



BANCA D'ITALIA
EUROSISTEMA

Annual Report of the National Resolution Fund

Rome, 31 March 2020



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2019 Financial Year

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ISSN 2499-7528 (online)

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

The Italian edition was printed in March 2020

The English edition is translated from the Italian by the Language Services Division of the Secretariat to the Governing Board and Communications Directorate

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MANAGEMENT REPORT

Introduction

The Bank Recovery and Resolution Directive 2014/59/EU (BRRD), transposed into Italian law by Legislative Decree 180/2015, requires European Union member states to establish one or more national resolution funds starting from 2015.

The Bank of Italy, acting in its capacity as National Resolution Authority, established the National Resolution Fund (NRF) with Measure No. 1226609 dated 18 November 2015.

The NRF has its own capital, to all intents and purposes separate from the Bank of Italy's capital, any other capital managed by the Bank, or any NRF contributor's capital. The NRF is intended to be used solely to meet the contractual obligations associated with resolution actions and asset management.

The NRF is managed by the Bank of Italy, which decides on the establishment of the endowment fund, its investment and its use in resolution actions (including the issue of guarantees). As fund manager, the Bank of Italy exercises all the powers and rights associated with the shares it holds as a result of resolution actions.

Pursuant to Article 8 of Measure No. 1226609/2015, the NRF prepares annual accounts that are audited by the same firm that audits those of the Bank of Italy.

The independent auditor appointed for the financial years 2016-2022 is BDO Italia SpA.

Pursuant to Measure No. 428123/2016 (comprising only one article), the Bank of Italy's Board of Auditors oversees the administration of the NRF and its compliance with the law, verifies that the accounts of the NRF are properly kept and correctly drawn up, and issues a report to that effect.

The Bank of Italy's Governing Board, sitting as a collegial body, approves the accounts accompanied by the reports of the Board of Auditors and of the independent auditors.

The NRF's annual report is published at the same time as the Bank of Italy's annual accounts.

The National Resolution Fund within the European framework

As of 1 January 2016, euro-area countries participating in the Single Supervisory Mechanism (SSM) are also subject to Regulation (EU) No. 806/2014 on the Single Resolution Mechanism (SRM), which calls for the creation of a Single Resolution Fund (SRF) for the euro area.¹

¹ Pursuant to the provisions of the regulation, member states must contribute their national funds to the SRF starting 1 January 2016. The SRF will initially be divided into national compartments that are distinct for accounting purposes; the percentage allocated to the national compartments will gradually be reduced over an eight-year transitional period, while the percentage allocated to the pooled compartment will increase until all the resources have been transferred.

At the end of the transitional period, scheduled for 31 December 2023, the SRF will have resources equal to 1 per cent of covered deposits, which at the beginning of the funding process were estimated at around €55 billion, of which about €5.7 billion contributed by Italian banks.²

The procedures for calculating the ordinary contributions are stated in Commission Delegated Regulation (EU) 2015/63. The percentages of the annual contribution due from each bank are calculated based on the amount of liabilities net of own funds, of covered deposits and, for institutions belonging to groups, of intragroup liabilities. The basic contribution is adjusted according to the risk profile of each bank.

The collection of the ordinary contributions for 2019 was completed on 24 June 2018, when the amounts called up from the banking system were transferred to the SRF following the appropriate checks. The data used to calculate the contributions were provided by the credit institutions themselves – starting in 2020 in the XBRL format – to the Single Resolution Board (SRB), which is responsible for calculating the contributions by liaising with the national resolution authorities. The ordinary contributions collected are held by the National Resolution Fund in two dedicated TARGET2 accounts at the Bank of Italy and are treated as a liability towards the SRB.³

The national funds collected and transferred to the SRF totalled €847 million in 2019 (€827 million in 2018). The contributions were paid by 426 Italian credit institutions, of which 423 banks and 3 securities investment firms. The amount of contributions for 2019 rose by about 2 per cent, mainly owing to the increase in covered deposits in the banking union area in 2018, which led to a corresponding expansion in the European target level for 2019. Italy accounts for about 10 per cent of the total contributions.

National Resolution Fund actions

The crisis resolution measures taken in November 2015 for Banca delle Marche SpA, Banca Popolare dell'Etruria e del Lazio società cooperativa, Cassa di Risparmio della Provincia di Chieti SpA and Cassa di Risparmio di Ferrara SpA required an initial commitment by the NRF of about €3.7 billion.⁴

Given the funding needs tied to these measures, on 20 November 2015 the Bank of Italy obtained a bridge loan, at market conditions, for the NRF, pursuant to Article 78(1)(c) of Legislative Decree 180/2015. The loan was arranged with a pool of leading Italian banks in the amount of €4 billion (of which €3.9 billion was actually disbursed).⁵

² These estimates will vary as the amount of covered deposits in the euro area and Italy changes.

³ From an accounting standpoint, the Fund recognizes a liability to the SRB, which manages the SRF, equal to the amount of the ordinary contributions collected. This liability is usually settled quickly and in any case before the end of the year, when the contributions are transferred; it is, therefore, not included in the year-end balances reported in the balance sheet.

⁴ For more information on these resolution actions, see the management report in the *Annual Report of the National Resolution Fund* for 2015.

⁵ Use of the lines of credit was subject to the pledge, in favour of the lender banks, of the NRF's right to obtain financial support in the amount of €1.65 billion from Cassa Depositi e Prestiti SpA (CDP). CDP SpA has undertaken to intervene if the NRF's resources prove insufficient to meet its debt service obligations.

