IOR

Istituto per le Opere di Religione

Annual Report 2020

Istituto per le Opere di Religione
Cortile Sisto V
00120 Vatican City
Vatican City State

Registered under No 1 in the Register of Legal Persons
held at “Governatorato” of Vatican City State

Authorization no. 1 of 10/07/2015 issued by ASIF,
for carrying out financial activities on a professional basis in Vatican City State

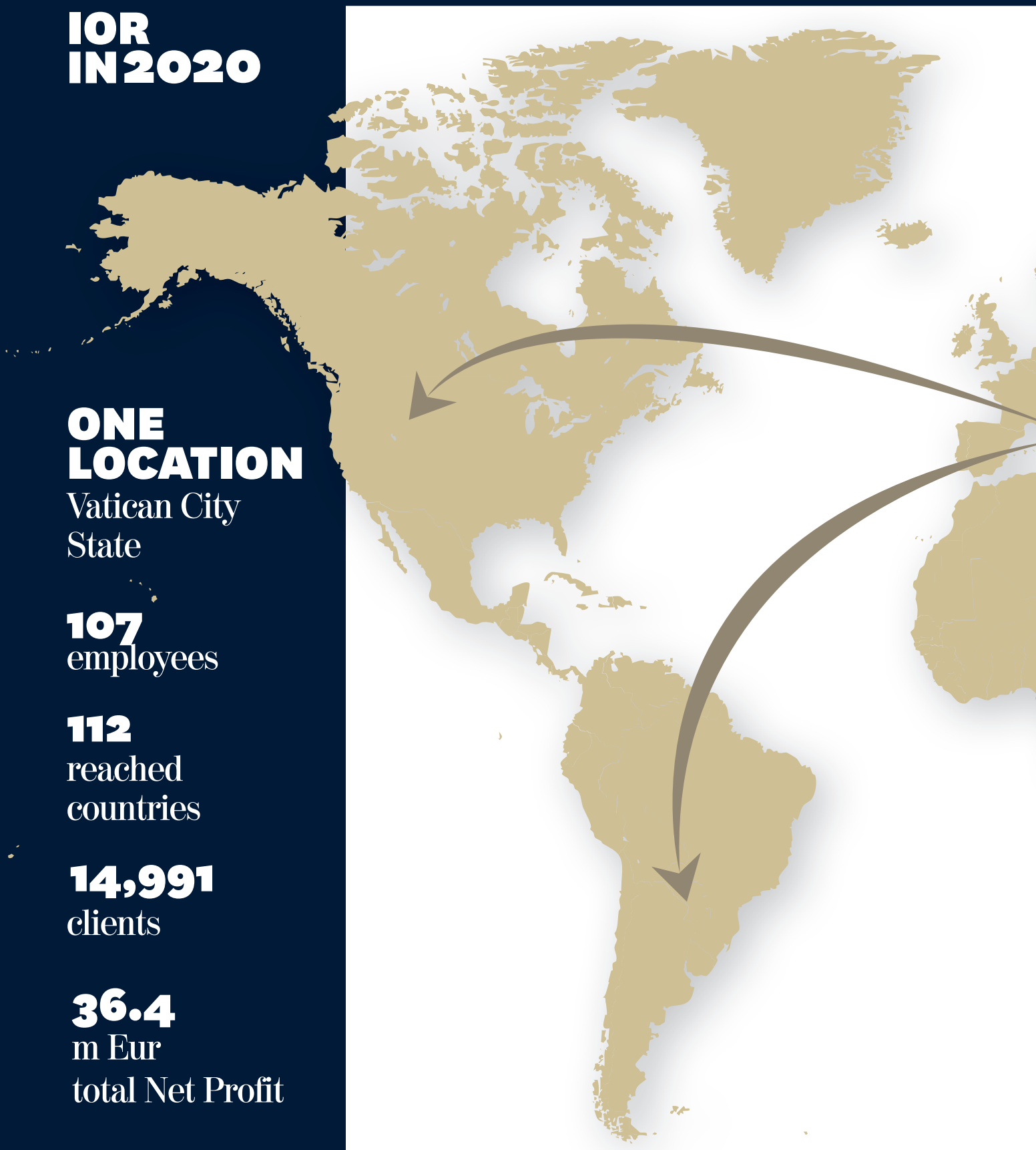
digital copy on site www.ior.va

“Money must serve not rule”

His Holiness
Pope Francis,
Evangelii Gaudium, 2013

AT THE SERVICE OF THE CATHOLIC

IOR IN 2020



ONE LOCATION
Vatican City State

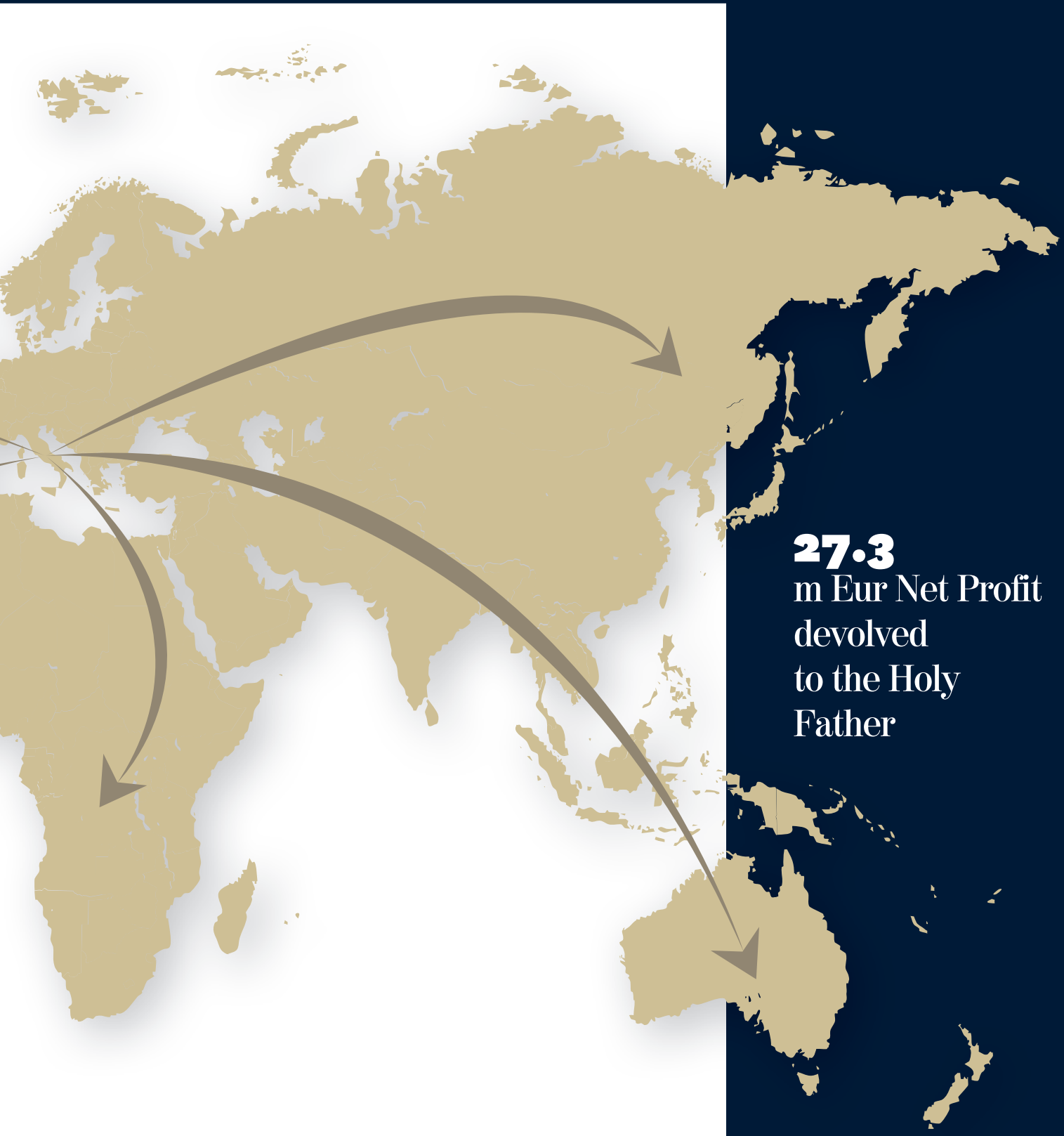
107
employees

112
reached countries

14,991
clients

36.4
m Eur
total Net Profit

CHURCH ALL OVER THE WORLD



27.3
m Eur Net Profit
devolved
to the Holy
Father

9.1
m Eur Net Profit
allocated
to reserve

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The present Annual Report has been translated from the original prepared in Italian

MESSAGE FROM THE PRESIDENT OF THE COMMISSION OF CARDINALS

Cardinal Santos Abril y Castelló
President of the Commission of Cardinals

ONCE AGAIN I am about to present the publication of the 2020 Annual Report of the *Istituto per le Opere di Religione* in my role as President of the Supervisory Commission of Cardinals of the Institute.

One might think that this is just a ritual, repeated every year in a usual context, albeit with the specific notes that characterise the concrete performance of the IOR in the year in question.

Instead, the year 2020 will remain in personal and collective history as a very exceptional year due to the pervasive spread of the coronavirus pandemic. It has shaken the lives of much of humanity and caused the death of a huge number of people, exceeding those of past world wars. As a result, the global economy has suffered a shock from which it will take a long time to recover.

In this difficult context, our *Istituto per le Opere di Religione* has continued to carry out both ordinary and extraordinary activities.

With regard to ordinary activities (if one can use this word in such an unusual context), thanks to the measures promptly implemented to guarantee operational continuity, services for the Holy See and the Catholic Church worldwide have been constantly ensured. This is our first duty.

As for extraordinary activities, 2020 saw the publication of the first Internal Regulations in the Institute's history, intended to give practical effect to the Statutes renewed in 2019, regulating in detail the powers and competences of the various governing bodies.

This has marked the end of a cycle that began, at the highest level, with the promulgation of Law XVIII of 2013 and the first Moneyval report on the progress made in implementing AML and CFT measures; while, regarding our institution, Financial Statements were published for the first time in history, ensuring visibility for the real activities of the Institute and its importance for the religious works of the Holy See and the Catholic Church in the world.

Over the past eight years, it has been an uphill road requiring unrelenting commitment, but tenacity has paid off and today the results are visible. These include, just to mention a few:

- inclusion of the Holy See in the Whitelist of the Ministry of Economy and Finance of the Italian Republic;
- the Institute's accession to the SEPA payments circuit;
- implementation of the Convention with Italy in fiscal matters.

Achievement of these results has also involved the development of internal control functions and the strengthening of management.

Far from being the final goal, these achievements are the basis for the start of a new cycle of consolidation of the Institute as envisaged in the Strategic Plan recently approved by the Board of Superintendence.

Returning to the concrete figures for 2020, the Institute obtained a net profit of EUR 36.4 million, compared to EUR 38 million of the previous year. This is a very significant result, with which I was delighted, considering the low yields that currently characterise the financial markets, let alone the high volatility caused by the pandemic.

This is also a highly opportune result, bearing in mind that this year the Holy See has lost much of its income from its most substantial contributor, namely the Vatican Museums, which were closed for a large part of the year due to the pandemic.

In this general context, as President of the Supervisory Commission of Cardinals of the Institute, I wish to express my deepest thanks to the members of the Board of Superintendence, the Directorate and all the Staff who, thanks to their determination and sound ethical principles, have made this satisfactory result possible.

MESSAGE FROM THE PRELATE

Msgr. Battista Mario Salvatore Ricca
Prelate

As is known, the financial year 2020 has ended far better than anyone could have thought. Public health events had severely curbed the prospects of achieving a result that, if not positive, would at least not be disastrous.

The significant end-of-year result is undoubtedly due mainly to the commitment, farsightedness and prudence of the authorities responsible for managing the Institute: the President, the Board, the Director General and the Commission of Cardinals.

But one should also recognise the equally important contribution to the achievement of this positive result provided by the serious, loyal, accurate, often dull and therefore even more commendable work done by all the members of staff. The re-establishment of a shared vision of the intent and the slow and challenging process of recreating if not a family atmosphere at least that of a community is having its effect.

Young people have joined the Institute and, availing themselves of the indispensable experience of their older colleagues, are developing a new approach to the aims of the Institute thanks to which one may reasonably believe that it will leave its mark also at the operational level. It has strengthened the ability to identify tools that can be useful in attaining progress for the Institute and greater efficiency.

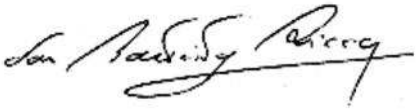
There is still a great deal of talk about the difficult financial circumstances of the Holy See. The IOR is well aware that there are problems, does its utmost to help the Holy See and is always willing to consider the transformations and changes required by the changing times and that other Holy See Institutions may well adopt in the future. In a word, the Institute feels and wants to feel ever more aligned to the aims of the Apostolic See.

But the Institute is also aware of the difficulties so many people are facing, people who often do not even have enough to cover their basic living needs and it therefore seeks, as far as it can, to provide support also for people who ask for help. The *Istituto per le Opere di Religione* is also this.

A concern that has guided activities in recent years has been to focus attention and efforts not just on profit but also on how such profit is obtained, thus conforming increasingly to ethical investments in line with Christian teachings. Undoubtedly, this way of operating has reduced the Institute's economic strength and may have suggested an exaggerated degree of prudence rather than unproductive ethics. This I do not believe.

When human shrewdness makes room for Divine Providence, everything works better.

I believe that what is written in the Scriptures could apply to the Institute: "give me neither poverty nor riches, but give me only my daily bread" (Proverbs 30,8), which can perfectly well be translated as "let us try to keep our feet on the ground and be happy with whatever God sends us".



IOR

Istituto per le Opere di Religione

Management Report

MANAGEMENT REPORT

Jean-Baptiste Douville de Franssu
President of the Board of Superintendence

Chapter 1.
Strategic information

1. MESSAGE FROM THE PRESIDENT OF THE BOARD OF SUPERINTENDENCE

2020 was unique in the challenges it brought for humankind, for worldwide economies and financial markets. The pandemic created unique circumstances and affected most of the world population. Its repercussions are deep and will be long lasting calling notably for changes in people's way of life and business practices.

The *Istituto per le Opere di Religione* has, throughout this period, focused on the wellbeing of its employee and its clients, adopting all the healthcare measures introduced by the Vatican City State. Our offices were never fully closed with some of the staff working remotely and none of our staff was seriously ill.

It has also continued to develop its ethical approach and particularly its Faith consistent investment philosophy, and focused on its charitable work.

2020 saw the continuation of all efforts started in 2014 to make the IOR a better financial institution, closer to its clients with improved products, services, procedures, governance and higher standards of controls aligned to international best practices.

Governance

In September 2020, the General Regulation that specify the powers and areas of competence of the Board and the Directorate was for the first time in the history of IOR approved, "*ad-experimentum*" for two years. It is a major milestone in the life of the IOR.

Organization and HR

In 2020, the Board approved various policies on human resources management proposed by the Directorate notably to allow for the development of appropriate staff benefits and the promotion of meritocracy and work ethics.

The development of IOR's professional expertise was again a key area of focus for management best illustrated by various senior appointments, very much in continuity with what was done in 2018 and 2019.

Asset management

The IOR continued to strengthen and develop the quality and standards of its Asset Management investment process in order to further improve the

> Sua Santità Papa Francesco
>
> *... Lo IOR non può avere come primo principio operativo quello del massimo guadagno possibile, bensì quelli compatibili con le norme di moralità, di coerente efficienza e di prassi che rispettino la specificità della sua natura e dell'esemplarità dovuta nel suo operare*
>
> (estratto dal discorso ai membri del Consiglio di Sovrintendenza, novembre 2015).

performance and risk profile of client's investments. In addition, adherence to Catholic consistent investment criteria was further enhanced and monitored.

Proprietary portfolio

The strategy adopted for the investments of the proprietary portfolio delivered positive results in challenging market conditions. The Institute continues to invest mainly in liquid instruments with a high credit rating, with a prudent approach and in full compliance with Catholic ethical criteria. In addition, a new business model was adopted during the year, the HTCS model, in line with the standards and best practices of the international banking sector.

IT Infrastructure

As a result of the IT Strategic Plan defined in the previous years, several important development projects were started to improve the effectiveness and efficiency of IT processes and, in the field of IT Security a comprehensive development program was launched in order to raise the resiliency of the IT infrastructure and reduce IT Risks including cyber security.

Control functions and ASIF Inspection

The Internal Audit Department has completed the audits included in the 2020 Audit plan that had been approved by the Board.

In the area of risk management and given the Institute risk profile approved by the board, IOR has further developed and consolidated the control of its financial risks as well as operational and IT risks.

ASIF performed a general inspection in 2020 - the first prudential full scope inspection of the IOR – with the support of inspectors from Bank of Italy. No material irregularities were reported. IOR economic fundamentals were evaluated in a positive way including the strength of its capitalization and resilience of its profitability. A remediation plan has been developed by the Institute in order to address the issues that are related to IT and organizational efficiency identified by the Regulator, and it is being monitored in coordination with ASIF.

Moneyval

In 2020, the Holy See (including the Vatican City State) was subject of an evaluation by Moneyval, which verified the measures adopted for the prevention of the risk of money laundering and terrorist financing. The evaluators analysed the level of compliance of the State with the 40 FATF recommendations and the level of

FINANCIALS 2020

5.0

bn Eur Total client assets

82,000

Payment transactions

673.2

m Eur Net equity

39.74%

Core equity TIER 1

effectiveness of the AML/CFT system. As the only financial institution authorized to operate in the State, IOR's processes and procedures were subjected to extensive and in-depth analysis.

The evaluators expressed positive appreciation for the measures taken by the IOR to counter the risk of money laundering and terrorist financing, and for the significant improvements noted in organizational structures and controls, compared to the previous evaluation (2012).

Approval of the 2020 accounts

Given all the circumstances, IOR fared well.

The financial statements, prepared in accordance with IAS-IFRS as adopted by the Circular issued by the ASIF, were audited by Mazars Italia S.p.A. The net result for 2020 is Eur 36.4 million, reflecting this environment and all the efforts described above.

Based on the clean opinion issued by IOR external Auditors, the Board approved the financial statements of the Institute and the management report. With regard to the distribution of 2020 profits, the matter will be forwarded to the Commission of Cardinals, as per the Statutes, so that they can decide on their allocation, in accordance with any potential indication by the Holy Father.

The 2020 net result reflects a prudent approach in the management of proprietary investments, largely composed of high-quality fixed income assets equally split between Sovereign and Corporate sectors.

Corporate Governance

The Board is currently composed of six Members. As per the Statutes, it follows and supervises the work carried out by the Directorate in the management of the Institute. In 2020, the Board met on four occasions and various informal meetings and discussions took place. Given the pandemic, for most of the meetings a majority of Board members participated via videoconferencing. Resolutions were passed on various strategic and business matters, for which the consent of the Board was mandatory, subject to reviews and consultations in close coordination with the Directorate, as well as the Commission of Cardinals (given their oversight authority in accordance with the Statute of the Institute). Once approved, the minutes of every Board meeting were shared with the Director General and the Prelate who were in attendance. The Commission of Cardinals always received copies of these proceedings. They were kept closely informed on every initiative and consulted as necessary on issues relating to potential changes in governance, in the IOR

operating model or leadership. Regular update meetings were held with the Prelate to guarantee, among other things, an adequate flow of information.

Board Committees

As per article 17 paragraph 2, 3 and 4 of the Statute, the Board has three committees:

a. Audit & Risk Committee;
b. HR, Remuneration and Ethics Committee;
c. Business Transformation Strategy Committee.

The composition of those Committees remains the same that in 2019.

In 2020, each of those committees met on three occasions. Each committee has produced a 2020 summary activity report that details all the support that was provided to the Board throughout those months and the Board reviewed and approved the Terms of Reference of those Committees.

Let me finish by saying that the teams must be congratulated once again in 2020 for all the Institute achievements.

On behalf of the Board, I wish to reiterate that our greatest satisfactions continue to be to help the Church, the Holy See and ultimately the Holy Father, His Holiness Pope Francis.

2. MISSION, CUSTOMERS AND SERVICES

Mission of the Institute

The *Istituto per le Opere di Religione* (the "Institute" or "IOR") is an institution of the Holy See, founded on 27 June 1942 by Chirograph of His Holiness Pius XII. Its origins date back to the "*Commissione ad Pias Causas*" established by Pope Leo XIII in 1887.

The Institute is a public legal entity in accordance with Canon Law (Canons 114 and 116) and carries out financial activities.

The mission of the IOR, established by its Statute, annexed to the Chirograph dated 8 August 2019 of His Holiness Francis, is "to provide for the custody and administration of movable and immovable assets transferred or entrusted to it by natural or legal persons, and intended for works of religion or charity".

Therefore, the Institute receives assets intended, at least in part or for the future, for the purposes defined in the above clause, according to the established procedures.

The Institute may accept deposits of assets from entities or persons of the Holy See and of the Vatican City State.

The IOR strives to serve the global mission of the Catholic Church through the administration of the entrusted assets and by providing payment services to the Holy See and related entities, religious orders, other Catholic institutions, clergy, employees of the Holy See and the accredited diplomatic bodies.

The IOR is exclusively located on the sovereign territory of Vatican City State and is subject to the regulations and legislation applicable therein. The IOR is supervised and regulated by the "*Autorità di Supervisione e Informazione Finanziaria*" (*Supervisory and Financial Information Authority* or ASIF).

