



BANCA D'ITALIA
EUROSISTEMA

Annual Accounts

Ordinary Meeting of Shareholders
Rome, 31 March 2021

127th FINANCIAL YEAR

2020

Financial Year

127th



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2020 - 127th Financial Year

Rome, 31 March 2021

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CONTENTS

THE BANK OF ITALY'S ANNUAL ACCOUNTS	5
MANAGEMENT REPORT	5
Highlights of the Bank of Italy'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	12
Key developments in the Bank's annual accounts	15
Box: <i>Net financial assets</i>	18
Operating expenses and other costs	24
Box: <i>Costs incurred and reimbursements for Eurosystem infrastructure</i>	25
Other information	27
ANNUAL ACCOUNTS	31
BALANCE SHEET	32
PROFIT AND LOSS ACCOUNT	34
NOTES TO THE ACCOUNTS	35
Legal basis and accounting policies	35
Notes on the items of the balance sheet	43
Box: <i>The IMF in the Bank of Italy's balance sheet</i>	45
Box: <i>Government deposits</i>	59
Commitments, collateral granted and other off-balance-sheet accounts	64
Box: <i>The National Resolution Fund</i>	65
Notes on the items of the profit and loss account	65
Box: <i>The interest rate applied to TLTRO2 and TLTRO3</i>	68
Box: <i>Monetary income</i>	71
Post-balance-sheet events	76
PROPOSALS OF THE BOARD OF DIRECTORS	77
DOCUMENTS ATTACHED TO THE ANNUAL ACCOUNTS	79
REPORT OF THE BOARD OF AUDITORS	81
BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES *	84
REPORT OF THE AUDIT FIRM *	87
ADMINISTRATION OF THE BANK OF ITALY	91

* 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 to better understand the activity 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 financial education 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).

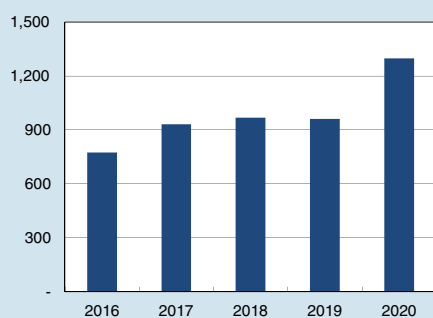
Highlights of the Bank of Italy's annual accounts

Figure 1

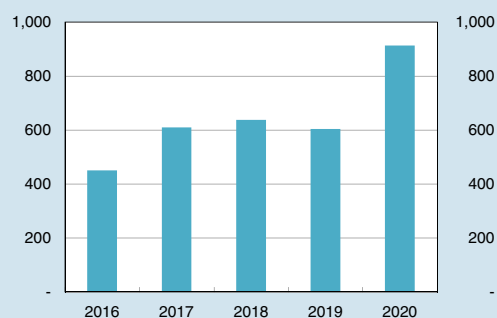
Billions of euros

Total assets	Monetary policy assets	Net interest income	Operating expenses	Net profit
2020: ↑ 1,296.2	2020: ↑ 912.7	2020: ↓ 8.5	2020: ↔ 1.9	2020: ↓ 6.3
2019: 960.4	2019: 603.8	2019: 9.6	2019: 1.9	2019: 8.2

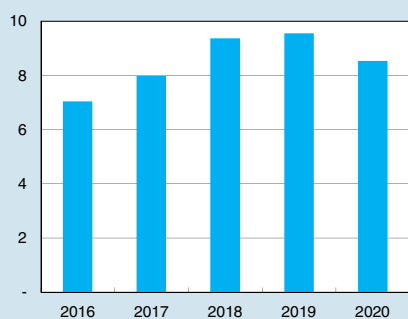
Total assets
(billions of euros)



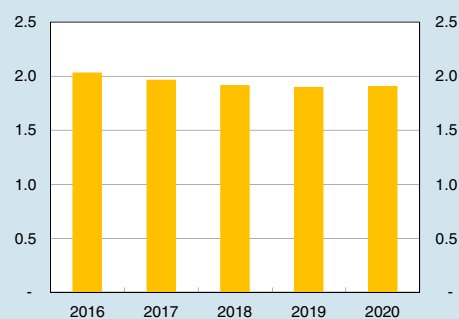
Monetary policy assets
(billions of euros)



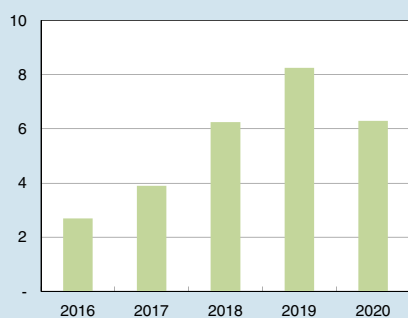
Net interest income
(billions of euros)



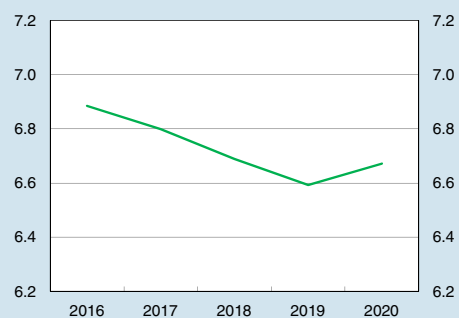
Operating expenses
(billions of euros)



Net profit
(billions of euros)



The Bank's staff
(thousands)



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. 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.

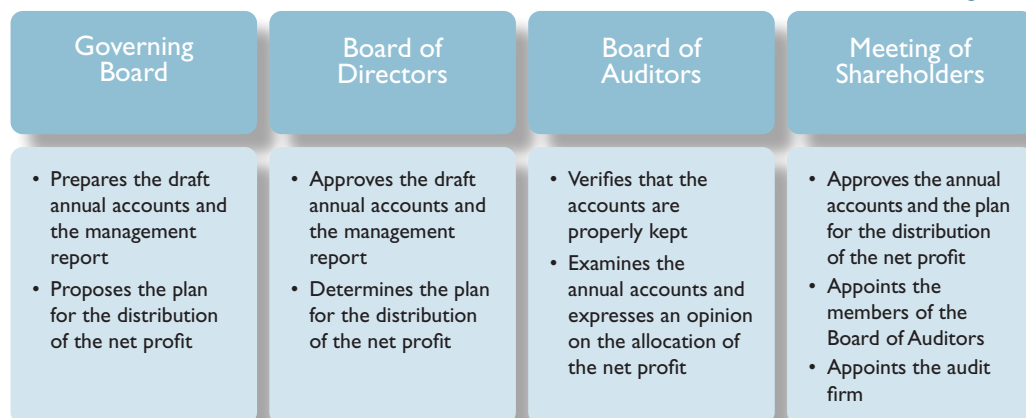
The Board of Auditors oversees the administration of the Bank to ensure compliance with the law, the Statute, and the General Regulations. It also verifies that the accounts are properly kept, examines the annual accounts, and expresses an opinion on the distribution of the net profit.

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 expresses an opinion on the annual accounts for the year in a dedicated report (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 better achieving its objectives, the quality of its services, and efficiency in the use of its resources. It also manages the various risks and ensures compliance with internal and external regulations.

The internal control system is based on the internationally recognized Three Lines 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 organizational functions that are separate from the process management units. These functions monitor specific types of risk (financial, operational, accounting, tax, IT, legal, workplace health and safety, crime prevention, corruption and privacy) for the entire Bank, taking a transversal view and reporting directly to the governing bodies. The activities carried out by these functions provide advice and support to the first line 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 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 to the Governor on matters concerning the oversight of the internal control system. In carrying out its oversight of the internal audit function, the committee assesses the adequacy of its performance and its compliance with the audit policy and international standards.

Financial risk

The Bank of Italy manages 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 for the management of the gold and foreign currency reserves and of the investment portfolio. The Statute of the ESCB provides that the risks stemming from 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. According to the rules established by the ECB Governing Council, NCBs may accept specific financial assets as collateral in addition to those considered eligible under the general framework, bearing the resulting financial risks at individual level. The Council also decided that the risks relating to securities purchased under some of the purchase programmes must be shared among the NCBs in proportion to their shares in the ECB's capital (capital key); for the remaining purchase programmes, the risks are borne by the individual NCBs. In particular, the following rules apply:

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

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

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 makes it possible to take account of the distinction between credit and market risks and is based on two different analytical perspectives: financial and accounting. The first approach, adopted

to define the optimal composition of financial investment, estimates risk exposure without considering the accounting rules applied to the various balance sheet items and evaluates its impact on the net equity of the Bank at current market values. The second approach, which is applied to the preparation of the annual accounts in order to define the policies relating to the financial buffers (reserves and provisions), estimates the impact of risk exposure on the profit and loss account and on 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.

Operational risk

Operational risk represents the risk that external events or inadequate procedures, IT systems and human resources pose to the Bank's reputation or the performance of its tasks, its operations and its capital. The Bank's operational risk management (ORM) system provides a framework and a toolkit through which each organizational unit can identify and assess its own risk exposure based on shared criteria and the existing safeguards and activating, where necessary, its business continuity measures and tools. The Operational Risk Committee assists the Governing Board in promoting and coordinating ORM and business continuity measures and in monitoring their implementation and inclusion in the Bank's strategic planning process. Operational risks are assessed on an ongoing basis, upon the occurrence of significant changes in internal and external threats, in work processes and in the existing rules and controls. Operational risk is also quantified in terms of its potential financial impact using an internal advanced measurement approach (AMA) model calibrated to the specific features of the Bank.

The solid experience gained in the use of instruments for analysing and responding to operational risk has facilitated a prompt and effective reaction to the problems posed by pandemic emergency, which were dealt with primarily through the adoption of organizational measures based on the widespread use of remote working and strong managerial and operational coordination. Over the course of the financial year, while preserving the health and safety of staff and the effectiveness of the Bank of Italy's action, the Bank's units gave priority, on the one hand, to assessing the adequacy of processes and controls to the changed work organization and, on the other hand, to analysing the measures necessary to overcome, where possible, the obstacles preventing the full adoption of remote working while complying with security and effectiveness standards (see 'Other information' – *Organizational measures*).

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

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

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 e della trasparenza*, available only in Italian).

Table 1

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

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

Background to Eurosystem monetary policy

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

Decisions of the Eurosystem

Over the course of 2020, the Governing Council of the ECB, in addition to reconfirming its very accommodative monetary policy stance, adopted a wide-ranging package of extraordinary measures to counter the negative effects of the pandemic emergency on the orderly functioning of the banking and financial system and on the economic outlook for the euro area, ensuring favourable financing conditions for all the sectors of the real economy.

In 2020, the Eurosystem's key interest rates remained unchanged, at 0.00 per cent on the main refinancing operations, 0.25 per cent on the marginal lending facility, and -0.50 on the deposit facility. The Governing Council expects the key interest rates to remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2 per cent within its projection horizon and such convergence is consistently reflected in underlying inflation dynamics.

The extraordinary measures adopted by the Governing Council concerned refinancing operations in euros for credit instructions and the monetary policy asset purchase programmes. Moreover, in coordination with the other major central banks, refinancing operations in dollars were strengthened in order to provide important support to counterparties with respect to the availability of foreign currency and to mitigate the tensions in the global financial markets. Furthermore, the Eurosystem granted liquidity to a high number of central banks that are not part of the euro area.

New refinancing operations for credit institutions were introduced, and the terms of the pre-existing operations were revised. In particular:

- starting in March, additional longer-term refinancing operations were conducted on a weekly basis to provide liquidity at favourable conditions² until the following auction of Targeted Longer-Term Refinancing Operations (TLTRO3), settled on 24 June 2020;
- a new series of seven additional longer-term refinancing operations, called Pandemic Emergency Longer-Term Refinancing Operations (PELTROs)³ was launched, beginning in May and maturing between July and September 2021.

² Fixed-rate full allotment procedure, at an interest rate equal to the average rate on the deposit facility prevailing over the same period.

³ Fixed-rate full allotment procedure, at an interest rate that will be 25 basis points below the average rate applied in main refinancing operations over the life of the respective PELTRO.

Four additional operations will be conducted on a quarterly basis starting in March 2021;

- the conditions applied to TLTRO3 operations were made progressively more favourable in terms of both the interest rates applied and the incentive mechanism based on the volume of loans granted by participants. In particular, for the special interest rate period between June 2020 and June 2022, the interest rate applied was reduced to 50 basis points below the average rate on the main refinancing operations over the same period. Furthermore, in the same period, based on developments in the net lending granted by counterparties, the interest rate applied may diminish further, to 50 basis points lower than the average interest rate on the deposit facility and in any case no higher than -1.00 per cent;⁴
- in order to ensure that banks can make full use of the Eurosystem's funding support, the measures easing the collateral eligibility requirements were extended to June 2022.

As regards the asset purchase programmes:

- net purchases under the asset purchase programme (APP) continued at the monthly pace of €20 billion already envisaged, to which a temporary envelope of further net asset purchases of €120 billion was added for 2020. The ECB confirmed that it intends to continue reinvesting in full the principal payments from maturing securities for an extended period of time past the first increase in the key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation;
- in March 2020, a new asset purchase programme, the pandemic emergency purchase programme (PEPP), was launched, with an initial envelope of €750 billion, which was subsequently raised to €1,850 billion following the increases decided in June and December. The horizon for net purchases was extended to at least the end of March 2022, and the horizon for the reinvestment of principal payments from maturing securities is currently set until at least the end of 2023. The purchases under this programme comprise all the categories included in the APP⁵ and are conducted in a flexible manner over time, across asset classes and among jurisdictions; the future, gradual roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

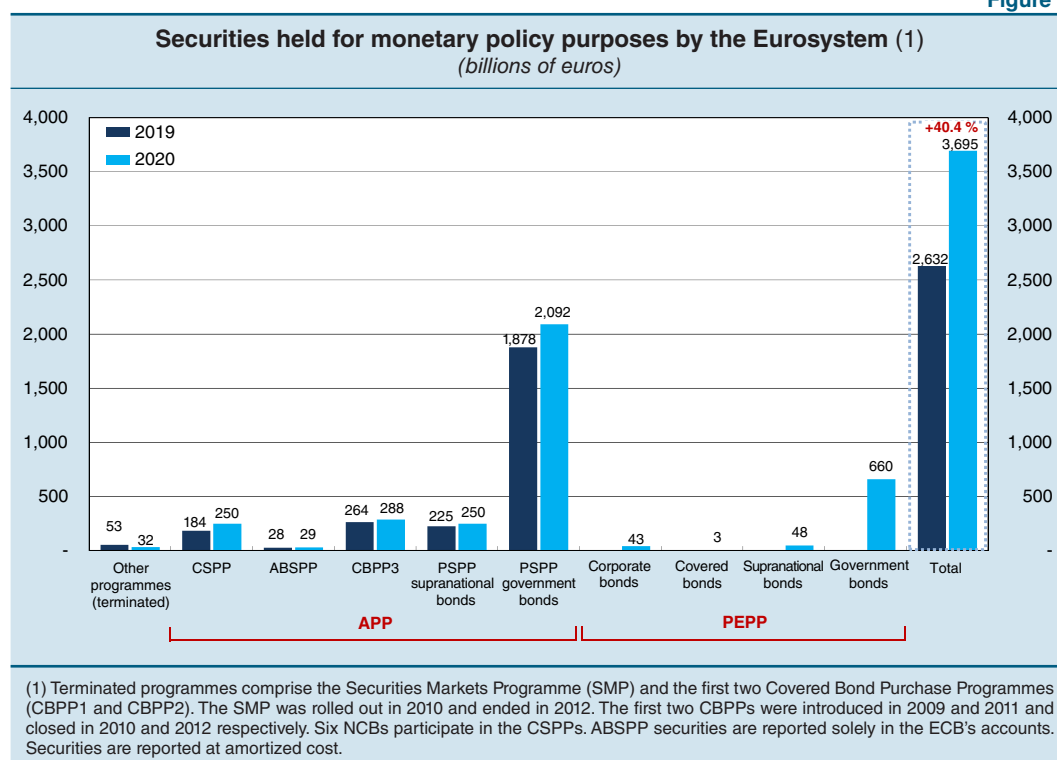
⁴ In addition, the maximum total amount that counterparties are entitled to borrow was increased (to 55 per cent of the stock of eligible loans as at 28 February 2019) and the bid limit of 10 per cent of the stock of eligible loans for each auction was removed.

⁵ The following types of securities are eligible for the APP: covered bonds, corporate bonds, government bonds, supranational bonds, and asset-backed securities (ABS). Together with the introduction of the PEPP, the eligibility criteria for private sector bonds were modified, allowing the purchase of commercial paper issued by non-financial corporations. Moreover, unlike for the Public Sector Purchase Programme (PSPP), under the PEPP it is possible to purchase government bonds with a residual maturity of less than one year (but of at least 70 days) and securities issued by the Greek Government.

Overview of Eurosystem monetary policy

The crisis triggered by the pandemic and the resulting action taken by the Governing Council of ECB were widely reflected in the overall volume and composition of the Eurosystem's monetary policy operations. In 2020, the amount of Eurosystem refinancing operations for credit institutions nearly tripled compared with 2019, increasing from €624 billion to 1,793 billion. The increase was due to the ample recourse to TLTRO3 operations, which were launched in 2019 and recalibrated by the Governing Council in 2020 to make their conditions even more favourable. The amounts borrowed were significantly higher than the sum of repayments at maturity and of voluntary repayments relating to TLTRO2 operations.⁶ The new PELTROs made a much smaller contribution to the increase. The share of longer-term refinancing operations continued to represent almost the entirety of the overall exposure (more than 99.9 per cent, compared with 98.7 per cent at the end of 2019). In the last financial year, the weighted average maturity of the refinancing operations conducted at Eurosystem level more than doubled, increasing from 430 to 889 days.