As of December 2015 the system had collected, in accordance with Articles 82 and 83 of Legislative Decree 180/2015, ordinary and extraordinary contributions (the latter equal to three times the annual amount of ordinary contributions) of about €2.4 billion.⁶ These contributions were used to repay a share of the bridge loan; the outstanding amount of this loan at 31 December 2016 amounted to €1,550 million.

Taking account of the funding needs associated with the sale of the bridge banks described below and the repayment of the outstanding loan, in December 2016 the Bank of Italy called up two ordinary annual contributions equal to around €1,526 million.⁷ These contributions were paid in March 2017.

The loan was repaid in May 2017, in part through the payment of €310 million in cash and in part with a new four-year loan of €1,240 million. This new loan did not require any third-party guarantee. The full repayment of the original loan meant that the guarantee issued by Cassa Depositi e Prestiti SpA (CDP) was released (see Footnote 5).

On 31 July 2018 and 31 July 2019, by calling up the additional contributions, the first and the second instalments of the loan were repaid in the amount of €620 million in total (€310 million for each instalment).

* * *

Between 2016 and 2017, in accordance with the resolution plan, the loans were transferred from the bridge banks to the special-purpose vehicle REV Gestione Crediti SpA (REV) for €2.1 billion. To fund the purchase of the bad loans, REV signed a financing agreement with a pool of Italian banks.⁸ REV's exposure to the lenders is secured by the autonomous, first demand guarantee issued by the NRF. The amount guaranteed is automatically adjusted to reflect the amount of the outstanding debt.

In March 2019 a new financing agreement and a new collateral agreement were concluded to adjust the maturities of REV's liabilities with the time horizon considered in its business strategy, which was approved by the Bank of Italy in June 2018 and which seeks to leverage its assets over a medium-long time horizon. The new financing agreement provides for a guaranteed amount equal to 110 per cent of the debt exposure outstanding and an adjustment, to take account of its reduction, to be made twelve months after the date of the first repayment. The provisions of the new collateral agreement have led to an increase in the guaranteed amount, to €1.7 billion, against the reduction in debt exposure to €1.43 billion at 31 December 2019.

⁶ The financial resources were provided by banks headquartered in Italy, by the Italian branches of non-EU banks and by certain securities investment firms that are part of Italian banking groups, limited to those that are subject to specific prudential requirements relating to the services provided. The group of banks did not include those placed in compulsory administrative liquidation, but it included those in special administration and under resolution.

⁷ Law 208/2015 provides that, if the endowment fund is not sufficient to support over time the resolution actions taken, banks make (a) additional contributions to the NRF, of an amount to be determined by the Bank of Italy and up to the total provided by Articles 70 and 71 of Regulation (EU) No. 806/2014, including contributions to the Single Resolution Fund, and (b) for 2016 only, two additional annual contributions.

⁸ For an analytical description of the process of selling the bad loans and obtaining the corresponding financing, please refer to the management report in the *Annual Report of the National Resolution Fund for 2017*.

Transfers to UBI Banca SpA and BPER Banca SpA

Following a complex sale process, over the course of the first quarter of 2017 the following new contracts were signed: (a) the contract for the transfer to UBI Banca SpA (UBI) of Nuova Banca delle Marche SpA, Nuova Banca dell'Etruria e del Lazio SpA and Nuova Cassa di Risparmio di Chieti SpA; and (b) the contract for the transfer to BPER Banca SpA (BPER) of Nuova Cassa di Risparmio di Ferrara SpA (Nuova Carife).

The transactions involved the sale of the bridge banks for the symbolic price of €1 for each contract, preceded by their recapitalization by the NRF and the separation of bad and unlikely-to-pay loans.⁹

The contracts governing the sale have made the transfer of their ownership contingent on the satisfaction of a series of conditions precedent.¹⁰

In May and June 2017, once all the conditions precedent were met, including capital strengthening measures taken by the NRF and the separation of the NPLs,¹¹ the NRF transferred its entire shareholdings in the bridge banks to UBI and BPER respectively.

In accordance with the terms of the contract, the former bridge banks transferred detachable coupons to the NRF in the days immediately following their sale. These instruments, issued as part of the securitization of the bad and unlikely-to-pay loans sold by the bridge banks to the SPVs (see Footnote 11), assign to the NRF a claim on any excess return on customer portfolios. No payment was made on the transfer to the NRF.

Guarantees given to UBI Banca SpA and BPER Banca SpA

In addition to the commitments made and the guarantees given in connection with the separation of the NPLs, the sale and purchase agreements signed with UBI and BPER impose certain obligations on the NRF to indemnify them against any damage, costs or charges arising from pending or future legal disputes involving the

⁹ For an analytical description of the sale process and the main terms and conditions of the transactions, please refer to the management report in the *Annual Report of the National Resolution Fund for 2016*.

¹⁰ The following conditions, among others, applied: (a) issue of the necessary authorizations by the competent Italian and European authorities; (b) separation of the 'excluded assets' under the terms and conditions set out in the agreement; (c) confirmation by the European Commission that there were no impediments under state aid rules barring the acquisition and the other transactions envisaged in the agreement; and (d) achievement of the necessary capital strengthening.