Customers of the IOR

Customers served by the Institute include:

a) Institutional counterparties (Sovereign Institutions of the Holy See and Vatican City State and related entities, nunciatures and apostolic delegations, embassies and diplomats accredited to the Holy See);
b) Non-institutional counterparties (Institutes of Consecrated Life and Societies of Apostolic Life, Dioceses and other Vatican canonical or civil entities as legal persons; clerics and members of Institutes of Consecrated Life and Societies of Apostolic Life, employees and retirees of the Vatican as natural persons).

The IOR's customers have a common characteristic, which is that they are part of and serve the Catholic Church.

The IOR does not accept as customers, individuals or institutions, without a close relationship to the Holy See and Catholic Church.

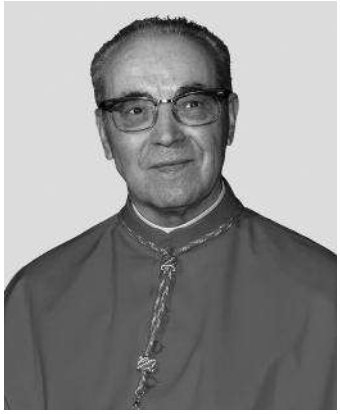
Strict control processes are in place to ensure that this rule is adhered to at all times.

Most of the IOR's clients are active in missions or perform charitable works at institutions such as schools, hospitals or refugee camps.

The Catholic Church, through its institutions involved in missionary activities and charitable works, is present throughout the world, even in countries with very basic infrastructure and underdeveloped banking and payment systems.

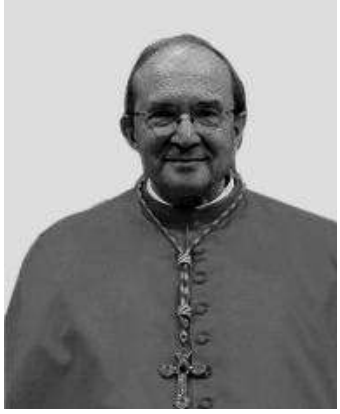
In such cases, the IOR's services are particularly valuable. For customers located in these areas, the IOR is a bedrock, affirming itself as a trusted institution able to provide on-site services otherwise lacking or absent. This is even more evident in those geographic areas

COMMISSION OF CARDINALS CURRENT MEMBERS ARE:



Cardinal Santos Abril y Castelló
President
Archpriest emerito of the Papal Basilica of St Mary Major

Cardinal Konrad Krajewski
Apostolic Almoner



Cardinal Giuseppe Petrocchi
Archbishop of L'Aquila

with high levels of political and/or financial instability.

Nature of the Institute's services

On behalf of its clients, the Institute carries out financial activities authorised by the ASIF, and offers the following services: acceptance of deposits, asset management, certain custodial functions, international payment transfers through correspondent banks, and holding salary and pension accounts of employees of the Holy See and Vatican City State.

Credit activity is residual and strictly subject to the limits of the ASIF authorization and constraints established by the Board of Superintendence.

No funding activities are carried out on the interbank market and IOR does not issue, underwrite or place debt securities.

Accounts opened at the IOR by authorised customers meet the requirements of the legislation in force in Vatican City State on preventing and combating money laundering and the financing of terrorism.

Customers are provided with services in IOR offices located in Vatican City State. The Institute has no branches.

3. CORPORATE GOVERNANCE

The IOR's governance structure is defined in its current Statutes. It consists of the following bodies: Commission of Cardinals, Prelate, Board of Superintendence and Directorate.

The **Commission of Cardinals** consists of five Cardinals appointed by the Holy Father and it is chaired by a Cardinal designated by the Members of the Commission itself.

The Commission of Cardinals oversees the Institute's adherence to its Statutes.

Furthermore, the Commission of Cardinals:
- deliberates, after considering the financial statements and taking into account IOR's minimum capital requirements, the distribution of profits;
- proposes to the Higher Authority changes to the Statutes;
- appoints and removes members of the Board of Superintendence and the Prelate;
- deliberates the compensation due to members of the Board of Superintendence;
- approves the appointment and removal of the

Director General and of the Vice-Director made by the Board of Superintendence;
– appoints, at the proposal of the Board of Superintendence, the external auditor (natural person or company) mandated to perform the statutory audit of the accounts;
– resolves any issues concerning the members of the Board of Superintendence and the Directorate.

Members of the Commission of Cardinals are appointed for a five-year term, and may be reappointed once.

The current members, appointed by Holy Father on July 2020, are:

– Cardinal Santos Abril y Castelló, Archpriest *emeritus* of the Papal Basilica of St. Mary Major, President of the Commission of Cardinals
– Cardinal Konrad Krajewski, Apostolic Almoner
– Cardinal Giuseppe Petrocchi, Archbishop of L'Aquila
– Cardinal Christoph Schönborn, Archbishop of Wien
– Cardinal Luis Antonio Gokim Tagle, Prefect of the Congregation for the Evangelization of Peoples

Until July 2020, the Commission of Cardinals was comprised of:

– Cardinal Santos Abril y Castelló, Archpriest *emeritus* of the Papal Basilica of St. Mary Major, President of the Commission of Cardinals
– Cardinal Josip Bozanic, Archbishop of Zagreb
– Cardinal Thomas Christopher Collins, Archbishop of Toronto
– Cardinal Pietro Parolin, Secretary of State
– Cardinal Christoph Schönborn, Archbishop of Wien

The **Prelate** is appointed by the Commission of Cardinals for a five-year term, and may be reappointed once.

He has the function of assisting executives and employees in situ to govern and operate in accordance with the founding principles of Catholic ethics and in keeping with the Institute's mission.

Furthermore, the Prelate:
– attends the meetings of the Commission of Cardinals serving as Secretary;
– keeps the archives of the Commission of Cardinals at his office and makes them available to its members;
– participates in meetings of the Board of Superintendence.

Cardinal Christoph Schönborn
Archbishop of Wien

Cardinal Luis Antonio Gokim Tagle
Prefect of the Congregation for the Evangelization of Peoples

THE PRELATE OF THE INSTITUTE IS:

Msgr. Battista Mario Salvatore Ricca

BOARD OF SUPERINTENDENCE CURRENT MEMBERS ARE:

Jean-Baptiste Douville de Franssu, President

Mauricio Larraín, Vice-President

Georg Freiherr von Boeselager

Sir Michael Hintze

The **Prelate** of the Institute is Msgr. Battista Mario Salvatore Ricca, appointed in June 2013.

The **Board of Superintendence** is responsible for the administration and management of the Institute, as well as the oversight and supervision of its financial, economic and operational activities. In particular, the Board has the task of:

- formulating general policy guidelines and basic strategies for the activities of the Institute in line with its mission;
- defining the criteria for the implementation of annual programs and objectives of the Directorate, and approving its proposals;
- reviewing and assessing the Directorate's activities and its compliance with regulations, instructions and directives;
- monitoring the economic-financial activities of the Institute;
- overseeing the realisation of established programs and objectives, with regard to investments and other activities;
- defining the most appropriate business model and financial structure for the Institute, proposing ways to improve it, and in general, the best means to increase its assets and activities in the context of correct adherence to economic-financial rules and in full compliance with the overall mission of the Institute;
- proposing changes to the Statutes to the Commission of Cardinals, provided they are unanimously approved by the Board of Superintendence;
- preparing the Institute's implementing Regulations, which are to contain inter alia a detailed description of the powers and areas of competence of the Board and the Directorate, and submitting them to the Commission of Cardinals for approval;
- granting signing power in the name of the Institute to the Director General and, at his request, the Vice-Director, Executives and Officers, in accordance with the procedures set out in the Regulations;
- approving, no later than 30 April, the financial statements prepared by the Directorate;
- submitting the financial statements to the Commission of Cardinals enclosing the management report on the Institute's economic and financial situation and on the compliance of its activities with its statutory aims;
- proposing to the Commission of Cardinals the appointment of an external auditor (natural person or company) for perform the statutory audit of the accounts;

– reporting in writing to the Commission of Cardinals on activities conducted, on overall management performance and its foreseeable evolution.

The Board of Superintendence, appointed by the Commission of Cardinals for a five-year term, may be reappointed once. The Board consists of seven members, each possessing recognised economic and financial experience and proven trustworthiness, in addition to meeting the requirements expressly provided for by regulations.

The current members are:
– Jean-Baptiste Douville de Franssu, President
– Mauricio Larrain, Vice-President
– Georg Freiherr von Boeselager
– Sir Michael Hintze
– Scott C. Malpass
– Javier Marin Romano


Scott C. Malpass


Javier Marín Romano

The **Directorate** consists of the Director General and eventually a Vice-Director who assists the Director and stands in for him in case of absence or impediment. It is appointed by the Board of Superintendence with the approval of the Commission of Cardinals.

The Director General is responsible for all IOR operational activities managed, organized and supervised according to the guidelines and strategies set out by the Board of Superintendence. The Director General implements the resolutions adopted by the Board of Superintendence and oversees the Institute's organisation and staff management. The Directorate's areas of competence and specific powers are set out in the Institute's Regulations.

The Director General prepares a monthly overview of the economic and financial accounts at the end of the previous month and transmits it to the members of the Board of Superintendence and the Prelate, together with an explanatory report.

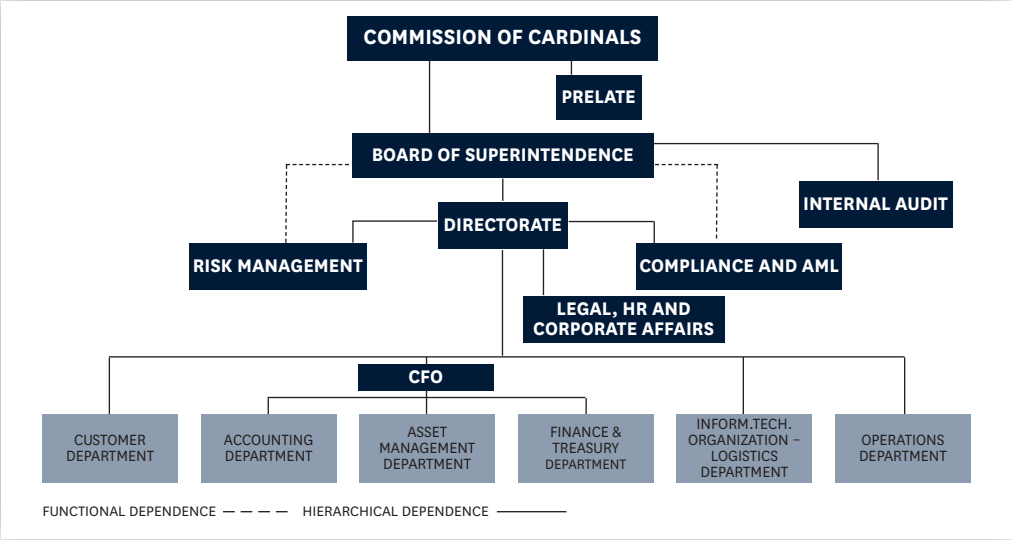
In the first quarter of each year, the Director General prepares the financial statements for the previous business year: Income Statement and Balance Sheet, in accordance with generally accepted accounting standards.

The Director General may be appointed for an indefinite or definite term. In both cases, he will cease from office upon reaching the age of 70. In case of definite term, he is appointed for a five year term and may be reappointed once.

The Director General is Gian Franco Mammì, appointed in November 2015.

THE DIRECTORATE CONSISTS OF:


Gian Franco Mammì
Director General



4. THE EXTERNAL AUDITOR

Audits are performed by an external auditor (natural person or company) proposed by the Board of Superintendence and appointed by the Commission of Cardinals for three consecutive financial years. This appointment may be renewed only once. The external auditor provides an opinion on the Institute's financial statements by means of an ad hoc report; for that purpose, it examines all the books and the accounts. The external auditor is Mazars S.p.A. appointed in July 2019.

5. IOR ORGANIZATION CHART

The principles and rules set out by the Staff Regulations of the Institute are applied to the hiring of personnel and employment relationships as regards disciplinary, remuneration, pension and social security matters.

All Institute employees in permanent employment have an exclusive employment obligation.

All employees are required to comply with the Code of Ethics approved by the Board of Superintendence.

6. CONTROL FUNCTIONS

Control functions are comprised of:
– Internal Audit
– Compliance
– Risk management
That structure is based on the Vatican laws and requirements established by the Supervisory and Financial Information Authority for an adequate internal audit system, as defined by Regulation no. 1 on prudential supervision of the entities carrying out financial activities on a professional basis, implementing Title III of the Law no. XVIII promulgated on 8 October 2013 that covers norms of "Transparency, supervision and financial intelligence".

In accordance with Law no. XVIII/2013 (art. 27 et seq.), the Regulation no.1 and best international practices, the Internal Audit function reports functionally and hierarchically to the Board.

In terms of second-level controls, the Compliance department is directly responsible, among other things, for the AML/CFT (Anti Money Laundering/Combating the Financing of Terrorism) activities. The Compliance Department reports functionally to the Board and hierarchically to the Directorate.

The Risk Management Department also reports functionally to the Board and hierarchically to the Directorate.

7. REGULATORY FRAMEWORK AND TAX REQUIREMENTS

Regulatory framework

The Institute is subject to the laws and regulations of the Holy See and Vatican City State.

The Vatican legal framework recognises Canon Law as the primary source of legislation and the primary criterion for its interpretation. Furthermore, there are six organic laws and other ordinary laws specific to the

Vatican City State. For matters not covered by Vatican laws, the laws and other regulations issued by the Italian Republic are observed as supplementary, subject to prior approval by the competent Vatican authority. They are adopted on the condition that they do not conflict with the doctrine of Divine Law, the general principles of Canon Law or the provisions of the Lateran Pact and subsequent Agreements, and provided that they are applicable to the state of affairs existing in Vatican City State (See Law no. LXXI on the source of law, promulgated by Pope Benedict XVI on 1 October 2008).

According to article 1.4 of Law no. LXXI on the sources of law, the legal framework must also conform to the general norms of international law, and to those arising from treaties and other agreements to which the Holy See is party.

The Institute is subject to Law no. XVIII of 8 October 2013 that covers norms of transparency, supervision, and financial intelligence as amended by Law no. CCXLVII of 19 June 2018 and subsequently by Law no. CCCXCVI of 7 January 2021.

According to the Law no. XVIII, the Supervisory and Financial Information Authority (ASIF) has the regulatory responsibility of specifying and providing further implementation on Prudential Supervision as well as on AML.

To this extent, the ASIF has issued the following Regulation:

- Regulation no. 1 on Prudential Supervision of the entities carrying out financial activities on a professional basis (entered into force on 13 January 2015 and subsequently emended by the Board of Directors by the decision of 19 September 2018);
- Regulation no. 2, establishing the data and information accompanying transfers of funds and the technical requirements for credit transfers and direct debits in Euro (12 December 2017);
- Regulation no. 3 on payment services provided by entities carrying out financial activities on a professional basis (5 April 2018);
- Regulation no. 4 on due diligence of the customers of the entities carrying out financial activities on a professional basis (19 September 2018);
- Regulation no. 5 on Suspicious Activity Reports (19 September 2018).

In addition, the ASIF has issued the following Guidelines and Circulars:

- Instruction no. 1 which published the list of high-risk States, with strategic deficiencies in their systems for combating money laundering and the financing of terrorism (23 October 2017 and subsequent updates of the list);
- Instruction no. 2 concerning the reporting requirements on statistical information on frauds related to means of payment (30 April 2019);
- Instruction no. 3 concerning claim procedures to the Supervisory and Financial Information Authority for the resolution of disputes related to the provision of payment services by entities carrying out financial activities on a professional basis (29 May 2019);
- Instruction no. 4 concerning measures for management of operational and security risks related to payment services and connected reporting duties (29 May 2019);
- Instruction no. 5 which published the list of the functions that are qualified as politically exposed persons within the Holy See and the Vatican City State (29 May 2019);
- Instruction no. 6 concerning monitoring of the lists of designated subjects (19 September 2019);
- Circular concerning the preparation of the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis (15 December 2016 and emended on 31 October 2017);
- Circular on monetary and financial statistics of entities carrying out financial activities on a professional basis (29 December 2016);
- Circular on interest rates applied by entities carrying out financial activities on a professional basis (29 December 2016);
- Circular on auditing standards for the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis (4 July 2019);
- Circular concerning the prevention of financial crimes connected to the emergence of Covid-19 (8 May 2020).

These financial statements were prepared in accordance with the "Circular concerning the preparation of the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis" issued on 15 December 2016 and emended on 31 October 2017.

IOR is also subject to the Law no. CCLVII entered into force in 2018, establishing rules on market abuse which clarifies and completes the reference framework relating to the abuse of privileged information and market manipulation, and which for the Institute applies both to operations on its own account and on behalf of clients.

Tax requirements

As there is no corporate income tax in the Vatican City State, the IOR financial statements do not reflect a provision for taxes.

However, the Institute is required to meet specified tax obligations on behalf of customers or considering its activities as a financial institution.

The Institute implements the "Agreement between the Government of the Italian Republic and the Holy See in tax matters" effective since 2016. In accordance with the Agreement, clients resident in Italy for tax purposes fulfil their tax debts, arising from the financial assets held with IOR as entity carrying out financial activities on a professional basis in Vatican City State, through a Tax Representative chosen by the Institute. The IOR provides the calculations and withholds taxes from customers, which are paid to the Italian Government via the Italian Tax Representative.

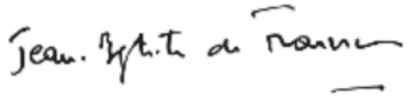
The IOR is subject to FATCA as in 2015 the Holy See signed the "Agreement between the Holy See, acting also in the name and on behalf of the Vatican City State, and the United States of America, to improve international tax compliance and to implement the United States' Foreign Account Tax Compliance Act".

The Foreign Account Tax Compliance Act (FATCA) is a United States federal law that requires U.S. persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States to the U.S. Internal Revenue Service (IRS).

FATCA also requires foreign financial institutions to report to the IRS the accounts of their U.S. clients. In this framework, effective as of 2015, the IOR is subject to FATCA.

8. PROPOSAL OF DISTRIBUTION OF THE NET PROFIT FOR THE YEAR

The Board of Superintendence will forward the 31 December 2020 financial statements, which show a net result of Eur 36.4m to the Commission of Cardinals highlighting the strength of IOR capital level and its capital adequacy ratios (see disclosure in Part 6 - paragraph 6.2.B.2 "Capital adequacy"). In accordance with the Statutes and with any instructions from the Holy Father the Commission of Cardinals will decide on the allocation of the year's profits.



Gian Franco Mammì
Director General

Chapter 2.
Operational information

1. 2020 BUSINESS REVIEW

Macroeconomic environment

2020 was a particularly critical year for the world's economies, both in social and financial terms, due to the occurrence of extraordinary and unique events that revolutionised the economic environment.

The outbreak of the pandemic found most global economies unprepared, negatively impacting production, consumption and trade systems. Although slowing from their 2019 highs, confidence indicators started the year on a positive trend as shown by the Composite PMI values of 52.7 for the US area and 50.9 for the Eurozone.

After a positive start to the year for the major asset classes, markets began a rapid descent, penalised by the spread of the first cases of Covid-19 in Europe.

The high level of uncertainty surrounding the evolution of the pandemic crisis caused a sharp increase in volatility, as evidenced by the performance of the VIX index, representative of the implied volatility of the S&P stock market, which in February reached an all-time high well above the level of the 2008-2009 financial crisis.

However, unlike the great financial crisis of 2008-2009, the response of the policy makers was not slow thanks to the intervention of the American central bank (FED), which in March made one of the biggest cuts in the discount rate, amounting to 150 basis points in just two weeks, bringing the rate down to an all-time low. In the Eurozone too, the central bank's response was unprecedented, with the launch of a Eur 750bn extraordinary purchase programme (PEEP) to support the economy.

The effect of these measures on the markets was to halt the liquidity crisis that had led to a forced liquidation of all asset classes including the more traditional safe haven assets such as German and US government bonds and gold.

In the meantime, during the first quarter, the first national lockdowns took hold in European countries, forcing a rapid adjustment of the service and manufacturing sectors. The impact on the economy in the second quarter was very heavy with a contraction of -11.7% for the European economy and -31.4% for the US economy.

Subsequently, as the number of contagions stabilised, equity markets began to recover, supported by substantial monetary stimulus and expansionary fiscal policies across the globe. In the US, the administration's economic support package amounted to USD 2.2 trillion, or around 10% of GDP.

As the first wave of infections subsided, markets returned close to their early-year values, with the S&P 500 standing -3.09% below its start of the year at the end of June, while European markets, although recovering, still showed losses of more than -12%.

The summer brought a period of calm to the markets with the world's economies adjusting to an environment of apparent calm although international

trade and air traffic remained subdued. During this period, gold hit an all-time high of $2.075 per ounce, supported by recovering inflation expectations.

resulting in EUR 5bn in total client assets (2019: EUR 5.1bn).

(in thousand Euro)

	2020			2019		
	In Balance Sheet	Off Balance Sheet	Total	In Balance Sheet	Off Balance Sheet	Total
Customer deposits (including Legates)	1,672,527	–	1,672,527	1,724,771	–	1,724,771
Assets under Management	355,735*	2,469,910	2,825,645	383,641*	2,497,962	2,881,603
Assets under Custody	–	464,253	464,253	–	500,594	500,594
Total	**2,028,262**	**2,934,163**	**4,962,425**	**2,108,412**	**2,998,556**	**5,106,968**

**Deposits of Assets under Management are net of commissions collected in the first days of the subsequent year*

In autumn, the reopening of the economies led to a second wave of contagion that paved the way for new restrictions and pushed stock markets back into the red.

