest on the account.

Interest on longer-term refinancing operations registered a negative net balance of €837 million (€661 million in 2018), in connection with TLTRO2 operations and, to a lesser extent, with the new TLTRO3 operations (€7 million). The average holdings of TLTRO2 declined slightly compared with 2018 and the average interest rate was essentially the same. The lower interest expense reported in the profit and loss account for 2018 also reflects the retrospective correction of the interest reported in the 2016 and 2017 annual accounts. Since the actual interest rate for those operations was not available in those years, but only became known in 2018, the more conservative deposit facility rate was prudently applied.

TLTRO2 AND TLTRO3 REMUNERATION

TLTRO2 auctions were carried out on a quarterly basis from June 2016 to March 2017. The remuneration of these operations varied between the main refinancing rate and the deposit facility rate prevailing at the time of allotment and was determined based on the increase observed in loans to households and firms by participating banks. The observation period ended in 2018 and therefore only then was it possible to calculate the actual rate for each counterparty. In 2016 and 2017, the actual rate to be applied to counterparties was not known and could not be reliably estimated. It was therefore agreed at Eurosystem level to use the lowest rate available to NCBs (-0.40 per cent on overnight deposits) to calculate the interest recognized in the profit and loss account. This amount would then be corrected in the year in which the final rate is set. It was possible to calculate the actual rate in 2018 and consequently to retrospectively correct the rates for 2016 and 2017.

The remuneration of the new TLTRO3 operations will depend on the amount of loans provided by credit institutions as against a specific benchmark and can vary between the average MRO rate and the average deposit facility rate observed over the life of the single operations. The actual rate will only be known in 2021. Therefore until then the same approach as for the TLTRO2 will be used, specifically the interest accrued will be calculated more prudently, which in this case means using the average deposit facility rate, currently -0.50 per cent.

Interest expense on negative balances in TARGET2 was again nil in 2019 owing to the remuneration rate of zero per cent.²¹ As a result of the rise in interest rates, there was an increase in the interest on SDR allocations by the IMF and, due to the higher average holdings, in interest on other liabilities denominated in foreign currencies.

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

The result for 2019 (Table 35) includes: (a) net profits from foreign exchange trading for €36 million, referring mainly to trading in US dollars; (b) net profits from

²¹ The TARGET2 balance is remunerated at the marginal rate of interest on MROs.

trading in securities denominated in euros for €62 million and in foreign currency for €143 million, denominated mainly in US dollars; and (c) write-downs due to price changes in securities denominated in euros for €3 million and in foreign currency for €18 million. The write-downs on securities denominated in foreign currency referred almost entirely to US dollar- and Japanese yen-denominated securities. Transfers to the general risk provision amounted to €1,500 million.

Table 35

Net result of financial operations, write-downs and transfers to/from risk provisions (Item 2) (millions of euros)			
	2019	2018	Change
Profits (+) and losses (-) on financial operations	242	4	238
Foreign exchange trading	36	48	-12
Trading in securities denominated in euros	62	23	39
Trading in securities denominated in foreign currency	143	-75	218
Derivatives contracts	-7	-5	-2
Other transactions	8	13	-5
Write-downs (-) of financial assets and positions	-21	-185	164
Due to exchange rate changes	–	-131	131
Due to price changes			
– securities denominated in euros	-3	-10	7
– securities denominated in foreign currency	-18	-44	26
Transfers to (-) the general risk provision for exchange rate, price and credit risks	-1,500	-1,500	–
Total	-1,279	-1,681	402

[16] Net income from fees and commissions

Net income from fees and commissions (Item 3) stood at €23 million, in line with the previous year; those due from participants in TARGET2 and T2S-Securities systems rose by €4 million.