¹¹ Before the transfers were completed, the bridge banks signed a number of contracts with Quaestio Capital Management SGR SpA – manager of the Atlante Fund – concerning the sale of the NPLs to special-purpose securitization vehicles and of the legal relationships to a fund set up for that purpose by Credito Fondiario SpA; as part of this, the bridge banks issued guarantees for up to €220 million, plus another €106 million relating to lease agreements. The NRF is required to indemnify the assignee banks against any losses relating to the spun-off loans through a system that divides the obligations assumed between them and the NRF itself.

former bridge banks and from breach of the representations and warranties made and commitments undertaken.¹²

Moreover, the NRF has assumed additional obligations to indemnify that will be triggered if specific events occur, including losses stemming from potential disputes with former shareholders and subordinated bondholders.¹³

Under the indemnification handling procedure, the buyer banks send a written notice of claim (NOC) to the NRF, setting out the evidence that in their opinion constitutes grounds for indemnification.¹⁴

Among the NOCs submitted, those of interest here are those referring to disputes with former shareholders and subordinated bondholders of the four banks put into resolution in 2015, some of which relate to the status of certain complaints brought before the Securities and Financial Ombudsman (Arbitro per le Controversie Finanziarie – ACF).

In disputes concerning these cases that are brought before the courts, these must decide whether the former bridge banks can be sued, in addition to considering whether there are grounds for the compensation claims. As regards whether the former bridge banks can be sued, while the initial judicial decisions that have been made are still not definitive, the prevailing case law rules it out.¹⁵

With respect to the issue of whether the former bridge banks can be sued, in order to counter the argument that bridge banks are liable in relation to claims of former shareholders and subordinated bondholders, the Bank of Italy, in its capacity as manager of the NRF, has intervened in some of the cases brought by institutional actors to defend the correct interpretation of Article 47 of Legislative Decree 180/2015 and, ultimately, the viability of the regulations governing resolution.

¹² With regard to UBI, the guarantee is for a maximum of €250 million in excess of the first €10 million borne by the buyer; for BPER the limit is €15 million, with the first €1 million absorbed by the buyer.

¹³ With regard to UBI, the guarantee is for a maximum of €280 million and for BPER the limit is €150 million, neither of which includes an initial amount borne by the buyer. For UBI, indemnification for subordinated bondholders is covered by the €250 million general guarantee.

¹⁴ As at 31 December 2019, a total 1,148 NOCs were sent to the Fund, of which 719 from UBI and 429 from BPER; apart from complaints, most of them refer to civil proceedings concerning claims for damages resulting from violations of lending regulations (about 28 per cent of NOCs), other civil proceedings (around 29 per cent), and disputes brought by former shareholders and subordinated bondholders (about 24 per cent, including complaints brought before the Securities and Financial Ombudsman (Arbitro per le Controversie Finanziarie – ACF). NOCs relating to the reimbursement of legal fees and connected expenses and to complaints brought before the Banking and Financial Ombudsman (Arbitro Bancario Finanziario – ABF) accounted for a smaller share.

¹⁵ While some judicial decisions have recognized that bridge banks can be sued, over time other courts of law (e.g. those of Ancona, Macerata, Ferrara and Bologna) have ruled out such possibility. Among these decisions, of special significance was decision 917/2019 of the Court of Appeal of Milan, which ruled that bridge banks cannot be sued in relation to claims of former shareholders and subordinated bondholders of the banks put into resolution. This decision is now pending before the Court of Cassation.

The guarantees issued by the NRF include additional representations and warranties to indemnify the buyer with no maximum limit on the minimum subjective and objective conditions for the effective transfer of shares, among other things.¹⁶

¹⁶ The basic warranties regarded, among other things, the following: (a) the power of the seller to transfer shares of the bridge banks, free and clear of any restrictions, obligations or encumbrances; (b) the possession of all the powers and internal authorizations needed by the seller to execute the contract and all the other operations provided for and/or contemplated therein; (c) the effective subscription of and payment for the share capital of the bridge bank at the time of signing of the sale and purchase agreement and upon the final transfer of the shares; (d) the existence and establishment of the bridge banks according to applicable legislation and the possession of all the authorizations needed to carry out their current activities, including the absence of any crisis resolution, insolvency or intervention procedures pursuant to the Consolidated Law on Banking or Legislative Decree 180/2015; (e) the validity and conformity of the resolution measures adopted also relating to EU state aid rules; and (f) the possession of all the authorizations needed by the bridge banks to carry out their activity and the absence of actions or disputes that could result in the suspension, revocation, withdrawal or termination of such authorizations.

ANNUAL ACCOUNTS
at 31 December 2019

BALANCE SHEET			
ASSETS	NOTES	Amounts in euros	
		31 Dec. 2019	31 Dec. 2018
1 FINANCING FOR RESOLUTION ACTIONS		–	–
2 ASSETS ACQUIRED FROM BANKS UNDER RESOLUTION	[1]	509,001	1
3 SHAREHOLDINGS CONNECTED WITH RESOLUTION ACTIONS	[2]	221,302,122	221,302,122
4 FINANCING TO OTHER RESOLUTION FUNDS		–	–
5 TEMPORARY INVESTMENTS		–	–
6 CASH AND CASH EQUIVALENTS	[3]	177,298,600	208,529,035
7 CLAIMS FOR CONTRIBUTIONS NOT PAID UP		–	–
7.1 Ordinary contributions		–	–
7.2 Extraordinary contributions		–	–
7.3 Additional contributions		–	–
8 OTHER ASSETS	[4]	37,968	37,875
TOTAL		399,147,691	429,869,033

BALANCE SHEET			
LIABILITIES	NOTES	Amounts in euros	
		31 Dec. 2019	31 Dec. 2018
1 LIABILITIES TO BANKS UNDER RESOLUTION		–	–
2 LIABILITIES TO OTHER RESOLUTION FUNDS		–	–
3 THIRD-PARTY FINANCING	[5]	620,000,000	930,000,000
4 OTHER LIABILITIES	[6]	3,370,036	4,387,727
5 PROVISIONS FOR RISKS	[7]	81,004,805	38,512,882
6 ENDOWMENT FUND	[8]	-305.227.150	-543.031.576
6.1 Endowment fund		-233.031.576	-484.918.684
6.2 Net result for the year (+/-)		-72.195.574	-58.112.892
TOTAL		399,147,691	429,869,033