In bond markets, the impact of the new measures was less pronounced thanks to monetary manoeuvres that ensured the stabilisation of credit spreads, which returned to values not far from pre-crisis levels.

In early November, the announcement of a first vaccine against Covid-19 drastically changed the market scenario and the future of the economy.

The subsequent reflective movement saw a rapid recovery for most equity markets, which closed the year with positive returns. In particular, the US stock market rose over the period by more than +18%, while the European market ended the year slightly down, with a loss of around -2.5%.

Despite the recovery of the markets, 2020 will remain one of the heaviest years for the world economies with a GDP contraction of -3.5% in the US and -7.2% in the Eurozone and a loss of 9.37 million jobs in the US alone.

Composition of the Client base

As of 31 December 2020, the IOR's clients totalled 14,991 (2019: 14,996).

Measured by assets entrusted, IOR clients comprised religious orders (50%), departments of the Roman Curia, Holy See and Vatican City State Offices and nunciatures (21%), episcopal conferences, dioceses and parishes (9%), cardinals, bishops and clergy (8%), Vatican employees and pensioners (7%) and foundations and other Canon Law entities (5%).

The value of customer deposits was EUR 1.7bn (2019: EUR 1.7bn), the net value of assets held in managed portfolios was EUR 2.8bn (2019: EUR 2.9bn) and the net value of assets held in non-managed portfolios was EUR 464.3m (2019: EUR 500.6m),

Income Statement

The IOR's net profit of 2020 was EUR 36.4m (2019: EUR 38m).

The IOR financial assets managed by Finance&Treasury Department performed well contributing to the Intermediation Margin for EUR 29.4m. The positive financial results for the year are due to the ability of the IOR to react in a skilful and responsivemanner to the unexpected market conditions caused by the Covid-19 pandemic throughout the entire financial world. Despite the extremely low risk profile, the optimisation of the asset allocation of the IOR investment portfolio enabled the Finance&Treasury Department to take advantage of the opportunities that arose during 2020, especially in all bond sectors, despite the context of very low or negative yields in particular for the European bond sector.

Debt securities totalled EUR 30m (2019: EUR 29.3m), including all portfolios: *Trading*, *Held to Collect* and *Held to Collect and Sell* portfolios.

Equity securities achieved a gain of EUR 2.1m, comprehensive of dividends (2019: EUR 13m).

Foreign exchange activity contributed positively to EUR 1.6m (2019: EUR 1.6m).

The **Interest Margin** amounting to EUR 19m increased by 1.6% (2019: EUR 18.7m). This result was affected by a greater reduction of the average rate paid on customer deposits compared to the reduction of the average yield on investments in securities and bank deposits; in fact, during 2020, the average yield on investments in securities and bank deposits fell to 0.79% (2019: 0.84%) as well as the average rate paid on customer deposits to 0.15% (2019: 0.29%). Accordingly, the spread between the average rate received on assets and the average rate paid on liabilities increased from

0.55% to 0.64%. This result was due to two opposite effects: the rationalisation of the rates paid to customer deposits in USD and GBP currency, in accordance with market rates trend and the natural maturity of securities in 2020 purchased in previous years bearing higher nominal interest rate than those currently available on market. in this regard, it should be noted that between 2012 and 2020 the average gross yield on Italian five-year government bonds (BTP) decreased from 4.66% to -0.008%.

The Interest Margin also was affected by the slight decrease of the average invested amounts.

Net fee and commission income amounting to EUR 12.1m increased by 7.1% (2019: EUR 11.3m). This result was due to the increase in Fee and commission income, from EUR 16.5m in 2019 to EUR 17.6m in 2020 (+6.7%) higher than the increase in Fee and commission expense, from EUR 5.2m in 2019 to EUR 5.5m in 2020 (+5.8%).

The increase in Fee and commission income derives mainly from the commissions collected on individual portfolio management, which settled at EUR 14.4m (2019: EUR 12.9m) due to the choice of customers moving from bond lines to mixed lines which are characterised by higher commissions. In contrast, the commissions on payment services decreased due to the reduction in demand following the Covid-19 pandemic. With regard to the Fee and commission expense, the item that mostly contributed to the increase relates to fees for collection and payment services amounting to EUR 1.1m in 2020 (2019: EUR 0.6m).

Administrative Expenses were EUR 19.3m in 2020 (2019: EUR 17.7m). This includes Staff Expenses, which increased to EUR 12m (2019: EUR 9.8m) due to the hiring of new managers and employees. Administrative expenses also include expenses for professional services, which reached in 2020 EUR 4m (2019: EUR 3.9m). Other administrative expenses decreased by 15% to EUR 3.4m in 2020 (2019: EUR 4m) due to a further review of outstanding contracts.

Other operating income (expenses) strongly increased reaching EUR 8.9m (2019: EUR 135,000). This was due to the closure of certain pious non-autonomous foundations (Legates) in accordance with the rules of Canon Law. The Commission of Cardinals, acting as Ordinary, decided the consequent devolution of the amounts.

Balance Sheet

As of 31 December 2020, total assets on the IOR's balance sheet were EUR 2.9bn (2019: EUR 2.9bn), with Equity of EUR 673.2m (2019: EUR 668.3m).

45.5

m Eur Intermediation margin

19.3

m Eur Administrative Expenses

36.4

m Eur Profit for the year

As previously reported in Chapter 1, credit activity in the form of lombard loan is residual and strictly subject to limits of the ASIF authorisation and to constraints of the internal policies established by the Board of Superintendence. Accordingly, the Asset side of the Balance Sheet mainly reflects bank deposits and securities.

Bank deposits totalled EUR 266.7m at the end of 2020 (2019: EUR 976.7m), consisting solely of demand deposits (2019: EUR 830.5m). The persistence of negative rates on cash holdings led to a reduction in 2020 by investing in securities.

total liabilities at 2020 year-end, decreased slightly from the previous year, amounting to EUR 2bn (2019: EUR 2.1bn) (-4.8%) due to the simultaneous decrease of customer deposits (-EUR 49.8m from 2019) and of asset management liquidity (-EUR 27.3m from 2019). This was due to withdrawals by some customers for their missionary activities, as a consequence also of the Covid-19 pandemic.

Profitability and efficiency ratios

The table below highlights the main economic, financial and productivity ratios:

Profitability and efficiency ratios (%)	2020	2019
ROE (Return on Equity)	5.7%	6%
ROA (Return on Assets)	1.3%	1.3%
Interest Margin / Total Assets	0.7%	0.6%
Intermediation Margin / Total Assets	1.6%	1.9%
Administrative Expenses / Intermediation Margin	42.5%	31.5%
Interest Margin / Intermediation Margin	41.8%	33.4%
Net Fee and Commission Income / Intermediation Margin	26.6%	20.1%
Core Equity TIER 1	39.74%	82.4%

The value of IOR **Securities** (debt securities, equity securities and investment funds) was EUR 2.5bn in 2020 (2019: EUR 1.85bn). Bonds, at EUR 2.4bn, were the most significant investments, representing 96.6% of the securities held as of 31 December 2020, while equities accounted for 1.7%, and investment funds for 1.7%. The volume of the securities in the portfolio increased compared to 2019 due to the Finance&Treasury Department's choice to invest as much as possible in securities while minimising the onerous liquidity on current accounts.

In January 2020, the Board of Superintendence decided to implement the *Held to Collect and Sell* business model in order to pursue the purposes set out in IFRS 9 accounting standard, i.e. managing everyday liquidity needs, maintaining a particular interest yield profiles or matching the duration of the financial assets to the duration of the liabilities that those assets are funding. As a result, as of 31 December 2020, 49% of debt securities were managed according to the business model *Held to Collect and Sell* with a concomitant sharp reduction of the "Other/Negotiation" business model that decreased from 83% of debt securities in 2019 year-end to 22% in 2020.

On the Liabilities side, **Due to customers** is the most significant line. The item, representing 70.5% of

While ROA was in line with the previous year, ROE recorded a slight decrease due to both the increase in Equity and the decrease in Net profit.

The ratio "Interest Margin / Total Assets" increased slightly in 2020 due to both the increase of the interest margin and the reduction in total assets; the remaining profitability index, i.e. the ratio "Intermediation margin/Total Assets", decreased due to greater reduction in the intermediation margin compared with the reduction in total assets.

The significant increase in the "Administrative Expenses / Intermediation Margin" index is due to both the increase in incurred expenses and the reduction in the intermediation margin in 2020.

The decrease in the Tier 1 ratio compared to the end of the previous year is attributable to the heavy increase in the ratio denominator, i.e. Risk-weighted assets, mainly due to a higher credit risk in the counterparty risk component. In fact, in January 2020 the lines defined by the Board of Superintendence, aimed at pursuing an adequate profitability considering the level of market rates, were implemented through the introduction of the *Held to Collect and Sell* business model and the selection of a greater volume of corporate, financial and high yield issuers. Accordingly, securities subject to credit and counterparty risk

increased from EUR 1.3bn at the end of 2019 to EUR 2.2bn at the end of 2020 with a Capital Requirement at around EUR 88m compared to EUR 19m in previous year. In this context, however, the control of risk measures and capital absorption, which are well above regulatory limits, was guaranteed.

Assets under Management

With regard to the Assets under Management, all IOR investment products delivered positive absolute returns on average for the second consecutive year and in excess of the reference benchmarks for the majority of products.

renewing its commitment to contributing to the "care of the common home", invoked by Pope Francis in the Encyclical Letter *Laudato si'*, and adopting two key themes highlighted by the Holy Father:

- corporate social responsibility
- the role of companies in creating a sustainable future.

In the selection of corporations for its investments, the Institute utilises positive screening criteria (the most frequently used are Best in Class, Impact Investing and Sustainability) and negative screening criteria.

The constant application of these criteria and the careful and accurate monitoring of investments allow the Institute to make investments consistent with Catholic ethics and to exclude from its investable universe corporations that do not respect it.

Avarage Gross Performance 1/3/5 yrs of the Assets Management lines (Delta 5yr performance vs bechmark) as of 31/12/2020

Asset Management Line	Gross Performance			
	1 year	3 year	5 year	Delta 5 year vs benchmark
Monetary & FI				
Monetary - EUR	0.49%	0.08%	0.72%	2.62%
Monetary - USD	1.63%	6.81%	8.96%	2.94%
Short Term Bd - EUR	1.06%	0.86%	2.43%	2.37%
Short Term Bd - USD	2.49%	7.83%	10.27%	0.72%
International Bd - EUR	0.96%	1.74%	4.01%	3.95%
Balanced				
20% Balanced - EUR	2.15%	4.75%	8.38%	4.32%
20% Balanced - USD	5.46%	13.23%	21.14%	-3.04%
30% Balanced - EUR	2.42%	7.21%	13.18%	7.20%
30% Balanced - USD	7.60%	17.67%	29.40%	-2.53%
50% Balanced - EUR	3.42%	11.11%	21.03%	12.28%
50% Balanced - USD	10.32%	24.23%	42.72%	-1.45%
Multiasset				
Multiasset EUR	3.49%	–	–	–
Equities				
International Eq. - EUR	4.01%	20.90%	40.40%	9.43%
International Eq. - USD	18.11%	39.19%	79.68%	13.91%

2. PREVALENCE OF CATHOLIC PRINCIPLES AND VALUES IN THE MANAGEMENT OF PROPRIETARY AND CUSTOMERS' FINANCIAL ASSETS

Faith consistent investing

The Institute invests in corporations and States that perform activities in line with the Catholic social teaching and with the respect for creation, human life and human dignity.

The Institute constantly keeps focus on sustainability (environmental, social and good governance) and responsibility of its investments,

3. CHARITABLE AND SOCIAL ACTIVITIES

In addition to the transfer of its 2019 profit to the Holy Father, the Institute contributed in 2020 to the realisation of numerous charitable and social activities through:

- donations intended to respond to requests for aid or contributions received by the Institute. During 2020, the most common donations were the direct

disbursement of contributions to student priests for the completion of university studies, financial aid for destitute persons or families (reported by parishes or by individual priests), specific help for missionary and charity work and aid to families who have lost everything as a result of natural disasters;
- access to properties owned by the Institute for rent with subsidised rent or on loan for free use to support institutions with a social purpose.

The decisions concerning the recipients and the amount of donations are always collegial and have been adopted by the Charity Committee - chaired by the Prelate and composed of managers and employees of the Institute - or directly by the Commission of Cardinals.

Regarding properties, the Institute relies on the subsidiary S.G.I.R. S.r.l., a real estate company governed by Italian law, with its registered office in Rome, specifically established to manage this portfolio of properties. Such properties, located in Italy, have been received in the course of IOR history through legacies or donations by institutions and individuals.

Alongside the typical activities of a real estate company, the business models used by S.G.I.R. S.r.l. also include the granting of properties:
- Through rent with subsidised leases, to help associations or other Catholic institutions that, due to their limited budgets, could not afford to rent at market price;
- On loan for free use, in favour of structures that offer hospitality and support to people in conditions of particular fragility or risk, such as people with psycho-physical problems or disadvantaged families who need accommodation in Rome to assist seriously ill relatives in long-term care in hospitals or in need of continuous therapy.

4. FORECAST FOR 2021

The IOR will continue to serve the Holy Father in His mission as the Universal Pastor, through the provision of dedicated financial advisory service, in full compliance with Vatican and international laws in force.

The Institute will continue to ensure quality services in an effective and responsible manner, not in competition with others, but in competition with itself, given the uniqueness of its role.

In the first months of 2021, the Institute's activity conformed to the Strategic Plan approved by the Board of Superintendence:
- positioning IOR as the financial institution of reference for the Catholic community worldwide, increasing its market share
- modernising and increasing efficiency of services to customers
- strengthening and structuring the Asset Management offering through a prudent, transparent and scalable investment process
- accelerating operational efficiency through evolution of IT systems and organisational redesign
- optimising management of IOR Assets (proprietary portfolio, pension fund, credit, real estate investments) through defined policies, tools and investment processes
- strengthening risk management and compliance to protect customers as well as Vatican and Holy See Institutions.

5. COVID-19 EMERGENCY MANAGEMENT

With regard to the Covid-19 pandemic emergency, which broke out in March 2020, the Institute has taken appropriate measures to protect the health and safety of employees and clients and to ensure business continuity.

From the second week of March 2020 until mid-June, public access to the Institute was suspended, while continuing to ensure the execution of the customer orders received by computer, via mail or Nunciatures.

All the health provisions set out by the Vatican City State have been constantly implemented and all measures have been promptly taken to contain the spread of the virus and ensure business continuity.

All the necessary measures have been promptly activated to protect employees by enabling smart working and providing them with all the necessary IT equipment to guarantee business continuity even in the extreme event of the closure of the Institute.

Business continuity has always been ensured by providing measures aimed at protecting the health of employees, such as, for example, social distancing, periodic sanitisation of equipment and furniture, breather shields and the provision of masks, but most important, ensuring access to a widespread vaccination plan: to date, all Institute employees have been vaccinated.

The severity of the pandemic had a strong impact on financial markets, resulting in high volatility of all financial indicators and interest rate curves. The Institute protected itself by taking all necessary actions to avoid or at least reduce losses, in a fast, skilful and reactive manner.

IOR

Istituto per le Opere di Religione

Financial Statement

BALANCE SHEET

(in Euro)

ASSET	2020	2019
10. Cash and cash equivalents	12,617,961	18,190,167
20. Financial assets at fair value through profit or loss	599,593,141	1,530,919,352
of which:		
(a) financial assets held for trading	*599,593,141*	*1,530,919,352*
30 .Financial assets at fair value through other comprehensive income	1,161,321,774	1,074,718
40. Financial assets at amortised cost	1,023,814,191	1,310,615,859
of which:		
(a) loans and advances to banks	*573,218,100*	*987,534,395*
(b) loans and advances to customers	*450,596,091*	*323,081,464*
70. Investment in subsidiaries	15,834,950	15,834,950
80. Tangible assets	3,329,529	3,880,793
90. Intangible assets	1,508,804	620,822
120. Other assets	46,289,943	54,226,990
Total Assets	**2,864,310,293**	**2,935,363,651**

(in Euro)

LIABILITIES AND EQUITY	2020	2019
10. Financial liabilities at amortised cost:	2,019,486,634	2,096,560,032
of which:		
a) due to banks	–	–
b) due to customers	*2,019,486,634*	*2,096,560,032*
80. Legates	16,027,733	18,515,309
90. Other liabilities	13,758,954	14,676,361
100. Staff severance provision	7,112,040	6,137,029
110. Provision for risks and charges	134,691,321	131,182,437
of which:		
a) commitments and guarantees issued	*1,699,119*	*1,699,119*
b) provision for pensions and similar obligations	*132,992,202*	*129,483,318*
c) other provisions for risks and charges	–	–
120. Valuation reserves	*(46,763,920)*	*(53,342,693)*
140. Reserves	383,622,756	383,622,756
of which:		
(a) unavailable reserves	*100,000,000*	*100,000,000*
(b) available reserves	*282,134,172*	*282,134,172*
(c) other reserves	*1,488,584*	*1,488,584*
150. Capital	300,000,000	300,000,000
160. Profit for the year	36,374,775	38,012,420
Total Liabilities and Equity	**2,864,310,293**	**2,935,363,651**

INCOME STATEMENT

		(in Euro)
INCOME STATEMENT	**2020**	**2019**
10. Interest and similar income	21,633,512	24,095,616
20. Interest and similar expense	(2,636,764)	(5,357,062)
30. Interest margin	**18,996,748**	**18,738,554**
40. Fee and commission income	17,645,427	16,467,329
50. Fee and commission expense	(5,546,011)	(5,215,209)
60. Net fee and commission income	**12,099,416**	**11,252,120**
70. Dividends and similar income	46,650	835,777
80. Net trading result	(2,736,329)	25,241,091
100. Net gain (loss) on the disposal or repurchase of:	17,076,119	–
(b) financial assets at fair value through other comprehensive income	*17,076,119*	–
120. Intermediation margin	**45,482,604**	**56,067,542**
130. Net impairment losses/recoveries for credit risk:	2,369,942	474,513
(a) financial assets at amortised cost	*3,298,490*	*474,513*
(b) financial assets at fair value through other comprehensive income	*(928,548)*	–
140. Net income from financial operations	**47,852,546**	**56,542,055**
150. Administrative expenses:	(19,339,999)	(17,664,986)
(a) staff expenses	*(11,951,371)*	*(9,809,538)*
(b) professional services expenses	*(4,030,670)*	*(3,903,651*
(c) other administrative expenses	*(3,357,958)*	*(3,951,797)*
170. Net value adjustments to/recoveries on tangible assets	(322,413)	(331,639)
180. Net value adjustments to/recoveries on intangible assets	(294,878)	(544,618)
190. Other operating income (expense)	8,883,519	135,081
200. Operating costs	**(11,073,771)**	**(18,406,162)**
220. Net result of fair value measurement of tangible and intangible assets	(404,000)	(123,473)
250. Profit from current operations before taxes	**36,374,775**	**38,012,420**
270. Profit from current operations after taxes	**36,374,775**	**38,012,420**
290. Profit for the year	**36,374,775**	**38,012,420**

STATEMENT OF COMPREHENSIVE INCOME

(in Euro)

	2020	2019
10. Profit for the year	**36,374,775**	**38,012,420**
Items that will not be reclassified to Income Statement		
20. Equity instruments designated at fair value through other comprehensive income	129,356	285,844
70. Defined-benefit plans	(3,292,612)	(7,054,830)
Items that will be reclassified to Income Statement		
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	9,742,029	
170. Total other comprehensive income items after taxes	**6,578,773**	**(6,768,986)**
180. Comprehensive income (item 10 + item 170)	**42,953,548**	**31,243,434**

STATEMENT OF CHANGES IN EQUITY

(in Euro)

2020	Total net equity at 31.12.2019	Changes in opening balances	Totale net equity at 01.01.2020	Allocation of previous year profit: Reserves	Allocation of previous year profit: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year: Extra dividend distribution	Changes during the year: Comprehensive income 2020	Net Equity at 31.12.2020
Capital	300,000,000		300,000,000						300,000,000
Reserves									
(a) unavailable	100,000,000		100,000,000						100,000,000
(b) available	282,134,172		282,134,172						282,134,172
(c) other	1,488,584		1,488,584						1,488,584
Valuation reserves	(53,342,693)		(53,342,693)					6,578,773	(46,763,920)
Net profit (loss) for the year	38,012,420		38,012,420		(38,012,420)			36,374,775	36,374,775
Net Equity	668,292,483		668,292,483		(38,012,420)			42,953,548	673,233,611

2019	Total net equity at 31.12.2018	Changes in opening balances	Totale net equity at 01.01.2019	Allocation of previous year profit: Reserves	Allocation of previous year profit: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year: Extra dividend distribution	Changes during the year: Comprehensive income 2019	Net Equity at 31.12.2019
Capital	300,000,000		300,000,000						300,000,000
Reserves									
(a) unavailable	100,000,000		100,000,000						100,000,000
(b) available	282,134,172		282,134,172						282,134,172
(c) other	1,488,584		1,488,584						1,488,584
Valuation reserves	(46,573,707)		(46,573,707)					(6,768,986)	(53,342,693)
Net profit (loss) for the year	17,518,383		17,518,383		(17,518,383)			38,012,420	38,012,420
Net Equity	654,567,432		654,567,432		(17,518,383)			31,243,434	668,292,483

CASH FLOW STATEMENT

(in Euro)

DIRECT METHOD	2020	2019
A. Operating activities		
1. Ordinary activities	**28,757,692**	**39,726,883**
Interest income	17,262,214	30,146,289
Interest expense	(2,864,616)	(5,701,879)
Dividends and similar income	46,650	835,777
Net commissions	12,099,416	11,252,120
Realised profit (loss) from trading	(5,596,896)	21,392,307
Realised profit (loss) from *Held to Collect and Sell*	17,076,119	–
Staff expenses	(10,760,088)	(10,477,366)
Other administrative expenses	(7,388,628)	(7,855,448)
Other operating income (expense)	8,883,521	135,083
2. Cash generated by/(used in) financial assets	**85,424,141**	**(93,793,139)**
Financial assets held for trading	931,548,165	50,485,923
Financial assets at fair value through other comprehensive income	(1,143,633,901)	–
Financial assets measured at amortised cost	289,572,830	(132,693,175)
Other assets	7,937,047	(11,585,887)
3. Cash generated by/(used in) financial liabilities	**(80,250,529)**	**66,683,086**
Financial liabilities measured at amortised cost	(79,333,122)	67,334,202
Other liabilities	(917,407)	(651,116)
Cash generated by/(used in) operating activities	**33,931,304**	**12,616,830**
B. Investing activities		
2. Cash used in:		
Purchases of tangible assets	(175,149)	(611,323)
Purchases of intangible assets	(1,182,860)	(504,628)
Cash generated by/(used in) investing activities	**(1,358,009)**	**(1,115,951)**
C. Financing activities		
Dividend distribution and other purposes	(38,012,420)	(17,518,383)
Cash generated by/(used in) financing activities	**(38,012,420)**	**(17,518,383)**
Cash generated/(used) during the year	**(5,439,125)**	**(6,017,504)**

Items	2020	2019
Cash and cash equivalents at beginning of the period	18,190,167	23,890,022
Cash generated/(used) during the year	(5,439,125)	(6,017,504)
Cash and cash equivalents: forex effect	(133,081)	317,649
Cash and cash equivalents at end of the period	12,617,961	18,190,167

Explanatory Notes

PART 1. ACCOUNTING POLICIES

1.1 General information

1.1.1 Statement of compliance with accounting standards

The 2020 financial statements have been prepared in accordance with the Circular concerning the preparation of the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis, issued by the Supervisory and Financial Information Authority on 15 December 2016 and emended on 31 October 2017.