Table 36

Net income from fees and commissions (Item 3) (millions of euros)			
	2019	2018	Change
Fee and commission income	41	39	2
TARGET2/T2S	24	20	4
Financial services to the public sector	5	4	1
Management of securities backing monetary policy operations	5	5	–
Clearing system	1	2	-1
Substitute protest declarations	2	2	–
Other	4	6	-2
Fee and commission expense	18	16	2
Centralized securities management	13	12	1
Other	5	4	1
Total	23	23	–

[17] Income from participating interests

Income from participating interests (Item 4) amounted to €484 million, up by €225 million on the previous year. The result for 2019 included:

- €67 million, representing the Bank's share of the ECB's profit earned in 2018 and distributed in 2019 (€50 million in the previous year);
- €174 million in income received relating to the decrease in the Bank's share in the ECB's equity and is due to the five-year adjustment of the capital key on 1 January 2019;²²
- €243 million representing the ECB's interim profit distribution for 2019 (€209 million in the previous year); the remaining profit, equal to €158 million, was received in February 2020.

[18] Net result of the pooling of monetary income

The result for 2019 (Item 5), was positive by €1,373 million, and included:

- the net result of the allocation of monetary income in 2019, equal to €1,363 million (€1,370 million in 2018). This was the difference between the monetary income pooled by the Bank, amounting to €553 million, and that redistributed to the Bank, totalling €1,916 million;
- the negative effect of €3 million, pertaining to the recalculation of amounts for previous years;
- the decrease of €13 million in the provision relating to monetary policy operations (see 'Notes on the items of the balance sheet' – *Monetary policy operations* and *General risk provision and other provisions*).

MONETARY INCOME

The monetary income to be pooled by each NCB is equal to its annual income derived from the earmarkable assets held against its liability base. An NCB's earmarkable assets comprise mainly (a) lending to euro-area credit institutions relating to monetary policy operations; (b) securities held for monetary policy purposes; (c) intra-Eurosystem claims arising from the transfer of reserves to the ECB; (d) net intra-Eurosystem claims resulting from TARGET2 transactions;

²² Those NCBs whose share in the capital was reduced received a compensatory payment in an amount equal to the reduction in the capital key multiplied by the value of the ECB's equity (reserves, provisions and revaluation accounts) at the end of 2018.

(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. An NCB's liability base consists primarily 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 on the liabilities included in the liability base is deducted from the monetary income to be pooled. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference (gap) is considered to bear (or produce) interest based on the marginal rate used by the Eurosystem for MROs.

The total monetary income pooled by the NCBs in the Eurosystem is redistributed to each NCB according to its capital key subscription. 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 factors. The first relates to possible differences between NCBs regarding the interest income received on specific earmarkable assets and the interest expense due on some components of the liability base. The second factor 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.

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

Item 6 of the profit and loss account amounts to €1,874 million, up €849 million on 2018 (Table 37).

Table 37

Net income from financial assets relating to the investment of reserves and provisions (Item 6) (millions of euros)			
	2019	2018	Change
Interest	956	1,031	-75
Dividends from equity shares and participating interests	286	249	37
Profits/losses from trading	637	83	554
Write-downs	-35	-363	328
Other components	30	25	5
Total	1,874	1,025	849

The increase was mainly due to higher net profits from trading, arising from the sale of equity instruments and of units of CIUs, and to the decrease in write-downs. Write-downs were almost wholly due to the valuation at year-end market prices and related exclusively to the listed equity instruments portfolio. The interest component declined due to lower average interest rates, even though the holdings of bonds rose on 2018.

[20] Other income

Other income (Item 8) amounted to €84 million (€120 million in 2018).

Table 38

Other income (Item 8) (millions of euros)			
	2019	2018	Change
Rental income	5	5	–
Other	79	115	-36
Total	84	120	-36

The item includes reimbursements from other Eurosystem NCBs for the development of platforms, applications and IT infrastructure by the Bank of Italy in its capacity as provider in cooperation with the other central bank. These reimbursements amounted to €59 million in 2019 (€98 million in 2018) and were for the most part connected to the TARGET2 and T2S systems.

[21] Expenses and charges

Expenses and sundry charges (Item 9) amounted to €1,898 million, down from €1,915 million in 2018.