PROFIT AND LOSS ACCOUNT			
	NOTES	Amounts in euros	
		31 Dec. 2019	31 Dec. 2018
1 Interest income		11	–
2 Dividends		–	–
3 Fee and commission income		–	–
4 Other income		2	18
TOTAL REVENUES FOR THE PERIOD	[9]	13	18
5 Interest expense		-22,842,304	-31,426,666
6 Fee and commission expense		-55,031	-55,111
7 Indemnities paid		-7,309,800	-41,284
8 Services		-1,434,102	-76,967
9 Other expenses		–	–
TOTAL EXPENSES FOR THE PERIOD	[10]	-31,641,237	-31,600,028
10 Realized gains/losses (+/-)		1,937,573	
11 Write-downs		–	–
12 Transfers to/from the provision for risks		-42,491,923	-26,512,882
NET RESULT OF REALIZED GAINS/LOSSES, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS	[11]	-40,554,350	-26,512,882
NET RESULT FOR THE PERIOD		-72,195,574	-58,112,892

STATEMENT OF CHANGES IN THE ENDOWMENT FUND		
	Amounts in euros	
	2019	2018
Endowment fund at 1 January	-543,031,576	-794,918,684
Contributions called up in the period, net of reimbursements	310,000,000	310,000,000
Net result for the year	-72,195,574	-58,112,892
Endowment fund at 31 December	-305,227,150	-543,031,576

NOTES TO THE ANNUAL ACCOUNTS

Principles, accounting policies and form and presentation of the annual accounts

Principles of the annual accounts. – The accounts of the National Resolution Fund, whose capital is completely separate from that of the Bank of Italy, are drawn up on the basis of general preparation and valuation principles consistent with the rules laid down in the Italian Civil Code. The NRF has its own fiscal personality for direct taxation and withholding tax purposes.

The accounts consist of the balance sheet, the profit and loss account, the notes to the accounts and the statement of changes in the endowment fund, accompanied by the management report. They have been drawn up with clarity and present a true and fair view of the NRF's balance sheet, financial position and net result for the period.

Aside from exceptional circumstances, the methods used in the preparation and valuation of the accounts cannot be altered from one year to the next (consistency in preparation and valuation methods).

The situation presented in the accounts at the opening date of the period corresponds to that indicated in the report approved for the previous year (continuity of reporting).

Items cannot be offset (prohibition on set-off).

Income and expenses are recognized on an accrual basis, irrespective of the actual date of receipt or payment (accrual accounting), and in accordance with the principle of prudence.

The accounts are prepared giving preference, wherever possible, to economic substance over legal form (substance over form).

Assets are entered at cost and liabilities at nominal value.

Valuations are made in accordance with the principle of prudence and on the assumption that the NRF will remain a going concern. Specifically, (a) only profits realized by the closing date of the period can be reported; (b) consideration must be given to the risks and losses accrued during the period, even if they are recognized after the closing date; and (c) all write-downs are recognized irrespective of whether the period closes with a loss or a profit.

The accounts are expressed in euros, without decimal places.

Accounting policies. – The accounting policies applied in preparing the annual accounts for 2019 are described below.

FINANCING FOR RESOLUTION ACTIONS

Claims arising from the granting of financing to banks under resolution, their subsidiaries, bridge banks or special-purpose vehicles established to manage their assets are recognized at nominal value. At the end of the period they are valued at their estimated realizable value, i.e. at nominal value minus impairment attributable to the deterioration in the debtor's solvency position.

ASSETS ACQUIRED FROM BANKS UNDER RESOLUTION

The financial assets acquired in the course of resolution actions are recognized at purchase cost. At the end of the period they are valued, in the case of negotiable securities and other assets, at the lower between the cost and the market value; non-negotiable securities and other assets, as well as claims, are valued at estimated realizable value.

SHAREHOLDINGS CONNECTED WITH RESOLUTION ACTIONS

Shareholdings acquired as part of resolution actions are recognized at the lower between the purchase cost and the sale price in the case of shareholdings sold or near to sale at the date of approval of the accounts. Where, on the grounds of urgency, a provisional valuation of the shares and capital instruments is made (pursuant to Article 25 of Legislative Decree 180/2015), their purchase cost equals their provisional value. Subsequently, the initial recognition value is aligned with the results of the final valuation made in accordance with Articles 23 and 24 of the decree where this valuation is available in time for the preparation of the draft accounts. Dividends are recognized on a cash basis. The capital contributions disbursed by the NRF to cover losses under the resolution actions (including the difference between the provisional and definitive valuations) are taken directly to the profit and loss account.

FINANCING TO OTHER RESOLUTION FUNDS

Loans granted – pursuant to Article 84(2) of Legislative Decree 180/2015 – to resolution financing mechanisms established in other member states are recognized at nominal value. At the end of the period they are valued at their estimated realizable value.

TEMPORARY INVESTMENTS

Temporary investments in financial assets are recognized at purchase cost and valued at the end of the period at the lower of cost or market value.

CASH AND CASH EQUIVALENTS

Deposits held by the National Resolution Fund are recognized at nominal value.

CLAIMS FOR CONTRIBUTIONS NOT PAID IN (ORDINARY, EXTRAORDINARY AND ADDITIONAL CONTRIBUTIONS)

Receivables from banks for contributions called up (ordinary, extraordinary and additional) that are due and not yet paid are recognized at nominal value.