As stated in the Circular, the financial statements must be prepared in accordance with the "International Accounting Standards – IAS", the "International Financial Reporting Standards – IFRS" and related Interpretations ("Interpretations SIC / IFRIC"), as adopted by the Vatican in a special annex to the Monetary Agreement between the European Union and Vatican City State dated 17 December 2009.

1.1.2 Accounting policies and measurement criteria

The financial statements consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and the Explanatory Notes.

The accounting policies and the measurement criteria adopted for the preparation of the 2020 financial statements, detailed below, are consistent with those of the previous financial year, except for the adoption of new standards, new interpretations or amendments of standards, as disclosed in section 1.1.5 "Impact of New Accounting Pronouncements".

The financial statements of the Institute are prepared in Euros, while the explanatory notes are expressed in thousands of Euros.

For the various items, the 2020 figures and corresponding values for the previous year are provided.

Where necessary, the comparative figures have been adjusted to conform to changes in presentations in the current year.

The financial statements are prepared in Italian.
The financial statements of the IOR were prepared on an ongoing concern basis in accordance with IAS 1- *Presentation of Financial Statements*. On the date of the approval of the financial statements, there were no material uncertainties and, therefore, there was no significant doubt regarding the Institute's ability to continue as an ongoing concern in the foreseeable future.

The financial statements fairly present the financial position, financial performance and cash flows of the Institute.

The preparation of the financial statements requires the management to make estimates and assumptions about the future where actual results may differ. Estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues and expenses in the financial statements. In addition, by their nature, the estimates and assumptions used may change from year to year and, therefore, in subsequent years the values recognised may differ, even significantly, following changes in the assumptions. Consequently, changes in assumptions may have a significant impact on the financial statements in the year in which the assumptions change.

The preparation of the financial statements also requires the management to exercise judgements to estimate the carrying value of assets and liabilities not readily obtainable from independent sources.

The Directorate believes that the underlying assumptions are appropriate and that the IOR's financial statements fairly present its financial positions and results. All estimates are based on historical experience and/or expectations with regard to future events that seem reasonable on the basis of information known at the time of the estimate. They are also reassessed on a regular basis and the effects of any variation are immediately reflected in the financial statements.

Those areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Section 1.1.4 "Critical accounting estimates and judgements".

The financial statements do not reflect a provision for taxes because there is no corporate income tax in the Vatican City State.

For the year ended 31 December 2020, the Institute, given the immaterial value of its subsidiary, did not prepare consolidated financial statements in accordance with the provisions of the Conceptual Framework (QC6 – QC11) of IAS/IFRS, since the additional information coming from the consolidated financial statements would be immaterial for the users of the financial statements.

The Institute provides the additional information required by IFRS 12-*Disclosure of interests in other entities* in Part 5, Section 5.2.2.D "Information on unconsolidated structured entities".

The financial statements of the Institute are prepared by the Directorate and approved by the Board of Superintendence. After approval, they will be submitted to the Commission of Cardinals, enclosing the Management Report.

The Commission of Cardinals acknowledges the financial statements and decides on the distribution of profits, after taking into account the IOR's minimum capital requirements.

1.1.3 Subsequent events

According the provisions of IAS 10-*Events after the reporting period*, all events that took place subsequent to 31 December 2020 have been evaluated in the preparation of the 2020 financial statements.

There are no events occurring after 31 December 2020, reporting date of these financial statements, and the date on which the financial statements are presented and authorised by the Directorate, such as to require adjustments to the financial statements or additional disclosure as required by IAS 10-*Events after the reporting period.*

1.1.4 Critical accounting estimates and judgements

Critical judgements in preparation of the Institute financial statements

In the process of applying the accounting policies adopted by the IOR, there are circumstances that lead the management to make estimates and assumptions that have a significant impact on the amounts recognised in the financial statements.

The main area relates to the valuation process used for financial instruments. Fair value measurement requires to use critical judgements such as determining criteria according which a market is active or not, whether an asset is liquid or illiquid, when deciding market inputs and parameters to be used, when they must be reviewed, and assessing circumstances where internal parameters are more reliable than market-based ones. Also critical judgements are required for the measurement of impairment and measurement of expected credit loss of financial assets.

Another critical accounting estimate is related to the measurement of retirement benefits and other post-employment liabilities, which are estimated through an actuarial valuation performed by an independent expert. Such an evaluation is based on critical judgements since estimates are made regarding the likelihood of future events and the actual results could differ from those estimates.

Defined benefit plans are measured with reference to uncertain events and based upon actuarial assumptions including discount rates, expected rates of salary increases, estimated retirement dates and mortality rates. The significant assumptions used to measure defined benefit plans are as follows: (i) discount and inflation rates reflect the rates at which benefits could be effectively settled, considering the duration of the obligation. Indicators used in selecting the discount rate include market yields on high quality corporate bonds and an estimate of future inflation rates; (ii) the future salary levels of the individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions), promotion and seniority; (iii) demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for individual employees involved. Differences in the amount of the defined benefit liability usually occur and they derive from the remeasurements following changes in the current actuarial assumptions or differences between the previous actuarial assumptions and what has actually occurred.

Estimates that contain elements of uncertainty with risk of material adjustments within the next financial year

The process of applying the IOR's accounting policies may require the use of key assumptions affecting the future, and/or other sources of estimation uncertainty as of the balance sheet date, with a significant risk of causing material adjustments to the carrying amount of assets and liabilities in the next financial year.

Key assumptions and judgments made in the IOR financial statements relate to the assessment of illiquid debt securities and external investment funds included within the portfolio held for trading, as disclosed in the section 1.4 "Fair value information".

Illiquid financial assets are not quoted in active markets and their fair value is not readily available in the market.

These financial assets subject to estimation uncertainties (Level 3 of fair value hierarchy) amounted to EUR 11.9m as of 31 December 2020 (2019: EUR 13m). These exclusively comprised externally managed investment funds.

With reference to the contingent liabilities related to commitments linked to these investment funds, they are valued taking into account all available information at the date of preparation of these financial statements. The dispute in progress concerning one of these funds is currently at a preliminary stage so there is no significant information to be highlighted in the financial statements. This assessment is made on the basis of assumptions and the process of estimation is characterised by elements of uncertainty. By their nature, the estimates and assumptions used may vary from one period to another and, therefore, it can not be excluded that, in subsequent periods, the amounts of such liabilities may differ materially from those currently estimated as a result of new information and changes in the assumptions utilised.

During December 2020, the managers of the fund subjected to the above-mentioned dispute launched a separate action against the Institute, seeking compensa-

tion for the damage allegedly caused by the IOR through actions successfully brought against the fund, and obtained a seizure order of EUR 29.5m to protect their compensation claim. The Institute will challenge the seizure, once full access to the file will be obtained, because, in addition to the unfounded merits of the opposing claim, there is no reason for the precautionary credit protection against an entity, such as the IOR, which is known to be financially sound and solvent.

1.1.5 Impact of New Accounting Pronouncements

Accounting standards, amendments and interpretations effective 1 January 2020

The following accounting standards, amendments and interpretations of IFRS were adopted for the first time by the IOR effective 1 January 2020:

- **"Interest Rate Benchmark Reform"** (published on 26 September 2019)
  Amendments to **IFRS 9**-*Financial Instruments*, **IAS 39**-*Financial Instruments: Recognition and Measurement* and **IFRS 7**-*Financial Instruments: Disclosures.*
  The amendments modify some requirements for the hedge accounting, providing temporary exceptions to these, in order to mitigate the impacts of the uncertainties over the "Benchmark Reform" which provides starting 1 January 2022:
  – the replacement of the Eonia rate (European Overnight Index Average) with the €STR rate (Euro Short Term Rate);
  – a change in the methodology used to calculate the Euribor in order to make the indicator consistent with the new regulations.

  More specifically the amendment allows to manage the uncertainty on future cash flows for hedge accounting purposes in the period prior to the full completion of the reform and it requires disclosures to be reported in financial statements on the hedging relationships that are directly affected by the uncertainties generated by the reform and to which the aforementioned exceptions apply. The adoption of these amendments did not significantly affect IOR financial statements.

- **"Leases Covid 19 – Related Rent Concessions"** (published on 28 May 2020)
  Amendment to **IFRS 16**-*Leases).*
  This amendment introduces a practical expedient to the "lease modifications" chapter, enabling the lessee (not the lessor) not to consider any rent payment concessions deriving from the effects of Covid-19 as a modification of the original contract; therefore, the above-mentioned modifications will need to be accounted for as if the contract had not been amended. In order to apply this exemption the payment concession must be a direct consequence of the Covid-19 pandemic and all of the following conditions must be met:
  – the payment modification has left unchanged - with respect to the original conditions - the amount to be paid or has reduced it;
  – the payment reduction refers only to those originally due until June 2021;
  – there are no substantial amendments in the other contractual terms or conditions of the lease.

  Furthermore, if the lessee adopts the practical expedient described above, it must provide a disclosure in the financial statements. The amendments may be applied starting from financial statements for annual periods beginning on or after 1 June 2020, but it may be immediately adopted in the financial statements not yet approved. Lastly, lessees will need to adopt the practical expedient retroactively by accounting for the cumulative effect of the initial adoption of the amendment to IFRS 16 as a modification of the opening balance (on retained earnings or other accounting items in shareholders' equity) relating to the financial statements in which the above-mentioned practical expedient was applied for the first time.
  The adoption of these amendments did not significantly affect IOR financial statements because the Institute did not request any rent payment concessions.

- Amendments to the **IFRS Conceptual Framework for Financial Reporting** (published on 29 March 2018).
  The main changes concern:
  – a new chapter on measurement;
  – better definition and guide, in particular with reference to the definition of liability;
  – clarifications of requirements, such as stewardship, prudence and uncertainty in measurement.

  The adoption of these amendments did not significantly affect IOR financial statements.

- **"Definition of a Business"** (published on 22 February 2018)
  Amendment to **IFRS 3**-*Business Combinations.*
  The document provides some clarifications regarding the definition of business for the purpose of the correct adoption of IFRS 3. In particular, the amendment clarifies that, while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities / processes and assets. The amendment also introduced a test ("concentration test"), optional for the entity, which may be used to determine whether a set of assets / processes and assets purchased constitutes a busi-

ness. The amendments apply to all business combinations and acquisitions of assets subsequent to 1 January 2020. The adoption of this amendment did not significantly affect IOR financial statements.

- **"Definition of Material"** (published on 31 October 2018)
  Amendments to **IAS 1**-*Presentation of Financial Statements* **and IAS 8**-*Accounting Policies, Changes in Accounting Estimates and Errors.*
  These amendments aims to make the definition of "relevant" more specific and introduces the concept of "obscured information," which is introduced alongside the concepts of omitted or incorrect information, which are already present in the two standards subject to the amendment. The amendment clarifies that an information is "obscured" if it has been described in such a way as to produce an effect similar to the one that would have been produced if this information had been omitted or incorrect for primary readers of a financial statement. The adoption of this amendment did not significantly affect IOR financial statements.

Accounting standards, amendments and interpretations approved by the European Union, mandatorily applicable or early adoptable at 1 January 2021

In this regard the sole novelty is:

- **"Insurance Contracts - Extension of the Temporary Exemption from Applying IFRS 9"** (published on 25 June 2020)
  Amendments to **IFRS 4**-*Insurance Contracts.*
  The amendments to IFRS 4 aim to resolve the temporary accounting consequences of the mismatch between the effective date of IFRS 9-*Financial Instruments* and the effective date of the IFRS 17-*Insurance Contracts*. Specifically, the amendments to IFRS 4 postpone the expiration of the temporary exemption from adoption of IFRS 9 until 2023 in order to align the date of effectiveness of IFRS 9 with the new IFRS 17. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- **"Reform of the benchmark for determining interest rates – Phase II** (published on 27 August 2020).
  Amendments to **IFRS 9**-*Financial Instruments*, **IAS 39**-*Financial Instruments: Recognition and Measurement,* **IFRS 7**-*Financial Instruments: Disclosures* and **IFRS 16**-*Lease.*
  The document provides the possibility of considering the changes on financial assets, financial liabilities and leases, resulting from the reform, as changes resulting from an update of the reference interest rate, as well as the possibility of not interrupting hedging relationships due solely to the effect of the reform. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

Accounting standards, amendments and interpretations not yet endorsed by the European Union

At the date of these financial statements, the relevant European Union bodies have not yet completed the approval process necessary for the adoption of following standard or amendments:

- Standard **IFRS 17**-***Insurance Contracts*** (published on 18 May 2017), that will replace **IFRS 4** - *Insurance Contracts.* The aim of new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from the insurance contracts issued. The IASB has developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework regarding all types of insurance contracts, including the reinsurance contracts that an insurer holds.
  The new standard also provides the disclosure requirements to improve comparability between entities belonging to this sector.
  The standard is effective from 1 January 2023. Earlier adoption is permitted only for entities that apply IFRS 9-*Financial Instruments* and IFRS 15-*Revenue from Contracts with Customers.* No impact in the IOR financial statements from the adoption of this standards is expected.

- **"Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"** (published on 23 January 2020).
  Amendments to **IAS 1**-*Presentation of Financial Statements*
  The aim of amendments is to clarify how to classify payables and other liabilities as either current or non-current. The amendments specify that the classification be made on the basis of the rights existing at the reporting date, without considering the expectation of exercising payment deferment. The amendments will have become effective on 1 January 2022, with early adoption permitted. Subsequently, on 15 July 2020, the IASB published an additional document that provided one-year deferral for the date of first adoption, from 1 January 2022 to 1 January 2023. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- **"Reference to the Conceptual Framework"**
  Amendments to **IFRS 3**-*Business combinations* which updates the reference present in IFRS 3 to the Conceptual Framework in the revised version, without amendments to the provisions of the standard. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- **"Property, Plant and Equipment - Proceeds before intended use"**
  Amendments to **IAS 16**-*Property, Plant and Equipment* which prohibits deducting from the cost of property, plant and equipment the amount received from the sale of items produced in the asset testing phase. These sales revenues and the relative costs will be recognised in the income statement. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- **"Onerous Contracts - Cost of Fulfilling a Contract"**
  Amendments to **IAS 37**-*Provisions, Contingent Liabilities and Contingent Assets* which clarifies which costs must be considered in the assessment of the onerousness of the contract. More specifically, the cost to fulfil a contract includes the costs that directly refer to the contract. They may be incremental costs (for example, costs for the direct material used in processing), but also the costs that the entity cannot avoid as it has entered into the contract (e.g., the share of the personnel costs and the depreciation of the equipment used to fulfil the contract). No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- **"Annual Improvements to IFRS Standards 2018–2020"** which contains proposed amendments to four standards:
  - **IFRS 1**–*First-time adoption of International Financial Reporting Standards* "Subsidiary as a first-time adopter";
  - **IFRS 9**–*Financial Instruments* "Fees in the '10 per cent' test for derecognition of financial liabilities": the amendment clarifies which fees should be considered in performing the test in application of par. B3.3.6 of IFRS 9, to evaluate the derecognition of a financial liability;
  - **IFRS 16**–*Leases* "Lease incentives": the amendment regards an illustrative example;
  - **IAS 41**–*Agriculture* "Taxation in fair value measurements".

  No significant impact in the IOR financial statements from the adoption of these amendments is expected.

1.2 Information on the main financial statement items

1.2.1 Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

All financial assets other than those classified as financial assets at fair value through other comprehensive income and as financial assets at amortised cost are classified in this category. The item includes:

- financial assets held for trading, essentially represented by debt instruments, equity securities and all derivatives with a positive replacement value acquired or incurred principally for the purpose of selling in the short term;
- financial assets mandatorily measured at FVTPL, represented by financial assets managed according the *Held to Collect* or *Held to Collect and Sell* business models but that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual cash flows do not pass the SPPI test as they do not represent solely payments of principal and interest;
- financial assets designated at fair value, i.e. the financial assets thus defined at the time of initial recognition. An entity can irrevocably designate a financial asset as measured at fair value through profit or loss only if that eliminates or significantly reduces an inconsistency in evaluation.

In particular, the Institute recognises in this item:

- debt securities not managed according the *Held to Collect* or *Held to Collect and Sell* business models (i.e. those included under an "Other / Trading" business model) (item a. financial assets held for trading);
- debt securities and loans managed according the *Held to Collect* or *Held to Collect and Sell* business models that do not pass the SPPI test (item b. financial assets mandatorily at fair value);
- equity securities held for trading purposes or that the Institute did not designate at fair value through other comprehensive income upon initial recognition (item a. financial assets held for trading);
- UCI units held for trading purposes (item a. financial assets held for trading).

As of 31 December 2020, the financial assets classified in this category were mainly those acquired for trading purposes, therefore not managed according the *Held to Collect* or *Held to Collect and Sell* business models.

The item includes also derivatives, recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

In 2020, as well as in 2019, the Institute did not hold derivatives.

Recognition criteria

Purchases of financial assets measured at fair value through profit or loss are recognised on the trade date, which is the date on which the Institute is committed to purchasing the asset.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value through profit or loss, which generally corresponds to the initial cash consideration paid, excluding direct transaction costs directly attributable to the instrument, which are recognised through the Income Statement.

Derivatives are initially recognised at fair value on the date in which a derivative contract is entered into. The fair value generally corresponds to the consideration paid.

Measurement criteria

Subsequent to initial recognition, the financial assets are measured at fair value, with any gains or losses arising from the change in fair value recognised in the Income Statement.

For the fair value measurement please refer ahead to Section 1.4 "Fair value information".

Income Statement recognition

Gains and losses arising from disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial asset held for trading are recognised in the Income Statement, item 80 "Net trading result".

Gains and losses arising from disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets mandatorily measured at fair value through profit or loss are recognised in the Income Statement, item 110 "Net result from other assets and liabilities measured at fair value through profit or loss".

Interest income and expense arising from the financial assets at fair value through profit or loss are recognised in the Income Statement on an accrual basis and recognised "pro rata temporis" based on the contractual interest rate. These are recognised in the Income Statement, item 10 "Interest and similar income".

Dividends on financial assets at fair value through profit or loss are recognised in the Income Statement, item 70 "Dividends and similar income" when the entity's right to receive payment is established.

Derecognition

Disposals are recognised on the trade date, which is the date on which the Institute is committed to dispose of the assets.

All financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or when the IOR has substantially transferred all risks and rewards of ownership or when the Institute no longer has the control over the financial assets.

1.2.2 Financial assets measured at fair value through other comprehensive income

Classification criteria

Financial assets that meet both of the following conditions are classified in this category:

- financial assets managed according to the *Held to Collect and Sell* business model, i.e. held both for collecting contractual cash flows and for selling with the objectives provisioned by the IFRS 9 accounting standard. For example, the objective may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed).

The category also includes equity securities not held for trading for which the entity applies the option granted by the standard measuring the assets at fair value through other comprehensive income ("FVOCI option").

In particular, the Institute recognises in this item:

- debt securities that are managed according the *Held to Collect and Sell* business model and have passed the SPPI test;
- equity securities, not classified as controlling, connection or joint control, which are not held for trading, for which the Institute applies the option granted by the standard measuring the assets at fair value through other comprehensive income ("FVOCI option").

As of 31 December 2020, the financial assets classified in this category were debt securities managed according to *Held to Collect and Sell* business model and equity securities that the Institute purchased to participate in the SWIFT and VISA circuits.

Recognition criteria

All purchases of financial assets at fair value through other comprehensive income are recognised on the trade date, which is the date on which the Institute is committed to purchasing the asset.