Table 39

Expenses and sundry charges (Item 9) (millions of euros)			
	2019	2018	Change
Staff wages and salaries	652	648	4
Social security and insurance	166	165	1
Other staff costs (1)	43	42	1
Pensions and severance payments	359	325	34
Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses	73	111	-38
Emoluments paid to head office and branch collegial bodies	3	3	–
Administrative expenses	448	453	-5
Depreciation of tangible and intangible fixed assets	102	123	-21
Banknote production services (2)	–	–	–
Other expenses	52	45	7
Total	1,898	1,915	-17

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

With regard to staff costs, there were no new transfers to provisions for staff severance pay and pensions and for early retirement plans in 2019 (equal to €25.4 million and €16.5 million in 2018), both included under *Transfers from/to provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses*. Pension expenses stayed essentially the same, while severance payments made during the year (included under same sub-item) rose owing to participation in early retirement incentive programmes and to temporary measures to lower the retirement age allowed under current legislation.

Gross staff compensation, comprising wages and salaries, overtime and accrued expenses not yet paid, rose from €648 million to €652 million. The average number of full-time equivalent (FTE) employees²³ amounted to 6,929 (6,955 in 2018). The average gross wage per FTE employee, based on balance sheet data, was €94,100 (compared with €93,200 in 2018).

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), amounted to €861 million in 2019 against €855 million in 2018.

Table 40

The Bank's staff				
Composition of the Bank's staff	Average number of employees in service		Percentage composition	
	2019	2018	2019	2018
Managerial and High-Level Professional Area	3,293	3,214	49.3	47.8
Operational Area	3,373	3,469	50.5	51.6
Contract workers	11	36	0.2	0.6
Total	6,677	6,719	100.0	100.0

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

Administrative expenses fell to €448 million from €453 million in 2018. This decline was due mainly to lower costs for the purchase of raw materials for banknote production. The costs of building and equipment maintenance rose slightly.

²³ The number is calculated by taking into account overtime, part-time and unpaid absences.

Table 41

Administrative expenses (millions of euros)			
	2019	2018	Change
Services	387	387	–
ICT (1)	124	126	-2
Security services, banknote escort and guards	65	64	1
Building and equipment maintenance	72	70	2
Utilities	22	23	-1
Equipment rental	14	13	1
Canteen and cleaning services	22	23	-1
Other	68	68	–
Materials and consumables	61	66	-5
Banknote production	43	50	-7
Subscriptions to publications and information providers	14	13	1
Office supplies	2	2	–
Other	2	1	1
Total	448	453	-5

(1) Includes the costs of using the Eurosystem's IT infrastructures, which amount to €29 million in 2019 (€37 million in 2018). The expenses relating to the rental and maintenance of hardware are included respectively in *Equipment rental* and in *Building and equipment maintenance*.

The decline in operating expenses reflects the reduction in depreciation attributable to the transfer to the profit and loss account of the accumulated depreciation for artwork (€19 million) as a consequence of its recognition at historical cost (see 'Notes on the items of the balance sheet' – *Other assets*).

Other expenses, amounting to €52 million, included €30 million for local and indirect taxes, of which €25 million for IMU (municipal property tax) and TASI (municipal services tax). The increase in this item was due to write-downs of buildings for sale to align them with their decreased market value (€13 million).

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

Taxes for the year (Item 11) amounted to €1,009 million and comprised the current taxes due, taxes for prior years and the change in deferred tax assets and liabilities (see 'Notes on the items of the balance sheet' – *Other assets* and *General risk provision and other provisions*).

IRES amounted to €537 million in 2019 (€678 million in 2018), of which €190 million for current taxes and €347 million for the net change in deferred tax assets and liabilities. The latter was due mostly to the reduction in deferred tax assets from offsetting past tax losses.

The total charge for IRAP was €459 million (€466 million in 2018). Current taxes amounted to €454 million and the net change in deferred tax assets and liabilities was €5 million.