Figure 3



The amount of securities held for monetary policy purposes increased by 40.4 per cent, from €2,632 billion to €3,695 billion at the end of 2020 (Figure 3). The increase

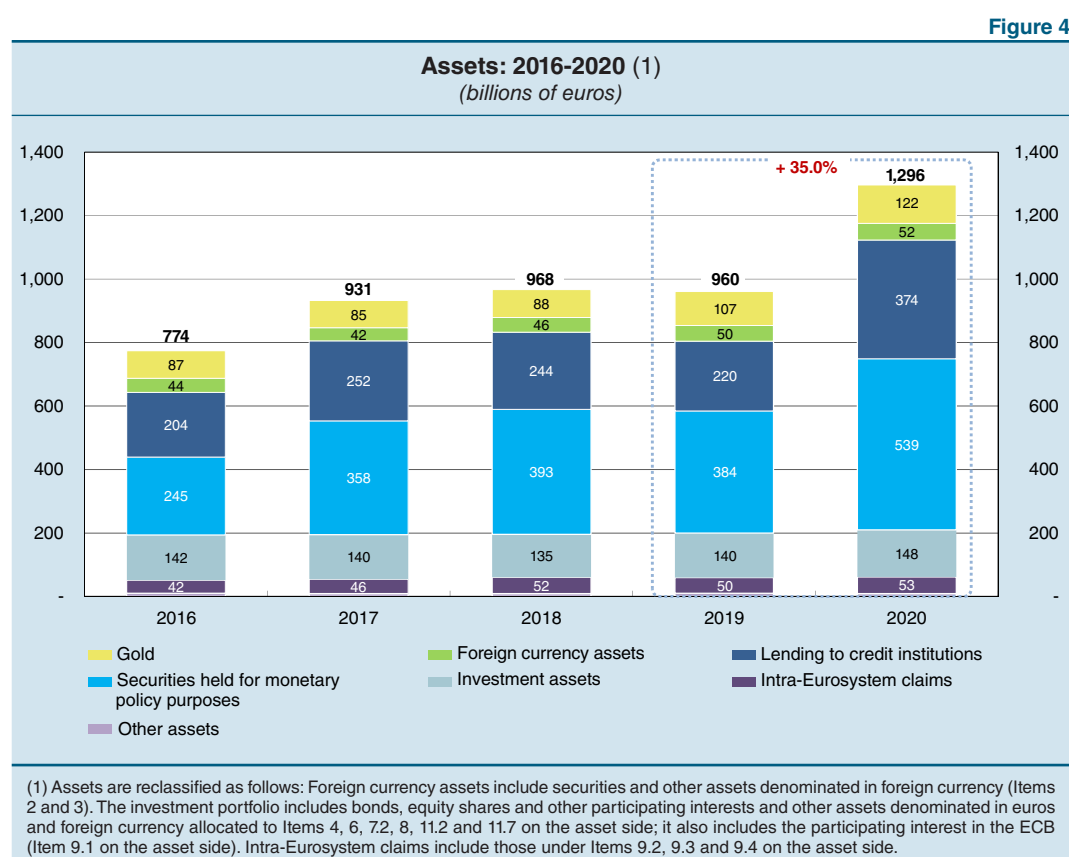
⁶ In 2019, banks repaid €495 billion relating to the TLTRO2 programme at Eurosystem level (€323.8 billion as voluntary early repayments and €171.3 billion at maturity), of which €177.1 billion by the Bank of Italy's counterparties. The four auctions under the TLTRO3 programme instead allotted a total €1,648.3 billion in financing, of which €317.1 billion to Italian banks.

was mostly due to the launch of the PEPP; the resumption of asset purchases under the APP in November 2019 and the additional envelope of €120 billion approved for 2020 also contributed. At 31 December 2020, the securities held by the NCBs through the programmes subject to risk sharing amounted to €883.4 billion (€695.8 billion at the end of 2019), while those for which the risk is borne by the individual NCBs totalled €2,462.1 billion (€1,685.8 billion in 2019). The securities held by the ECB amounted to €349.2 billion (€250.4 billion in 2019).

In 2020, the Eurosystem's US dollar funding continued, with an increase over the course of the pandemic as tensions heightened in the dollar funding market. Overall, \$275 billion, corresponding to €251 billion, were granted to euro-area banks through the Term Auction Facility (TAF), of which \$21 billion, equal to €19.5 billion, to Italian counterparties.

Key developments in the Bank's annual accounts

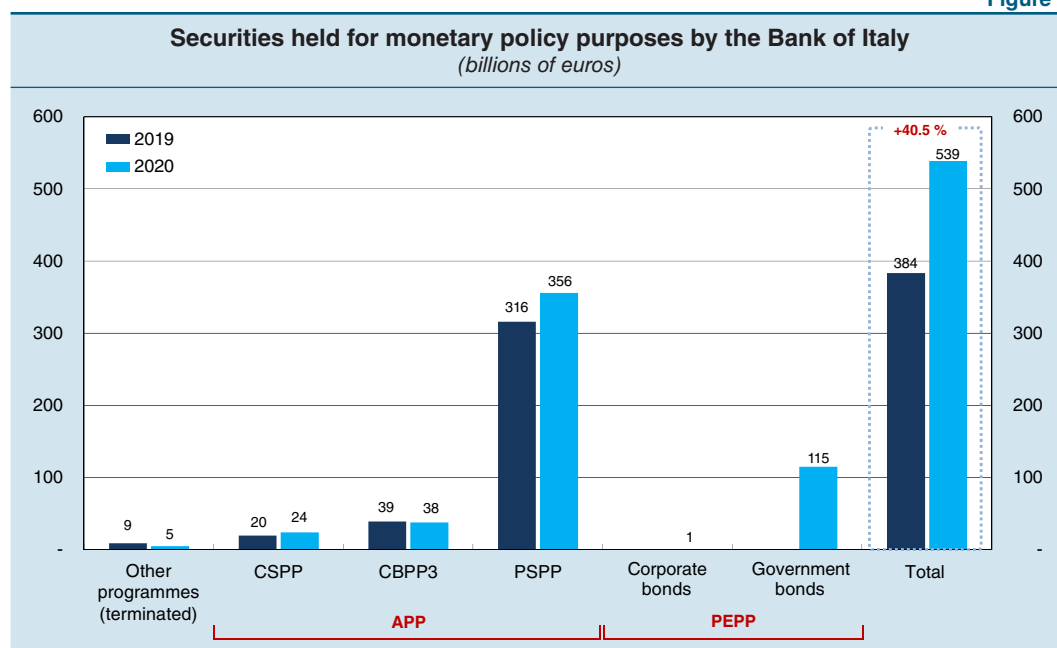
Assets



In 2020, the Bank of Italy's total assets (Figure 4) returned to strong growth (+35 per cent on 2019) owing to the significant increase in assets held for monetary policy purposes, in both the refinancing operations for credit institutions component and the

securities components. Refinancing increased above all owing to the amounts allocated through TLTRO3, which were only partially offset by TLTRO2 repayments.⁷ The increase in securities held for monetary policy purposes was driven by purchases under the new PEPP and, in particular, by purchases of public sector securities; purchases under the APP had a smaller impact (Figure 5). The rise in the value of the gold reserves also contributed to the increase in total assets.

Figure 5



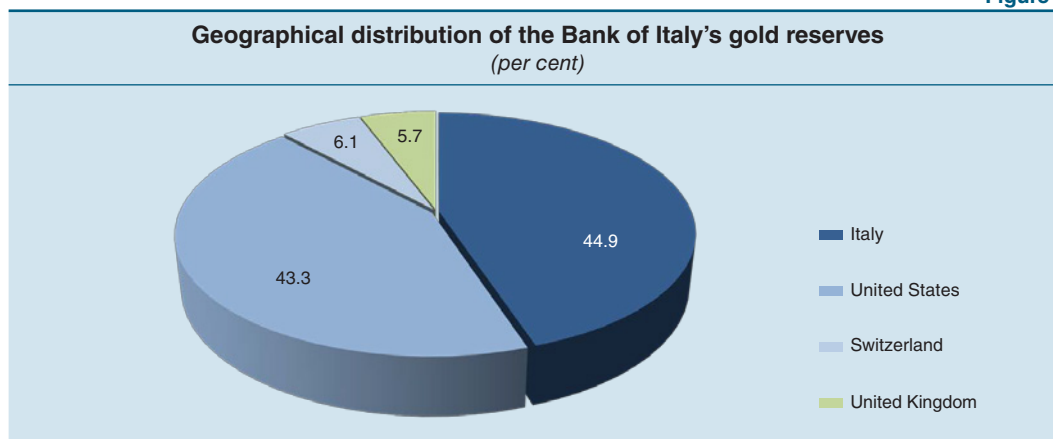
The assets held for monetary policy purposes grew by 51 per cent (from €604 billion to €913 billion) and accounted for about 70 per cent of total assets, of which 30 per cent as refinancing and 40 per cent as securities. These dynamics are consistent with those recorded at Eurosystem level, which were even more pronounced overall (+69 per cent on 2019).

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

⁷ The weighted average maturity of the refinancing operations conducted by the Bank of Italy more than doubled, increasing from 402 to 852 days.

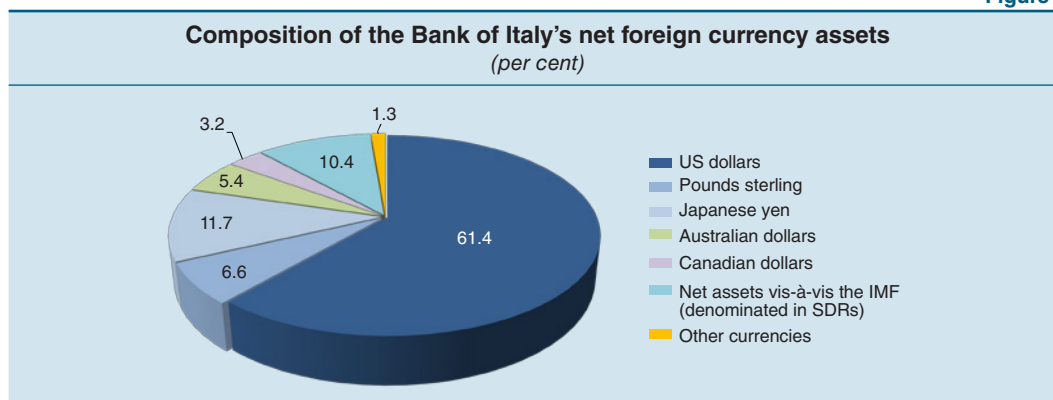
At 31 December 2020, the value of the gold reserves was €121.7 billion (€106.7 billion at the end of 2019); the increase was entirely due to the appreciation of gold (14.0 per cent). Figure 6 shows the geographical distribution of the Bank's gold reserves.

Figure 6



Net assets denominated in foreign currency – for which the percentage composition is shown in Figure 7 – totalled €43.8 billion (€41.8 billion at end-2019). The increase was due to the larger holdings, which more than offset the depreciation of the major foreign currencies held in the portfolio against the euro.

Figure 7



Assets held for investment purposes amounted to €148 billion at the end of 2020 (€140 billion at end-2019). These assets consist mainly of securities (€144.1 billion, compared with €137.3 billion in 2019; Table 2) and, starting from 2019, include reverse repo transactions connected with securities lending (€1.9 billion, compared with €1.4 billion in 2019).⁸

⁸ Securities lending consists of carrying out combined repo and reverse repo intraday transactions, mainly using Italian government securities purchased under the monetary policy programmes. With the introduction of the PEPP, over the course of 2020 securities lending was extended to government securities purchased under that purchase programme.

Table 2

Composition of the financial portfolio (1) (millions of euros)			
	31.12.2020	31.12.2019 (2)	Change
Government bonds and other public sector securities	127,147	123,447	3,700
Other bonds	2,512	2,414	98
Equity shares and other participating interests	12,774	9,918	2,856
ETFs and shares/units of CIUs	1,647	1,560	87
Total	144,080	137,339	6,741

(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. – (2) In 2020 the securities issued by the European Financial Stability Facility (EFSF) were reclassified from *Other bonds* to *Government bonds and other public sector securities*. The corresponding balances for 2019 have been reclassified for comparison purposes.

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

In 2020, the investment criteria taking into account environmental, social and governance (ESG) best practices, which were introduced in 2019 for the management of equity portfolios of shares issued by Italian and euro-area firms, were extended to investments in exchange-traded funds (ETF) and in shares/units of CIUs, denominated in foreign currency, and to corporate bonds. An investment in green bonds was also launched, relating to bonds issued by supranational entities and agencies that comply with the eligibility criteria envisaged by the internal risk management system. This investment adds to the indirect exposure on that market segment that the Bank of Italy already has through a share in the dollar-denominated green bond fund managed by Bank for International Settlements (BIS).

NET FINANCIAL ASSETS

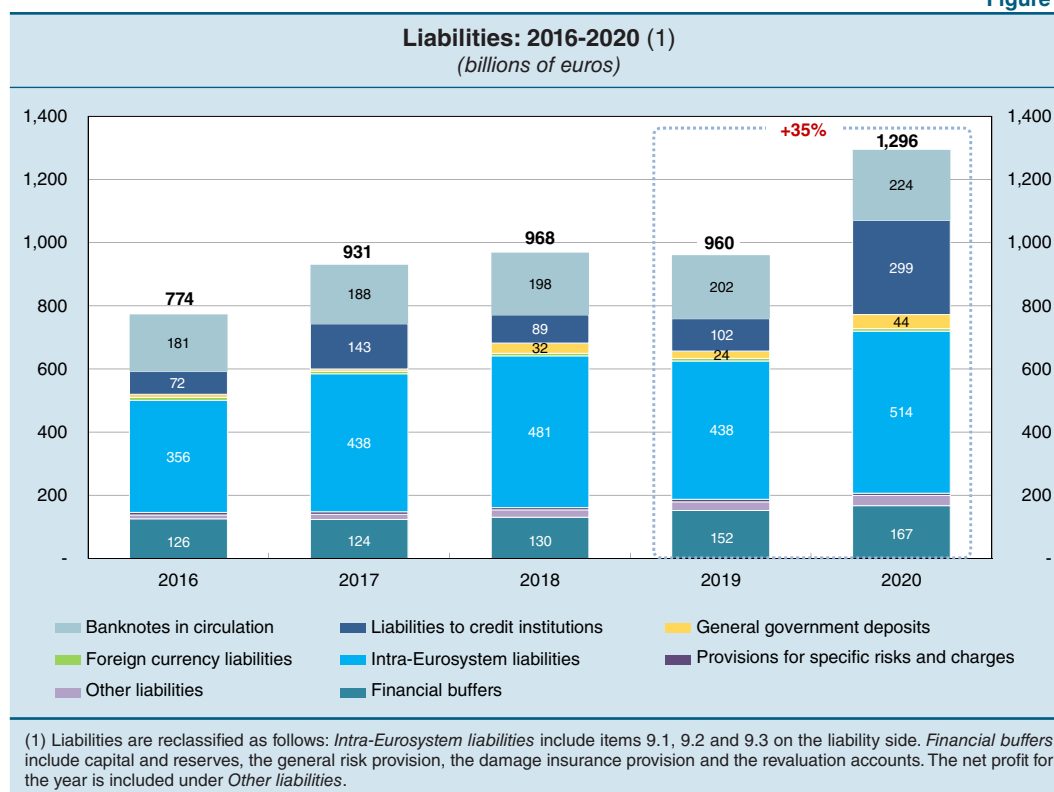
At the end of 2020, the Bank's net financial assets (NFAs), which are governed by a specific agreement (Agreement on Net Financial Assets – ANFA), totalled €78.2 billion, compared with €93.4 billion at the end of 2019; the decrease was due to the rise in general government deposits. NFAs are calculated as the algebraic sum of the balance sheet financial assets that are not directly related to monetary policy – including gold, net foreign currency assets and securities denominated in euros – and non-monetary-policy liabilities. ANFA is an agreement between the national central banks (NCBs) of the euro-area countries and the ECB. The agreement sets rules and limits that NCBs must follow to ensure that purchases of financial assets connected with their functions under national law do not interfere with the conduct of the single monetary policy.

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

The Bank also manages the 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 2020, the fund's total assets and corresponding liabilities in the Bank's balance sheet amounted to €740 million (€669 million in 2019).