OTHER ASSETS/LIABILITIES – ACCRUALS AND DEFERRALS

Accrued income and expenses represent revenues or costs that arise during the period, but that are received or paid in subsequent periods. Prepaid income and expenses represent costs or revenues that arise in future periods but that are paid or received in the current accounting period.

THIRD-PARTY FINANCING

Loans and other forms of financial support pursuant to Article 78(1)(c) of Legislative Decree 180/2015 – reported under this item – are recognized at nominal value.

LIABILITIES TO BANKS UNDER RESOLUTION

The amounts paid to the NRF pursuant to Article 78(1)(d) of Legislative Decree 180/2015 by banks under resolution or by bridge banks are entered at nominal value.

LIABILITIES TO OTHER RESOLUTION FUNDS

Loans contracted with resolution financing mechanisms established in other member states pursuant to Article 84(1) of Legislative Decree 180/2015 are recognized at nominal value.

PROVISIONS FOR RISKS

This item consists of provisions set aside for claims for indemnification associated with the guarantees issued by the NRF in connection with resolution actions, as well as other provisions in respect of other foreseeable risks, which reflect the best estimate of the losses that the NRF expects to incur.

OTHER ASSETS AND LIABILITIES

The other items 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 a special section of the notes. The guarantees and commitments include guarantees issued to third parties in connection with resolution actions, irrevocable commitments of banks for payments of ordinary contributions pursuant to Article 82(2) of Legislative Decree 180/2015, as well as securities received from banks to guarantee such irrevocable commitments.

SUBSEQUENT EVENTS

Given the NRF's atypical nature and the evaluation criteria used, a dedicated section of the notes explains the nature and the effects on assets and liabilities, cash flow and profit and loss of the significant events that have occurred since the closing of the accounts.

Notes on the items of the balance sheet

[1] Assets acquired in the course of resolution actions

Item 2 on the asset side, equal to €0.5 million (€1 last year), includes claims vis-à-vis BPER in relation to its obligations to transfer to the NRF the proceeds of actions settled with some counterparties that brought liability and damage actions regarding Cassa di Risparmio di Ferrara SpA (Carife), which was placed under resolution and is now under compulsory administrative liquidation.¹⁷

It also comprises, at the symbolic value of €1, the detachable coupons that assign to the NRF the claim on any excess return on the loan portfolios transferred from the former bridge banks in the course of securitization operations. In no circumstances can the relative value be negative.

The detachable coupons were transferred from the former bridge banks to the NRF for no payment over the course of 2017 and they are not listed on regulated markets. As a result, these instruments are shown in the accounts at the total recognized symbolic value of €1.¹⁸

[2] Shareholdings connected with resolution actions

Item 3 on the asset side, amounting to €221.3 million (unchanged compared with the previous year), includes the value of the wholly-owned shareholding in the special-purpose vehicle, REV, called upon to acquire the bad debts from the former bridge banks.

[3] Cash and cash equivalents

Cash and cash equivalents amount to €177.3 million (€208.5 million at the end of 2018) and consist almost exclusively of deposits in the NRF's TARGET2 account held with the Bank of Italy and used to meet the financial commitments connected to resolution actions.

[4] Other assets

Item 8 on the asset side, totalling €37,968 (€37,875 in 2018), is made up of prepaid expenses for fees and commissions periodically paid to the servicer of the bank loan and the advance paid for the auditing of the Annual Report for 2019.

¹⁷ As an effect of the contract signed between the NRF and the assignee banks regarding the transfer of the former bridge banks' shareholdings, the NRF has the power to direct assignee banks with respect to pending liability and damage actions that remain in the name of UBI and BPER; this is because, pursuant to the contract, the corresponding revenues and costs are attributed to the NRF.

¹⁸ The detachable coupons held can only generate income for the NRF in the case of full repayment of the principal and interest on the senior and mezzanine securities issued by the SPVs as part of the securitizations carried out by the former bridge banks. The securities mature in 2037, unless redeemed early.

[5] Third-party financing

Item 3 on the liability side, totalling €620 million (€930 million in 2018), consists of the residual amount due on the loan received from a pool of banks and renegotiated in 2017.

Over the course of the year the loan, which will mature on 31 July 2021, was partially redeemed through the payment of the second yearly instalment of principal, which amounted to €310 million.

[6] Other liabilities

Item 4 on the liability side, equal to €3.4 million (€4.4 million in 2018), is composed of accrued interest expense in connection with bank lending and with the TARGET2 account through the application of negative interest rates. The item also includes liabilities, equal to €0.4 million, vis-à-vis the assignee banks (UBI and BPER) with respect to pending liability and damage actions transferred from the former bridge banks (see Footnote 17).

[7] Provisions for risks

Item 5 of liabilities, amounting to €81 million (€38.5 million in 2018), reports the provisions prudently set aside for the guarantees given by the NRF in the course of resolution actions and of other foreseeable risks.

The item comprises €75.7 million (€31.9 million in 2018) in provisions for legal disputes and additional claims for indemnification (including those relating to the separation of the NPL portfolio) against the former bridge banks and notified to the NRF by the assignee banks, and €3.8 million (€5.1 million in 2018) allocated for a decision still pending before the Regional Administrative Court (TAR) at the reference date of this Annual Report, to void the contributions paid for 2015 (see *Post-balance-sheet events*). The item also includes the provision for a penalty on the sale of portfolios of NPLs relating to Nuova Cassa di Risparmio di Ferrara SpA's (Nuova Carife) leases, estimated at €1.5 million (unchanged compared with 2018).¹⁹

On the basis of the information collected by the legal teams of UBI and BPER and the experience gained so far, the amount of the provision (€75.7 million) was determined by considering the best loss estimate in case indemnification has to be paid relating to the NOCs received as at the reference date of this Annual Report,²⁰ net of

¹⁹ In the course of the transfer of Nuova Carife's NPLs, two portfolios of real estate leases were identified and transferred in two tranches over the course of 2018 and 2019. As the transfer of a portion of one of the two portfolios was not completed, the NRF will reimburse BPER for any penalty paid. On the date of this report, the amount to be paid back to the NRF regarding the portion of the portfolios that was transferred and the tax and administrative expense incurred by BPER is still in the process of being quantified, and will be combined with the amount of the abovementioned penalty to calculate the final sum to be paid.