They are initially recognised at fair value in addition to any direct transaction costs directly attributable to the instrument.

Measurement criteria

Subsequent to initial recognition, assets classified at fair value through other comprehensive income represented by debt securities are measured at fair value with the recognition in the Income Statement of the impacts deriving from the application of amortised cost, the effects of impairment and of any exchange rate effect, while other profits or losses deriving from a change in fair value are recognised in a specific equity reserve and represented in the Statement of Other Comprehensive Income. At the time of disposal of the financial asset, either partial or total, the profit or loss accumulated in the valuation reserve is reversed, in whole or in part, to the Income Statement (item 100 "Net gain (loss) on the disposal or repurchase of: (b) financial assets at fair value through other comprehensive income").

Equity securities for which the choice was made for classification in this category are measured at fair value and the amounts recognised in a specific equity reserve must not subsequently be transferred to the Income Statement, even in the event of disposal. The only component attributable to the equity securities that is recorded in the Income Statement is represented by the related dividends.

For the fair value measurement, please refer to Section 1.4 "Fair value information".

Financial assets at fair value through other comprehensive income are tested for impairment as required by IFRS 9 with the consequent recognition of the expected losses in the Income Statement and in the equity reserve. More specifically, a 12 month expected loss is recorded for instruments classified as stage 1 (i.e. performing financial assets at the time of origination and instruments for which a significant increase in credit risk has not occurred since the date of initial recognition, measured on a quarterly basis). Instead, for instruments classified as stage 2 (*"in bonis"* for which there was a significant increase in credit risk since the date of initial recognition) and stage 3 (non-performing exposures), an expected loss over the remaining life of the financial instrument is recognised.

Equity securities are not subject to the impairment test.

Income Statement recognition

The amounts arising from the changes in the credit risk of financial assets measured at fair value through other comprehensive income are recognised in the Income Statement under item 130 "Net impairment losses/recoveries for credit risk of: (b) financial assets at fair value through other comprehensive income". The same item includes any recoveries due to a subsequent reduction in credit risk.

Another impact on the Income Statement is the total or partial disposal of financial assets classified in this category other than equity securities. The gain or loss deriving from changes in fair value accumulated in the valuation reserve is reversed, in whole or in part, to the Income Statement (item 100 "Net gain (loss) on the disposal or repurchase of: (b) financial assets at fair value through other comprehensive income").

Interest income and expense arising from the financial assets at fair value through other comprehensive income are recognised in the Income Statement on an accrual basis and recognised "pro rata temporis" based on the effective interest rate method. These are recognised in the Income Statement, item 10 "Interest and similar income".

Dividends on financial assets at fair value through other comprehensive income are recognised in the Income Statement, item 70 "Dividend and similar income" when the entity's right to receive payment is established.

Derecognition

Disposals are recognised on the trade date, which is the date on which the Institute is committed to dispose of the assets.

All financial assets at fair value through other comprehensive income are derecognised when the rights to receive cash flows from the financial assets have expired or when the IOR has substantially transferred all risks and rewards of ownership or when the Institute no longer has the control over the financial assets.

1.2.3 Financial assets measured at amortised cost

Classification criteria

Financial assets that meet both of the following conditions are classified in this category:

- financial assets managed according to the *Held to Collect* business model, i.e. held for receiving contractual cash flows and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed).

In particular, the Institute recognises in this item debt securities and loans managed according to the *Held to Collect* business model that passed SPPI test.

Loans consists of:

- loans and advances to banks in various technical forms;
- loans and advances to customers in various technical forms.

Recognition criteria

Like other securities, purchases of debt securities classified as financial assets at amortised cost are initially recognised on the trade date, which is the date on which the Institute is committed to purchasing the asset.

They are initially recognised at fair value in addition to any direct transaction costs.

Loans and advances to banks and customers are recognised when the amount is advanced to the borrower. They are also initially recognised at fair value, which is the value of the loan, plus any direct transaction costs.

Measurement criteria

Subsequent to initial recognition, financial assets in this category are subsequently measured at amortised cost using the effective interest rate method, adjusted to take into account the effects deriving from changes in credit risk, better disclosed below.

Amortised cost is a method by which the asset is recognised for an amount equal to the initial recognition minus any capital repayments, plus or minus the accumulated amortisation of the difference between this initial amount and the amount at maturity, subsequently net of value adjustments.

The cumulative amortisation is calculated using the effective interest rate method.

The effective interest method is a method calculating amortised cost of an asset or a financial liability and of allocating interest. The effective interest rate is the rate that makes the present value of expected cash flows until maturity of the financial instrument exactly equal to the current carrying value. The calculation not only includes all fees and premiums or discounts received or paid to the counterparty, which are an integral part of the effective interest rate, but also the transaction costs and all other premiums or discounts.

The amortised cost method is not used for short-term loans (which are therefore measured at historical cost) and therefore the effect of applying the discounting logic is negligible. A similar measurement criterion is adopted for receivables without a defined expiry or revocation date.

Financial assets at amortised cost are tested for impairment for credit risk as required by IFRS 9 with the consequent recognition of the expected losses in the Income Statement.

In this regard, these assets have to be assigned to one of the three stages required by IFRS 9 according to their credit quality and following specific methods for calculating adjustment.

At initial recognition, financial assets are assigned to Stage 1, unless they are non-performing at the time of origination. This involves the expected loss over a 12-month period be calculated and impairment equal to the expected loss be recognised to Income Statement.

With regard to subsequent periods:

- exposures for which credit risk has not significantly deteriorated since initial recognition remain in Stage 1, the expected loss over a 12-month period is calculated and impairment equal to the expected loss is recognised to Income Statement;
- exposures that, although performing, have seen their credit risk deteriorate significantly since initial recognition, are assigned to Stage 2. The expected loss is calculated over the remaining life of the exposure and it is recognised to Income Statement;
- exposures that have seen their credit risk deteriorate significantly since initial recognition and losses can be observed, are assigned to Stage 3. The expected loss is calculated over the remaining life of the exposure and it is recognised to Income Statement;
- where the "significance" of this increase is then eliminated, impairment is adjusted to take into account the change from an expected loss over the remaining life of the instrument to an expected loss over a 12-month period.

Performing Financial Assets, i.e. assigned to Stage 1 and Stage 2, are evaluated per single financial asset according to the risk parameters as Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") derived from the internal rating models in use (Credit Rating System) that consider the provisions of IFRS 9.

In addition to a significant increase in the credit risk, if objective evidence of a loss also occurred, impairment of the assets is based on the present value of expected cash flows of principal and interest (asset classified as "non-performing"- Stage 3). In determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discount rate used. The amount of the loss, to be recognised in the Income Statement, is defined on the basis of an analytical assessment process.

Financial assets, which have been assigned the status of bad loan, probable default or past due / overdue for more than ninety days, fall within non-performing assets.

The expected cash flows take into account the expected recovery time of the credit.

The original effective rate of each asset remains unchanged over time even if the position has been restructured leading to a change in the contractual rate and even if the position becomes, in practice, non-interest bearing.

Should the reasons for the loss of value be removed following an event occurring subsequent to the recognition of the impairment, recoveries are recognised in the Income Statement. The recoveries cannot exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments.

The recoveries of value connected with the passing of time are posted in the interest margin.

Income Statement recognition

Interest income and expense arising from the financial assets measured at amortised cost are recognised in the Income Statement on an accrual basis and recognised "pro rata temporis" using the effective interest rate method. These are recognised in the Income Statement, item 10 "Interest and similar income".

Gains and losses on financial assets measured at amortised cost are recognised in the Income Statement through the financial amortisation process (item 10 "Interest and similar income").

The measurement criterion at amortised cost produces a translation of transaction costs and ancillary revenues over the duration of the financial assets instead of impacting the Income Statement only in the year of the first recognition.

Other Income Statement impacts when the assets are derecognised (item 100 "Net gain (loss) on the disposal or repurchase of: (a) financial assets at amortised cost") or when impairment for expected losses is recognised in the Income Statement (item 130 "Net impairment losses/recoveries for credit risk of: (a) financial assets at amortised cost").

Also, recoveries of impairment are recognised in the Income Statement (item 130 "Net impairment losses/recoveries for credit risk of: (a) financial assets at amortised cost").

Interests accruing over time due to the discounting of non-performing loans are recognised in the Income Statement under the item 10 "Interest and similar income".

Derecognition

Disposals are recognised on the trade date, which is the date on which the Institute is committed to dispose the assets. The IOR may sell financial assets at amortised cost with the limitations provisioned by the policy adopted by the Institute.

Financial assets measured at amortised cost are derecognised when the rights to receive cash flows from the financial assets have expired or when the IOR has substantially transferred all risks and rewards of ownership or when the Institute no longer has the control over the financial assets.

1.2.4 Hedge accounting

The Institute does not enter into Fair value hedges, Cash flow hedges or Net investment hedges for foreign currency transactions/positions.

1.2.5 Investment in subsidiaries

Investment in subsidiaries consists of the stake in the wholly-owned real estate company S.G.I.R. S.r.l., based in Rome, Via della Conciliazione.

Investment in subsidiaries is carried at cost, less impairment.

The principal assets of this company are real estate properties.

Real estate owned by the subsidiary is not depreciated in accordance with the standard OIC 16 because their market value at the end of useful time is estimated constantly higher than the actual carrying value, based on surveys performed by a qualified expert and periodically updated. In addition, underlying land is not depreciated.

1.2.6 Tangible assets

1.2.6.1 Tangible assets for investment - Investment properties

Investment properties are properties directly owned by the IOR. These are buildings not owner-occupied. They were inherited and held to generate rental income, capital appreciation or both.

Investment properties are initially measured at cost (which is zero in case of inheritances) and, subsequently, at fair value, with any change recognised in the Income Statement, item 220 "Net result of fair value measurement of tangible and intangible assets".

Improvements to buildings increase their carrying amounts.

1.2.6.2 Tangible assets for business activities

Tangible assets for business activities includes operating buildings, electronic equipment, furniture, furnishings, all equipment and vehicles.

These are assets held for producing or providing services and they can be used for more than one year.

Electronic and other equipment, furniture and vehicles

All equipment, furniture and vehicles are initially recognised at cost, generally based on the fair value of the consideration paid for the assets and includes expenditure that is directly attributable to the acquisition and start-up of the items.

Subsequent costs are included under the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that the IOR will recognise future economic benefits associated with the item.

All repairs and maintenance costs are charged to the Income Statement in the year they are incurred.

On each balance sheet date, equipment, furniture and vehicles are amortised on a straight-line basis over their expected useful lives, usually measured in four years.

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount may not be recoverable. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

The result of the impairment test and the depreciations are recognised in the Income Statement under item 170 "Net value adjustments to/recoveries on tangible assets".

Gains and losses on disposals are determined as the difference between the sale proceeds and the carrying amount of the assets. They are recognised in the Income Statement under item 190 "Other operating income (expense)".

Property and other

The rights of use over some properties utilised as archive and some electronic data storage stated in lease contracts are included in the item.

As required by IFRS 16-*Leasing*, at the initial recognition, such asset is measured on the basis of the lease contract cash flows.

The accounting policies adopted in these cases are the same disclosed in the previous paragraph.

1.2.7 Intangible assets

Intangible assets correspond to computer software licenses and to expenses related to their implementation. Acquired computer software licenses are recognised at acquisition costs, including costs incurred to bring the specific software into use. These costs are amortised on a straight-line basis over their expected useful lives, generally measured in four years.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell it and its value in use.

The results of the impairment test and depreciation are recognised in the Income Statement under item 180 "Net value adjustments to/recoveries on intangible assets".

Costs associated with maintenance of computer software programs are recognised as an expense in the Income Statement when incurred.

1.2.8 Financial liabilities measured at amortised cost

The item comprises amounts due to banks and to customers.

The amount due to banks comprises only interim current accounts overdrafts, as the Institute does not carry out funding activities on the interbank market.

The amount due to customers is composed of financial instruments (other than trading liabilities) that assumed the typical forms of funding, that the IOR carries with customers.

The mentioned financial liabilities are recognised in the financial statements on the trade date, which is the date when IOR receives the amounts. They are initially recognised at the current value, which normally corresponds to the amount collected. The initial recognition value includes possible transaction costs directly attributable to each liability; charges which are a reimbursement of expenses or that are attributable to internal administrative expenses are not included in the initial carrying amount.

After the initial recognition, the amounts due to banks and to customers are measured at amortised cost using the effective interest rate method. The short-term liabilities remain carried at the amount received because for them the effect of applying the discounting logic is negligible.

Interest expense related to amounts due to banks and to customers is recognised in the Income Statement under item 20 "Interest and similar expense".

Amounts due to banks and to customers are derecognised when they are expired or extinguished.

1.2.9 Legates

According to Canon Law (Can. 1303), the term "Legati – non autonomous pious foundation" comprises: "temporal goods given in any way to a public juridical person with the obligation for a period to be determined by particular law, of celebrating Masses, or performing specific ecclesiastical functions, or otherwise achieving the purposes mentioned in Can. 114, par. 2 on the basis of the annual revenues".

Based on such definition, "Legates – pious non-autonomous foundations" are arrangements whereby capital is donated or willed to the IOR for religious or charitable purposes, based on the understanding that the received capital is invested on a long-term basis and the annual income earned from the investment is devoted to the fulfilment of the purpose prescribed by the donor. Under these provisions, the IOR will administer the capital in accordance with the purpose prescribed by the donor (e.g. for Holy Mass Intention or scholarships).

Legates are recognised in the financial statements on the trade date, which is the date when IOR receives the amounts. Legates are initially recognised at the current value, which normally corresponds to the amount received. The initial recognition value includes also transaction costs directly attributable to each liability; not

included in the initial value are all charges which are a reimbursement of expenses or which are attributable to internal administrative expenses.

After the initial recognition, Legates are measured at amortised cost using the effective interest rate method.

The interest expense related to the Legates are recognised in the Income Statement under item 20 "Interest and similar expense".

Legates are derecognised when they expire or are extinguished.

1.2.10 Staff severance provision

Staff severance provision is a post-employment benefit that corresponds to indemnities paid to personnel when they leave the IOR. The amount due is based on years of service and salary paid in the last year of employment. These benefits are financed by contributions from employees and the IOR.

As a defined benefit plan, the provision is measured with utilising certain actuarial assumptions, and it corresponds to the present value of the estimated future cash outflows according to the projected unit credit method required by IAS 19-*Employee benefits*. Remeasurements arising from the defined benefit plan comprise actuarial gains and losses, recognised in Other Comprehensive Income. All other expenses related to the defined benefit plan are recognised in the Income Statement under item 150 "Administrative Expenses" (a) "Staff expenses".

1.2.11 Provisions for risks and charges – Provision for pensions and similar obligations

For the pensions of its employees, the IOR operates a defined benefit plan, which is financed by contributions from employees and the IOR.

The IOR's net liabilities related to the defined benefit plan for pensions is calculated by estimating the amount of future benefit that employees will earn in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The IOR determines the interest expense on the defined benefit liability for the year by applying the discount rate used to measure the same liability at the beginning of the year.

The discount rate is the yield on the reporting date from high quality corporate bonds that have maturity dates approximating the terms of the IOR's liabilities and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary, who assesses the fairness of the liability, using the projected unit credit method as required by IAS 19-*Employee benefits*. Remeasurements arising from the defined benefit plan comprise actuarial gains and losses. The IOR recognises them immediately in Other Comprehensive Income and all other expenses related to the defined benefit plan are recognised in the Income Statement under item 150 "Administrative expenses" (a) "Staff expenses".

When the benefits of the plan are changed, the portion of the changed benefit related to past service by employees is recognised immediately in the Income Statement.

On 1 January 2005, all IOR personnel also joined the general Vatican City State pension plan. This system is financed by contributions made by the Institute and employees. Contributions to the Vatican plan made by the IOR are recognised in the Income Statement under item 150 "Administrative expenses" (a) "Staff expenses" when they occur.

Consequently, the IOR's defined benefit plan for pensions covers the entire amount to be paid by the Institute to employees for their service up to 31 December 2004. The obligation related to pensions from 1 January 2005 is limited to the part not covered by the Vatican City State Pension Plan taking into account the difference in the retirement age of the two pension systems.

1.2.12 Foreign Currency Transactions

Functional and presentation currency

The functional currency is the currency in which the items included in the financial statements must be measured. According to IAS 21-*Effects of changes in foreign exchange rates*, the functional currency is the currency of the primary economic environment in which the entity operates. This is the currency that determines the pricing of transactions, but it is not necessarily the currency in which transactions are denominated.

The reporting currency is the currency in which the financial statements are prepared. IAS 21 allows an entity to prepare its financial statements in any currency.

The IOR's functional and presentational currency is the Euro, which is the currency of the primary economic environment in which the Institute operates.

Transactions and balances

Foreign currency transactions, if they affect profit or loss accounts, are converted into the functional currency using the exchange rates applicable at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency using the spot exchange rate at the reporting date (closing rate).

Non-monetary assets and liabilities denominated in foreign currencies are translated using the rate at the date their amount (cost or fair value) was determined: non-monetary items carried at cost are converted at the ex-

change rate at the date of initial recognition in the financial statements, while non-monetary items carried at fair value are translated using the rate at the date of the measurement of their fair value.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the conversion at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement under item 80 "Net trading result".

Foreign exchange gains and losses resulting from the conversion at year-end exchange rates of non-monetary assets and liabilities are:

- recognised in the Income Statement as part of the fair value gain or loss if the non-monetary assets and liabilities are carried at fair value through profit and loss;
- included in the fair value reserves in the equity if the non-monetary assets and liabilities are carried at fair value through other comprehensive income.

1.2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported on the Balance Sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis. Otherwise, the financial assets and liabilities are separately reported on the balance sheet.

1.3 Transfers between Portfolios

The Institute did not make any transfers between portfolios during 2020.

1.4 Fair Value Information

Fair value is defined as the price that would be received in selling an asset or paid when transferring a liability in an ordinary transaction between market participants at the measurement date (i.e. an exit price).

1.4.1 Qualitative fair value information

For the measurement of fair value, the amendments to IFRS 7-*Financial Instruments: disclosures* and subsequent changes introduced by IFRS 13-*Fair value measurement* define a fair value hierarchy based on level of observable inputs used for measurement. The financial assets are classified according to the following hierarchy that consists of three levels.

Level 1

Under Level 1, the fair value is measured using the quoted prices in active markets for the financial assets and liabilities to be evaluated.

A financial instrument is considered quoted in an active market when its price is:

- readily and regularly available on stock exchanges, from information providers or intermediaries;
- significant, meaning that it represents effective market transactions regularly occurring in normal transactions.

To be considered Level 1, the price should not be adjusted through an adjustment factor (valuation adjustment). If it is adjusted, the measurement at fair value of the financial instrument will be Level 2 or Level 3.

Level 2

A financial instrument is included under Level 2 when the inputs utilised to measure fair value are directly or indirectly observable in the market.

The parameters of Level 2 are as follows:

- prices quoted on active markets for similar assets or liabilities;
- price quoted on non-active markets for similar or identical assets and liabilities;
- market observable inputs other than the quoted price for the asset or liability (interest rates, yield curve, credit spreads, volatility);
- parameters that derive mainly (or are corroborated by correlation or other techniques) from observable market data (market-corroborated inputs).

An input is observable when it reflects the assumptions that market participants would use in pricing an asset or liability based on market data provided by sources independent of the reporting entity.

Valuation techniques used to determine fair value that should be used when the market price is not available or is not significant, must meet three conditions. They must:

1. be methodologically consolidated and widely accepted;
2. utilise market inputs disclosed above;
3. be periodically reviewed.

Valuation techniques used for fair value measurement should be periodically assessed using inputs observable in the markets to ensure that outputs reflect actual data and comparative market prices and to identify any weaknesses.

Level 3

A financial instrument is included under Level 3 when the inputs utilised to measure fair value are data unobservable on the market (unobservable inputs). It is enough that one of the inputs be unobservable on the

market that the instrument is mandatorily included under Level 3.

Level 3 financial instruments are measured using inputs that are not derived from independent sources, rather they are based on the reporting entity's own assumptions on the basis of available information.

IFRS 13-*Fair value measurement* specifies a hierarchy of fair value measurements based on whether the inputs are observable or unobservable. Observable inputs reflect the assumptions that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. The market price is the most observable and objective input (Level 1). Where no active markets exists or where quoted prices are not available, the entity determines the fair values by using valuation techniques. Valuation techniques can utilise inputs observable on the market (Level 2) or non-observable inputs (Level 3).

The above mentioned valuation approaches should be applied in a hierarchical order.

When there is availability of quoted market prices in active markets, an entity must measure fair value using Level 1 inputs. Furthermore, the valuation techniques used should prioritise the utilisation of inputs observable on the market and should rely as little as possible on the reporting entity's own data, internal valuations or unobservable inputs.

Fair value Level 2 and 3: valuation techniques and input used

The criteria used by the IOR to determine the fair value of financial instruments are as follows.

The fair values of IOR investments quoted in active markets are usually based on current bid prices.

A financial instrument is considered as quoted in active markets if the prices are readily and regularly available in a stock exchange or through a regulatory agency and those prices represent actual market transactions that occur regularly on an arm's length basis.

In the absence of an active market, or in the event the market at the time of the valuation is not considered active, for example, in case of illiquid markets, the valuation techniques adopted by IOR are based on the use of recent arm's length transactions in the market, even on a non-active market, relative to identical financial instruments or financial instruments with similar characteristics. The valuation techniques include the discounted cash flow analysis and other valuation techniques commonly used by market participants.