Liabilities

Figure 8



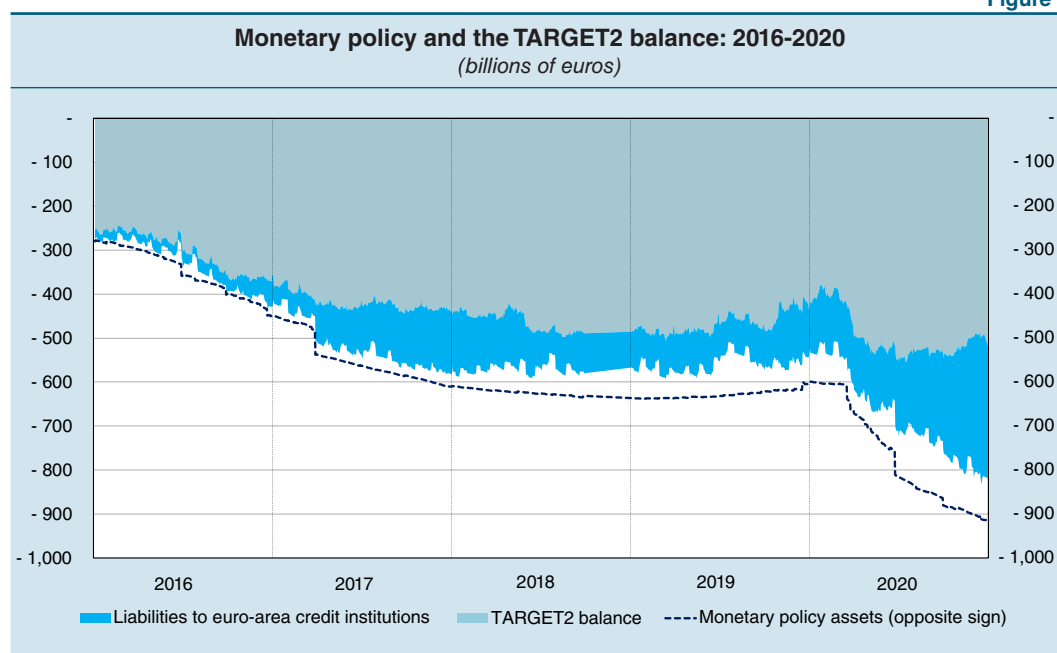
The increase in liabilities (Figure 8) is due mostly to the deposits of credit institutions, which almost tripled compared with the previous year, owing above all to the sizeable liquidity provided by the Eurosystem through monetary policy operations. The Bank's negative balance in connection with the TARGET2 payment system,⁹ the

⁹ The TARGET2 balance can be viewed as the accounting counterbalance of all the transactions carried out between residents and non-residents in Italy.

amount of banknotes in circulation, general government deposits and the financial buffers also increased, though to a more limited extent. The latter rose mainly owing to the unrealized gains on gold entered in the revaluation accounts.

The Bank of Italy's negative balance on the TARGET2 European payment system (Figure 9) widened in the period between March and June, at a time of turbulence on the international financial markets and massive injections of liquidity by the Eurosystem, but improved in the final months of the year. The improvement occurred following the recovery of capital inflows and also thanks to the disbursement of the first emission of loans to the Italian public sector from the European Commission under its instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE).

Figure 9

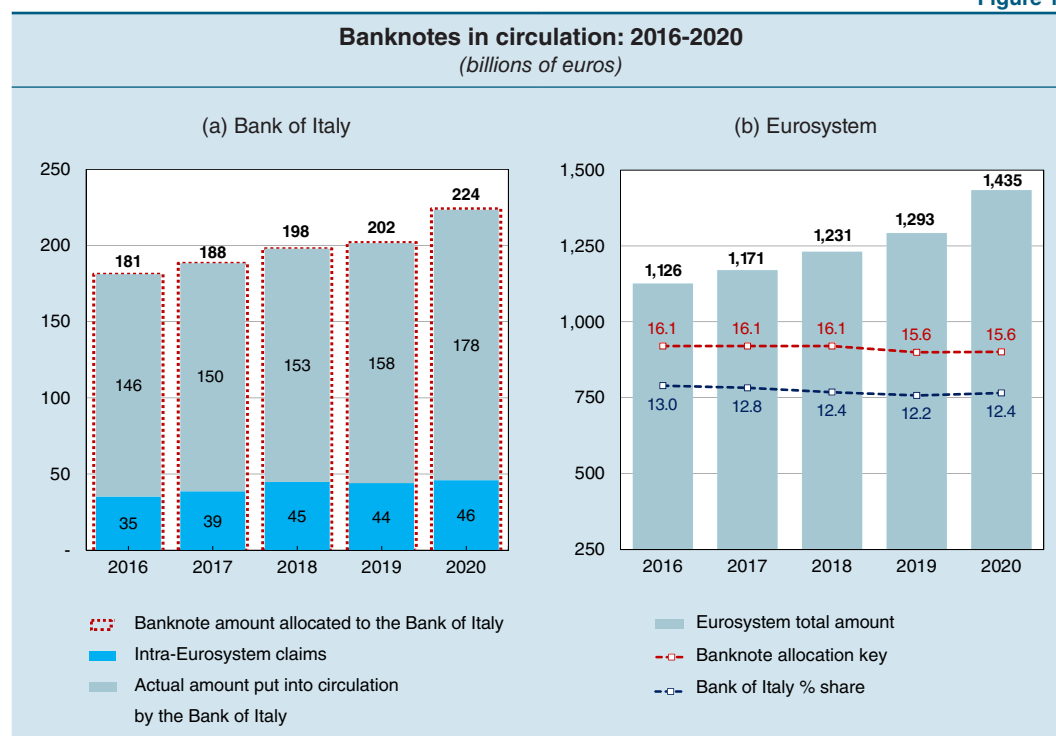


The total value of euro banknotes in circulation is allocated within the Eurosystem according to the banknote allocation key. The ECB is allocated 8 per cent of the total value of euro banknotes in circulation; the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB (see 'Legal basis and accounting policies'). The total amount allocated to the Bank of Italy is shown under the liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to the Bank of Italy and that of the banknotes the Bank actually puts into circulation gives rise to a remunerated intra-Eurosystem claim (liability) if positive (negative), which is recorded under *Net claims (liabilities) 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 Bank. As a result, there was an increase in the Bank's intra-Eurosystem claim on

the asset side of the balance sheet¹⁰ (Figure 10; see 'Notes on the items of the balance sheet' – *Banknotes in circulation*).

Figure 10



The average amount of banknotes put into circulation by the Bank of Italy in 2020 amounted to €162 billion, up from €150 billion in 2019, an increase of 8.2 per cent compared with 9.2 per cent registered for the euro area.

Financial risk

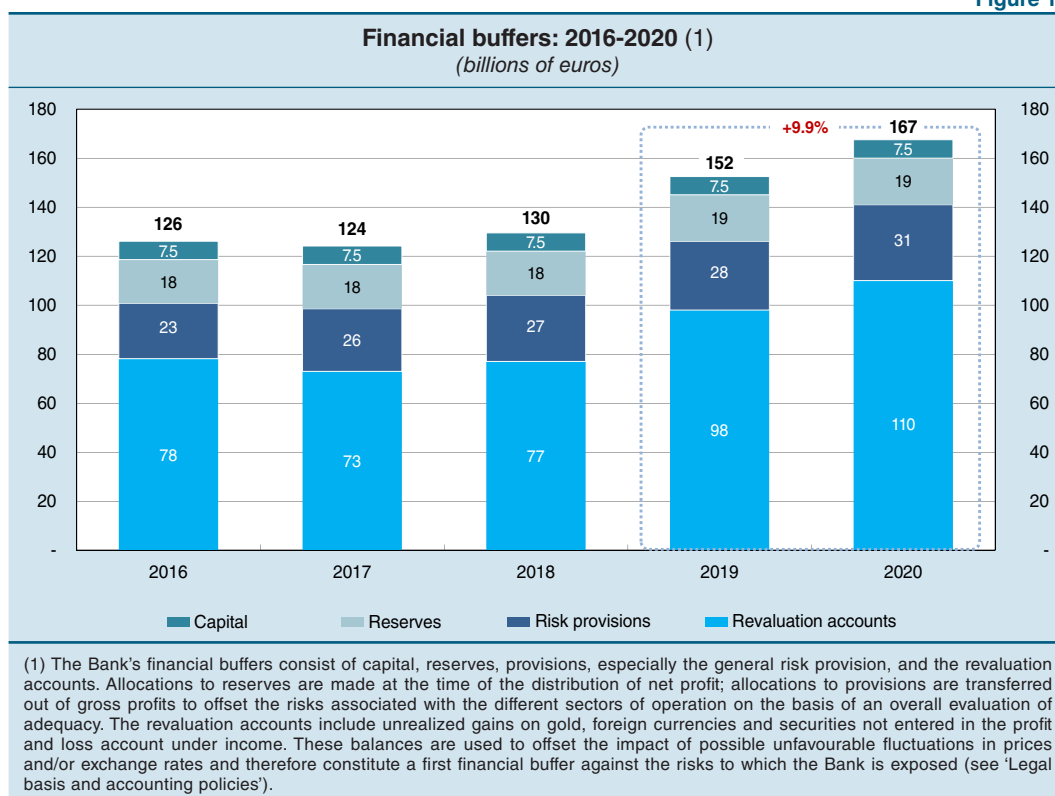
At the end of 2020 the overall financial risks – measured according to the accounting perspective, which considers their potential impact on the profit and loss account and on net equity – increased owing above all to the net purchases of securities for monetary policy purposes made under the APP and the PEPP.

Financial buffers

Financial buffers rose in 2016-2020 (Figure 11) thanks largely to the revaluation accounts, driven by the increase in the price of gold and, to a lesser extent, in the general risk provision, funded over the years to cover the risks taken on by the Bank following the expansion of monetary policy operations. The increase of about €15 billion in 2020 is attributable to the change in the revaluation accounts for €12 billion and to the capital strengthening policies for the rest.

¹⁰ The slight decline in 2019 was caused by the decrease in the capital key that occurred in that year.

Figure 11



The Bank's capital

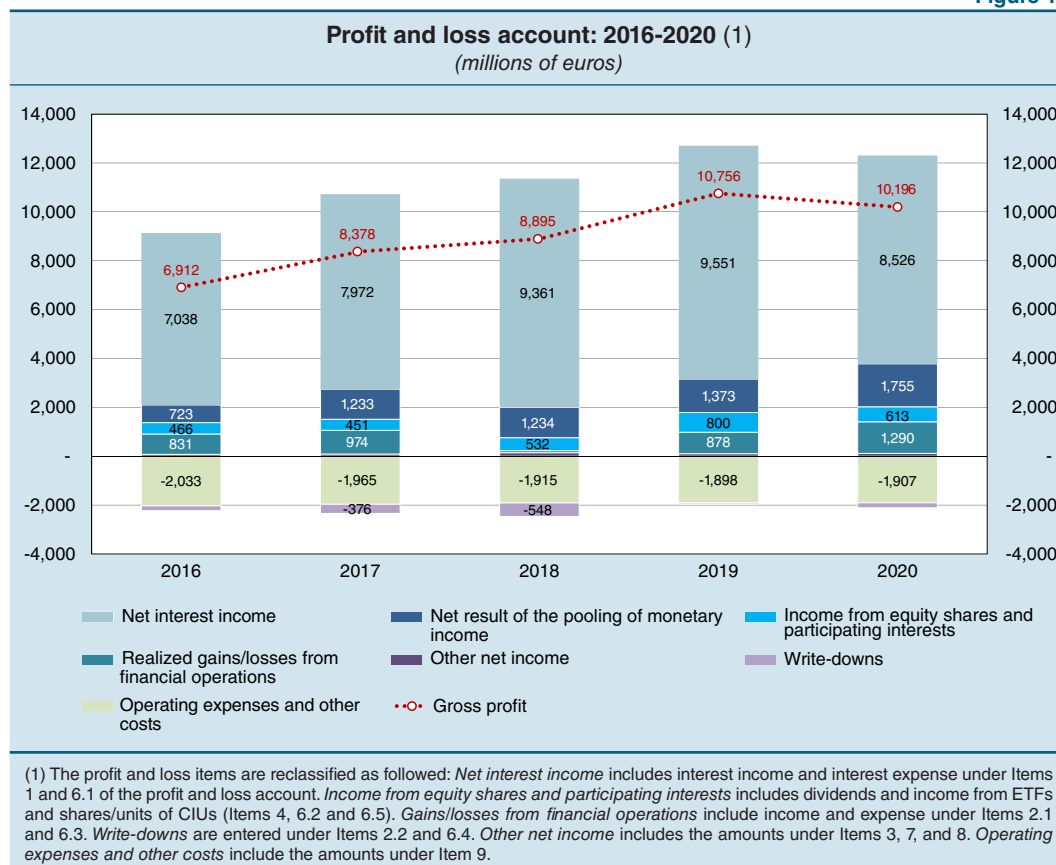
Law 5/2014 reformed the structure of the Bank's capital establishing, among other things, a threshold of 3 per cent on direct and indirect shareholdings. Shares held above this limit do not carry voting rights; the relative dividends are allocated by law to the Bank's statutory reserves. Dividends are 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 19 February 2021, the last date by which a shareholder could acquire shares with the right to dividends for 2020, approximately 48 per cent of the capital was transferred. There are 172 shareholders, of which 145 are new (6 insurance companies, 8 pension funds, 11 social security institutions, 40 banking foundations and 80 banks). At the above date, the shareholdings that still exceeded the threshold amounted to €1,486,950,000 in nominal value.

The profit and loss account

The size of the Bank's balance sheet and the path of average interest rates on financial assets and liabilities have a crucial impact on the Bank's profit and loss account (Figure 12). Over the last five-year period, net interest income was, on average, just below 80 per cent of

total income. Its level in the reference period was supported mainly by purchases of securities under the APP and, in 2020, under the new PEPP as well. However, in 2020, net interest income fell significantly owing to the higher volume of refinancing operations, which were conducted at negative interest rates that are especially favourable for the counterparties, and to the lower yields of securities denominated in euros and in foreign currency.

Figure 12



The year 2020 closed with a net profit of €6,286 million, a decrease of €1,961 million compared with the previous year (€8,247 million). The gross profit before tax and transfers to the general risk provision was equal to €10,196 million (€10,756 million in 2019).

In addition to the lower net interest income, the reduction in the gross profit was due to the decrease in income from equity shares and participating interests (down €187 million)¹¹ and to higher write-downs (up €146 million).

Conversely, a positive part was played by the increase in realized gains (up €412 million on 2019), due mainly to the sales of shares and exchange-traded funds (ETFs),

¹¹ In 2019, income from equity shares and participating interests had benefited, for an amount equal to €174 million, from an extraordinary profit distribution relating to the decrease in the Bank of Italy's share in the ECB's equity due to the five-year adjustment of the capital key.

and by the net result of the pooling of monetary income, which continued to be favourable to the Bank of Italy and this year was higher by €382 million compared with the previous year (see 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

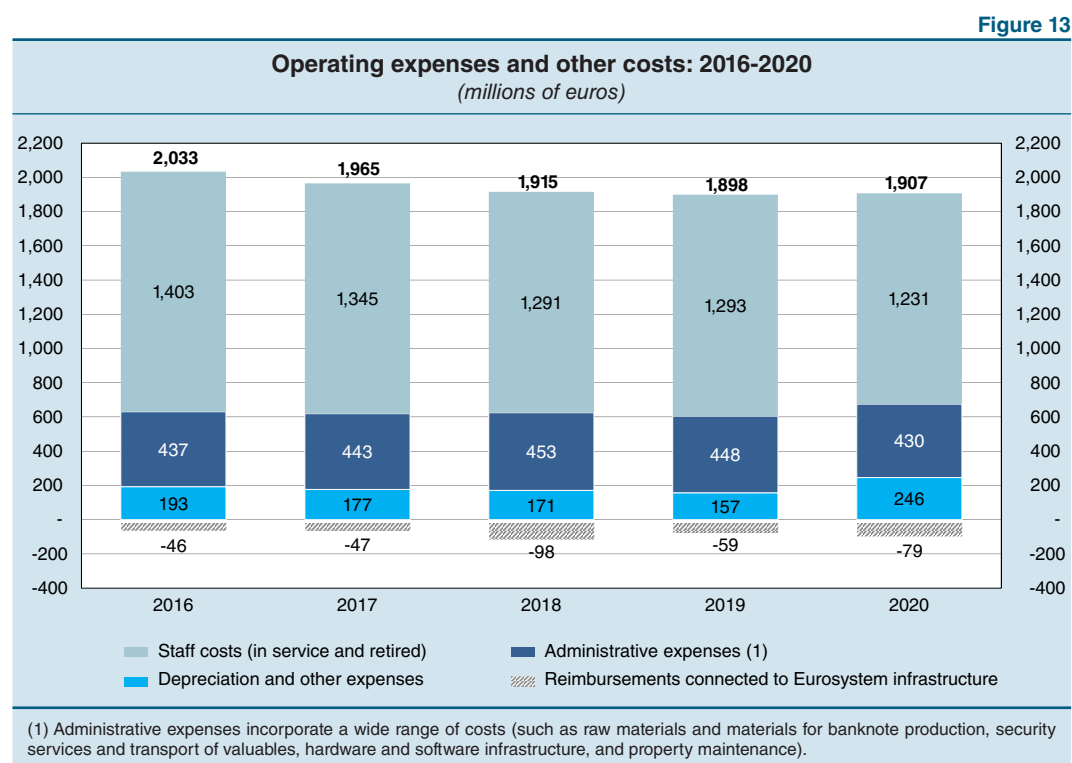
Total operating expenses and other costs amounted to €1,907 million. Notwithstanding the donations connected with the COVID-19 emergency (about €78 million), the overall costs remained essentially stable owing above all to the decline in staff costs (see 'Operating expenses and other costs').

Against the significant increase in the size of the balance sheet, a sum of €2,500 million (€1,500 million in 2019) was transferred to the general risk provision, contributing to the gradual strengthening of the financial buffers to address, even in the most adverse scenarios, the risks to which the Bank of Italy is exposed. These risks relate essentially to monetary policy assets, namely the component referring to refinancing operations for credit institutions and, especially, the component comprising the securities purchased under the Eurosystem purchase programmes.

Taxes for the year amounted to €1,409 million (€1,009 million in 2019).