Table 42

Composition of taxes on income for the year (Item 11) (millions of euros)						
	2019			2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (-)	-190	-454	-644	-340	-436	-776
Taxes for prior years (+/-)	-13	—	-13	-11	—	-11
Change in deferred tax assets (+/-)	-341	-3	-344	-240	-11	-251
Change in deferred tax liabilities (+/-)	-6	-2	-8	-98	-19	-117
Taxes for the year (-)	-550	-459	-1,009	-689	-466	-1,155

Table 43

Movements in deferred tax assets (millions of euros)			
	IRES	IRAP	Total
Initial amount	1,215	15	1,230
Increases	29	4	33
Deferred tax assets recognized during the year	29	4	33
Decreases	-370	-7	-377
Deferred tax assets cancelled during the year	-370	-7	-377
of which: relating to tax losses carried forward	-277	—	-277
Final amount	874	12	886

Table 44

Movements in deferred tax liabilities (millions of euros)			
	IRES	IRAP	Total
Initial amount	113	21	134
Increases	11	2	13
Deferred tax liabilities recognized during the year	11	2	13
Decreases	-5	—	-5
Deferred tax liabilities cancelled during the year	-5	—	-5
Final amount	119	23	142

Post-balance-sheet events

Following the United Kingdom's withdrawal from the European Union, and as a consequence the Bank of England's exit from the European System of Central

Banks (ESCB), the NCBs' shares in the ECB's subscribed capital were updated as of 1 February 2020. The ECB has kept its subscribed capital steady at €10,825 million. The Bank of England's share in the ECB's subscribed capital (which stands at 14.3%) has been reallocated among the ESCB members. In 2020, the ECB's paid-up capital will remain unchanged at €7,659 million, as the remaining NCBs have covered the withdrawn Bank of England's paid-up capital (€58 million).²⁴ Starting in 2021 the euro-area NCBs will then pay up in full their increased subscriptions in two annual instalments. The ECB's paid-in capital will reach €8,880 million in 2022.

As a result, the Bank of Italy's share in the ECB's subscribed capital increased from 11.8023 per cent (following the five-year adjustment carried out on 1 January 2019) to 13.8165 per cent. Considering only the NCBs participating in the Eurosystem, the Bank of Italy's share in the ECB's capital increased from 16.9530 to 16.9885 per cent. In addition to the €11 million payment made in February 2020 to the ECB, the Bank of Italy will transfer €104 million each year over the next two years; this will increase the value of its subscription by the same amount.

Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of each NCB to the transfer of foreign reserve assets to the ECB shall be fixed in proportion to its share in the subscribed capital of the ECB. Increasing the share of the euro-area NCBs could therefore result in additional contributions of foreign reserve assets. However, the ECB's Governing Council decided to reduce the percentage of these contributions so as to leave the total amount of the foreign reserve assets already transferred at the current level. The claim equivalent to this transfer has therefore only be marginally adjusted.

²⁴ The euro-area NCBs pay up 100 per cent of their subscriptions to the ECB's capital, while non-euro area NCBs pay up 3.75 per cent of their subscriptions.

PROPOSALS OF THE BOARD OF DIRECTORS

The Board of Directors, having considered that:

- the Ordinary Meeting of Shareholders of 31 March 2017, following a proposal by the Board of Directors and having received the approval of the Board of Auditors, decided to create a special item in the balance sheet to be used to stabilize over the long term the amount of net profit paid to the shareholders under the dividend policy in force;
- the item may be credited annually with an amount equal to the difference between the upper bound of the range indicated in the dividend policy in force at the time and the dividend actually distributed;
- in accordance with Article 3.4 of the Statute, no dividend is due on shareholdings exceeding the 3 per cent threshold and the sum shall instead be allocated to the Bank's statutory reserves;

acting on the proposal of the Governing Board and after hearing the opinion of the Board of Auditors, proposes the following allocation of the net profit for 2019 for approval by the Meeting of Shareholders:

	euros
– a dividend to the shareholders	340,000,000
<i>of which:</i> to the ordinary reserve (Art. 3.4 of the Statute)	88,890,733
– to the special item for stabilizing dividends	40,000,000
– the remaining amount to the State	<u>7,866,849,596</u>
Total	<u>8,246,849,596</u>

There were 78,433 shares that exceeded the threshold on the date indicated in Article 38.2.b of the Statute; the corresponding dividend – equal to €88,890,733 – is allocated to the ordinary reserve.