If recent transactions of the same or similar instruments are not available, the IOR uses valuation techniques based on market parameters or other parameters.

When using valuation techniques, the IOR tries to use observable market data, reducing its reliance on internal data.

Valuation techniques are periodically reviewed for applicability, assessing the quantity and the quality of information available as of the balance sheet date, in order to correctly reflect any changes in the market. For the same reason, adjustments to market inputs, utilised in a certain model, can change from time to time.

Consequently, IOR models ensure that outputs reflect actual data and comparative market prices.

Under Level 1, the IOR has classified all financial instruments quoted in active markets.

Under Level 2, the IOR has classified all illiquid financial instruments, including those that are structured or unstructured, as well as listed external investment funds that are not immediately payable and unlisted investment funds with investments in listed instruments. The basis for the valuation of illiquid securities follow prices provided by the securities issuer. These prices are internally verified and tested utilising internal models and observable market parameters and, in case of discrepancies, are adjusted considering the result of the above-mentioned analysis. They are also adjusted on the basis of valuations from independent sources.

Under Level 3, the IOR has classified equity securities that are not quoted or other financial instruments for which fair values are determined using a model based on internal parameters.

Therefore, IOR models use only observable data. However, areas such as default rates, volatilities and correlations require the Directorate to make estimates.

In this category, the Institute has also classified other assets:

- for which the IOR did not receive independent valuations;
- for which the IOR does not have access to financial information;
- for which, despite having financial information, the Institute believes that the valuation of underlying assets, due to the nature of the investment, is based on valuation parameters that are not immediately observable in the market;
- for which the IOR has received independent expert valuations (i.e. for investment properties).

For the investment funds, a Fair Value Adjustment was calculated to include other risk factors in order to adjust NAV i.e. the difference between the current value of the assets and liabilities of the fund.

The Fair Value Adjustment is defined as the amount to be added to the mid-price observed in markets, rather than the price determined by the model, with the aim of obtaining the fair value of the position. The Fair Value Adjustment includes the uncertainty inherent in the valuation of a financial instrument with the goal of reducing the risk of incorrect valuations in the financial statements and ensuring that fair value reflects the realised price of

a market transaction that is actually possible; and incorporating possible future costs.

The Institute adjusted the value of financial instruments measured at fair value on a recurring basis classified as Level 2 and Level 3 based on credit risk (Credit Valuation Adjustment), liquidity risk related to the disinvestment, close-out costs and available information about the outstanding assets.

With regard to the Credit Valuation Adjustment, the Institute considered the impact of fair value on credit risk of the counterparty and the country using the following inputs:

- PD (Probability of Default) linked to the rating of counterparty (if not available, the PD corresponding to an investment with an S&P rating of BBB was used);
- LGD (Loss Given Default) based on the estimated level of expected recovery in case of counterparty default and defined through market benchmark and based on experience. The percentage used was 45%.

Regarding the close-out costs, an adjustment was applied on the NAV of external investment funds when close-out penalties are provisioned.

Sensitivity Analysis

For fair value measurements where significant unobservable inputs are used (Level 3), a sensitivity analysis is performed in order to obtain the range of reasonable alternative valuations. The Institute takes into account that the impact of unobservable inputs on the measurement of fair value of Level 3 depends on the correlation between the different inputs used in the valuation process.

For 2020 Financial Statements, a sensitivity analysis was performed using a stress test on the PD and LGD by +/-5% and it did not have a significant impact to the value of the investments classified as Level 3.

Fair value hierarchy (transfers between portfolios)

With reference to financial assets and liabilities measured at fair value on a recurring basis, transfers between the fair value hierarchy were based on the following guidelines.

Transfers from Level 3 to Level 2 occur when market observable inputs become available (e.g. prices determined in transactions on similar instrument between independent and knowledgeable counterparties) and there is no input utilised to the valuation technique unobservable on the market.

Transfers from Level 2 to Level 3 occur when inputs that are directly or indirectly observable in the market used as the basis for the valuation no longer exist, or are no longer updated (e.g. no recent comparable transactions or market multiples are no longer applicable) and no other inputs are available; accordingly, the Institute uses valuation techniques that use unobservable inputs.

Transfers from Level 3 to Level 1 occur when the presence of an active market as defined by IFRS 13-*Fair value measurement* has been verified.

Assets measured at fair value on a recurring basis

The IFRS 13 disclosure requirements regarding assets measured at fair value on a recurring basis is provided below. By definition, the carrying value of these items corresponds to their fair value.

During 2020, there was a significant increase in financial instruments classified at Level 2 of the fair value hierarchy. In January 2020 the Board of Superintendence decided to implement the *Held to Collect and Sell* business model with a greater use of corporate and financial issuers and high yield securities.

It should be noted that during 2020 the Institute decided to use an external supplier for the contribution of prices and level of fair value according to the fair value hierarchy. External supplier assigns Level 2 when the prices are quoted on active markets for similar assets or when the price quoted on non-active markets for identical or similar assets. If the supplier does not have in its perimeter the security to be valued, the Institute uses an internal model.

Financial assets measured at fair value through profit or loss
a) Financial assets held for trading

These consist of:

- Debt securities: debt securities that IOR purchases for trading are regularly traded in active and liquid markets and measured at their market price (mark-to-market). The entire universe of securities held by the Institute are managed by the external provider. Therefore, it was not necessary to utilise an internal valuation model.
- Equity securities: the Institute has investments in equity securities regularly traded in active and liquid markets and measured at market price (mark-to-market). Consequently, these instruments classified as Level 1 in the fair value hierarchy, except for one equity security whose price is determined internally on the basis of similar instruments quoted on active markets and classified as Level 2; as of 31 December 2020, this amounted to EUR 19,000.
- Investments funds: investment funds with underlying securities regularly traded in active and liquid markets and whose NAV is available through info-providers are classified as Level 2; investment funds with underlying securities not regularly traded in active and liquid markets and measured using a model based on internal inputs are classified as Level 3. As of 31 December 2020, the IOR held investment funds for EUR 42.5m, of which EUR 11.9 classified as Level 3.

Financial assets measured at fair value through other comprehensive income

- Debt securities: debt securities that IOR manages according to the *Held to Collect and Sell* business model are regularly traded in active and liquid markets and measured at their market price (mark-to-market). The entire universe of securities held by the Institute are managed by the external provider. Therefore, it was not necessary to utilise an internal valuation model.
- Equity securities: equity securities designated at fair value through other comprehensive income are unlisted securities. Two are preferred shares classified as Level 2 as their price is determined internally on the basis of the ordinary share price and an official multiplier provided by the company. The third is classified as Level 3 and measured at purchase cost due the unavailability of an independent valuation. The carrying amount of the equity security classified as Level 3 is very small.

Tangible assets held for investment

This item consists of properties directly owned by the Institute.

The fair value of the properties is assessed by a qualified, independent expert.

The appraisal is based on the real estate market data collected through surveys carried out by major industry players. The parameters used also reflect expert assumptions based on available information. For these reasons, the investment properties are classified as Level 3 in the fair value hierarchy.

Assets not measured at fair value on a recurring basis

For assets and liabilities not measured at fair value on a recurring basis, the following information is required by IFRS 13.

Financial assets measured at amortised cost

For securities, the fair value corresponds to the market value at the balance sheet date. The securities are classified as Level 1 in the fair value hierarchy since they are regularly traded on active and liquid markets. The entire universe of securities held by the Institute are managed by the external provider. Therefore, it was not necessary to utilise an internal valuation model.

For deposits on demand and time deposits with banks, as they are receivables without a defined expiry or revocation date or they do not exceed ninety days, the carrying value of loans to bank, at the balance sheet date, approximates the fair value and they are classified as Level 1 in the fair value hierarchy.

For receivables from clients considered non-performing, the Institute calculated a specific impairment loss and the carrying value represents fair value.

With regards to other receivables from clients, the fair value was calculated as follows:

- loans and credit lines: calculated by discounting future cash flows using a discount rate representative for the Institute;
- temporary overdrafts: given their nature, the value of overdrafts approximates fair value.

As the fair value calculation for receivables from clients is based on parameters not observable on markets, not even indirectly, these are classified as Level 3 in the fair value hierarchy.

Liabilities not measured at fair value on a recurring basis

Financial liabilities measured at amortised cost

For amounts due to banks, the carrying value of this item approximates fair value, considering the short maturity of such amounts and they are classified as Level 1 in the fair value hierarchy.

For amounts due to customers, this item comprises client deposits on demand and time deposits, liquid accounts and term deposits related to Asset Management positions. The carrying value of such amounts approximates fair value, considering the short maturity or indefinite maturity.

As the fair value calculation for amounts due to customers is based on parameters not observable on markets, neither directly nor indirectly, these are classified as Level 3 in the fair value hierarchy.

1.4.2 Quantitative fair value information

1.4.2.1 Fair value hierarchy

(a) Assets and liabilities measured at fair value on a recurring basis: detail by fair value level

Assets and liabilities measured	**2020**			**2019**		
at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets at fair value through profit or loss						
a. Financial assets held for trading	510,866	76,849	11,878	1,515,773	2,143	13,003
b. Financial assets designated at fair value						
c. Other financial assets mandatorily at fair value						
2.Financial assets at fair value through other comprehensive income	865,791	295,523	8	–	1,067	8
3.Hedging derivatives						
4.Tangible assets	–	–	2,484	–	–	2,888
5.Intangible assets						
Total	**1,376,657**	**372,372**	**14,370**	**1,515,773**	**3,210**	**15,899**
1. Financial liabilities held for trading						
2.Financial liabilities designated at fair value						
3. Hedging derivatives						
Total						

Key: L1 = Level 1 L2 = Level 2 L3 =Level 3

(b) Annual changes of assets measured at fair value on a recurring basis (Level 3)

The following table provides information about the assets measured at fair value on a recurring basis and classified as Level 3 in the fair value hierarchy at the beginning of the year, disposals and/or additions during the year, and their final values at the balance sheet date.

	Financial assets at fair value through profit or loss							
	Total	**Financial asset held for trading**	**Financial assets mandatorily at fair value**	**Financial assets designated at fair value**	**Financial assets at fair value through other comprehensive income**	**Hedging derivatives**	**Tangible assets**	**Intangible assets**
1. Opening balance	13,003	13,003			8		2,888	
2. Additions								
2.1 Purchases								
2.2 Profit recognised in:								
2.2.1 Income Statement	–	–			–		–	
- of which Unrealised Gains	–	–			–		–	
2.2.2 Net Equity								
2.3 Transfers from other levels								
2.4 Other variations in addition								
3. Decreases								
3.1 Sales								
3.2 Reimbursement								
3.3 Losses recognised in:								
3.3.1 Income Statement	(1,125)	(1,125)			–		(404)	
- of which Unrealised Losses	(1,125)	(1,125)			–		(404)	
3.3.2 Net Equity								
3.4. Transfers to other levels								
3.5 Other variations in reduction								
4. Closing balance	**11,878**	**11,878**			**8**		**2,484**	

(c) Annual changes of liabilities measured at fair value on a recurring basis (Level 3)

The Institute did not hold liabilities measured at fair value on a recurring basis.

(d) Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: detail by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	2020				2019			
	CV	L1	L2	L3	CV	L1	L2	L3
1. Financial assets at amortised cost	1,023,814	922,210	65,925	65,409	1,310,616	1,305,833	–	20,036
2. Tangible assets held for investment								
3. Non-current assets and disposal groups classified as held for sale								
Total	**1,023,814**	**922,210**	**65,925**	**65,409**	**1,310,616**	**1,305,833**	**–**	**20,036**
1. Financial liabilities measured at amortised cost	2,019,487	–	–	2,019,487	2,096,560	–	–	2,096,560
2. Liabilities classified as held for sale								
Total	**2,019,487**	**–**	**–**	**2,019,487**	**2,096,560**	**–**	**–**	**2,096.560**

Key: CV = Carrying Value L1 = Level 1 L2 = Level 2 L3 = Level 3

1.5 Information on "day one profit/loss"

The Institute did not earn day one profit/loss from financial instruments pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS.

1.6 Information on contracts with customers

The standard IFRS 15-*Revenue from Contracts with Customers*, adopted by the IOR effective 1 January 2018, established a revenue recognition model, which applies to all contracts with customers except those that fall within the scope of other IAS / IFRS standards such as leasing, the insurance contracts and financial instruments.

This core principle is delivered in the following model framework:

- Identify the contract(s) with a customer;
- Identify each performance obligation in the contract;
- Estimate requirements to fulfil each performance obligation;
- Determine the price for each performance obligation;
- Allocate each price to each performance obligation;
- Recognise revenue when the entity satisfies each performance obligation.

The accounting treatment adopted by the Institute for the recognition of revenues arising from contracts with customers, mainly recognised under the item "Fee and commission income", is in line with the provisions of the standard.

PART 2. INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - Cash and cash equivalents (Item 10 Assets)

1.1 Cash and cash equivalents: detail

	2020	2019
(a) Cash	12,292	17,915
(b) Free deposits ex art. 9 (b)	326	275
(c) Free deposits ex art. 9 (c)	–	–
(d) Other free deposits	–	–
Total	**12,618**	**18,190**

The balance included under (b) represents free deposits with Public Authorities of the Holy See and Vatican City State with the statutory purpose of administering the assets owned by the Holy See (at present APSA).

SECTION 2 - Financial assets at fair value through profit or loss (Item 20 Assets)

2.1 Financial assets held for trading: detail by asset type

	2020			2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	470,068	46,202	–	1,482,036	2,143	–
2. Equity securities	40,798	19	–	33,737	–	–
3. UCI units	–	30,628	11,878	–	–	13,003
4. Loans						
4.1 Outstanding repos						
4.2 Other						
Total A	**510,866**	**76,849**	**11,878**	**1,515,773**	**2,143**	**13,003**
B. Derivatives						
1. Financial derivatives						
1.1 Held for trading						
1.2 Related to the *fair value option*						
1.3 Other						
2. Credit derivatives						
2.1 Held for trading						
2.2 Related to the *fair value option*						
2.3 Other						
Total B						
Total (A+B)	**510,866**	**76,849**	**11,878**	**1,515,773**	**2,143**	**13,003**

The table shows all financial assets allocated to the trading portfolio and classified in the fair value hierarchy (L1, L2 or L3) according to the asset type.

UCI units in the financial assets held for trading refer exclusively to investment funds managed by third parties.

Financial assets held for trading are primarily comprised of debt securities classified as Level 1 in the fair value hierarchy.

The only financial assets classified as Level 3 are shares of UCI units.

As of 31 December 2020, similar to the prior year, the Institute did not hold any derivative financial instruments in the trading portfolio.

2.2 Financial assets held for trading: detail by borrowers/issuers/counterparties

	2020	2019
A. Cash assets		
1. Debt securities		
(a) Public entities	426,750	914,459
(b) Financial companies	78,093	442,917
(c) Insurance companies	168	–
(d) Non-financial companies	11,259	126,803
(e) Other issuers		
2. Equity securities		
(a) Banks	28	10
(b) Other issuers:		
- insurance companies	1	803
- financial companies	40,700	12,201
- non-financial companies	88	20,646
- other	–	77
3. UCI units	42,506	13,003
4. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non-financial companies		
(e) Other subjects		
Total A	**599,593**	**1,530,919**
B. Derivatives		
(a) Banks		
(b) Customers		
Total B		
Total (A+B)	**599,593**	**1,530,919**

No borrowers/issuers are resident in the Vatican City State.

Line (a) "Public entities" of the item A.1 Debt securities consists exclusively of securities issued by foreign Central Public Administrations.

Regarding the composition of the UCI units, refer to the table included under section 5.2.2.D "Information on unconsolidated structured entities" of Part 5 "Information on risks and hedging policies" since for these funds the Institute holds a significant number of shares.

In the portfolio of financial assets held for trading, there are no equity securities in default or at the risk of default.

SECTION 3 - Financial assets at fair value through other comprehensive income (Item 30 Assets)

3.1 Financial assets at fair value through other comprehensive income: detail by asset type

	2020			2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	865,791	294,327	–	–	–	-
2. Equity securities						
2.1 Carried at fair value	–	1,196	–	–	1,067	–
2.2 Carried at cost	–	–	8	–	–	8
3. Loans						
Total	**865,791**	**295,523**	**8**	**–**	**1,067**	**8**

The table shows all financial assets managed according to the *Held to Collect and Sell* business model whose objective is achieved both by collecting cash flows and by selling the financial assets. To be classified in this item, financial assets must pass the SPPI test, i.e. contractual terms of these financial assets must give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The table also includes equity securities that the Institute purchased to participate in the SWIFT and VISA circuits and equity securities for which the Institute applied the option to measuring the assets at fair value through other comprehensive income ("FVOCI option").

The high amount of debt securities is due to the decision of the Board of Superintendence that provided the implementation of the *Held to Collect and Sell* business model in order to pursue the purposes set out in IFRS 9, i.e. managing everyday liquidity needs, maintaining a particular interest yield profiles or matching the duration of the financial assets to the duration of the liabilities that those assets are funding.

Most of financial assets measured at fair value through other comprehensive income consists of debt securities classified as Level 1 in the fair value hierarchy.

The only financial asset classified as Level 3 relates to equity security acquired to participate in the SWIFT circuit.

3.2 Financial assets at fair value through other comprehensive income: detail by borrowers/issuers

	2020	2019
1. Debt securities		
(a) Public entities	213,389	–
(b) Financial companies	576,832	–
(c) Insurance companies	18,271	–
(d) Non-financial companies	351,626	–
(e) Other issuers		
2. Equity securities		
(a) Banks		
(b) Other issuers:		
- insurance companies		
- financial companies	1,196	1,067
- non-financial companies	8	8
- other		
3. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non-financial companies		
(e) Other (including customers)		
Total A	**1,161,322**	**1,075**

No borrowers/issuers are resident in the Vatican City State.

Line (a) "Public entities" of the item 1 Debt securities consists exclusively of securities issued by foreign Central Public Administrations.

In the portfolio of financial assets at fair value through other comprehensive income, there are no equity securities in default or at the risk of default.

3.3 Financial assets at fair value through other comprehensive income: gross value and total value adjustments

	Gross value					Total Value adjustments				Partial or total *write-offs*
	I stage		II stage	III stage	Total	I stage	II stage	III stage	Total	
		of which instruments with low credit risk								
Debt securities	1,161,047	1,161,047			1,16,047	929			929	
Loans										
Total 2020	**1,161,047**	**1,161,047**			**1,161,047**	**929**			**929**	
Total 2019										
Of which: non-performing assets acquired or originated										

The gross value is the sum of the fair value at the reporting date and the value adjustment at the same date; in particular, the value adjustment is equal to the expected credit loss recognised in the item 130 b) of the Income Statement "Net impairment losses/recoveries for credit risk of: b) financial assets at fair value through other comprehensive income" and in the equity reserve.

SECTION 4 - Financial assets at amortised cost (Item 40 Assets)

4.1 Financial assets at amortised cost: detail by asset type of loans and advances to banks

	2020						2019					
	Carrying value			Fair value			Carrying value			Fair value		
	I and II stage	III stage		L1	L 2	L 3	I and II stage	III stage		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
A. Loans to Public Authorities												
1. Time deposits	–			–			49,998			49,998		
2. Outstanding repos												
3. Others												
B. Loans to Central Banks												
1. Time deposits												
2. Outstanding repos												
3. Others												
C. Loans to banks												
1. Loans												
1.1. Current accounts and demand deposits	266,668			266,668			830,491			830,491		
1.2. Time deposits	–			–			96,187			96,187		
1.3. Other loans:												
(a) Outstanding repos												
(b) Finance leases												
(c) Other	728			728			797			797		
2. Debt securities												
2.1. Structured securities												
2.2 Other debt securities	305,822			274,874	36,186		10,061			10,170	–	
Total	**573,218**			**542,270**	**36,186**		**987,534**			**987,643**	**–**	

The item "Financial assets at amortised cost a) loans and advances to banks" includes loans and debt securities managed according to the *Held to Collect* business model with the intention of collecting contractual cash flows.

The balances are presented net of impairment deriving from the adoption of the models for the measurement of the expected losses on the *Held to Collect* loans portfolio and "held to collect" debt securities portfolio according to IFRS 9.

The item does not include loans classified as non-performing assets.

4.2 Financial assets at amortised cost: detail by asset type of loans and advances to customers

	2020						2019					
	Carrying value			Fair value			Carrying value			Fair value		
	I and II stage	III stage		L1	L 2	L 3	I and II stage	III stage		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
A. Loans												
1. Current accounts	17		–			17	70		1			71
2. Outstanding repos												
3. Mortgages												
4. Credit cards and personal loans, including wage assignment												
5. Financial leasing												
6. Factoring												
7. Other loans	54,255		6,752			65,392	11,693		7,025			19,965
B. Debt securities												
1. Structured securities												
2. Other debt securities	389,572		–	379,940	29,739	–	304,293		–	318,189		–
Total	**443,844**		**6,752**	**379,940**	**29,739**	**65,409**	**316,056**		**7,026**	**318,189**		**20,036**

The item "Financial assets at amortised cost b) loans and advances to customers" includes loans and debt securities managed according to the *Held to Collect* business model with the intention of collecting contractual cash flows.

The balances are presented net of impairment deriving from the adoption of the models for the measurement of the expected losses on the *Held to Collect* loans portfolio and *Held to Collect* debt securities portfolio according to IFRS 9.

Regarding the sub-item "A. Loans", adequate supporting information is presented in Part 5 "Information on risks and related hedging policies" of this document.