Operating expenses and other costs

In 2020, total operating expenses and other costs increased marginally, from €1,898 million to €1,907 million. Their trend and composition are detailed in Figure 13.



During the health emergency, the Bank made widespread use of remote working. In 2020, around 59 per cent of staff worked remotely on average (63 per cent at the head office and 51 per cent at the branches), compared with 4 per cent in 2019. This was reflected directly and indirectly in the level and composition of operating expenses.

Staff costs declined; besides gross wages and salaries and compensation for business trips, there was a marked decrease in severance payments during the year, owing to the significant reduction of terminations compared with 2019 (see 'The Bank's staff'). Pension expenses stayed essentially the same, in line with previous years.

Administrative expenses also decreased compared with the previous year (€430 million, against €448 million in 2019); they accounted for 22.5 per cent of total costs in 2020. The reduction was due to the costs that tend to diminish when work is carried out remotely (e.g. utilities, canteen, business trips) and to those related to the maintenance of building and equipment. Conversely, expenses increased on security services, including for the transport of valuables and for guards, and on consumables, especially person protective equipment (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 total administrative expenses (in line with 2019). In 2020, the Bank continued to be involved in several national and Eurosystem initiatives: new features were developed for the TARGET2, TARGET2-Securities (T2S) and TARGET Instant Payment Settlement (TIPS) systems, for which the Bank acts as a service provided at Eurosystem level. As regards the cyber resilience programme for the Eurosystem's financial market infrastructures, a number of solutions were implemented to protect data integrity. In 2021, these initiatives will continue along with the project to consolidate the TARGET2 and T2S systems. At domestic level, further steps will be taken in the project on the electronic traceability of cash movements between the NCBs and the Bank's branches. Furthermore, the Bank will continue the project to streamline the management of online appeals to the Banking and Financial Ombudsman (ABF) and of complaints by bank customers.

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 providing such services are included under administrative expenses and staff costs. Eurosystem reimbursements are recorded under *Other income* and amounted to €79 million in 2020 (€59 million in 2019; see Figure 13).

As a joint owner of the Eurosystem's shared infrastructures, the Bank receives fees and bears costs in proportion to its share of the ECB's capital. The fees amounted to €9 million (€24 million in 2019) and are entered under fee income. As for the costs, €14 million (€29 million in 2019) are reported under administrative expenses and €9 million (the same as in 2019) under depreciation.

Expenditure on property management and maintenance, included in administrative costs, decreased slightly compared with 2019. The closure of construction sites ordered by the Government and the subsequent implementation of measures to contain infection made it necessary to reschedule the time frame for planning and executing work on buildings. However, during the year, work continued on the reconfiguration and revamping of some buildings pertaining to the head office and to the branch network. Exceptional measures were taken in connection with the pandemic, namely by adapting rules and management practices and upgrading the building access control systems, in order to guarantee the necessary level of safety for all staff and for all those operating inside the buildings in various capacities. Over the course of the health emergency, some systems (e.g. air-conditioning) were reconfigured to take account of the health and safety guidance issued by the authorities.

In recent years, *Other expenses* showed a downward trend. The increase in 2020 was due almost exclusively to the charitable donations to institutions or entities involved in managing the health emergency caused by the pandemic that were approved by the Bank during the year (€78 million).

The Bank's staff

At 31 December 2020 the Bank's employees numbered 6,671, of which 4,318 working at the head office, 2,073 at branch offices and 280 seconded to other organizations. The total number of staff is up by 78 compared with 2019. There are 280 new employees, of which about 64 per cent hold a university degree. Terminations totalled 202 (-49 per cent compared with 2019); of these 114 opted for early retirement offered to staff affected by the reorganization of the head office and of the branch network.

Table 3

Composition of the Bank's staff												
AREAS	31.12.2020						31.12.2019					
	Men	Women	Total	At branch- es	At Head Office	At other organi- zations (1)	Men	Women	Total	At branch- es	At Head Office	At other organi- zations (1)
Managerial and High-Level Professional Area	2,190	1,217	3,407	721	2,467	219	2,104	1,179	3,283	713	2,383	187
<i>of which:</i> Managing Directors and Principal Directors	62	15	77	13	58	6	64	14	78	12	61	5
Operational Area	1,956	1,302	3,258	1,352	1,845	61	1,988	1,311	3,299	1,389	1,896	14
Contract workers	5	1	6	—	6	—	6	5	11	—	11	—
Total	4,151	2,520	6,671	2,073	4,318	280	4,098	2,495	6,593	2,102	4,290	201
(1) 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.												

As at end-2020, the managerial and high-level professional area accounted for 51.1 per cent of total staff, with a slight increase compared with 2019 (49.8 per cent).

The staff's average age was 48.4 years (48.3 years in 2019). Women made up 37.8 per cent of total staff (a share in line with that for 2019). During the year, more than 5,600 employees received training, accounting for 84 per cent of the total staff (88.2 per cent including on-the-job training) for a total of about 180,000 hours of training, equal to an average of 32 hours per person. Starting from the early stages of the pandemic, training was adapted to the new way of working and moved online, expanded and recalibrated to the new needs connected with the development of the skills required for remote working.

Other information

Banknote production and circulation

In 2020, the Bank produced 813.85 million banknotes, mainly in denominations of €50 for the second series, and a small portion of banknotes produced as part of international cooperation activities and projects. Despite the health emergency and the resulting shutdown of banknote production for four weeks, followed by six weeks of production at reduced capacity, in the second half of the year the Bank's banknote production plant was able to make up for about 94 per cent of the lower volumes produced in the first half thanks to a more intensive use of the machinery and equipment and additional hours worked by staff. The recovery in production was made possible by a new organization of working hours for staff, which permitted the resumption of production under maximum safety conditions and the extension of the period in which the machinery and equipment are in operation. This arrangement also made it possible to contain the effects of the second wave of the pandemic that emerged in the last quarter of the year.

In 2020, the Bank of Italy's contract with the ECB concerning its banknote production plant's role as Eurosystem main R&D test-print centre was renewed for four years, which may be extended by an additional four. The Bank also continued to support the Eurosystem in its capacity as quality tools test centre and as storage and distribution centre.

For the first time, the watermarked paper needs were met in full through the Bank's two in-house paper manufacturers, based on a dual provisioning model for the direct supply of paper from a European provider (Europafi SaS) and a domestic provider (Valoridicarta SpA).¹²

At Eurosystem level, cooperation between NCBs was strengthened further. In this respect, the Bank of Italy continued its collaboration with Banco de España and the

¹² Valoridicarta SpA received temporary accreditation by the ECB to manufacture the security thread and the hologram stripe or patch for euro banknotes. Once fully operational, Valoridicarta will be the first in-house paper manufacturer in the Eurosystem to have vertical integration in the watermarked paper production process, with further benefits possibly resulting from the reduction in the cost of watermarked paper itself.

groundwork was laid for a similar agreement with the Banque de France, expected for 2021.

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 2.5 billion banknotes were put into circulation, for a total value of €84.1 billion, in line with the figures for the previous year (2.6 billion notes, worth €90.6 billion). The banknotes returned and checked by the Bank of Italy amounted to 1.9 billion, worth €64.1 billion and €63.6 billion respectively (compared with 2.4 billion notes in 2019, worth €86.2 billion and €86 billion respectively); the banknotes withdrawn from circulation were 0.6 billion, worth €22.3 billion (0.9 billion in 2019, worth €35.4 billion).

Organizational measures

In 2020, the Bank of Italy promptly updated the organization of work to counter the risks connected with the pandemic. The Bank's IT infrastructure and equipment, its organizational system and management rules – together with the staff's ability to adapt to changes – made it possible to modify the organization of work quickly from the beginning of the health emergency. Constant monitoring of the situation made it possible to adjust the arrangements on a continuous basis, by providing necessary equipment, expanding the capacity of the IT network, removing numerous constraints on performing certain tasks remotely, and liaising with external players (suppliers or other institutions).

Tasks that require the physical presence of staff in the workplace, mainly banknote production and service to the public at branches, were adapted to ensure they can be carried out safely, thereby guaranteeing business continuity. Unified protocols were drawn up by the various competent units to manage promptly and effectively every aspect connected to protecting personal safety and ensuring that operational tasks and service can be performed.

The experience acquired over the course of 2020 constituted a base for launching a study which, starting from the positive and critical aspects detected during the emergency period, has the goal of defining a new 'hybrid' model of work organization, in which on-site work coexists and integrates with remote working, and identifying the measures – managerial, organizational, technological and logistical – to be gradually implemented.

As regards the organizational structure, the reform aimed at consolidating supervision on banking and financial intermediaries, strengthening customer protection tools and increasing financial education levels for the public was implemented, and a new dedicated department was established. The tasks relating to monetary circulation (production, analysis of the circulation, and distribution of banknotes), retail payment instruments and FinTech are now integrated under a single department. Finally, the Bank of Italy's opened Milano Hub, its new innovation centre in Milan, to support the

financial market's adoption, at national level, of digital technologies and foster their safe use for financial stability purposes.

Over the course of the year, other organizational changes were implemented with the following goals: (a) to foster innovation in HR management systems and the development of the communication and information governance functions; (b) to integrate in the same department the tasks relating to strategic planning and organizational development with those relating to management control, accounting and tax, in order to strengthen the links between them and enhance the tools supporting an effective and efficient governance of the Bank; and (c) to enhance the capacity to provide logistical services to people and units by adopting an integrated vision.

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 and natural resources, optimal waste management, sustainable mobility and 'green' procurement. The Environment Report, published yearly and available on the Bank of Italy's website, summarizes the main measures adopted by the Bank and describes its ecological footprint. In 2020, the COVID-19 emergency led to a reduction in energy and paper consumption, travel to and from work, and business trips, resulting in lower CO2 emissions.

The Bank values the environment and sustainability and this influences how it manages its investment portfolio, favouring companies that adopt environmental, social and governance (ESG) best practices. Furthermore, the Bank of Italy contributes to the debate on the links between financial and environmental sustainability and on the risks that climate change poses for the economic system by carrying out research and analysis, organizing and hosting conferences and workshops on energy and the environment, and playing an active part in national and international committees and working groups.

Last year, the Bank was involved in drawing up and implementing a policy to counter the spread of COVID-19 in workplaces, in line with external regulations and in way that was proportionate to the number of cases. The measures introduced to deal with the pandemic developed along four lines of action: compliance with the rules, prevention and protection, consultancy, and information. As part of the prevention and protection activities, since last summer, staff at the head office and at the branches have been offered antibody and antigen tests on a voluntary basis.

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. Last year total rentals to SIDIEF amounted to about €1 million.

The Bank of Italy holds a participating interest in the capital of Valoridicarta Spa, a company formed in 2018 by Istituto Poligrafico e Zecca dello Stato SpA (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 (the Bank of Italy, with 18.26 per cent).

The Bank of Italy also holds a 0.50 per cent participating interest in Europafi Sas, the paper manufacturer formed by the Banque de France. 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.¹³

¹³ 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	
		31.12.2020	31.12.2019
1 GOLD AND GOLD RECEIVABLES	[1]	121,702,516,275	106,742,387,445
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	50,259,118,715	49,286,756,069
2.1 Claims on the IMF		12,290,331,699	11,266,706,089
2.2 Securities		32,914,673,120	32,468,271,396
2.3 Current accounts and deposits		5,049,625,677	5,403,321,193
2.4 Reverse operations		–	143,486,152
2.5 Other assets		4,488,219	4,971,239
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	1,684,062,435	967,045,342
3.1 Financial counterparties		1,591,851,408	965,613,926
3.1.1 Securities		171,375,166	38,771,351
3.1.2 Reverse operations		774,183,033	133,523,233
3.1.3 Other assets		646,293,209	793,319,342
3.2 General government		90,849,097	–
3.3 Other counterparties		1,361,930	1,431,416
4 CLAIMS ON NON-EURO AREA RESIDENTS	[4]	1,631,537,480	1,845,579,221
4.1 Claims on EU central banks outside the euro area		–	–
4.2 Securities		1,629,595,051	1,845,578,789
4.3 Other claims		1,942,429	432
5 LENDING TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	374,055,360,000	220,141,230,000
5.1 Main refinancing operations		160,000,000	4,718,000,000
5.2 Longer-term refinancing operations		373,895,360,000	215,423,230,000
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]	53,909,270	51,227,967
7 EURO-DENOMINATED SECURITIES ISSUED BY EURO-AREA RESIDENTS		604,888,370,463	452,029,846,830
7.1 Securities held for monetary policy purposes	[2]	538,642,251,873	383,635,833,622
7.2 Other securities	[4]	66,246,118,590	68,394,013,208
8 EURO-DENOMINATED GENERAL GOVERNMENT DEBT	[4]	13,550,527,602	13,682,273,552
9 INTRA-EUROSISTEM CLAIMS	[5]	54,793,125,744	52,149,206,820
9.1 Participating interest in the ECB		1,302,335,214	1,277,599,810
9.2 Claims arising from the transfer of foreign reserves to the ECB		6,853,825,810	6,839,555,945
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem		46,636,964,720	44,032,051,065
9.4 Other claims within the Eurosystem (net)		–	–
10 ITEMS IN COURSE OF SETTLEMENT		–	–
11 OTHER ASSETS	[6]	73,627,417,549	63,488,008,468
11.1 Euro-area coins		120,917,476	120,351,830
11.2 Financial assets relating to the investment of reserves and provisions	[4]	62,658,106,190	53,426,371,461
11.3 Intangible fixed assets		69,291,253	63,194,318
11.4 Tangible fixed assets		1,859,483,420	1,958,957,397
11.5 Accruals and prepaid expenses		5,134,055,761	4,489,290,070
11.6 Deferred tax assets		355,767,445	886,031,677
11.7 Sundry		3,429,796,004	2,543,811,715
TOTAL		1,296,245,945,533	960,383,561,714

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	
		31.12.2020	31.12.2019
1 BANKNOTES IN CIRCULATION	[7]	224,207,053,040	201,628,969,740
2 LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	299,287,430,120	101,775,196,674
2.1 Current accounts (covering the minimum reserve system)		228,259,430,120	100,477,196,674
2.2 Deposit facility		71,028,000,000	1,298,000,000
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		68,822,848	57,110,100
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS	[8]	61,475,410,818	37,028,331,857
4.1 General government		43,673,678,337	24,118,557,042 (1)
4.1.1 Treasury payment account		34,001,722,133	11,459,021,641
4.1.2 Other liabilities		9,671,956,204	12,659,535,401 (1)
4.2 Other counterparties		17,801,732,481	12,909,774,815 (1)
5 LIABILITIES TO NON-EURO-AREA RESIDENTS	[9]	4,328,917,206	1,946,107,542
5.1 Liabilities to EU central banks outside the euro area		—	—
5.2 Other liabilities		4,328,917,206	1,946,107,542
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	387,374,730	344,366,113
6.1 Financial counterparties		43,380	35,142
6.2 General government		387,331,350	344,330,971
6.3 Other counterparties		—	—
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	2,360,035	2,578,339
7.1 Current accounts and deposits		2,360,035	2,578,339
7.2 Other liabilities		—	—
8 COUNTERPART OF SDRs ALLOCATED BY THE IMF	[1]	7,750,604,672	8,114,263,622
9 INTRA-EUROSISTEM LIABILITIES	[5]	514,013,724,467	437,846,064,987
9.1 Liabilities backing the issuance of ECB debt certificates		—	—
9.2 Net liabilities relating to the allocation of euro banknotes within the Eurosystem		—	—
9.3 Other liabilities within the Eurosystem (net)		514,013,724,467	437,846,064,987
10 ITEMS IN COURSE OF SETTLEMENT		22,121	738,927
11 OTHER LIABILITIES	[10]	4,009,275,661	3,787,704,176
11.1 Cashier's cheques		62,580,276	111,413,144
11.2 Accruals and income collected in advance		1,938,651,020	2,064,691,326
11.3 Sundry		2,008,044,365	1,611,599,706
12 PROVISIONS	[11]	7,489,836,973	7,496,454,376
12.1 Provisions for specific risks		460,857,411	467,510,051
12.2 Staff-related provisions		7,028,979,562	7,028,944,325
13 REVALUATION ACCOUNTS	[12]	109,988,501,241	97,747,363,984
14 GENERAL RISK PROVISION	[11]	30,713,675,075	28,213,675,075
15 CAPITAL AND RESERVES	[13]	26,236,677,339	26,147,786,606
15.1 Capital		7,500,000,000	7,500,000,000
15.2 Statutory reserves		10,997,166,418	10,908,275,685
15.3 Other reserves		7,739,510,921	7,739,510,921
16 NET PROFIT FOR THE YEAR		6,286,259,187	8,246,849,596
TOTAL		1,296,245,945,533	960,383,561,714

(1) The figures for 2019 have been reclassified for comparison purposes (see 'Notes on the items of the balance sheet' – *Liabilities to other euro-area residents*).