²⁰ The amount refers to the analytical assessment of 143 of the NOCs received, amounting to total claims equal to about €416 million, and to the collective assessment of 264 NOCs, amounting to total claims equal to €9.8 million.

the provisions already entered in the balance sheets of the former bridge banks and of the funding coverage corresponding to the residual capital gain (€7.3 million) relating to the transfer of the shareholding in Cedacri SpA to the NRF²¹ (see *Guarantees given to UBI Banca SpA and BPER Banca SpA* in the management report).

In addition, no provision has been set aside for current and future disputes with former shareholders or subordinated bondholders, also owing to the most recent case law (see *Guarantees given to UBI Banca SpA and BPER Banca SpA* in the management report).²²

The risk provision set aside in connection with a legal dispute with a credit institution relating to the payment of ordinary and extraordinary contributions for the year 2015 was partially released (€1.3 million) following a revision of the estimate as a consequence of the judgment of the Court of Justice of the European Union of 14 November 2019, which ruled that the Bank of Italy provision mandating the payment of ordinary contributions was legitimate (see *Post-balance-sheet events*).

Regarding the additional ‘representations and warranties’ provided to the assignee banks concerning, among other things, the minimum subjective and objective conditions for an effective transfer of the shares, their enforcement risk is considered remote and therefore no provisions were allocated.

Likewise, at the reference date of these accounts there are no enforcement risks relating to the warranties given to a pool of Italian banks for the financing they granted to REV regarding the sale of bad loans.

[8] Endowment fund

The endowment fund, standing at a negative €305.2 million, reflects its negative balance at the end of 2018 (€543 million), the call-up of the additional contributions for 2017 on 5 June 2019 (€310 million), and the negative net result for the year amounting to €72.2 million.

As explained in the Annual Report for previous years, the fact that the endowment fund reports a negative balance does not present a risk regarding the NRF’s ability to perform its institutional functions since it has the power to call up mandatory contributions, current and future, that enable it to meet the commitments and guarantees made with respect to resolution actions.

The endowment fund is allowed to have a negative balance under the laws in force, which permit the NRF to commit itself to actions pursuant to Article 79 for

²¹ The sums corresponding to the capital gain (originally €8.7 million) remained available to BPER without being deposited in a special escrow account to guarantee the NRF’s obligations. It was later agreed to use those sums to offset the claims for indemnification that were granted.

²² The actions pending at 31 December 2019 for which the risk of an unfavourable ruling is deemed possible are about 234, amounting to almost €254 million, of which about €158 million relating to disputes with former shareholders or subordinated bondholders and about €88 million regarding other civil proceedings, including for violations of lending regulations.

amounts in excess of its available resources (see Articles 83 and 84 of Legislative Decree 180/2015).

This situation does not mean that the NRF must immediately cover the negative balance by simultaneously calling up the mandatory contributions. The creation of the Single Resolution Fund means that the NRF is no longer required – through ordinary contributions, now allocated to the SRF – to maintain a minimum level of endowment, pursuant to Article 81 of Legislative Decree 180/2015. Therefore, there is no general obligation to cover immediately the losses suffered by the NRF in connection with resolution actions.

Notes on the items of the profit and loss account

[9] Total revenues for the period

Item 1 of the profit and loss account, equal to €11, records the interest income credited on a current account used for settling tax debts, while Item 4, equal to €2 (€18 in the 2018), reports the positive difference between amounts collected in 2019 regarding the additional contributions made by financial intermediaries and the book value of the corresponding credit. Specifically, the latter amount is calculated as the algebraic sum of numerous small differences – negative and positive – resulting from rounding performed by the banks when paying their contributions.

[10] Total expenses for the period

Item 5 of the profit and loss account, equal to €22.8 million (31.4 million in 2018), includes the expense incurred for servicing the bank loan equal to €21.8 million (€30.4 million in 2018) and that due to the negative interest rates on the cash and cash equivalents held by the NRF in the TARGET2 account amounting to €1 million.²³

Item 6 of the profit and loss account, equal to €55,031 (€55,111 million in 2018), includes above all the recurring commission owed to the agent on the financing contract signed with the pool of banks.

Item 7 of the profit and loss account, equal to €7.3 million (€41,284 in 2018), comprises the sums paid to UBI and BPER following their claims for indemnification, including the NOCs forwarded by BPER for which the payment was made by offsetting the earn-out obtained with the sale of the stake in Cedacri SpA (capital gain to be paid to the NRF).

Item 8 of the profit and loss account, equal to €1.4 million (€76,967 in 2018), includes the costs of auditing the NRF's accounts at 31 December 2018 (€42,700)

²³ As agreed with the SRB, the 2019 ordinary (ex ante) contributions to the SRF were net of the negative interest accrued and debited to two separate TARGET2 accounts used by the NRF exclusively for the purpose of collecting the contributions at European level; owing to the lower cost incurred, the negative interest is reported in the profit and loss account net of the returned sum of €282,031.

pursuant to Article 8 of Measure No. 1226609/2015 establishing the NRF and the professional fees associated with the liability and damage actions vis-à-vis former executives of banks put into resolution.²⁴

The operating expenses of the Resolution and Crisis Management Unit, which oversees the NRF and the indirect costs of carrying out resolution activities, are borne by the Bank of Italy and therefore do not have an impact on the NRF's profit and loss account. The Board of Auditors does not receive any specific emoluments for its work regarding the NRF.