In this regard, the Institute is not authorised by the Financial Intelligence Authority to carry out the activity of "granting loans" in the strict sense (see article l (l) (b) of Law no. XVIII and Article 3 (24) (b) of Regulation no. 1), i.e. credit activities on its own account. However, IOR was authorised to grant "advances", i.e. to provide funds to its customers to a limited extent and against guaranteed future income (such as, for example, in the case of the anticipation of salary or pension paid by the Holy See or by the Vatican City State Governorate) or of financial assets of the same amount deposited by the applicant at the Institute itself.

4.4 Financial assets at amortised cost: detail by borrowers/issuers of loans and advances to customers

	2020			2019		
	I and II stage	III stage		I and II stage	III stage	
		Purchased	Other		Purchased	Other
1. Debt securities						
(a) Public entities	307,024			304,293		
(b) Financial companies	73,722			–		
(c) Insurance companies	8,827			–		
(d) Non financial companies						
(e) Other subjects						
2. Loans						
(a) Public entities	43,468			–		
(b) Financial companies						
(c) Insurance companies						
(d) Non financial companies	1,408			1,859		
(e) Other subjects	9,395		6,752	9,904		7,026
Total	**443,844**		**6,752**	**316,056**		**7,026**

Line (a) "Public entities" of sub-item 1 "Debt securities" is composed exclusively of securities issued by foreign Central Public Administrations.

4.5 Financial assets at amortised cost: gross value and total value adjustments

	Gross value					Total Value adjustments				Partial or total *write-offs*
	I stage		II stage	III stage	Total	I stage	II stage	III stage	Total	
		of which instruments with low credit risk								
Debt securities	696,189	696,189			696,189	794			794	
Loans	321,719			16,160	337,879	52		9,408	9,460	
Total 2020	**1,017,908**		**–**	**16,160**	**1,034,068**	**846**		**9,408**	**10,254**	
Total 2019	**1,303,722**		**90**	**24,588**	**1,328,400**	**222**		**17,563**	**17,785**	
Of which: non-performing acquired or originated										

SECTION 7 – Investment in subsidiaries (Item 70 Assets)

7.1 Information on investment in subsidiaries

The Institute holds a financial investment in a real estate company, S.G.I.R. S.r.l., which is based in Italy and is 100% owned by the IOR.

7.2 Material investments in subsidiaries: book value, fair value and dividends received

The value of the investment in the real estate company S.G.I.R. S.r.l. was EUR 15.8 m.

There was no change in the value of the investment during 2020 and no dividends were paid.

The equity of S.G.I.R. S.r.l. as of 31 December 2020 was EUR 24.6m (2019: EUR 24.1m), including EUR 12.4m (2019: EUR 12.4m) for a Fiscal Revaluation Reserve.

As it is an unlisted company, the IOR does not measure it at fair value.

S.G.I.R. S.r.l. was specifically set up to manage in an easier and more transparent way the real estate located in Italy, mainly received as donations or legacies. The subsidiary produces social benefits as it is not exclusively focused on profit. In fact, S.G.I.R. S.r.l. grants some properties for rent with subsidised rent or on loan for free use to support institutions with a social purpose, as notably disclosed in the Management Report under "Chapter 2. Operational Information".

7.3 Material investment in subsidiaries: financial information

	Cash and cash equivalents	Financial assets	Non financial assets	Financial liabilities	Non financial liabilities	Total income	Interest margin	Value adjustments and recoveries on tangible and intangible assets	Profit (loss) from current operations before taxes	Profit (loss) from current operations after taxes	Profit (loss) from disposed operating assets after taxes	Profit (loss) for the year (1)	Other income items after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Entities subject to total control														
S.G.I.R. S.r.l.	535	219	25,786	1,835	19,308	1,841	–	(23)	900	529	–	529	–	**529**
B. Entities subject to joint control														
C. Entities subject to significant influence														

SECTION 8 – Tangible assets (Item 80 Assets)

8.1 Tangible assets in-use: detail of the assets measured at cost

	2020	2019
1. Owned assets		
(a) land		
(b) buildings		
(c) furniture		
(d) electronic equipment	489	521
(e) other		
2. Assets acquired under finance lease		
(a) land		
(b) buildings	185	232
(c) furniture		
(d) electronic equipment		
(e) other	172	240
Total	**846**	**993**

All tangible owned assets in-use are measured at cost.

The Institute adopted the accounting standard IFRS 16-*Leases* effective 1 January 2019. Starting from that date, the item 80 "Tangible assets" comprises the assets included in the definition of right of use.

The rights of use acquired under lease are related to a lease contract for a property used as a physical document archive and to a contract for rent of a storage to archiving electronic data.

The overall right of use (recognised as Tangible assets) was EUR 357,000 and consists of:

– Right of use over properties: EUR 185,000;

– Right of use over other assets: EUR 172,000.

8.4 Tangible assets held for investment: detail of the assets measured at fair value

	2020			2019		
	L1	L2	L3	L1	L2	L3
1. Owned assets						
(a) land						
(b) buildings			2,484			2,888
2. Assets acquired under finance lease						
(a) land						
(b) buildings						
Total			**2,484**			**2,888**

All tangible assets held for investment are measured at fair value.

8.6 Tangible assets in-use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening balance		279	2,629	5,197	341	8,446
A.1 Net total adjustments		(47)	(2,629)	(4,676)	(101)	(7,453)
A.1 bis Changes to opening balance		–				
A.2 Net opening balance		**232**	**–**	**521**	**240**	**993**
B. Increases:						
B.1 Purchases				175		175
B.2 Capitalised improvement costs						
B.3 Recoveries						
B.4 Positive fair value differences recognised through:						
a) Net Equity						
b) Income Statement						
B.5 Positive foreign exchange differences						
B.6 Transfer from investment property						
B.7 Other changes						
C. Decreases:						
C.1 Sales						
C.2 Depreciation		(47)	–	(207)	(68)	(322)
C.3 Impairment losses recognised through:						
a) Net Equity						
b) Income Statement						
C.4 Negative fair value differences recognised through:						
a) Net Equity						
b) Income Statement						
C.5 Negative foreign exchange differences						
C.6 Transfer to:						
a) investment property						
b) assets being disposed						
C.7 Other changes						
D. Net closing balance		**185**	**–**	**489**	**172**	**846**
D.1 Total net adjustments		(94)	(2,629)	(4,883)	(169)	(7,775)
D.2 Gross closing balance		**279**	**2,629**	**5,372**	**341**	**8,621**

8.7 Tangible assets held for investment: annual changes

	Land	Buildings
A. Opening balance		2,888
B. Increases:		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive fair value differences		
B.4 Recoveries		
B.5 Positive foreign exchange differences		
B.6 Transfer from tangible assets for functional use		
B.7 Other changes		
C. Decreases		
C.1 Sales		
C.2 Depreciation		
C.3 Negative fair value differences		(404)
C.4 Impairment losses		
C.5 Negative foreign exchange differences		
C.6 Transfer to other assets:		
a) tangible assets for functional use		
b) current assets being disposed		
C.7 Other changes		
D. Closing balance		**2,484**

The item includes 5 investment properties received in the past through donations, totalling EUR 2.5m. The item decreased from 31 December 2019 due to a decrease of fair values.

These properties are measured through surveys performed by a qualified independent expert.

In 2020, the properties did not generate any rental income, since the Institute signed a lease agreement with its subsidiary S.G.I.R. S.r.l. for the use of properties for free. During 2020, S.G.I.R. S.r.l. earned EUR 68,000 (2019: EUR 68,000) as rental income on these properties.

SECTION 9 – Intangible assets (Item 90 Assets)

9.1 Intangible assets: detail by asset type

	2020		2019	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1. Goodwill				
A.2. Other intangible assets				
A.2.1 Assets carried at cost:				
(a) intangible assets internally generated				
(b) other assets	1,509		621	
A.2.2 Assets carried at fair value				
(a) intangible assets internally generated				
(b) other assets				
Total	**1,509**		**621**	

Intangible assets consist of software programs and costs incurred to implement them.

9.2 Intangible assets: annual changes

		Other intangible assets generated internally		Other intangible assets: other		
	Goodwill	DEF	INDEF	DEF	INDEF	Total
A. Opening balance				8,194		**8,194**
A.1 Total net adjustments				(7,573)		**(7,573)**
A.2 Net opening balance				621		**621**
B. Increases						
B.1 Purchases				1,183		**1,183**
B.2 Increases of intangible assets internally generated						
B.3 Recoveries						
B.4 Positive fair value differences recognised through:						
- Net Equity						
- Income Statement						
B.5 Positive foreign exchange differences						
B.6 Other changes						
C. Decreases						
C.1 Sales						
C.2 Impairment losses						
- Depreciation				(295)		**(295)**
- Write downs recognised through:						
+ Net Equity						
+ Income Statement						
C.3 Negative fair value differences recognised through:						
- Net Equity						
- Income Statement						
C.4 Transfer to non-current assets being disposed						
C.5 Negative foreign exchange differences						
C.6 Other changes						
D. Net closing balance				1,509		**1,509**
D.1 Total net adjustments				(7,868)		**(7,868)**
E. Gross closing balance				9,377		**9,377**

Intangible assets are carried at cost.
The IOR does not have internally generated intangible assets.

SECTION 12 - Other assets (Item 120 Assets)

12.1 Other assets: detail

	2020	2019
Gold	22,539	22,539
Medals and precious coins	10,634	10,572
Commission from asset management services not yet received	7,252	6,663
Other commission not yet received	348	280
Securities transactions pending settlement	4,160	–
Amounts related to customers pending reinvestment	312	12,751
Client Tax advances	495	543
Sundry debtors	38	293
Prepayments	512	586
Total	**46,290**	**54,227**

Gold is mainly deposited with the U.S. Federal Reserve, while medals and precious coins are kept in the IOR vaults.

Gold is carried at the lower of cost or net estimated recoverable amount.

Medals and precious coins are appraised on the basis of their weight and the quality of gold and silver they contain, carried at the lower of cost or net estimated recoverable amount.

Gains and losses arising from disposal of gold, medals and precious coins are recognised in the Income Statement under item 80 "Net trading result". Losses arising from measurement at the lower of cost or net estimated recoverable amount, as well as reversals of the previously recognised loss are recognised in the Income Statement under item 190 "Other operating income (expense)".

Also included under Other Assets are commission from asset management services not yet received at the closing date of the financial statements for EUR 7.3 m. These commissions, pertaining to the second half of 2020, were collected at the beginning of 2021.

Included under Other Assets are amounts related to customers concerning coupons paid and securities expired last days of the year related to the Asset Management deposits, which are collected on the first days of the subsequent year.

LIABILITIES

SECTION 1 - Financial liabilities at amortised cost (Item 10 Liabilities)

1.1 Financial liabilities at amortised cost: detail by type for due to banks

	2020	2019
1. Due to Public Authorities		
of which:		
- Public Authorities of Vatican City State		
2. Due to foreign Public Authorities		
of which:		
- Central banks		
3. Due to banks		
3.1. Current accounts and demand deposits		
3.2. Time deposits		
3.3. Loans		
3.3.1. Repos		
3.3.2. Other		
3.4. Liabilities from commitments to repurchase own shares		
3.5. Other liabilities		
Total		

As of 31 December 2020, as well as 31 December 2019, no financial liabilities were recognised in this item.

1.2 Financial liabilities at amortised cost: detail by type for due to customers

	2020	2019
1. Current accounts and demand deposits	1,999,926	2,075,364
2. Time deposits	19,561	21,196
3. Loans		
3.1. Repos		
3.2. Other		
4. Liabilities from commitments to repurchase own shares		
5. Other liabilities		
Total	**2,019,487**	**2,096,560**

The item "Due to customers" slightly decreased compared to 2019, mainly due to forex effect caused by the depreciation of the US dollar and other currencies versus Euro.

The item includes liquidity and term deposits related to the Asset Management mandates, for which the IOR is the depository institution.

These consist of:

Deposits related to Asset management accounts	2020	2019
Deposits on demand	362,987	390,304
Time deposits	–	–
Total	**362,987**	**390,304**

The item "Due to customers" also includes a deposit at the disposal of the Commission of Cardinals to support works of religion. As of the balance sheet date, this amounted to EUR 0.7m (2019: EUR 0.8m). Donations made in 2020 were substantially covered by contributions.

SECTION 8 – Legates (Item 80 Liabilities)

The item includes the deposits of the pious non-autonomous foundations (so-called "Legates") amounting to EUR 16m (2019: 18.5m). These are 102 positions (2019: 103) related to funds donated to the Institute. The IOR has the burden, for a significant period, of performing specific ecclesiastical functions or otherwise achieving purposes related to piety, apostolate and charity works, on the basis of Legates annual revenues.

The reduction of the amount is due to the closure of certain pious non-autonomous foundations in accordance with the rules of Canon Law and the consequent devolution of the amounts decided by the Commission of Cardinals, acting as Ordinary.

The pious non-autonomous foundations entrusted to the Institute consist also of financial assets amounting to EUR 14.8m at year-end 2020, not included in the item 80 Liabilities "Legates" as the latter includes only liquidity deposits.

SECTION 9 – Other liabilities (Item 90 Liabilities)

9.1 Other liabilities: detail

Other liabilities	2020	2019
Inheritances to be settled	4,410	4,071
Invoices to be received	4,109	3,849
Funds for charitable contributions	3,068	3,902
Outstanding checks	508	703
Remunerations to be paid	913	953
Taxes payable on behalf of customers	16	206
Debts arising from leasing agreements (IFRS 16)	361	472
Other sundry creditors	374	720
Total	**13,759**	**14,676**

The item "Inheritances to be settled" represents the values of deceased clients pending resolution of inheritance issues.

Funds for charitable contributions consist of the Fund for Holy Masses and Fund for Missionary Activities.

Fund for Holy Masses

The Fund for Holy Masses is used to distribute contributions to priests for Holy Masses.

It is financed through small donations or legacies with a specific commitment to celebrating the Holy Masses.

Donations and distributions are directly recorded in the Fund's account.

Distributions to the priests are approved by the Charity Committee consisting of Prelate, the Client Relationship Manager and the Head of Operations.

Fund for Missionary Activities

The Fund for Missionary Activities is used to distribute donations intended to respond to requests for aid or contributions received by the Institute. The most common activities are the direct disbursement of contributions to student priests for the completion of university studies, financial aid for destitute persons or families (reported by parishes or by individual priests), long-distance adoptions, specific help for missionary and charity work or aid to families that have lost everything due to natural disasters.

It is mainly funded by small donations or legacies with a commitment to carrying out missionary activities.

Donations and distributions are recorded directly in the Fund's account.

Distributions to the beneficiaries are approved by the Charity Committee consisting of the Prelate, the Client Relationship Manager and the Head of Operations.

The breakdown of Funds for charitable contributions is as follows:

Funds for charitable contributions	**2020**	**2019**
Fund for Holy Masses	2,752	3,191
Fund for Missionary Activities	316	711
Total	**3,068**	**3,902**

Changes in the funds balance are summarised as follows:

Fund for Holy Masses	**2020**	**2019**
Balance at 1 January	3,191	4,393
Donations received	23	42
Distributions for Holy Masses	(462)	(1,244)
Total	**2,752**	**3,191**

Fund for Missionary Activities	**2020**	**2019**
Balance at 1 January	711	22
Donations received	14	806
Transfers from earnings	100	250
Distributions for Missionary Activities	(509)	(367)
Total	**316**	**711**

Distributions to beneficiaries are subject to strict internal policies approved by the Board.

It should be also noted that the charitable activities of the Commission of Cardinals are made through a deposit included under the item "10. Financial liabilities at amortised cost b) due to customers" and disclosed in the proper section.

SECTION 10 – Staff severance provision (Item 100 Liabilities)

10.1 Staff severance provision: annual changes

	2020	2019
A. Opening balance	**6,137**	**6,046**
B. Increases		
B.1 Allocation for the year	583	468
B.2 Other changes	769	534
C. Decreases		
C.1 Benefits paid	(377)	(911)
C.2 Other changes	–	–
D. Closing balance	**7,112**	**6,137**

The Staff severance provision comprises indemnities to be paid to personnel when they leave the IOR. The change in the fund balance is summarised as follows:

	2020	2019
Balance at 1 January	**6,137**	**6,046**
Current costs borne by the IOR	500	398
Contribution by individuals	83	70
Transfers to benefit plan for pensions	–	–
Advances	(27)	(87)
Advances restitution	118	173
Consideration paid during the year	(350)	(824)
Actuarial (gain) loss of the year	651	361
Balance at 31 December	**7,112**	**6,137**

The actuarial assumptions used for the measurement of the Staff severance provision are the same as those used for the Benefit Plan Liability for pensions, described in Item 110 (b) Liabilities.

As required by IAS 19-*Employee benefits*, a sensitivity analysis was performed based on the main actuarial assumptions included within the calculation model; these assumptions are:

– annual discount rate;
– annual rate of salary growth;
– annual mortality rate;
– probability of advances.

	Annual discount rate		Annual rate of salary growth		Annual mortality rate		Probability of advances	
	+0.50%	-0.50%	+0,25%	-0,25%	+25%	-25%	+0.50%	-0.50%
Provision	7.003	7.245	6.774	7.478	7.115	7.109	7.222	7.008

10.2 Staff severance provision: other information

Please refer to the paragraphs regarding the accounting policies for more information on the calculation of employee termination indemnities.

The portion of employee gross salaries retained by the Institute is 1.5%.

No payments were made to the Vatican Pension Plan.

Funds were managed by the IOR Finance&Treasury Department.

SECTION 11 – Provisions for risks and charges (Item 110 Liabilities)

11.1 Provisions for risks and charges: detail by type

	2020	2019
1. Provisions for credit risk relating to financial commitments and guarantees granted		
2. Provisions for other commitments and guarantees granted	1,699	1,699
3. Provisions for pensions	132,992	129,483
4. Other allowances for risks and charges		
4.1 legal disputes		
4.2 staff expenses		
4.3 other		
Total	**134,691**	**131,182**

11.2 Provisions for risks and charges: annual changes

	Provisions for credit risk on commitments and financial guarantees given	Provisions for other commitments and other guarantees given	Provisions for pensions	Other provisions	Total
A. Opening balance		**1,699**	**129,483**		**131,182**
B. Increases					
B.1 Provision for the year			4,030		**4,030**
B.2 Time value changes					
B.3 Changes due to discount rate variations			2,641		**2,641**
B.4 Other changes					
C. Decreases					
C.1 Utilization during the year			(3,152)		**(3,152)**
C.2 Changes due to discount rate variations					
C.3 Other changes			(10)		**(10)**
D. Closing balance		**1,699**	**132,992**		**134,691**

11.4 Provisions for risks and charges: provision for other commitments and other guarantees given

The amount of EUR 1.7m is due to guarantees given and to the provision on commitments to disburse funds for uncertain use (see paragraph 13.1 Guarantees issued and commitments).

11.5 Provisions for risks and charges: provision for pensions - defined benefit plan

The Provision for pension and similar obligations fund comprises the Pension plan of the IOR employees.

There are 96 active employees who contribute to the Pension plan (2019:88) and 83 former employees are in retirement and benefit from the plan (2019: 81).

Annual changes in the plan are detailed below:

	2020	2019
Opening balance	**129,483**	**123,187**
Current Service Cost	2,662	572
Interest Cost	985	1,895
New position cost	161	235
Contribution by individuals	222	112
Transfer from staff severance provision	–	–
Pensions paid during the year	(3,152)	(3,198)
Transfer out	(10)	(14)
Actuarial (gain) loss of the year	2,641	6,694
Closing balance	**132,992**	**129,483**

The actuarial valuation of the defined benefit plan liability was performed using the following assumptions:

	2020	2019
Annual discount rate	0.34%	0.77%
Annual inflation rate	1.00%	1.50%
Annual rate of nominal increase of pensions	1.00%	1.50%
Annual rate of real increase of salaries	2.00%	2.00%

The index utilised as discount rate was the "Markit – Iboxx Corporate AA 10+" observed on 31 December 2020.

The *Current Service Cost* is the actuarial present value of benefits due to employees for services rendered during the period.

The *Interest Cost* is the increase in the present value of the obligation due to passage of time and it is proportional to the discount rate used in the assessment of the previous year's liabilities.

The *Actuarial gain/loss* is the change in the liability in the present year arising from:

– the effect of the differences between the previous actuarial assumptions and what actually occurred;

– the effect of the changes in actuarial assumptions.

The results are recognised directly to Equity in a specific reserve named "Valuation reserves" line "Actuarial gains (losses) on defined benefit plans", and the actuarial gain or loss is recorded in Other Comprehensive Income.

For Staff severance provision and Provisions for pensions, in 2020, the Institute recognised an actuarial loss of EUR 3.3m (2019: loss of EUR 7.1m) in Other Comprehensive Income. As a result, the "Valuation reserves- Actuarial gains (losses) on defined benefit plans" (included in the item 120 "Valuation reserves" into Equity) was negative for EUR 57.7m (2019: EUR -54.4m). The 2020 actuarial loss is mainly due to the decrease in the discount rate to 0.34% in 2020 from 0.77% in 2019.

As required by IAS 19-*Employee benefits*, a sensitivity analysis was performed based on the main actuarial assumptions included within the calculation model; these assumptions are:

– annual discount rate;
– annual rate of salary growth;
– annual inflation rate;
– annual mortality rate.

	Annual discount rate		Annual rate of salary growth		Annual inflation rate		Mortality rate	
	+0,50%	-0,50%	+0,50%	-0,50%	+0,50%	-0,50%	+2,5%	-2,5%
Provision	120.330	147.719	137.195	129.069	147.816	120.150	133.914	132.112

11.5.1 Other information concerning provision for pensions

Please refer to the paragraphs regarding the accounting policies for more information on the calculation of the pension plan.