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	
		2020	2019
1.1 Interest income		9,980,956,306	9,534,406,838
1.2 Interest expense		-2,314,289,814	-939,376,172
1 NET INTEREST INCOME	[14]	7,666,666,492	8,595,030,666
2.1 Realized gains/losses arising from financial operations		253,247,497	241,931,436
2.2 Write-downs on financial assets and positions		-30,781,954	-20,847,620
2.3 Transfers to/from the general risk provision for exchange rate, price and credit risks		-2,500,000,000	-1,500,000,000
2 NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS	[15]	-2,277,534,457	-1,278,916,184
3.1 Fee and commission income		29,262,148	40,858,582
3.2 Fee and commission expense		-17,496,073	-17,679,883
3 NET INCOME FROM FEES AND COMMISSIONS	[16]	11,766,075	23,178,699
4 INCOME FROM PARTICIPATING INTERESTS	[17]	372,556,591	484,177,497
5 NET RESULT OF THE POOLING OF MONETARY INCOME	[18]	1,754,827,300	1,372,852,174
6.1 Interest income		859,702,184	955,862,263
6.2 Dividends from equity shares and participating interests		216,942,088	286,314,461
6.3 Realized gains/losses arising from financial operations		1,036,330,897	636,371,289
6.4 Write-downs on financial assets and positions		-170,512,141	-34,761,173
6.5 Other components		23,934,298	29,826,480
6 NET INCOME FROM FINANCIAL ASSETS RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS	[19]	1,966,397,326	1,873,613,320
7 OTHER TRANSFERS FROM PROVISIONS		—	—
8 OTHER INCOME	[20]	107,748,112	83,640,335
TOTAL NET INCOME		9,602,427,439	11,153,576,507
9.1 Staff wages and salaries		-649,951,684	-651,564,176
9.2 Social security and insurance		-162,401,318	-165,904,632
9.3 Other staff costs		-26,607,625	-42,806,219
9.4 Pensions and severance payments		-313,079,605	-359,216,213
9.5 Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses		-78,685,806	-73,468,615
9.6 Emoluments paid to head office and branch collegial bodies		-2,832,367	-2,853,289
9.7 Administrative expenses		-429,608,842	-448,136,840
9.8 Depreciation of tangible and intangible fixed assets		-122,226,790	-101,565,106
9.9 Banknote production services		—	—
9.10 Other expenses		-121,430,149	-52,000,474
9 EXPENSES AND SUNDRY CHARGES	[21]	-1,906,824,186	-1,897,515,564
10 OTHER TRANSFERS TO PROVISIONS		—	—
PROFIT BEFORE TAX		7,695,603,253	9,256,060,943
11 TAXES ON INCOME FOR THE YEAR AND ON PRODUCTIVE ACTIVITIES	[22]	-1,409,344,066	-1,009,211,347
NET PROFIT FOR THE YEAR		6,286,259,187	8,246,849,596

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

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NOTES TO THE ACCOUNTS

Legal basis and accounting policies

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

The main relevant statutory provisions are:

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

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

- The Bank's Statute, approved by the Presidential Decree of 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 2020 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, recorded 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 marketable shares, investment fund shares and securities not held to maturity; for units of collective investment undertakings (CIUs), at the value available at the end of the year announced by the management company. Unrealized gains are included in the corresponding revaluation accounts; losses are covered first by earlier unrealized gains on the relative security and fund shares within each portfolio and any amount in excess is taken to the profit and loss account.

Dividends are recognized on a cash basis.

CLAIMS AND REVERSE TRANSACTIONS

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

Reverse transactions represented by the purchase of securities for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date are recorded on the asset side as collateralized loans. Reverse transactions represented by the sale of securities for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date are recorded on the liabilities side as 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 amortized and are valued at whichever is lowest of net book value and realizable value based on market prices.

Plant, furniture and equipment

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

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

INTANGIBLE FIXED ASSETS

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

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

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

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

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

ACCRUALS AND PREPAYMENTS

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

BANKNOTES IN CIRCULATION

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

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

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

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

The Governing Council of the ECB has ruled that the seigniorage income of the ECB arising from the 8 per cent share of banknotes allocated to the ECB and the income deriving from the securities held in connection with the SMP, CBPP3, ABSPP, PSPP and PEPP must be recognized to the euro-area NCBs 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-EUROSYSTEM CLAIMS AND LIABILITIES

Intra-Eurosystem balances arise mainly from cross-border payments in euros within the EU that are settled in central bank money. Most of these transactions are

ordered by private individuals and settled in TARGET2 – the Eurosystem’s real-time gross settlement system – giving rise to bilateral balances in the TARGET2 accounts of EU Member States’ central banks. These balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position with the ECB. The balance with the ECB arising from TARGET2 and the other intra-Eurosystem balances denominated in euros, including the provisional distribution of the ECB’s profit to the NCBs and the result of the pooling of monetary income, are entered in the accounts as a single net position, appearing on the asset side under *Other claims within the Eurosystem (net)* or on the liability side under *Other liabilities within the Eurosystem (net)*.

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

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

PROVISIONS FOR RISKS

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

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

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

TAX PROVISION

The provision for taxation includes deferred tax liabilities for IRES and IRAP and any amounts arising from possible tax audits and litigation 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 tax losses connected with 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, in the same way as for other operating revenue (expense), add to (subtract from) the fund's assets.

Other liabilities also includes the amount of IRES and IRAP tax payables, net of payments on account, 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 €121,703 million at the end of 2020 (Table 4). The increase of €14,961 million compared with the end of 2019 was entirely due to the rise of 14.0 per cent in the metal's price (from €1,354.104 to €1,543.884 per ounce). The holding remained steady at 79 million ounces, equal to 2,452 tonnes.

Table 4

Gold, assets and liabilities denominated in foreign currency (1) (millions of euros)			
	31.12.2020	31.12.2019	Change
Gold (Item 1)	121,703	106,742	14,961
Net assets denominated in foreign currency	43,803	41,793	2,010
Assets denominated in foreign currency	51,943	50,254	1,689
Claims on the IMF (Sub-item 2.1)	12,290	11,267	1,023
Securities (Sub-items 2.2, 3.1.1, 3.2 and 3.3)	33,178	32,508	670
Current accounts and deposits (Sub-items 2.3 and 3.1.3)	5,696	6,197	-501
Reverse operations (Sub-items 2.4 and 3.1.2)	774	277	497
Other assets (Sub-item 2.5)	5	5	–
Liabilities denominated in foreign currency	8,140	8,461	-321
Counterpart of SDRs allocated by the IMF (Item 8)	7,751	8,114	-363
Advances of general government departments (Sub-item 6.2)	387	344	43
Current accounts and deposits (Sub-item 7.1)	2	3	-1
Off-balance-sheet instruments (2)	-1,409	-698	-711

(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 foreign exchange transactions contracted but not settled at year end and forward transactions.

The value of net assets denominated in foreign currency increased from €41,793 million to €43,803 million (4.8 per cent) as a result of the increase in the holdings, which was only partially offset by the depreciation of the major foreign currencies in the portfolio against the euro.¹⁴ At the end of year, the unrealized exchange rate gains recognized in the revaluation accounts were equal to €14,989 million, almost entirely due to the appreciation of gold; unrealized losses amounted to €2,997 million, of which €2,980 million are covered by the corresponding revaluation accounts. The remaining amount, equal to €17 million, was recorded in the profit and loss account (Table 5).

Table 5

Unrealized foreign exchange gains and losses (millions of euros)					
	Revaluation accounts at 31 December 2019	Gains reported in the revaluation accounts	Losses reported		Revaluation accounts at 31 December 2020
			in the revaluation accounts	in the profit and loss account	
Gold	87,321	14,961	–	–	102,282
US dollars	3,595	–	-2,429	–	1,166
Pounds sterling	276	–	-169	–	107
Japanese yen	1,076	–	-160	–	916
Australian dollars	26	28	–	–	54
Canadian dollars	63	–	-63	-5	–
Special Drawing Rights (SDRs) (1)	267	–	-156	–	111
Chinese renminbi	3	–	-3	-9	–
South Korean won	–	–	–	-3	–
Total	92,627	14,989	-2,980	-17	104,636

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

¹⁴ Compared with the end of the previous year, the currencies that depreciated were the US dollar (from \$1.1234 to \$1.2271), the Japanese yen (from ¥121.94 to ¥126.49), the pound sterling (from £0.85080 to £0.89903), the Canadian dollar (from C\$1.4598 to C\$1.5633), SDRs from (€1.2339 to €1.1786 per SDR), the Chinese renminbi (from ¥7.8205 to ¥8.0225) and the South Korean won (from ₩1,296.28 to ₩1,336). The Australian dollar appreciated slightly (from A\$1.5995 to A\$1.5896).

Claims on the IMF increased by €1,023 million (Table 6). The change was mainly due to drawdowns by the IMF from the related holdings deposited in its account with the Bank, which were only partially offset by the depreciation of SDRs against the euro.

Table 6

Accounts with the International Monetary Fund (millions of euros)			
	31.12.2020	31.12.2019	Change
Assets			
Claims on the IMF (Sub-item 2.1)	12,290	11,267	1,023
a) Reserve Tranche Position in the IMF	4,288	3,003	1,285
Quota in the IMF	17,761	18,595	-834
IMF holdings	-13,473	-15,592	2,119
b) Participation in the PRGT	756	774	-18
c) Participation in the NAB	388	439	-51
d) Special Drawing Rights (SDRs)	6,858	7,051	-193
Liabilities			
Counterpart of SDRs allocated by the IMF (Item 8)	7,751	8,114	-363

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:

- Italy's reserve tranche position, subscribed in gold, SDRs and national currency and amounting to €4,288 million at the end of 2020, represents the difference between Italy's participation quota in the Fund (€17,761 million, equal to SDR 15,070 million) and the IMF's holdings deposited in its account with the Bank (€13,473 million, equal to SDR 11,431 million) which are funded by the participation quota subscribed over time in national currency;
- the contribution to the Poverty Reduction and Growth Trust (PRGT), amounting to €756 million (SDR 641 million), is used to grant long-term loans on favourable terms to countries facing structural balance of payments difficulties;
- loans to the IMF by the Bank of Italy on behalf of the Italian government under the New Arrangement to Borrow (NAB), amounting to €388 million (SDR 329 million), are used to strengthen the IMF's lending capacity to cope with the financial crisis;
- 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 SDR 6,576 million. Following a series of withdrawals, at the end of 2020 Italy's holdings amounted to SDR 5,819 million, equal to €6,858 million. The amount of SDR 6,576 million is entered as a liability vis-à-vis the IMF under the item *Counterpart of SDRs allocated by the IMF* (Item 8), totalling €7,751 million at the end of the year.

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	32,084	384	40	–	32,508
Increases	41,669	35	255	–	41,959
Purchases	41,398	–	248	–	41,646
Net gains	196	35	1	–	232
Net price revaluation (3)	75	–	–	–	75
Net exchange rate revaluation (3)	–	–	6	–	6
Decreases	-41,030	-227	-32	–	-41,289
Sales and redemptions	-38,689	-190	-31	–	-38,910
Net price revaluation (3)	–	-24	-1	–	-25
Net exchange rate revaluation (3)	-2,282	-10	–	–	-2,292
Premiums and discounts	-35	–	–	–	-35
Write-downs due to price changes (4)	-14	–	–	–	-14
Write-downs due to exchange rate changes (4)	-10	-3	–	–	-13
Closing balance	32,723	192	263	–	33,178

(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 portfolio of securities denominated in foreign currency and classified as not held to maturity increased from €32,508 million to €33,178 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, 73 per cent is denominated in US dollars, 10 per cent in Japanese yen, 5 per cent in pounds sterling, 7 per cent in Australian dollars, 4 per cent in Canadian dollars and 1 per cent in Chinese renminbi.

The other foreign currency assets (Sub-items 2.3, 2.4, 2.5, 3.1.2 and 3.1.3), denominated primarily in US dollars, Japanese yen and pounds sterling, consist of fixed-term deposits (€1,657 million), current accounts (€4,039 million), reverse operations (€774 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 (€387 million, Sub-item 6.2)

in respect of advances received for the management of foreign currency cross-border payments and receipts.

[2] Monetary policy operations

Table 8 gives the amounts outstanding at the end of the year and the average for the year regarding operations carried out by the Bank of Italy within the framework of the single monetary policy of the Eurosystem.

Table 8

Monetary policy operations (millions of euros)						
	Balances			Averages		
	31.12.2020	31.12.2019	Change	2020	2019	Change
Lending to euro-area credit institutions (Item 5) (1)						
5.1 Main refinancing operations	160	4,718	-4,558	189	2,457	-2,268
5.2 Longer-term refinancing operations	373,895	215,423	158,472	306,169	236,539	69,630
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	374,055	220,141	153,914	306,358	239,047	67,311
Securities held for monetary policy purposes (Sub-item 7.1)						
	538,642	383,636	155,006	462,251	389,647	72,604
Liabilities to euro-area credit institutions (Item 2)						
2.1 Current accounts (covering the minimum reserve system)	228,259	100,477	127,782	168,172	83,777	84,395
2.2 Deposit facility	71,028	1,298	69,730	13,728	8,691	5,037
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits relating to margin calls	–	–	–	–	–	–
Total	299,287	101,775	197,512	181,900	92,468	89,432

(1) At 31 December 2020 the collateral for lending to euro-area credit institutions, deposited with the Bank, amounted to €436 billion (€286 billion at the end of 2019).

Lending to euro-area credit institutions (Item 5) – which increased both in terms of the end-2020 amount and of the average figure for the year – are almost exclusively represented by longer-term operations (Item 5.2) and, in particular, the TLTRO3 operations launched in September 2019. At the end of the year, TLTRO3 operations amounted to €350,095 million; PELTRO (€20,792 million), launched in May 2020, and TLTRO2 (€2,742 million) accounted for smaller shares. At the end of the year, the share of total euro-area refinancing provided to Italian credit institutions was 21 per cent (35 per cent at end-2019), compared with a capital key of 16.9 per cent.

The year-end amount of *Securities held for monetary policy purposes* (Sub-item 7.1) increased significantly, from €383,636 million to €538,642 million; the average amount for the year also rose significantly on the previous year. The purchases were concentrated above all in the public sector segment of the new PEPP and, to a lesser degree, of the PSPP.

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	PEPP	
Opening balance	304	392	39,186	8,439	315,477	19,838	–	383,636
Increases	–	–	3,132	44	76,435	5,548	117,908	203,067
Purchases	–	–	3,132	–	76,434	5,546	115,182	200,294
Transfers	–	–	–	–	–	–	2,726	2,726
Net gains	–	–	–	–	1	2	–	3
Net premiums and discounts	–	–	–	44	–	–	–	44
Decreases	-54	–	-4,381	-3,690	-36,115	-1,747	-2,074	-48,061
Sales and redemptions	-54	–	-4,035	-3,690	-30,387	-1,542	-1,652	-41,360
Transfers	–	–	–	–	-2,726	–	–	-2,726
Net premiums and discounts	–	–	-346	–	-3,002	-205	-422	-3,975
Closing balance	250	392	37,937	4,793	355,797	23,639	115,834	538,642
(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 2020, the Bank sold securities included in the PSPP portfolio for an amount equal to €304 million and securities included in the CSPP portfolio for an amount equal to €67 million. The sales, agreed at Eurosystem level, were necessary to comply with the limits set by the programmes. For the same reason, the Bank transferred securities equal to €2,726 million from the PSPP to the PEPP.

At the end of the year, the market value of the securities held for monetary policy purposes amounted to €583,929 million. The market value is higher than the amortized cost by €45,287 million, largely on account of the public sector securities in the PSPP portfolio.

Table 10

Comparison with market price of securities held for monetary policy purposes (Sub-item 7.1) (millions of euros)						
	31.12.2020		31.12.2019		Change	
	Amortized cost	Market price	Amortized cost	Market price	Amortized cost	Market price
CBPP1	250	263	304	329	-54	-66
CBPP2	392	408	392	423	–	-15
CBPP3	37,937	39,795	39,186	40,619	-1,249	-824
SMP	4,793	5,093	8,439	9,075	-3,646	-3,982
PSPP	355,797	392,261	315,477	331,041	40,320	61,220
CSPP	23,639	24,584	19,838	20,337	3,801	4,247
PEPP corporate bonds	1,228	1,276	–	–	1,228	1,276
PEPP government bonds	114,451	120,083	–	–	114,451	120,083
PEPP covered bonds	155	166	–	–	155	166
Total	538,642	583,929	383,636	401,824	155,006	182,105

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

Table 11

Residual maturity of securities held for monetary policy purposes (millions of euros)							
	0-1 years	1-2 years	2-5 years	5-10 years	10-20 years	More than 20 years	Total
CBPP1	–	250	–	–	–	–	250
CBPP2	57	335	–	–	–	–	392
CBPP3	4,204	5,693	18,067	8,266	1,269	438	37,937
SMP	3,359	972	319	143	–	–	4,793
PSPP	25,924	35,518	110,466	94,943	62,564	26,382	355,797
CSPP	1,371	1,454	9,528	10,334	952	–	23,639
PEPP corporate bonds	26	37	307	679	179	–	1,228
PEPP government bonds	16,388	10,904	25,566	40,691	12,786	8,116	114,451
PEPP covered bonds	–	5	59	57	–	34	155
Total	51,329	55,168	164,312	155,113	77,750	34,970	538,642

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 the Management Report). In accordance with the Governing Council’s decisions, all securities acquired under the existing monetary policy programmes are valued at amortized cost subject to impairment in accordance with Eurosystem criteria.

The impairment tests conducted on these securities at Eurosystem level do not show evidence of any losses. The provision for Eurosystem monetary policy operations outstanding at the end of 2019, amounting to a total of €89 million, of which €15 million pertaining to the Bank of Italy, was transferred to the profit and loss account in full following the sale of the securities held by a NCB of the Eurosystem under the CSPP, for which the provision had been established (see also ‘General risk provision and other provisions’).

With regard to *Liabilities to euro-area credit institutions*, accounts held by banks, including deposits made in accordance with the minimum reserve requirements, increased both in terms of the year-end figure (from €101,775 million to €299,287 million) and of the annual average amount (from €92,468 million to €181,900 million). The increase was attributable above all to the rise in *Current accounts* (Item 2.1). In 2020, no fixed-term deposits were made and no fine-tuning reverse operations were activated.