THE GOVERNOR
Ignazio Visco

**DOCUMENTS ATTACHED
TO THE ANNUAL ACCOUNTS**

REPORT OF THE BOARD OF AUDITORS

ON THE 126TH FINANCIAL YEAR OF THE BANK OF ITALY AND THE ACCOUNTS FOR THE YEAR ENDING 31 DECEMBER 2019

To the shareholders,

We have examined the Annual Accounts of the Bank of Italy for the year ending 31 December 2019, 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 2019 have been prepared in accordance with the accounting standards and valuation methods indicated in the Notes to the Accounts. They comply with the laws in force and with the harmonized accounting rules laid down by the Governing Council of the ECB and transposed 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 in the Management Report:

- a) The recognition in the balance sheet of deferred tax assets, deriving mainly from the carry-forward of the residual tax loss from the bond conversion under Law 289/2002, is based on the reasonable expectation of offsetting their full amount, considering the outlook for the Bank's income. Regarding the result for the year, deferred tax assets diminished by €344 million (from €1,230 million to €886 million).
- b) The Board of Directors approved the transfer of €1,500 million to the general risk provision expressly provided for in Article 39 of the Statute.

We attest that in our opinion the total amount of the Bank's general and specific risk provisions is prudent. In particular, the *provision for pensions and severance payments* shows an amount that is €55 million in excess of the total commitments for staff severance payments and pensions estimated at 31 December 2019; this excess amount remains prudently allocated to the item.

We have examined the Management Report required by Article 37 of the Bank's Statute and which accompanies the Annual Accounts and we consider it to be consistent with said Accounts.

During the financial year ending 31 December 2019 we monitored compliance with the law, with the Bank's Statute and General Regulations, and with the principles of proper management.

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

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

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

To the shareholders,

The accounts submitted for your approval show the following results:

Assets	€	960,383,561,714
Liabilities	€	925,988,925,512
Capital and reserves	€	26,147,786,606
Net profit for the year.....	€	8,246,849,596

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

– a dividend to the shareholders	€	340,000,000
<i>of which:</i> to the ordinary reserve		
(Art. 3.4 of the Statute)	€	88,890,733
– to the special item for stabilizing dividends	€	40,000,000
– the remaining amount to the State	€	<u>7,866,849,596</u>
Total	€	<u>8,246,849,596</u>

We note that on the date indicated in Article 38.2.b of the Statute there were 78,433 shares exceeding the limit indicated in Article 3.4 of the Statute (down by 21,295 shares compared with the 99,728 shares in excess at the end of 2018).

Therefore, the corresponding dividend – equal to €88,890,733 – will be allocated to the ordinary reserve.

To the shareholders,

Bearing in mind the provisions of Article 37.2 of the Statute, we recommend that you approve the Annual Accounts for 2019 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, 4 March 2020

THE BOARD OF AUDITORS

Gaetano Presti (Chairman)