There is no tax expense for 2019 as the taxable amount upon which direct taxes (the corporate income tax – IRES – and the regional tax on productive activities – IRAP) are based is negative.

There are no deferred tax assets because it is not reasonably certain that the tax losses relating to IRES will be recovered in the future.

[11] Net result of realized gains/losses, write-downs and transfers to/from the provision for risks.

Item 10 of the profit and loss account includes the proceeds of settlements with some counterparties that brought liability and damage actions regarding Cassa di Risparmio di Ferrara SpA (Carife), which was placed under resolution and is now under compulsory administrative liquidation (€0.5 million) and the share of the capital gain realized through the sale of the stake in Cedacri SpA and used to fund the indemnification claims paid to BPER (€1.4 million)

Item 12 of the profit and loss account, equal to €42.5 million (€26.5 million in 2018), shows the net balance between: (a) the release of the positive difference (equal to €1.3 million) between the risk provision originally set aside in connection with a legal dispute with a credit institution relating to the payment of contributions for the year 2015 (€5.1 million) and the revised estimate calculated at the end of the year (€3.8 million); and (b) transfers to risk provisions, equal to €43.8 million (€28 million in 2018) to cover the guarantees provided by the NRF in the course of resolution actions in connection with legal disputes and additional claims for indemnification (including those relating to the separation of the NPL portfolio) relating to the former bridge banks.

Commitments and collateral granted

Commitments and collateral outstanding at the end of 2019 include: (a) the release of guarantees given to a pool of Italian banks for financing extended to REV in

²⁴ As an effect of the contract signed between the NRF and the assignee banks (UBI and BPER) regarding the transfer of the former bridge banks' shareholdings, the NRF has the power to direct assignee banks with respect to pending liability and damage actions; this is because, pursuant to the contract, the corresponding revenues and costs are attributed to the NRF, which can also acquire the related claims and become involved in the relevant court proceedings for no payment.

relation to the sale of the bad loans; (b) the obligations to indemnify connected with the guarantees regarding legal risks and breaches of the contractual representations and warranties made to UBI and BPER; and (c) additional guarantees not subject to a maximum limit.

At 31 December 2019 the amount guaranteed by the NRF under point (a) amounted to €1,711 million.

As for point (b), the maximum amount guaranteed was about €670 million, net of the funding coverage represented by the sums stemming from the earn-out (capital gain arising from the transfer of the stake in Cedacri SpA).

Point (c) includes the guarantees provided to UBI and BPER for the separation of the NPL portfolio and other warranties concerning, among other things, the minimum subjective and objective conditions for the effective transfer of the shares.

For more information, please refer to the management report.

Post-balance-sheet events

In February 2020, the provision governing the calculation and imposition of an extraordinary contribution on an intermediary was rescinded and the NRF will return the extraordinary contributions received so far, amounting to €3,826,819. As a consequence, the subject matter of the action before the Regional Administrative Court (TAR) of Lazio is no longer in dispute, and there is no longer a claim to the interests accrued on the extraordinary contributions that were returned.

As the dispute was still pending at the reference date of the Annual Report, the value of the dedicated risk provision was recalculated to make it consistent with the developments concerning the dispute that occurred after the end of the financial year (see Note [7] of the balance sheet item *Provisions for risks*).

THE HEAD OF THE RESOLUTION
AND CRISIS MANAGEMENT UNIT

REPORT OF THE BOARD OF AUDITORS
ON THE FIFTH ANNUAL REPORT
OF THE NATIONAL RESOLUTION FUND
AT 31 DECEMBER 2019

We examined the fifth annual report of the National Resolution Fund for the year ending 31 December 2019, drawn up in accordance with the accounting standards and valuation methods described in detail in the Notes to the Accounts, the draft version of which was prepared by the Resolution and Crisis Management Unit of the Bank of Italy, which oversees the NRF.

We have conducted our examination of the annual accounts – consisting of the balance sheet, the profit and loss account, the notes to the accounts and the statement of changes in the endowment fund – in accordance with the rules and standards of conduct for the Board of Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili.

In our opinion, the annual NRF accounts for the year ending 31 December 2019 have been prepared in accordance with the accounting standards and valuation methods indicated in the Notes to the Accounts.

The annual accounts, which are submitted to the Governing Board of the Bank of Italy for approval, show the following results:

Balance Sheet:

Assets	€	399,147,691
Liabilities	€	704,374,841
Endowment fund (excluding the net result for the year).....	€	(233,031,576)
Net result for the year.....	€	(72,195,574)
Endowment fund at 31 December 2019	€	(305,227,150)

Profit and loss account:

Revenues for the period	€	13
Interest expense	€	(22,842,304)
Fee and commission expense.....	€	(55,031)
Indemnities paid.....	€	(7,309,800)
Services	€	(1,434,102)
Realized gains/losses	€	1,937,573
Transfers to/from provisions for risk (+/-)	€	(42,491,923)
Net result for the year.....	€	(72,195,574)

The net result for the year is the result of:

- costs arising from interest expense on outstanding lending (€ 21.8 million) and negative interest on cash and cash equivalents (€1 million);
- fee and commission expense, indemnities paid and other services (€ 8.8 million);
- the net balance of the item ‘Transfers to/from provisions for risk’ (€ 42.5 million) given by (a) transfers to risk provisions (€ 43.8 million) to cover the guarantees provided by the NRF in the course of resolution actions in connection with legal disputes and additional claims for indemnification relating to the former bridge banks and (b) the release of the positive difference (equal to € 1.3 million) between the risk provision originally set aside in connection with a legal dispute with a credit institution relating to the payment of contributions for the year 2015 and the revised estimate calculated at the end of the year;
- the proceeds (€1.9 million) of transactions with some counterparties that brought liability and damage actions regarding Cassa di Risparmio di Ferrara SpA (Carife), which was placed under resolution and is now under compulsory administrative liquidation (€0.5 million) and the share of the capital gain realized by the NRF relating to the sale of the shareholding held by the Nuova Carife in Cedacri SpA and used to fund the indemnification claims paid to BPER (€1.4 million).