[3] Other claims on euro-area credit institutions

Item 6 on the asset side, amounting to €54 million (€51 million in 2019), includes current accounts in connection with the management of cross-border euro payments and receipts for government bodies (€51 million) and other current accounts denominated in euros (€3 million).

[4] Securities portfolio

Table 12

Securities portfolio (millions of euros)			
	31.12.2020	31.12.2019 (1)	Change
A. SECURITIES DENOMINATED IN EUROS (Sub-items 4.2 and 7.2 and Item 8)			
1. Securities held to maturity	75,098	77,276	-2,178
a) Government bonds and other public sector securities (Sub-item 7.2)	60,581	62,470	-1,889
b) Other bonds (Sub-items 4.2 and 7.2)	967	1,124	-157
c) Government securities assigned to the Bank of Italy (Item 8)	13,550	13,682	-132
2. Securities other than those held to maturity	6,328	6,646	-318
a) Government bonds and other public sector securities (Sub-item 7.2)	5,209	5,546	-337
b) Other bonds (Sub-items 4.2 and 7.2)	1,119	1,100	19
Total A	81,426	83,922	-2,496
B. SECURITIES DENOMINATED IN EUROS AND IN FOREIGN CURRENCY RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS (Sub-item 11.2)			
1. Securities held to maturity and other permanent investments	48,877	42,543	6,334
a) Government bonds and other public sector securities	47,798	41,700	6,098
- of which: denominated in foreign currency	814	1,111	-297
b) Other bonds	426	190	236
c) Shares and participating interests	653	653	—
- in subsidiary companies and entities	587	587	—
- in other companies and entities	11	11	—
- in other companies and entities denominated in foreign currency	55	55	—
2. Securities other than those held to maturity and other permanent investments	13,777	10,874	2,903
a) Government bonds and other public sector securities	10	49	-39
- of which: denominated in foreign currency	10	49	-39
b) Shares and participating interests	12,121	9,265	2,856
c) ETFs and shares/units of CIUs	1,646	1,560	86
- of which: denominated in foreign currency	1,646	1,560	86
Total B	62,654	53,417	9,237
Total (A+B)	144,080	137,339	6,741
(1) In 2020 the securities issued by the European Financial Stability Facility (EFSF) were reclassified from <i>Other bonds</i> to <i>Government bonds and other public sector securities</i> . The corresponding balances for 2019 have been reclassified for comparison purposes.			

Securities denominated in euros (Total A of Table 12 and Table 13) 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 (*Euro-denominated securities issued by euro-area residents – Other securities*), which consists mainly of bonds issued by the Italian government and by other euro-area Member States and public institutions;
- Item 8 (*Euro-denominated general government debt*), which contains the Italian government securities assigned to the Bank following the bond conversion under Law 289/2002 and those arising from the termination of the management of mandatory stockpiling.

Table 13

A. Movements in securities denominated in euros (millions of euros)						
	Bonds					Total
	Held to maturity			Other than those held to maturity		
	(Sub-item 4.2)	(Sub-item 7.2)	(Item 8)	(Sub-item 4.2)	(Sub-item 7.2)	
Opening balance	1,124	62,470	13,682	721	5,925	83,922
Increases	–	7,020	–	112	678	7,810
Purchases	–	7,020	–	106	609	7,735
Net gains	–	–	–	1	5	6
Net revaluations (1)	–	–	–	5	64	69
Decreases	-157	-8,909	-132	-171	-937	-10,306
Sales and redemptions	-145	-8,459	-50	-167	-884	-9,705
Net premiums and discounts	-12	-450	-82	-4	-53	-601
Closing balance	967	60,581	13,550	662	5,666	81,426

(1) Increase/decrease in revaluation accounts.

(1) Increase/decrease in revaluation accounts.

Securities relating to investments of reserves and provisions (Total B of Table 12 and Table 14) 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, 77 per cent of the portfolio consisted of bonds, mostly government securities, and 23 per cent of equity shares, participating interests, ETFs and shares/units of CIUs. Almost all of the investments in equity shares were listed securities. The majority of issuers of the securities related to investments of reserves and provisions were residents of euro-area countries.

Almost all of the bond portfolio (95 per cent) is reported under 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 for securities held for monetary policy purposes did not show evidence of any losses.

Table 14

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	41,890	49	653	9,265	1,560	53,417
Increases	10,541	1	–	4,860	2,176	17,578
Purchases (1)	10,541	–	–	3,904	1,364	15,809
Net gains	–	–	–	294	812	1,106
Net price revaluation (2)	–	1	–	662	–	663
Decreases	-4,207	-40	–	-2,004	-2,090	-8,341
Sales and redemptions (1)	-3,752	-38	–	-1,871	-1,502	-7,163
Net price revaluation (2)	–	–	–	–	-531	-531
Net premiums and discounts	-379	–	–	–	–	-379
Write-downs due to price changes (3)	–	–	–	-133	–	-133
Exchange rate adjustments (4)	-76	-2	–	–	-57	-135
Closing balance	48,224	10	653	12,121	1,646	62,654
(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.						

For almost all the securities held to maturity, the market price exceeded the book value at the end of the year. If all the listed financial instruments were valued at market prices, the total value of the portfolio (€161,856 million) would be higher than the book value by €17,776 million.

The equity shares portfolio includes a participating interest in the company SIDIEF SpA, of which the Bank is the sole shareholders (Table 15). 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').
- an 18.26 per cent participating interest in Valoridicarta SpA. The governance of that company is regulated by a shareholders' agreement signed with Istituto Poligrafico e Zecca dello Stato SpA, the holder of the rest of the capital (see 'Disclosure of relations with subsidiary and associate companies').

Table 15

Participating interests in subsidiary and associate companies					
	At end-2020			Subsidiary or associate company data for 2019 (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	631	7
Europafi Sas - Longues, Vic-le-Comte, France (Capital of €133,000,000 represented by 1,330,000 shares with a par value of €100 each)	6,650	0.5	0.7	154	3
Valoridicarta SpA - Rome (Capital of €43,800,000 represented by 43,800,000 shares with a par value of €1 each)	8,000,000	18.26	8.0	43	-1
(1) Includes the profit or loss for the year.					

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

[5] Intra-Eurosystem claims and liabilities

Table 16

Positions with the ECB and the other euro-area NCBs (millions of euros)			
	31.12.2020	31.12.2019	Change
Assets			
9.1 Participating interest in the ECB	1,302	1,278	24
9.2 Claims arising from the transfer of foreign reserves to the ECB	6,854	6,839	15
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem	46,637	44,032	2,605
9.4 Other claims within the Eurosystem (net)	—	—	—
Total	54,793	52,149	2,644
Liabilities			
9.1 Liabilities related to the issuance of ECB debt certificates	—	—	—
9.2 Net liabilities relating to the allocation of euro banknotes within the Eurosystem	—	—	—
9.3 Other liabilities within the Eurosystem (net)	514,014	437,846	76,168
Total	514,014	437,846	76,168

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

- *Participating interest in the ECB*¹⁵ rose by €24 million as a result of the adjustment of the Bank of Italy's share due to the withdrawal of the Bank of England from the ESCB.¹⁶ This adjustment is also the cause of the €15 million increase in *Claims arising from the transfer of foreign reserves to the ECB*,¹⁷ determined in proportion to the share subscribed;
- *Net claims relating to the allocation of euro banknotes within the Eurosystem* amounted to €46,637 million (see Banknotes in circulation).

On the liability side:

- *Other liabilities within the Eurosystem (net)* amounted to €514,014 million (compared with €437,846 in 2019) 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 2020 the latter gave rise to a debtor position of €515,967 million (€439,449 million in 2019). The following contributed to the reduction in the overall position: (a) a claim of €214 million (€243 million in 2019) for the ECB interim profit distribution pertaining to 2020 and (b) a claim of €1,739 million (€1,360 million in 2019) 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*).

¹⁵ 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.

¹⁶ With the reallocation between ESCB central banks of the share held by the Bank of England prior to Brexit, which took place on 1 February 2020, the Bank of Italy's share in the ECB's capital increased from 11.8023 to 13.8165 per cent. Considering only the NCBs belonging to the Eurosystem, the Bank of Italy's share increased from 16.9530 to 16.9885 per cent. In 2020, the ECB's paid-up capital remained unchanged at €7,659 million, as the remaining NCBs have covered only the withdrawn Bank of England's paid-up capital (€58 million). Starting in 2021 the euro-area NCBs will then pay up in full their increased subscriptions in two annual instalments. The Bank of Italy will pay two instalments of €104 million.

¹⁷ *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 of Italy's share of the ECB's capital, as in the case of the other Eurosystem NCBs. Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of each NCB in the form of transfers of foreign reserve assets to the ECB shall be fixed in proportion to its share in the subscribed capital of the ECB. Therefore, the increase in the shares of the euro-area NCBs due to the Bank of England's exit would have resulted in additional contributions of foreign reserve assets. However, the ECB'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. Therefore, the claims equivalent to such transfer were adjusted only marginally.

[6] Other assets

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

Table 17

Other assets (Item 11) (millions of euros)			
	31.12.2020	31.12.2019	Change
11.1 Euro-area coins	121	120	1
11.2 Financial assets relating to the investment of reserves and provisions (1)	62,658	53,427	9,231
11.3 Intangible fixed assets	69	63	6
11.4 Tangible fixed assets	1,859	1,959	-100
11.5 Accruals and prepaid expenses	5,134	4,489	645
11.6 Deferred tax assets	356	886	-530
11.7 Sundry	3,430	2,544	886
Other investments for staff severance pay and pensions	73	81	-8
Supplementary pension fund	740	669	71
Other components	2,617	1,794	823
Total	73,627	63,488	10,139

(1) The balance at 31 December 2020 is composed of securities amounting to €62,654 million and current accounts totalling €4 million.

The composition of *Intangible fixed assets* (Sub-item 11.3) and movements during the year are shown in Table 18. The same information for *Tangible fixed assets* (Sub-item 11.4) is given in Table 19 and Table 20. The market value of the buildings owned by the Bank estimated at the end of the year was €1,940 million.

Table 18

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	57	4	2	63
Increases	–	11	10	21
Purchases and improvement costs	–	11	10	21
Decreases	-8	-7	–	-15
Depreciation	-8	-7	–	-15
Closing balance	49	8	12	69

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

Table 19

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)	2,707	901	6	1	540	85	4,240
Accumulated depreciation	-2,090	–	-2	–	-380	–	-2,472
Opening balance (net)	617	901	4	1	160	85	1,768
Increases	–	–	–	–	2	1	3
Other changes (cost)	–	–	–	–	2	1	3
Decreases	-76	–	-2	–	-16	-7	-101
Sales and/or disposals (cost)	–	–	-2	–	-47	-7	-56
Sales and/or disposals (accumulated depreciation)	–	–	–	–	36	–	36
Depreciation	-76	–	–	–	–	–	-76
Other changes (cost)	–	–	–	–	-5	–	-5
Closing balance (gross)	2,707	901	4	1	490	79	4,182
Accumulated depreciation	-2,166	–	-2	–	-344	–	-2,512
Closing balance (net)	541	901	2	1	146	79	1,670
(1) Buildings/land for sale and/or no longer in use or usable for the Bank's activities. – (2) Land, including that on which buildings stand, is not depreciated.							

Table 20

Movements in tangible fixed assets (other) (millions of euros)					
	Equipment, furniture & furnishings	Plant	Artwork, coins and collections	Assets under development and related advances	Total
Opening balance (gross)	190	618	22	47	877
Accumulated depreciation	-166	-520	–	–	-686
Opening balance (net)	24	98	22	47	191
Increases	5	15	–	9	29
Purchases and improvement costs	5	15	–	9	29
Decreases	-8	-23	–	–	-31
Sales and/or disposals (cost)	-4	-15	–	–	-19
Sales and/or disposals (accumulated depreciation)	4	15	–	–	19
Depreciation	-8	-23	–	–	-31
Closing balance (gross)	191	618	22	56	887
Accumulated depreciation	-170	-528	–	–	-698
Closing balance (net)	21	90	22	56	189

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

Table 21

Accruals and prepaid expenses (Sub-item 11.5) (millions of euros)			
	31.12.2020	31.12.2019	Change
Accrued income	5,103	4,464	639
Interest accrued on securities denominated in euros	5,004	4,324	680
Interest accrued on monetary policy deposits	1	–	1
Interest accrued on securities denominated in foreign currencies	93	119	-26
Interest accrued on other foreign currency assets	3	19	-16
Other	2	2	–
Prepaid expenses	31	25	6
Administrative expenses	31	25	6
Total	5,134	4,489	645

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

Table 22

Deferred tax assets (millions of euros)								
	31.12.2020				31.12.2019			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Tax loss for 2002	354	97	–	97	2,253	620	–	620
Staff costs accrued but not paid	176	49	10	59	196	54	11	65
Gap between the civil law value and the tax value of the equity shares portfolio	724	199	–	199	714	196	–	196
Other	4	1	–	1	16	4	1	5
Total	1,258	346	10	356	3,179	874	12	886

Most of the deferred tax assets included in the balance sheet derive from the gap between the civil law value and the tax value of the equity shares portfolio due above all to non-deductible civil law write-downs and 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 used with no time restriction to offset up to 50 per cent of corporate taxable income (IRES) for each year. The reasonable expectation that deferred tax assets will be recovered takes account of the Bank's expected profit and the applicable tax rules.

Deferred tax assets show a net decrease of €530 million, almost all of which (€523 million) is due to the offsetting of the tax loss for 2002 against taxable income for 2020.

The movements in deferred tax assets during the year are shown in Table 43 of 'Notes on the items of the profit and loss account'.

The sub-item *Sundry* of the *Other assets* (Sub-item 11.7) includes the balance sheet total (€740 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.

Sub-item 11.7 includes in the *Other components* the reverse repo transactions with financial institutions other than credit institutions amounting to €1,933 million, connected with the direct securities lending service.

[7] Banknotes in circulation

This item represents the Bank of Italy's share of banknotes in circulation issued by the Eurosystem (see 'Legal basis and accounting policies'). In 2020, it increased by 22,578 million (from 201,629 million to 224,207 million). The value of banknotes actually put into circulation by the Bank also rose, though to a more limited degree, by €19,973 million (from €157,597 to €177,570 million).

Since the amount of banknotes issued by the Bank was lower than the notional amount assigned to it, the difference of €46,637 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 23

Liabilities to other euro-area residents (Item 4) (millions of euros)			
	31.12.2020	31.12.2019 (1)	Change
4.1 General government	43,673	24,118	19,555
4.1.1 Treasury payment account	34,001	11,459	22,542
4.1.2 Other liabilities	9,672	12,659	-2,987
4.2 Other counterparties	17,802	12,910	4,892
Total	61,475	37,028	24,447
(1) The figures for 2019 have been reclassified for comparison purposes. The deposits relating to the European Stability Mechanism (ESM) are now recorded under other government deposits (Sub-item 4.1.2 - <i>Other liabilities</i>). In the 2019 annual accounts, they were classified under Item 4.2 (<i>Other counterparties</i>).			

Liabilities to other euro-area residents (Item 4), which amounted to €61,475 million at the end of 2020 (€37,028 million in 2019), refer mainly to the deposits held by the Treasury with the Bank of Italy (€34,001 million) and other liabilities to counterparties other than credit institutions (€17,802 million). The year-end balance on the Treasury deposits with the Bank of Italy increased significantly with respect to 2019; the annual average balance increased as well, though to a lesser extent (from €34,348 million to

€45,821 million). *Other liabilities to general government* (€9,672 million) are composed mainly of the European Stability Mechanism (ESM) deposit equal to €9,600 million (€12,599 million at end-2019) and, to a smaller extent, other debt positions with general government in respect of advances received for the management of cross-border euro payments and receipts.

Liabilities to counterparties other than credit institutions include, for an amount equal to €6,446 million, repo transactions connected with the direct securities lending service (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 in its capacity as national resolution authority.

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 the lower of the interest rate on the deposit facility and the Eonia or €STR, if negative.

[9] Liabilities to non-euro area residents

Sub-item 5.2 (*Other liabilities*), amounted to €4,329 million (€1,946 million in 2019) and includes accounts held by customers using the Eurosystem Reserves Management Services (ERMS)¹⁸ and other deposits by non-euro area residents (respectively €1,814 million and €2,515 million), including the Single Resolution Board (SRB).¹⁹

[10] Other liabilities

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

¹⁸ 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.

¹⁹ Contributions paid by Italian credit institutions and collected by the Bank, in its role as national resolution authority and on behalf of the Single Resolution Board, are allocated to the SRB's deposits. These contributions are then transferred to the SRB each year.

Table 24

Other liabilities (Item 11) (millions of euros)			
	31.12.2020	31.12.2019	Change
11.1 Cashier's cheques	62	111	-49
11.2 Accruals and income collected in advance	1,939	2,065	-126
11.3 Sundry	2,008	1,612	396
Supplementary pension fund	740	669	71
Special item for stabilizing dividends	160	120	40
Other components	1,108	823	285
Total	4,009	3,788	221

The interest expense accrued on refinancing operations refers mainly to TLTRO3 operations (see 'Notes on the items of profit and loss account' – *Net interest income*).