Giuliana Birindelli

Lorenzo De Angelis

Anna Lucia Muserra

Sandro Sandri

BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES

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

STATO PATRIMONIALE AL 31 DICEMBRE 2018

ATTIVO	(importi in euro)	
	31.12.2018	31.12.2017
A) Crediti verso soci per versamenti ancora dovuti	–	–
B) Immobilizzazioni		
I <i>Immateriali</i>		
4) concessioni, licenze, marchi e diritti simili	37.101	26.473
7) altre	90.523	85.807
<i>Totale immobilizzazioni immateriali</i>	127.624	112.280
II <i>Materiali</i>		
1) terreni e fabbricati	524.643.363	520.012.163
2) impianti e macchinari	12.763	18.677
3) attrezzature industriali e commerciali	56.383	50.497
4) altri beni	429.262	391.196
<i>Totale immobilizzazioni materiali</i>	525.141.771	520.472.533
III <i>Finanziarie</i>		
2) crediti		
d) -bis verso altri	214.455	233.726
<i>Totale immobilizzazioni finanziarie</i>	214.455	233.726
Totale attivo immobilizzato (B)	525.483.850	520.818.539
C) Attivo circolante		
I <i>Rimanenze</i>		
4) prodotti finiti e merci	13.162.325	11.789.755
<i>Totale Rimanenze</i>	13.162.325	11.789.755
II <i>Crediti</i>		
1) verso clienti		
– entro 12 mesi	5.811.506	7.142.638
4) crediti verso controllanti		
– entro 12 mesi	366.532	1.036.139
5bis) crediti tributari		
– entro 12 mesi	5.572	8.436
5ter) imposte anticipate		
– entro 12 mesi	3.140.997	3.149.934
5quater) verso altri		
– entro 12 mesi	395.880	272.330
<i>Totale crediti</i>	9.720.487	11.609.477
IV <i>Disponibilità liquide</i>		
1) depositi bancari e postali	32.569.540	33.064.854
2) assegni	1.485	–
3) danaro e valori in cassa	5.488	688
<i>Totale disponibilità liquide</i>	32.576.513	33.065.542
Totale attivo circolante (C)	55.459.325	56.464.774
D) Ratei e risconti	257.407	183.336
Totale attivo	581.200.582	577.466.649

STATO PATRIMONIALE AL 31 DICEMBRE 2018

PASSIVO	(importi in euro)	
	31.12.2018	31.12.2017
A) Patrimonio netto		
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	4.415.330	4.214.040
VI Altre riserve		
– Riserva straordinaria facoltativa	10.994.072	7.169.565
IX Utile (perdita) d'esercizio	3.105.443	4.025.797
Totale patrimonio netto	563.406.000	560.300.557
B) Fondi per rischi e oneri		
2) per imposte, anche differite	1.555.172	1.784.648
4) altri	449.283	481.530
Totale fondi per rischi e oneri (B)	2.004.455	2.266.178
C) Trattamento fine rapporto di lavoro subordinato	2.359.389	2.188.128
D) Debiti		
6) acconti		
– entro 12 mesi	128.199	119.366
7) debiti verso fornitori		
– entro 12 mesi	7.107.392	6.989.134
12) debiti verso controllanti		
– entro 12 mesi	5.688	–
12) debiti tributari		
– entro 12 mesi	1.332.119	642.134
13) debiti verso istituti di previdenza e di sicurezza sociale		
– entro 12 mesi	230.037	251.566
14) altri debiti		
– entro 12 mesi	4.282.298	4.400.966
Totale debiti (D)	13.085.733	12.403.166
E) Ratei e risconti	345.005	308.620
Totale passivo	581.200.582	577.466.649