We believe that the overall amount of the provisions for risk is prudent.

The endowment fund having a negative balance does not pose a risk to the NRF as a going concern since it can call up mandatory contributions, current and future, from the banking system, which enables it to meet its commitments and guarantees. This is due in part to legislation that provides certainty under the law, clarifying that the negative balance of the endowment fund can be restored gradually by calling up smaller contributions over a longer period of time.

We have also examined the management report that accompanies the annual accounts and, within the scope of our responsibilities, consider it to be consistent with them.

During the financial year ending 31 December 2019, we monitored compliance with the law, the Bank of Italy measure issued on 18 November 2015 establishing the NRF, the procedures for preparing the NRF’s accounts pursuant to the Bank’s measure dated 29 March 2016, and the principles of proper management.

We have examined the adequacy of how the administrative and accounting aspects made available by the Bank of Italy are organized, checking how they function in practice and ascertaining that the system in place ensures a full and accurate accounting record of events. The accounts are kept in conformity with the standards and rules laid down by the law.

No significant facts warranting mention in this report have emerged in the course of our auditing activity or from our discussions with the auditing company that audited the accounts.

We therefore recommend that the annual accounts of the NRF for 2019, as well as the accompanying management report, be approved, in accordance with the Bank's measure of 29 March 2016.

Rome, 4 March 2020

The Board of Auditors of the Bank of Italy

Gaetano Presti (Chairman)

Giuliana Birindelli

Lorenzo De Angelis

Anna Lucia Muserra

Sandro Sandri



BANCA D'ITALIA

Relazione della società di revisione indipendente

ai sensi dell'art.8 del Provvedimento
n. 1226609/2015 del 18 novembre 2015
della Banca d'Italia

**Rendiconto del Fondo Nazionale di
Risoluzione al 31 dicembre 2019**



Relazione della società di revisione indipendente

ai sensi dell'art.8 del Provvedimento n. 1226609/2015 del 18 novembre 2015 della Banca d'Italia

Al Direttorio della
Banca d'Italia

Relazione sulla revisione contabile del rendiconto del Fondo Nazionale di Risoluzione

Giudizio

Abbiamo svolto la revisione contabile dell'allegato rendiconto del Fondo Nazionale di Risoluzione (di seguito, anche, il "Fondo") costituito dallo stato patrimoniale al 31 dicembre 2019, dal conto economico, dal prospetto delle variazioni del fondo di dotazione per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il rendiconto fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria del Fondo Nazionale di Risoluzione al 31 dicembre 2019 e del risultato economico per l'esercizio chiuso a tale data, in conformità ai principi generali di redazione e ai criteri contabili e di valutazione 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 rendiconto* della presente relazione.

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

Richiamo di informativa

Senza modificare il nostro giudizio, richiamiamo l'attenzione all'informativa riportata nella nota "[8] Fondo di dotazione" della nota integrativa relativa alla circostanza che il saldo negativo del fondo di dotazione (-305,2 milioni di Euro al 31 dicembre 2019) non determina rischi circa l'idoneità del Fondo ad assicurare le proprie funzioni istituzionali, poiché il Fondo Nazionale di Risoluzione possiede una capacità di richiamo delle contribuzioni obbligatorie, attuale e prospettica, che gli consente di fronteggiare gli impegni e le garanzie assunti nell'ambito degli interventi di risoluzione.

Responsabilità dell'Unità di Risoluzione e Gestione delle Crisi e del Collegio sindacale della Banca d'Italia per il rendiconto

L'Unità di Risoluzione e Gestione delle Crisi della Banca d'Italia (di seguito anche l'“Unità di Risoluzione”), in qualità di Autorità Nazionale di Risoluzione, è responsabile per la redazione del rendiconto che fornisca una rappresentazione veritiera e corretta in conformità ai principi generali di redazione e ai criteri contabili e di valutazione descritti nella nota integrativa e per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un rendiconto che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

L'Unità di Risoluzione è responsabile per la valutazione della capacità del Fondo di continuare ad operare come un'entità in funzionamento e, nella redazione del rendiconto, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, a meno che non abbia alternative realistiche a tale scelta.

Il Collegio Sindacale della Banca d'Italia svolge funzioni di controllo sull'amministrazione e per l'osservanza delle norme, verifica la regolare tenuta della contabilità del Fondo, la corretta redazione del rendiconto annuale e redige allo scopo una propria relazione.

Responsabilità della società di revisione per la revisione contabile del rendiconto

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il rendiconto 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 rendiconto.

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 rendiconto, 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 del Fondo;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dall'Unità di Risoluzione, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte dell'Unità di Risoluzione 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 del Fondo 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, 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 rendiconto nel suo complesso, inclusa l'informativa, e se il rendiconto rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

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

Roma, 4 marzo 2020



BDO Italia S.p.A.
Rosanna Vicari
Socio

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