Table 25

Accruals and income collected in advance (Sub-item 11.2) (millions of euros)			
	31.12.2020	31.12.2019	Change
Accrued expenses	1,939	2,065	-126
Interest accrued on refinancing operations	1,935	2,051	-116
Interest accrued on liabilities denominated in foreign currency	4	14	-10
Income collected in advance	–	–	–
Total	1,939	2,065	-126

The sub-item *Sundry* under *Other liabilities* includes the special item for stabilizing dividends, which amounted to €160 million. The special item is made up of net profit allocations. The establishment of this item was decided by the Meeting of Shareholders on 31 March 2017 in order to smooth the implementation of the dividend policy.²⁰

[11] General risk provision and other provisions

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

The provision for Eurosystem monetary policy operations was established in 2018 and adjusted at the end of 2019 in respect of impaired securities held, under the risk-sharing system, by a Eurosystem NCB under the CSPP. At Eurosystem level, the provision amounted to €89 million at end-2019. In 2020, these securities were sold, giving rise to a realized loss of €64 million. Therefore, the provision established by the Bank of Italy in proportion to its share in the ECB's capital (equal to €15 million) was used to cover the Bank's share of the loss (€10 million). The remaining share was

²⁰ In 2015, the Board of Directors indicated that, in subsequent years, it planned to keep the annual dividend between €340 million and €380 million, provided that the net profit is sufficient and without prejudice to the Bank's capital adequacy. On 31 March 2017 it was resolved that the difference between the upper bound of this range (€380 million) and the amount of the dividend decided would be allocated to the special item.

transferred to the profit and loss account (see ‘Notes on the items of the profit and loss account’ – *Net result of the pooling of monetary income*).

Table 26

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	142	15	467
Increases	–	10	–	10
Allocations	–	–	–	–
Other increases	–	10	–	10
Decreases	–	-1	-5	-16
Withdrawals	–	–	-15	-15
Other decreases	–	-1	–	-1
Closing balance	310	151	–	461

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

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

Table 27

Deferred tax liabilities (millions of euros)								
	31.12.2020				31.12.2019			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Realized gains on securities, property and other assets	6	2	–	2	9	3	–	3
Gaps between the civil law values and the tax values of buildings (1)	442	122	24	146	412	113	23	136
Other	12	3	–	3	12	3	–	3
Total	460	127	24	151	433	119	23	142

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

Table 28

Movements in staff-related provisions (Sub-item 12.2) (millions of euros)					
	For staff severance pay and pensions	Fund for staff costs	For severance pay (1)	For grants to BI pensioners and their survivors	Total
Opening balance	6,751	273	2	3	7,029
Increases	–	104	–	–	104
Allocations	–	104	–	–	104
Decreases	–	-104	–	–	-104
Withdrawals	–	-104	–	–	-104
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 particular:

- the provision for severance pay and pensions remained unchanged at €6,751 million, including a surplus of about €97 million compared with the total commitments for staff severance pay and pensions estimated at 31 December 2020. This small surplus remains prudently allocated to the item;
- the provision for staff costs was unchanged. This provision includes transfers equal to €28 million (€22 million in 2019) 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.

The general risk provision covers the Bank's financial and operational risks, which include those relating to litigation. In 2020, the provision was increased as the Bank continued to gradually strengthen its financial buffers against the increase of its balance sheet size and its overall risk exposure. Specifically, the general risk provision was increased by €2,500 million (€1,500 million in 2019) to address, in even the most adverse scenarios, the risks to which the Bank is exposed, which essentially stem from the assets held for monetary policy purposes, both for the component relating to refinancing operations for credit institutions and, especially, the component relating to securities purchased under the Eurosystem's purchase programmes.

Table 29

Movements in the general risk provision (Item 14) (millions of euros)		
	31.12.2020	31.12.2019
Opening balance	28,214	26,714
Increases	2,500	1,500
Allocations	2,500	1,500
Decreases	–	–
Withdrawals	–	–
Closing balance	30,714	28,214

[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 30

Revaluation accounts (Item 13) (millions of euros)			
	Opening balance	Net revaluations	Closing balance
Exchange rate revaluations	92,652	11,991	104,643
of which: gold	87,321	14,961	102,282
net foreign currency assets (1)	5,306	-2,952	2,354
financial assets relating to the investment of reserves and provisions (1)	25	-18	7
Price revaluations	5,095	251	5,346
of which: foreign currency securities	281	50	331
securities denominated in euros	418	69	487
financial assets relating to the investment of reserves and provisions	4,396	132	4,528
Total	97,747	12,242	109,989

(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 31.

Table 31

Capital and reserves (Item 15) (millions of euros)			
	31.12.2020	31.12.2019	Change
15.1 Capital	7,500	7,500	–
15.2 Statutory reserves	10,997	10,908	89
Ordinary (1)	6,402	6,313	89
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	26,237	26,148	89

(1) The €89 million increase is due to the allocation of the profit for 2019. – (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 Bank's 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. In 2020, the transactions carried out in relation to Bank of Italy shareholdings led to the transfer of about 5.4 per cent of capital.

At 31 December 2020, there were 147 shareholders²¹ (121 at the end of 2019), of whom 27 were new: 1 social security institution, 1 pension fund, 6 banking foundations and 19 banks. There was only one exiting shareholder, namely a bank, following a merger. At the end of 2020, four shareholders still held, at individual and consolidated level, shares exceeding the 3 per cent threshold set by law.

Table 32

Shareholders in the Bank of Italy						
	At the end of 2020			At the end of 2019		
	Number	Shares	% of capital held	Number	Shares	% of capital held
Banks	87	177,682	59.3	69	182,542	60.8
Social security institutions	12	70,580	23.5	11	66,760	22.3
Pension funds	8	11,080	3.7	7	9,880	3.3
Insurance companies	10	19,797	6.6	10	21,292	7.1
Banking foundations	30	20,861	6.9	24	19,526	6.5
Total	147	300,000	100.0	121	300,000	100.0

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

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

Table 33

Commitments and collateral granted (millions of euros)			
	31.12.2020	31.12.2019	Change
Orders in progress	19	638	-619
Purchases	19	448	-429
Sales	–	190	-190
Forward operations	4,844	3,575	1,269
Forward sales of foreign currencies	3,936	2,873	1,063
Forward purchases of foreign currencies	903	616	287
Futures contracts purchased	–	66	-66
Futures contracts sold	5	20	-15
Commitments	36,361	35,214	1,147
To the IMF for loans granted	36,360	35,213	1,147
Other	1	1	–
Collateral granted	5,720	1,273	4,447
Third-party securities and valuables on deposit with the Bank	67,862	81,155	-13,293
Total balance sheet of the National Resolution Fund	227	399	-172
Commitments of the supplementary pension Fund	117	106	11
Total	115,150	122,360	-7,210

²¹ They numbered 172 at 19 February 2021, the last date for acquiring shares with the right to dividends for 2020.

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 Fund has its own capital that is to all effects and purposes independent and separate from that of the Bank and from any other capital the Bank manages, as well as from the capital of each of the contributors to its resources. To ensure the necessary transparency vis-à-vis the public, an annual report is issued on the NRF's activities, audited by the Board of Auditors and by same audit firm that audits the Bank's annual accounts and published at the same time. The operating and administrative costs of the Unit are reported among those of the Bank, and so are the indirect costs for resolution activity. The NRF has separate fiscal personality for IRES and IRAP taxation purposes.

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.

At the end of 2020, the market value of the securities lent by the Bank under the automatic securities lending programmes managed by specialized intermediaries amounted to €1,423 million for foreign currency securities, €161 million for covered bonds, and €10,800 million for PSPP, CSPP and SMP securities. The market value of the securities lent via the securities lending service provided directly by the Bank of Italy amounted to €6,414 million at the end of the year and referred only to securities held for monetary policy purposes.

Notes on the items of the profit and loss account

[14] Net interest income

In 2020, *Net interest income*²² declined by €928 million, from €8,595 million to €7,667 million, mainly owing to the significant increase in interest expense on

²² *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.

longer-term refinancing operations, which was only partially offset by higher interest income on securities held for monetary policy purposes.

Total interest income amounted to €9,981 million (Table 34), up by €447 million on 2019.

Table 34

Interest income (Sub-item 1.1) (millions of euros)			
	2020	2019	Change
Securities denominated in euros	8,886	8,275	611
<i>of which:</i> CBPP1, CBPP2, CBPP3	354	370	-16
SMP	349	563	-214
PSPP	4,971	4,393	578
CSPP	260	234	26
PEPP corporate bonds	4	–	4
PEPP government bonds	468	–	468
Government bond conversion under Law 289/2002	713	711	2
Other bonds	1,767	2,004	-237
Current accounts (covering the minimum reserve system)	244	223	21
Treasury payments account	159	73	86
Other in euros	200	115	85
Securities denominated in foreign currency	427	628	-201
Claims on the IMF	22	108	-86
Other in foreign currency	43	112	-69
Total	9,981	9,534	447

Total interest income on securities denominated in euros amounted to €8,886 million. The increase of €611 million on 2019 was due to the average increase in securities holdings, ascribable mainly to purchases of public sector securities under the PSPP and PEPP; average yields declined slightly. The contraction in interest income on securities relating to terminated programmes (SMP, CBPP1 and CBPP2) was entirely due to redemptions of maturing securities. The holdings of CBPP3 securities remained essentially stable. The contraction in interest income on securities not held for monetary policy purposes was due both to the reduction in average holdings and to lower yields.

As in the previous three years, interest income remained nil 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* as an effect of the ECB Governing Council's decision to keep the

interest rate on refinancing operations at 0.0 per cent throughout 2020 (see 'Notes on the items of the balance sheet' – *Intra-Eurosystem claims and liabilities*).²³

The interest on longer-term refinancing operations continued to show a negative balance in 2020 and is reported as an interest expense.

The interest on credit institutions' current accounts (covering the minimum reserve requirement) continued to be positive as a consequence of the application of negative interest rates on the non-exempted excess reserves. The interest income received in 2020 was slightly higher than that for 2019 (€244 million compared with €223 million), despite the doubling of the average value of the account. This outcome is attributable to the introduction, as of 30 October 2019, of the new two-tier system for reserve remuneration that exempts part of the banks' excess reserve holdings from payment of the negative rate. The exempt share is currently set at six times the minimum reserve requirement. As in the previous year, no interest is paid on this share.²⁴

The net interest on the Treasury payments account continued to be positive in 2020, amounting to €159 million (€73 million in 2019). Of this, the interest accrued from applying negative rates to the part eligible for remuneration and to balances exceeding this part was positive by €229 million (€143 million in 2019; see 'Notes on the items of the balance sheet' – *Liabilities to other euro-area residents* and the box 'Government deposits') while additional interest due to the Treasury constituted an interest expense of €70 million (the same as in 2019).²⁵ The increase in interest income obtained by the Bank on the balances of the Treasury payment account exceeding the part eligible for remuneration was due both to the higher negative interest rate paid by the Treasury and to the higher average balance of the account.

Other interest denominated in euros, amounting to €200 million in 2020 (€115 million in 2019), was mainly in the form of interest income on the overnight deposits and on the other deposits of non-bank intermediaries, remunerated at negative interest rates.

Interest income on securities denominated in foreign currency decreased compared with 2019 owing to the lower interest rates recorded during the year; for the same reason, a decrease was also recorded for interest income relating to claims on the IMF

²³ Balances from the allocation of euro banknotes within the Eurosystem are remunerated at the marginal rate of interest on MROs (nil in 2020). 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.

²⁴ 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 2020 (-0.50 per cent).

²⁵ 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.

and to other foreign currency assets, mainly current accounts deposits, for which the average amount actually increased during the year.

Interest expense amounted to €2,314 million (Table 35), representing an overall increase of €1,375 million with respect to 2019.

Table 35

Interest expense (Sub-item 1.2) (millions of euros)			
	2020	2019	Change
Longer-term refinancing operations	2,273	837	1,436
Other in euros	4	2	2
Counterpart of SDRs allocated by the IMF	16	81	-65
Other in foreign currency	21	19	2
Total	2,314	939	1,375

Interest on longer-term refinancing operations registered a negative balance of €2,273 million (€837 million in 2019), in connection with TLTRO3 operations (€1,862 million) and, to a lesser extent, TLTRO2 operations (€301 million). TLTRO3 recorded a significant increase in the average holdings for 2020, which more than offset the reduction in the average holdings relating to TLTRO2. The sizeable increase in the interest recorded in the profit and loss account is due mainly to the remuneration applied to TLTRO3, which is more favourable for counterparties compared with that applied to TLTRO2. The actual rate is not known and cannot be estimated in a reliable manner. As it did for TLTRO2, the Eurosystem decided, on prudential grounds, to apply to TLTRO3 the more penalizing rate for the central bank, subject to correction in future years.

THE INTEREST RATE APPLIED TO TLTRO2 AND TLTRO3

The interest rate applied to the second and third series of targeted longer-term refinancing operations (TLTRO2 and TLTRO3) is set based on an incentive mechanism designed by the Governing Council of the ECB to preserve favourable liquidity conditions for the real economy.

The cost of TLTRO2 operations, which were conducted on quarterly basis between June 2016 and March 2017, 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 net lending to households and firms by participating banks. The observation period ended in January 2018. Therefore, only then did it become possible to calculate the actual rate for each counterparty. It was agreed at Eurosystem level to use the rate that was most unfavourable to NCBs (-0.40 per cent on overnight deposits) to calculate the interest to be recognized in the profit and loss account for 2016 and 2017. This amount would then be corrected in the year in which the final rate was set. Therefore, in 2018 it became possible to make that

correction for 2016 and 2017; the actual rate for each counterparty was then used to calculate interest for 2019 and 2020.

The remuneration of TLTRO3 operations will depend on the amount of loans provided by credit institutions as against a specific benchmark. The interest rate applied may vary between the average MRO rate and the average deposit facility rate observed over the life of the single operations, with the exception of the period between 24 June 2020 and 23 June 2022, in which a reduction of 50 basis points will be applied. In particular, the counterparties whose net loans reach their respective benchmark levels between 1 March 2020 and 31 March 2021 will benefit, in the period between 24 June 2020 and 23 June 2021, from an interest rate that will be 50 basis points lower than the average rate on the deposit facility, and in any case no higher than -1.00 per cent. An additional benefit is envisaged for the counterparties whose net lending equals or exceeds their respective benchmark levels between 1 October 2020 and 31 December 2021: for these counterparties, the more favourable interest rate will be extended until 23 June 2022. The actual interest rates will only be known as each operation reaches maturity; hence, it is not possible to have a reliable estimate until that moment. Therefore, interest will be calculated: (a) between 24 June 2020 and 23 June 2022, as the average interest rate on the deposit facility over that period minus 50 basis points and, in any case, no higher than -1.00 per cent; and (b) during the rest of the life of each operations, based on the average interest rate on the deposit facility.

Interest expense on negative balances in TARGET2 was again nil in 2020 owing to the remuneration rate of zero per cent.²⁶ As a result of the reduction in interest rates, there was a decrease in the interest on SDR allocations by the IMF; the interest on other liabilities denominated in foreign currencies remained stable overall.

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

The result for 2020 (Table 36) includes: (a) net profits from foreign exchange trading for €24 million, referring mainly to trading in US dollars; (b) net profits from trading in securities denominated in euros for €9 million and in foreign currency for €232 million; and (c) write-downs due to exchange rate changes and to price changes (€17 million and €14 million respectively). Write-downs due to exchange rate changes concerned Canadian dollars, Chinese renminbi and South Korean won. Write-downs due to price changes in securities denominated in foreign currency mainly refer to US dollar-denominated securities. Transfers to the general risk provision amounted to €2,500 million.

²⁶ The TARGET2 balance is remunerated at the marginal rate of interest on MROs.

Table 36

Net result of financial operations, write-downs and transfers to/from risk provisions (Item 2) (millions of euros)			
	2020	2019	Change
Realized profits (+) and losses (-) on financial operations	253	242	11
Foreign exchange trading	24	36	-12
Trading in securities denominated in euros	9	62	-53
Trading in securities denominated in foreign currency	232	143	89
Derivatives contracts	-17	-7	-10
Other transactions	5	8	-3
Write-downs (-) of financial assets and positions	-31	-21	-10
Due to exchange rate changes	-17	–	-17
Due to price changes			
– securities denominated in euros	–	-3	3
– securities denominated in foreign currency	-14	-18	4
Transfers to (-) the general risk provision for exchange rate, price and credit risks	-2,500	-1,500	-1,000
Total	-2,278	-1,279	-999

[16] Net income from fees and commissions

Net income from fees and commissions (Item 3) stood at €12 million. The reduction is due to the decrease of those connected with the management of the TARGET2/T2S system.

Table 37

Net income from fees and commissions (Item 3) (millions of euros)			
	2020	2019	Change
Fee and commission income	29	41	-12
TARGET2/T2S	9	24	-15
Financial services to the public sector	7	5	2
Management of securities used as collateral for monetary policy operations	6	5	1
Clearing system	1	1	–
Substitute protest declarations	1	2	-1
Other	5	4	1
Fee and commission expense	-17	-18	1
Centralized securities management	-13	-13	–
Other	-4	-5	1
Total	12	23	-11

[17] Income from participating interests

Income from participating interests (Item 4) amounted to €373 million, down by €111 million on the previous year. The result for 2019 had benefited from €174

million in income received in relation to the decrease in the Bank's share in the ECB's equity due to the five-year adjustment of the capital key on 1 January 2019. The result for 2020 included:

- €158.5 million, representing the Bank's share of the ECB's profit earned in 2019 and distributed in 2020 (€67 million in the previous year);
- €214 million representing the ECB's interim profit distribution for 2020 (€243 million in the previous year); the remaining profit, equal to €65 million, was received in February 2021.