CONTO ECONOMICO AL 31 DICEMBRE 2018

	(importi in euro)	
	31.12.2018	31.12.2017
A) Valore della produzione		
1) ricavi delle vendite e delle prestazioni	31.352.548	31.653.358
5) altri ricavi e proventi vari	9.575.110	11.595.370
Totale valore della produzione (A)	40.927.658	43.248.728
B) Costi della produzione		
6) per materie prime, sussidiarie, di consumo e di merci	62.711	51.231
7) per servizi	9.902.455	9.899.781
8) per godimento di beni di terzi	197.122	181.781
9) per il personale		
a) salari e stipendi	4.582.696	4.408.825
b) oneri sociali	1.301.726	1.255.432
c) trattamento di fine rapporto	381.779	362.013
d) trattamento di quiescenza e simili	44.376	39.471
e) altri costi	39.690	6.025
<i>Totale spese per il personale</i>	<i>6.350.267</i>	<i>6.071.766</i>
10) ammortamenti e svalutazioni		
a) ammortamenti delle immobilizzazioni immateriali	65.168	66.951
b) ammortamenti delle immobilizzazioni materiali	2.018.370	1.989.744
c) svalutazione delle immobilizzazioni materiali	419.069	–
d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	335.465	328.720
<i>Totale ammortamenti e svalutazioni</i>	<i>2.838.072</i>	<i>2.385.415</i>
11) Variazione delle rimanenze materie prime, sussidiarie, di consumo e merci	457.141	2.193.745
12) accantonamenti per rischi	9.200	19.800
14) oneri diversi di gestione	12.005.596	11.978.539
Totale costi della produzione (B)	31.822.564	32.782.058
Differenza tra valore e costi di produzione (A–B)	9.105.094	10.466.670
C) Proventi e oneri finanziari		
16) Altri proventi finanziari		
c) da titoli iscritti nell'attivo circolante che non costituiscono partecipazioni	–	–
d) proventi diversi dai precedenti – altri	336.445	268.602
<i>Totale altri proventi finanziari</i>	<i>336.445</i>	<i>268.602</i>
17) Interessi e altri oneri finanziari – altri	11.292	9.524
Totale proventi e oneri finanziari (C)	325.153	259.078
D) Rettifiche di valore di attività finanziarie		
19) svalutazioni		
c) di titoli iscritti nell'attivo circolante	–	–
Totale rettifiche di valore di attività finanziarie (D)	–	–
Risultato prima delle imposte (A–B±C±D)	9.430.247	10.725.748
20) imposte su reddito dell'esercizio, correnti, differite e anticipate		
a) imposte correnti	7.032.119	5.820.355
b) imposte differite	-229.476	840.071
c) imposte anticipate	8.937	66.277
d) imposte esercizi precedenti	-486.776	-26.752
<i>Totale imposte sul reddito dell'esercizio</i>	<i>6.324.804</i>	<i>6.699.951</i>
21) UTILE (PERDITA) DELL'ESERCIZIO	3.105.443	4.025.797

REPORT OF THE AUDIT FIRM

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

Ai Partecipanti al capitale della
Banca d'Italia

Relazione sulla revisione contabile del bilancio d'esercizio

Giudizio

Abbiamo svolto la revisione contabile dell'allegato bilancio d'esercizio della Banca d'Italia (di seguito, anche, l'"Istituto") costituito dallo stato patrimoniale al 31 dicembre 2019, dal conto economico per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Banca d'Italia al 31 dicembre 2019 e del risultato economico per l'esercizio chiuso a tale data, in conformità ai principi e criteri contabili dettati dalle norme speciali descritti nella nota integrativa.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione.

Siamo indipendenti rispetto all'Istituto in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Responsabilità degli Organi direttivi dell'Istituto e del Collegio sindacale per il bilancio d'esercizio

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

Gli Organi direttivi sono responsabili per la valutazione della capacità dell'Istituto di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, a meno che non abbiano alternative realistiche a tale scelta.

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

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

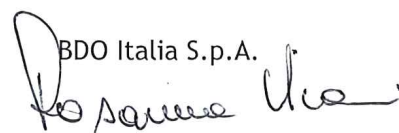
I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole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

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

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

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

Roma, 4 marzo 2020



BDO Italia S.p.A.
Rosanna Vicari
Socio

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 2019

GOVERNING BOARD - DIRECTORATE

Ignazio VISCO	GOVERNOR
Fabio PANETTA	SENIOR DEPUTY GOVERNOR
LUIGI FEDERICO SIGNORINI	DEPUTY GOVERNOR
ALESSANDRA PERRAZZELLI	DEPUTY GOVERNOR
DANIELE FRANCO	DEPUTY GOVERNOR

BOARD OF DIRECTORS

Franca Maria ALACEVICH	Gaetano MACCAFERRI
Francesco ARGOLAS	Ignazio MUSU
Nicola CACUCCI	Lodovico PASSERIN D'ENTREVES
Carlo CASTELLANO	Donatella SCIUTO
Marco D'ALBERTI	Orietta Maria VARNELLI
Andrea ILLY	Marco ZIGON

BOARD OF AUDITORS

Gaetano PRESTI - CHAIRMAN	
Giuliana BIRINDELLI	Anna Lucia MUSERRA
Lorenzo DE ANGELIS	Sandro SANDRI

ALTERNATE AUDITORS

Giovanni LIBERATORE	Giuseppe MELIS
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HEAD OFFICE

MANAGING DIRECTORS

Augusto APONTE	- MANAGING DIRECTOR FOR INTERNAL AUDIT
Paolo ANGELINI	- 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
Alberto MARTIELLO	- DIRECTOR GENERAL FOR HUMAN RESOURCES AND ORGANIZATION
Paolo MARULLO REEDTZ	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS
Marino Ottavio PERASSI	- GENERAL COUNSEL
Roberto RINALDI	- ACCOUNTANT GENERAL AD INTERIM DIRECTOR GENERAL FOR CURRENCY CIRCULATION
Giuseppe SOPRANZETTI	- MANAGING DIRECTOR WITH SPECIAL DUTIES AND MANAGER OF THE MILAN BRANCH

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Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT FOR ITALY
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ADMINISTRATION OF THE BANK OF ITALY

AT 31 MARCH 2020

GOVERNING BOARD - DIRECTORATE

Ignazio VISCO	GOVERNOR
DANIELE FRANCO	SENIOR DEPUTY GOVERNOR
LUIGI FEDERICO SIGNORINI	DEPUTY GOVERNOR
ALESSANDRA PERRAZZELLI	DEPUTY GOVERNOR
PIERO CIPOLLONE	DEPUTY GOVERNOR

BOARD OF DIRECTORS

Franca Maria ALACEVICH	Gaetano MACCAFERRI
Francesco ARGIOLAS	Ignazio MUSU
Nicola CACUCCI	Lodovico PASSERIN D'ENTREVES
Carlo CASTELLANO	Donatella SCIUTO
Marco D'ALBERTI	Orietta Maria VARNELLI
Andrea ILLY	Marco ZIGON

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Gaetano PRESTI - CHAIRMAN	
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ALTERNATE AUDITORS

Giovanni LIBERATORE	Giuseppe MELIS
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HEAD OFFICE

MANAGING DIRECTORS

Augusto APONTE	- MANAGING DIRECTOR FOR INTERNAL AUDIT UNTIL 30 JUNE 2020
GIAN LUCA TREQUATTRINI	- MANAGING DIRECTOR FOR INTERNAL AUDIT FROM 1 JULY 2020
Paolo ANGELINI	- DIRECTOR GENERAL FOR FINANCIAL SUPERVISION AND REGULATION
MAGDA BIANCO	- DIRECTOR GENERAL FOR CONSUMER PROTECTION AND FINANCIAL EDUCATION
Ebe BULTRINI	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
Luigi CANNARI	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS
Luigi DONATO	- DIRECTOR GENERAL FOR PROPERTY AND TENDERS
Eugenio GAIOTTI	- DIRECTOR GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
Alberto MARTIELLO	- DIRECTOR GENERAL FOR HUMAN RESOURCES AND ORGANIZATION
FRANCESCO NICOLÒ	- DIRECTOR GENERAL FOR CURRENCY CIRCULATION AND RETAIL PAYMENTS
Marino Ottavio PERASSI	- GENERAL COUNSEL
Roberto RINALDI	- DIRECTOR GENERAL FOR ACCOUNTING AND CONTROLS
Giuseppe SOPRANZETTI	- MANAGING DIRECTOR WITH SPECIAL DUTIES AND MANAGER OF THE MILAN BRANCH

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Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT FOR ITALY
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