[18] Net result of the pooling of monetary income

The result for 2020 (Item 5) was positive by €1,755 million and included:

- the net result of the allocation of monetary income in 2020, equal to €1,750 million (€1,363 million in 2019). This was the difference between the monetary income pooled by the Bank, amounting to a negative €1,016 million, and that redistributed to the Bank, equal to a positive €734 million;
- the negative impact, equal to €10 million, stemming from the recalculation of the amounts for previous years, due to the Bank of Italy's share of the realized loss on the sale of impaired securities held by a NCB of the Eurosystem under the CSPP (see the next bullet point and 'Notes on the items of the balance sheet' – *Monetary policy operations* and *General risk and other provisions*);
- the full release, amounting to €15 million, of the provision relating to monetary policy operations, to cover the aforementioned loss.

MONETARY INCOME

The monetary income to be pooled by each NCB is equal to its annual income derived from the earmarkable assets held against its liability base. An NCB's earmarkable assets comprise mainly (a) lending to euro-area credit institutions relating to monetary policy operations; (b) securities held for monetary policy purposes; (c) intra-Eurosystem claims arising from the transfer of reserves to the ECB; (d) net intra-Eurosystem claims resulting from TARGET2 transactions; (e) net intra-Eurosystem claims relating to the allocation of euro banknotes within the Eurosystem; and (f) a pre-set amount of gold holdings and gold receivables in proportion to each NCB's subscribed capital key. Gold is not considered to generate interest. Securities purchased under the first two covered bond purchase programmes (CBPP1 and CBPP2; Decisions ECB/2009/16 and ECB/2011/16 of the Governing Council) and public sector securities purchased under the public sector purchase programme (PSPP; Decision ECB/2015/10) and the pandemic emergency purchase programme (PEPP; Decision ECB/2020/17) 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 redistributed to that NCB, which may be larger or smaller, 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 €1,966 million, up €92 million on 2019 (Table 38).

Table 38

Net income from financial assets relating to the investment of reserves and provisions (Item 6) (millions of euros)			
	2020	2019	Change
Interest	860	956	-96
Dividends from equity shares and participating interests	217	286	-69
Profits/losses from trading	1,036	637	399
Write-downs	-171	-35	-136
Other components	24	30	-6
Total	1,966	1,874	92

The increase was mainly due to higher net profits from trading, arising from the sale of equity shares in euro and of ETFs in foreign currency. The higher write-downs were due to the trend in equity share prices. The interest declined owing to lower average remuneration rates, even though the holdings of bonds increased compared with 2019.

[20] Other income

Other income (Item 8) amounted to €108 million (€84 million in 2019). The item includes reimbursements from other Eurosystem NCBs for the development of IT platforms, applications and infrastructures by the Bank of Italy in its capacity as service provider. These reimbursements amounted to €79 million in 2020 (€59 million in 2019) 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 €1,907 million, up slightly compared with 2019. Net of non-recurring costs included under *Other expenses* (see below), operating expenses declined overall.

Table 39

Expenses and sundry charges (Item 9) (millions of euros)			
	2020	2019	Change
Staff wages and salaries	650	652	-2
Social security and insurance	162	166	-4
Other staff costs (1)	27	43	-16
Pensions and severance payments	313	359	-46
Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses	79	73	6
Emoluments paid to head office and branch collegial bodies	3	3	–
Administrative expenses	430	448	-18
Depreciation of tangible and intangible fixed assets	122	102	20
Banknote production services (2)	–	–	–
Other expenses	121	52	69
Total	1,907	1,898	9

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

Staff costs decreased. In particular, severance payments paid during the year decreased owing to the reduction of terminations, which in previous year had been encouraged by the early retirement incentive programmes and the temporary measures to lower the retirement age allowed under current legislation. Pension expenses, included under the same sub-item, stayed essentially the same, in line with recent years. As in the previous year, there were no new transfers to provisions for staff severance pay and pension. The decline in staff costs is due above all to the reduction in compensation for business trips as a consequence of the health emergency. The reduction in overall staff remuneration (wages and salaries, overtime and accrued expenses not yet paid) from €652 million to €650 million, is attributable above all to the lower costs incurred for overtime and the decrease in the average number of employees, which were offset in part by specific temporary allowances granted to ensure business continuity in the provision of services to the public during the pandemic.

Table 40

The Bank's staff				
Composition of the Bank's staff	Average number of employees in service		Percentage composition	
	2020	2019	2020	2019
Managerial and High-Level Professional Area	3,314	3,293	50.3	49.3
Operational Area	3,272	3,373	49.6	50.5
Contract workers	6	11	0.1	0.2
Total	6,592	6,677	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.

Table 41

Administrative expenses (millions of euros)			
	2020	2019	Change
Services	364	387	-23
ICT (1)	120	124	-4
Security services, banknote escort and guards	70	65	5
Building and equipment maintenance	68	72	-4
Utilities	19	22	-3
Equipment rental	17	14	3
Canteen and cleaning services	19	22	-3
Other	51	68	-17
Materials and consumables	66	61	5
Banknote production	44	43	1
Subscriptions to publications and information providers	15	14	1
Other supplies	7	4	3
Total	430	448	-18

(1) Includes the costs of using the Eurosystem's IT infrastructures, which amounted to €14 million in 2020 (€29 million in 2019). The expenses relating to the rental and maintenance of hardware are included respectively in *Equipment rental* and in *Building and equipment maintenance*.

Administrative expenses fell to €430 million from €448 million in 2019. The decline is due, among others things, to the reduction in costs (e.g. utilities, canteen, business trips) as a result of the widespread use of remote working during the ongoing health emergency. The expenses relating to the maintenance of building and equipment also fell, while expenses increased on security services, including for the transport of valuables and for guards, and on consumables, especially personal protective equipment.

Other expenses, amounting to €121 million, include €27 million for local and indirect taxes. The significant increase in the item is due almost exclusively to the charitable donations to institutions and entities involved in managing the health emergency caused by the pandemic, which were approved by the Bank's Board of Directors during the year for an amount equal to €78 million.

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

Taxes for the year (Item 11) amounted to €1,409 million and comprised the current taxes owed to the State, taxes for prior years and the change in deferred tax assets and liabilities (see 'Notes on the items of the balance sheet' – *Other assets* and *General risk and other provisions*).

IRES amounted to €965 million in 2020 (€537 million in 2019), of which €429 million for current taxes and €536 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 €429 million (€459 million in 2019). Current taxes amounted to €426 million and the net change in deferred tax assets and liabilities was €3 million.

Table 42

Composition of taxes on income for the year (Item 11) (millions of euros)						
	2020			2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (-)	-429	-426	- 855	-190	-454	-644
Taxes for prior years (+/-)	-15	–	-15	-13	–	-13
Change in deferred tax assets (+/-)	-528	-2	-530	-341	- 3	-344
Change in deferred tax liabilities (+/-)	-8	-1	-9	-6	-2	-8
Taxes for the year (-)	-980	-429	-1,409	-550	-459	-1,009

Table 43

Movements in deferred tax assets (millions of euros)			
	IRES	IRAP	Total
Initial amount	874	12	886
Increases	60	5	65
Deferred tax assets recognized during the year	60	5	65
Decreases	-588	-7	-595
Deferred tax assets cancelled during the year	-588	-7	-595
of which: relating to tax losses carried forward	-523	–	-523
Final amount	346	10	356

Table 44

Movements in deferred tax liabilities (millions of euros)			
	IRES	IRAP	Total
Initial amount	119	23	142
Increases	9	1	10
Deferred tax liabilities recognized during the year	9	1	10
Decreases	-1	-	-1
Deferred tax liabilities cancelled during the year	-1	-	-1
Final amount	127	24	151

Post-balance-sheet events

No major events emerged after the end of the financial year that could have a significant impact on the Bank's balance sheet, financial position and profit and loss account.

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 establish 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 2020 for approval by the Meeting of Shareholders:

	euros
– a dividend to the shareholders	340,000,000
<i>of which:</i> to the ordinary reserve (Article 3.4 of the Statute)	67,408,400
– to the special item for stabilizing dividends	40,000,000
– the remaining amount to the State	<u>5,906,259,187</u>
Total	<u>6,286,259,187</u>

There were 59,478 shares that exceeded the threshold on the date indicated in Article 38.2.b of the Statute; the corresponding dividend – equal to €67,408,400 – is allocated to the ordinary reserve.

THE GOVERNOR
Ignazio Visco

**DOCUMENTS ATTACHED
TO THE ANNUAL ACCOUNTS**

REPORT OF THE BOARD OF AUDITORS
ON THE 127TH FINANCIAL YEAR OF THE BANK OF ITALY
AND THE ACCOUNTS FOR THE YEAR ENDING 31 DECEMBER 2020

To the shareholders,

We have examined the Annual Accounts of the Bank of Italy for the year ending 31 December 2020, 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 2020 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 endorsed by Article 8 of Legislative Decree 43/1998 for reporting purposes.

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 of deferred tax assets in the balance sheet, 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 €530 million (from €886 million to €356 million).
- b) The Board of Directors approved the transfer of €2,500 million to the general risk provision expressly provided for in Article 39 of the Statute.

We attest that in our opinion the total amount of the Bank's general and specific risk provisions is prudent. In particular, the provision for pensions and severance payments shows an amount that is about €97 million in excess of the total commitments for staff severance payments and pensions estimated at 31 December 2020; 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 2020 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. The performance of the checks and controls was adapted to the restrictions introduced by the legislation connected with the state of emergency due to the COVID-19 pandemic. In accordance with these restrictions, we have monitored the activity of the Bank's peripheral units, in accordance with Articles 20 and 21 of the Statute, with the assistance of the examiners at the main and local branches, whom we warmly thank.

We have examined the adequacy of the organizational arrangements governing the administrative and accounting aspects of the Bank to ensure their smooth operation and have ascertained that the system in place is suitable to ensure a full and accurate accounting record of events. The accounts are kept in 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	€ 1,296,245,945,533
Liabilities	€ 1,263,723,009,007
Capital and reserves	€ 26,236,677,339
Net profit for the year.....	€ <u>6,286,259,187</u>

Pursuant to Article 38 of the Statute and with our approval, 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)	€ 67,408,400
– to the special item for stabilizing dividends	€ 40,000,000
– the remaining amount to the State	€ <u>5,906,259,187</u>
Total	€ <u>6,286,259,187</u>

We note that on the date indicated in Article 38.2.b of the Statute there were 59,478 shares exceeding the limit indicated in Article 3.4 of the Statute (down by 18,955 shares compared with the 78,433 shares in excess at the end of 2019). Therefore, the corresponding dividend – equal to €67,408,400 – 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 2020 that have been submitted to you (the Balance Sheet, the Profit and Loss Account, the Notes to the Accounts and the accompanying Management Report) and the proposed allocation of the net profit for the year pursuant to Article 38 of the Statute.

Rome, 8 March 2021

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 2019

ATTIVO	(importi in euro)	
	31.12.2019	31.12.2018
A) Crediti verso soci per versamenti dovuti	–	–
B) Immobilizzazioni		
I <i>Immateriali</i>		
4) concessioni, licenze, marchi e diritti simili	37.181	37.101
7) altre	95.348	90.523
<i>Totale immobilizzazioni immateriali</i>	132.529	127.624
II <i>Materiali</i>		
1) terreni e fabbricati	532.062.950	524.643.363
2) impianti e macchinari	8.539	12.763
3) attrezzature industriali e commerciali	63.997	56.383
4) altri beni	423.109	429.262
<i>Totale immobilizzazioni materiali</i>	532.558.595	525.141.771
III <i>Finanziarie</i>		
2) crediti		
d) -bis verso altri	210.053	214.455
<i>Totale immobilizzazioni finanziarie</i>	210.053	214.455
Totale attivo immobilizzato (B)	532.901.177	525.483.850
C) Attivo circolante		
I <i>Rimanenze</i>		
4) prodotti finiti e merci	11.341.538	13.162.325
<i>Totale Rimanenze</i>	11.341.538	13.162.325
II <i>Crediti</i>		
1) verso clienti		
– entro 12 mesi	8.328.333	5.811.506
4) crediti verso controllanti		
– entro 12 mesi	578.346	366.532
5bis) crediti tributari		
– entro 12 mesi	170	5.572
5ter) imposte anticipate		
– entro 12 mesi	3.280.756	3.140.997
5quater) verso altri		
– entro 12 mesi	401.227	395.880
<i>Totale crediti</i>	12.588.832	9.720.487
IV <i>Disponibilità liquide</i>		
1) depositi bancari e postali	96.291.277	32.569.540
2) assegni	82	1.485
3) danaro e valori in cassa	4.657	5.488
<i>Totale disponibilità liquide</i>	96.296.016	32.576.513
Totale attivo circolante (C)	120.226.386	55.459.325
D) Ratei e risconti	198.863	257.407
Totale attivo	653.326.426	581.200.582

STATO PATRIMONIALE AL 31 DICEMBRE 2019

PASSIVO	(importi in euro)	
	31.12.2019	31.12.2018
A) Patrimonio netto		
I Capitale Sociale	567.000.000	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	4.570.602	4.415.330
VI Altre riserve		
– Riserva straordinaria facoltativa	13.944.243	10.994.072
IX Utile (perdita) d'esercizio	7.251.624	3.105.443
Totale patrimonio netto	630.657.624	563.406.000
B) Fondi per rischi e oneri		
2) per imposte, anche differite	1.183.094	1.555.172
4) altri	961.795	449.283
Totale fondi per rischi e oneri (B)	2.144.889	2.004.455
C) Trattamento fine rapporto di lavoro subordinato	2.514.889	2.359.389
D) Debiti		
6) acconti		
– entro 12 mesi	252.732	128.199
7) debiti verso fornitori		
– entro 12 mesi	6.517.418	7.107.392
12) debiti verso controllanti		
– entro 12 mesi	28.303	5.688
12) debiti tributari		
– entro 12 mesi	1.445.196	1.332.119
13) debiti verso istituti di previdenza e di sicurezza sociale		
– entro 12 mesi	282.861	230.037
14) altri debiti		
– entro 12 mesi	5.476.914	4.282.298
Totale debiti (D)	14.003.424	13.085.733
E) Ratei e risconti	4.005.600	345.005
Totale passivo	653.326.426	581.200.582

CONTO ECONOMICO AL 31 DICEMBRE 2019

	(importi in euro)	
	31.12.2019	31.12.2018
A) Valore della produzione		
1) ricavi delle vendite e delle prestazioni	31.274.303	31.352.548
5) altri ricavi e proventi vari	14.827.903	9.575.110
Totale valore della produzione (A)	46.102.206	40.927.658
B) Costi della produzione		
6) per materie prime, sussidiarie, di consumo e di merci	115.717	62.711
7) per servizi	9.774.678	9.902.455
8) per godimento di beni di terzi	218.472	197.122
9) per il personale		
a) salari e stipendi	4.888.682	4.582.696
b) oneri sociali	1.450.450	1.301.726
c) trattamento di fine rapporto	389.111	381.779
d) trattamento di quiescenza e simili	49.580	44.376
e) altri costi	8.731	39.690
<i>Totale spese per il personale</i>	<i>6.786.554</i>	<i>6.350.267</i>
10) ammortamenti e svalutazioni		
a) ammortamenti delle immobilizzazioni immateriali	80.580	65.168
b) ammortamenti delle immobilizzazioni materiali	2.029.233	2.018.370
c) svalutazione delle immobilizzazioni materiali	—	419.069
d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	142.871	335.465
<i>Totale ammortamenti e svalutazioni</i>	<i>2.252.684</i>	<i>2.838.072</i>
11) Variazione delle rimanenze materie prime, sussidiarie, di consumo e merci	239.052	457.141
12) accantonamenti per rischi	527.469	9.200
14) oneri diversi di gestione	11.762.262	12.005.596
Totale costi della produzione (B)	31.676.888	31.822.564
Differenza tra valore e costi di produzione (A-B)	14.425.318	9.105.094
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	437.983	336.445
<i>Totale altri proventi finanziari</i>	<i>437.983</i>	<i>336.445</i>
17) Interessi e altri oneri finanziari – altri	30.088	11.292
Totale proventi e oneri finanziari (C)	407.895	325.153
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)	14.833.213	9.430.247
20) imposte su reddito dell'esercizio, correnti, differite e anticipate		
a) imposte correnti	8.087.130	7.032.119
b) imposte differite	-372.077	-229.476
c) imposte anticipate	-139.759	8.937
d) imposte esercizi precedenti	6.295	-486.776
<i>Totale imposte sul reddito dell'esercizio</i>	<i>7.581.589</i>	<i>6.324.804</i>
21) UTILE (PERDITA) DELL'ESERCIZIO	7.251.624	3.105.443

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 2020, 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 2020 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, 8 marzo 2021

BDO Italia S.p.A.

Francesca Scelsi
Socio

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 2020

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Luigi Federico SIGNORINI	- DEPUTY GOVERNOR
Alessandra PERRAZZELLI	- DEPUTY GOVERNOR
Piero CIPOLLONE	- DEPUTY GOVERNOR

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Renata CODELLO	Orietta Maria VARNELLI
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Lorenzo DE ANGELIS	Sandro SANDRI

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GIAN LUCA TREQUATTRINI	- MANAGING DIRECTOR FOR INTERNAL AUDIT

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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 2021

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GIAN LUCA TREQUATTRINI	- MANAGING DIRECTOR FOR INTERNAL AUDIT

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Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT FOR ITALY
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