The portion of employee gross salaries retained by the Institute is 6%.

A portion of this is transferred to the Vatican Pension Plan.

Funds were managed by the IOR Finance&Treasury Department.

SECTION 12 – Equity (Items 120-140-150-160 Net Equity)

12.1 Capital

Capital, as a separate component of Equity, represents a permanent endowment that cannot be reduced or distributed, except in case of cessation or liquidation of the entity.

During 2020, no changes were recorded in Capital balance, amounting to EUR 300m.

Securities and liquid funds made up the Capital investments; in detail, deposits with APSA, other liquid assets, supranational bonds and government bonds with high quality credit rating.

12.2 Earning Reserves and First Time Adoption Reserve

Equity is also comprised of three different reserves: Unavailable Reserves, Available Reserves and First Time Adoption Reserve.

Unavailable Reserves are earning reserves designed to further strengthen the Institute's Equity and long-term stability.

Available Reserves are earning reserves representing earnings that could potentially fulfil a "stabilisation" function, following to a resolution of the Commission of Cardinals.

The First Time Adoption Reserve was created on 1 January 2018 in order to achieve the Equity impacts arising from the first time adoption of IFRS 9 and amounting to EUR 1.5m. The reserve did not change in 2019 because the Institute used the "modified retrospective approach" adopting the IFRS 16 standard and no adjustments were required to be recognised at the date of first time adoption.

During 2020, no changes were recognised in Unavailable Reserves, amounting to EUR 100m, and Available Reserves, amounting to EUR 282m.

Unavailable reserves are invested in securities, properties and precious metals. In detail, these reserves consist of gold bars, medals and coins, investment in the subsidiary S.G.I.R. S.r.l., real estate properties and liquid financial instruments traded on regulated markets.

The Available Reserve is invested in securities, representing liquid financial instruments traded on regulated markets.

12.3 Valuation Reserves

The Valuation Reserves of the Institute are two: Valuation Reserves for Financial asset at fair value through other comprehensive income and Valuation Reserves for Actuarial gains (losses) on defined benefit plans.

Valuation Reserves for Financial asset at fair value through other comprehensive income represent both the net fair value gain/loss recognised on equity securities designated at fair value through other comprehensive income and the change in fair value of debt securities managed according to the *Held to Collect and Sell* business model recognised at fair value through other comprehensive income.

Valuation Reserves for Actuarial gains (losses) on defined benefit plans represent the actuarial unrealised gain or loss related to both the post-employment benefit plans.

SECTION 13 – Additional information

13.1 Guarantees and commitments

	Notional value of commitments and financial guarantees issued				
	I stage	II stage	III stage	2020	2019
1) Financial guarantees given to					
a) Banks					
b) Customers	1,576			1,576	1,576
c) Public Authorities					
d) Foreign Public Authorities					
e) Other financial entities					
f) Non-financial entities					
2) Irrevocable commitments to disburse funds					
a) Banks					
b) Customers	4,000			4,000	4,000
c) Public Authorities					
d) Foreign Public Authorities					
e) Other financial entities					
f) Non-financial entities					
3) Other commitments					
Total	**5,576**			**5,576**	**5,576**

On the balance sheet date, the Institute has a commitment of EUR 4m of uncertain use issued in favour of third parties.

As of 31 December 2020, the Institute has three guarantees in place. The first was released before the year 2000, is in favour of a bank and guarantees the performance of a religious congregation (guarantee counter-guaranteed by securities held in custody). The second was released in 2018 in favour of an Italian university and guarantees the performance of a Vatican institution (guarantee counter-guaranteed by securities held in custody). Also the third one, released in 2019, is in favour of an Italian university and guarantees the performance of a Vatican institution (guarantee counter-guaranteed by securities held in custody).

13.5 Asset Management and trading on behalf of clients

	2020	2019
1. Trading on behalf of customers		
(a) purchases		
(i) settled	212,236	260,178
(ii) to be settled		
(b) sales		
(i) settled	162,175	66,536
(ii) to be settled		
2. Portfolio management (Assets under Management)		
(a) individual	2,825,645	2,881,603
(b) collective		
3. Custody and administration of securities		
(a) third party securities held in deposit: related to custodian bank activities (excluding portfolio management)		
(i) securities issued by the entity that prepares the financial statement		
(ii) other securities		
(b) third party securities held in deposit: other (excluding portfolio management)		
(i) securities issued by the entity that prepares the financial statement		
(ii) other securities		
(c) third party securities deposited with third parties (Assets under Custody)	464,253	500,363
(d) proprietary portfolio securities deposited with third parties	2,481,654	1,860,353
4. Other operations		

Assets under Management mainly consist of client-owned securities managed by the Institute. Investment decisions are made by the IOR on the basis of portfolio management mandates signed with its clients.

Assets under Management are measured using the mark-to-market method. They include the total value of portfolios as well as liquid and term deposits. Accruals are also included, both on securities and on liquid and term deposits. The IOR is the depository of liquid and term deposits, amounting to EUR 362.9m (2019: EUR 390.3m), as disclosed in item 10 Liabilities "b) Due to customers".

Assets under Custody include client-owned securities held at the IOR for custodial purposes. The clients make all investment decisions and the IOR has no discretionary power to manage these assets, provided that such decisions are in accordance with the role and mission of the Institute.

Assets under Custody are also measured based on current bid prices, using the mark-to-market method. They also include accruals on interest to be received on debt securities.

PART 3. INFORMATION ON THE INCOME STATEMENT

SECTION 1 – Interest (Items 10-20 Income statement)

1.1 Interest income and similar revenues: detail

	Debt securities	Loans	Other transactions	2020	2019
1. Financial assets at fair value through profit or loss					
- Financial assets held for trading	6,020	–		**6,020**	**17,451**
- Financial assets designated at fair value					
- Other financial assets mandatorily at fair value					
2. Financial assets at fair value through other comprehensive income	5,412	–		**5,412**	**–**
3. Financial assets at amortised cost					
- Loans and advances to banks	3,361	1,906		**5,267**	**2,228**
- Loans and advances to customers	4,462	473		**4,935**	**4,417**
4. Hedging derivatives					
5. Other assets					
6. Other financial liabilities					
Total	**19,255**	**2,379**		**21,634**	**24,096**
of which: interest income on non-performing financial assets					

Interest income decreased from the prior year due to the maturity of some positions bearing higher coupons.

The change in composition reflects the greater emphasis in 2020 on financial assets managed according to the *Held to Collect* and *Held to Collect and Sell* business models compared to the trading business model.

Interest and similar income accrued during the year in positions classified as non-performing (other than those recorded in the item 130 Income Statement "Net impairment losses/recoveries for credit risk") at the balance sheet date amounted to EUR 267,000 (2019: EUR 326,000). They were directly deducted from line 3 "Financial assets at amortised cost - Loans and advances to customers" in the table above.

1.3 Interest expense and similar charges: detail

	Payables	Securities	Other transactions	2020	2019
1. Due to Public Entities					
(i) Public Authorities					
(ii) Foreign Public Authorities					
(iii) International and Regional Organisations					
2. Financial liabilities at amortised cost					
- Due to banks	(5)			**(5)**	**(7)**
- Due to customers	(2,626)			**(2,626)**	**(5,343)**
- Debt securities issued					
3. Financial liabilities held for trading					
4. Financial liabilities designated at fair value					
5. Other liabilities and funds	(6)			**(6)**	**(7)**
6. Hedging derivatives					
7. Other financial assets					
Total	**(2,637)**			**(2,637)**	**(5,357)**

Interest expense decreased as a result of rationalisation of the rates paid to customer deposits in USD and GBP currency, in accordance with the trend of market rates.

The item includes interest expenses accrued on leasing agreements in accordance with accounting standards IFRS 16-*Leases* that the Institute adopted effective 1 January 2019.

SECTION 2 – Fee and commission (Items 40-50 Income statement)

2.1 Fee and commission income: detail

	2020	2019
a) Guarantees given/received	12	14
b) Credit derivatives		
c) Asset management, brokerage and advisory services:		
1. trading in financial instruments	325	464
2. trading in currencies		
3. portfolio management		
3.1 individual	14,410	12,947
3.2 collective		
4. Custody and administration of securities	566	457
5. Custodian bank		
6. Securities placement		
7. Receipt and transmission of orders		
8. Consulting on:		
8.1 investments		
8.2 financial structure		
9. Distribution of third-party services		
9.1 portfolio management		
9.1.1 individual		
9.1.2 collective		
9.2 insurance products		
9.3 other products		
d) Collection and payment services	1,930	2,242
e) *Servicing* of securitization		
f) Factoring services		
g) Tax collection services		
h) Multilateral trading systems management		
i) Current account keeping and management	389	329
j) Other services	13	14
Total	**17,645**	**16,467**

Commission income increased compared to the previous year due to higher asset management fees (EUR +1.5m), due to the choice of customers moving from bond lines to mixed lines. At the same time, there was a negative effect caused by lower commissions on payment services due to the Covid-19 pandemic (EUR -0.3 m).

2.2 Fee and commission income: distribution channels of products and services

All the IOR products and services are offered at IOR offices located in Vatican City State.

2.3 Fee and commission expense: detail

	2020	2019
a) Guarantees given/received		
b) Credit derivatives		
c) Asset management and brokerage		
1. trading financial instruments	(150)	(124)
2. trading currencies		
3. portfolio management		
3.1 own portfolio		
3.2 third-party portfolio		
4. Custody and administration of securities	(1,207)	(1,294)
5. Placement of financial instruments		
6. Off-site offer of financial instruments, products and services		
d) Collection and payment services	(1,127)	(603)
e) Current account keeping and management		
1. current account keeping	(67)	
2. liquidity management	(2,980)	(3,173)
f) Other services	(15)	(21)
Total	**(5,546)**	**(5,215)**

The slightly increase in commission expense is due to the higher fees incurred on collection and payment services.

At the same time, there was a positive effect from lower commissions charged by the correspondent banks for maintaining liquidity in current accounts, due to the reduction of stocks, as a result of increased investments in securities, notwithstanding the increase of negative rates applied by the correspondent banks.

SECTION 3 – Dividends and similar income (Item 70 Income statement)

3.1 Dividend income and similar revenues: detail

	2020		2019	
	Dividends	Income from UCI	Dividends	Income from UCI
A. Financial assets at fair value through profit or loss				
- Financial assets held for trading	30		830	
- Other financial assets mandatorily at fair value				
B. Financial assets at fair value through other comprehensive income	17		6	
C. Investment in subsidiaries				
Total	**47**		**836**	

The item "Dividends and similar income" decreased due to the strong reduction in disbursements by the issuers of the equity securities held in portfolio.

SECTION 4 – Net trading result (Item 80 Income statement)

4.1 Net trading result: detail

	2020				
	Unrealised profit (A)	Realised profit (B)	Unrealised loss (C)	Realised loss (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	570	5,554	663	11,746	**(6,285)**
1.2 Equity securities	1,780	2,917	10	2,682	**2,005**
1.3 UCI units	2,442	–	1,125	1,335	**(18)**
1.4 Loans	–	–	–	–	**–**
1.5 Other	–	(6)	–	–	**(6)**
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	–	1,701	133	–	**1,568**
4. Derivatives					
4.1 Financial derivatives					
- On debt securities and interest rates					
- On equity securities and stock indices					
- On currencies and gold					
- Other					
4.2 Credit derivatives					
of which: economic hedges related to the fair value option					
Total	**4,792**	**10,166**	**1,931**	**15,763**	**(2,736)**

	2019				
	Unrealised profit (A)	Realised profit (B)	Unrealised loss (C)	Realised loss (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	4,450	9,297	2,346	3,681	**7,720**
1.2 Equity securities	1,279	11,810	12	455	**12,623**
1.3 UCI units	160	2,991	–	–	**3,151**
1.4 Loans					
1.5 Other	–	169	–	–	**169**
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	318	1,260	–	–	**1,578**
4. Derivatives					
4.1 Financial derivatives					
- On debt securities and interest rates					
- On equity securities and stock indices					
- On currencies and gold					
- Other					
4.2 Credit derivatives					
of which: economic hedges related to the fair value option					
Total	**6,207**	**25,527**	**2,358**	**4,136**	**25,241**

Debt securities recorded a loss of EUR 6.3m in 2020 (2019: gain of EUR 7.7m): the realised loss was EUR 6.2m (2019: realised gain of EUR 5.6m), while the unrealised loss was EUR 93,000 (2019: unrealised gain of EUR 2.1m).

Equity securities recorded a gain of EUR 2m (2019: gain of EUR 12.6m): the realised gain was EUR 235,000 (2019: realised gain of EUR 11.4m), while the unrealised gain was EUR 1.8m (2019: unrealised gain of EUR 1.3m).

The UCI units recorded a loss of EUR 18,000 (2019: gain of EUR 3.1m): realised loss was EUR 1.3m (2019: realised gain EUR 3m), while unrealised gain was EUR 1.3m (2019: unrealised gain of EUR 160,000).

Line 1.5 "Financial assets held for trading: other" includes gains (losses) from currency trade, gold and other precious metals, while recognising a realised loss of EUR 6,000 in 2020 compared to a realised gain of EUR 169,000 in 2019.

The Item "Financial assets and liabilities: exchange differences" recorded a gain of EUR 1.6m (2019: gain of EUR 1.6m): realised gain was EUR 1.7m (2019: realised gain of EUR 1.3m), while unrealised loss was EUR 133,000 (2019: unrealised gain of EUR 318,000).

SECTION 6 – Net gain (loss) on the disposal or repurchase (Item 100 Income statement)

6.1 Net gain (loss) on the disposal or repurchase: detail

	2020			2019		
	Profits	**Losses**	**Net Result**	**Profits**	**Losses**	**Net Result**
Financial assets						
1. Financial assets at amortised cost						
- Loans and advances to banks						
- Loans and advances to customers						
2. Financial assets at fair value through other comprehensive income						
2.1 Debt securities	20,004	(2,928)	17,076	–	–	–
2.2 Loans						
Total assets	**20,004**	**(2,928)**	**17,076**	**–**	**–**	**–**
Financial liabilities at amortised cost						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities						

This item recorded gain arising from disposal of debt securities managed according to the *Held to Collect and Sell* business model.

In 2019, this item was not present as the Institute purchased securities under this business model starting January 2020.

SECTION 8 – Net impairment losses/recoveries for credit risk (Item 130 Income statement)

8.1 Net impairment losses for credit risk related to financial assets at amortised cost: detail

	Write-downs (1)			Write-backs (2)			
	III stage						
	Write-off	Other	I and II stage	III stage	I and II stage	2020 (1)+(2)	2019 (1)+(2)
1. Loans and advances to banks:							
a) Acquired or originated impaired							
- Loans							
- Debt securities							
b) Other receivables							
- Loans			–		54	**54**	**(21)**
- Debt securities			(381)		–	**(381)**	–
2. Loans and advances to customers							
a) Acquired or originated impaired							
- Loans							
- Debt securities							
b) Other receivables							
- Loans		(130)	(33)	4,055	–	**3,892**	**425**
- Debt securities			(267)	–	–	**(267)**	**71**
Total		**(130)**	**(681)**	**4,055**	**54**	**3,298**	**475**

The item includes the adjustments and the value recoveries deriving from the measurement of the expected loss on the portfolio of debt securities and loans, managed according the *Held to Collect* business model in accordance with the IFRS 9 accounting standard.

The adjustments relating to stage III recognised in 2020 refer to non-performing loans impaired during the year.

The adjustments relating to stage I and II recorded in the year refer to the increase of expected losses on loans to clients compared to the expected loss recognised at the end of the previous year and to the increase of expected losses on debt securities compared to the origination.

The recoveries relating to stage III recognised in the year refer to the consideration received from non-performing exposures fully impaired during previous years; in detail, two significant positions, non performing over last 10 years, were repaid during 2020.

The recoveries relating to stage I and II recorded in the year refer to the reduction of expected losses on loans to banks compared to the expected loss recognised at the end of the previous year.

8.2 Net impairment losses for credit risk related to financial assets at fair value through other comprehensive income: detail

	Write-downs (1)			Write-backs (2)			
	III stage						
	Write-off	Other	I and II stage	III stage	I and II stage	2020 (1)+(2)	2019 (1)+(2)
1. Debt securities			(929)			**(929)**	–
2. Loans							
of which: purchased or originated credit impaired							
- to banks							
- to customers							
Total			**(929)**			**(929)**	–

The item includes the adjustments and the value recoveries deriving from the measurement of the expected loss on the portfolio of debt securities, managed according the *Held to Collect and Sell* business model in accordance with the IFRS 9 accounting standard.

The adjustments relating to stage I and II recorded in the year refer to the increase of expected losses on debt securities compared to the origination.

SECTION 9 – Administrative expenses (Item 150 Income statement)

9.1 Staff expenses: detail

	2020	2019
A. Staff		
1. Wages and salaries	(5,840)	(4,972)
2. Social security charges		
3. Severance pay		
4. Supplementary benefits	(761)	(566)
5. Staff severance provision	(500)	(398)
6. Provisions for post-employment benefits		
(a) defined contribution plans		
(b) defined benefit plans	(3,808)	(2,702)
7. Payments to complementary pension plans		
(a) defined contribution plans		
(b) defined benefit plans		
8. Other benefits in favor of employees	(329)	(382)
B. Personnel with contracts pursuant to art. 10 (par. 1)		
1. letter (b)		
2. letter (c)		
3. letter (d)		
C. Fees and charges for:		
1. Board of Superintendence	(509)	(590)
2. Directorate	(204)	(200)
D. Early retirement cost		
E. Recovery of expenses for employees seconded to other entities		
F. Reimbursement of expenses for employees of the institutions and organisations of the Holy See and the Vatican City State seconded to the Institute		
Total	**(11,951)**	**(9,810)**

9.2 Average number of employees by categories

Category	Total	Executives	Officials	Staff
Average number	103	6	15	82

9.3 Post-employment defined benefit plans: costs and revenues

Post-employment defined benefit plans: costs	**2020**	**2019**
Service Cost of internal Pension Plan	(2,662)	(572)
Interest Cost of internal Pension Plan	(985)	(1,895)
New position cost	(161)	(235)
Post-employment costs: contribution to Vatican Pension Plan	(761)	(566)
Total Costs	**(4,569)**	**(3,268)**
Post-employment defined benefit plans: revenues	**–**	**–**
Total	**(4,569)**	**(3,268)**

9.5 Professional service expenses: detail

	2020	2019
A. Professional services expenses		
1. Legal services	(1,850)	(2,283)
2. Notary services		
3. Management consultancies	(443)	(152)
4. Technical consultancies	(328)	(113)
5. Operational consultancies	(1,247)	(1,206)
6. Translation services	(58)	(44)
B. Expenses related to work contracts		
1. ex art. 10 (par. 1) letter (a)		
2. ex art. 11 (par. 1)		
C. Expenses related to outsourcing contracts		
D. Expenses related to external auditors	(105)	(105)
Total	**(4,031)**	**(3,903)**

9.6 Other administrative expenses: detail

	2020	2019
1. Software maintenance	(1,291)	(1,470)
2. Other maintenance	(391)	(737)
3. Information providers	(640)	(543)
4. Other expenses	(1,036)	(1,202)
Total	**(3,358)**	**(3,952)**

SECTION 11 – Net value adjustments to/recoveries on tangible assets (Item 170 Income statement)

11.1 Net value adjustments to/recoveries on tangible assets: detail

	2020				2019			
	Deprecia-tion (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)	Depreci-ation (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)
A. Tangible assets								
A.1 Owned assets								
- Functional use	(206)			**(206)**	(216)			**(216)**
- For investment								
- Inventories								
A.2 Acquired under finance lease								
- Functional use	(116)			**(116)**	(116)			**(116)**
- For investment								
Total	**(322)**			**(322)**	**(332)**			**(332)**

The item includes depreciation on assets under lease contracts recognised in accordance with the accounting standard IFRS 16-*Leases* that the Institute adopted effective 1 January 2019.

SECTION 12 – Net value adjustments to/recoveries on intangible assets (Item 180 Income statement)

12.1 Net value adjustments to/recoveries on intangible assets: detail

	2020				2019			
	Deprecia-tion (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)	Depreci-ation (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)
A. Intangible assets								
A.1 Owned assets								
-Internally generated by the Institute								
- Other	(295)			**(295)**	(545)			**(545)**
A.2 Acquired under finance lease								
Total	**(295)**			**(295)**	**(545)**			**(545)**

SECTION 13 – Other operating income (expenses) (Item 190 Income statement)

13.1 Other operating income (expense): detail

	2020	2019
A. Income	**8,955**	**172**
Legates	8,900	-
Extraordinary income	55	172
Write-backs from gold and precious metals	–	–
B. Expenses	**(71)**	**(37)**
Operating losses	(35)	(21)
Extraordinary expenses	(36)	(16)
Impairment on gold and precious metals	–	–
Total	**8,884**	**135**

The significant increase of the item compared to 2019 is due to the closure of certain pious non-autonomous foundations (Legates) in accordance with the rules of Canon Law. The Commission of Cardinals, acting as Ordinary, decided the consequent devolution of the amounts.

In fact, according to Canon Law, can.1303, at the expiration or extinction of Legates, the goods of pious non-autonomous foundations (Legates) are assigned to the entity to which they were entrusted, unless the Founder expresses a different will.

The closure of pious non-autonomous foundations led securities selling in which liquidity had been invested in previous years, in order to provide better returns to beneficiaries given the low interest rate as well as a reduction in the liquidity recorded under item 80 “Legates”.

SECTION 15 – Net result of fair value measurement of tangible and intangible assets (Item 220 Income statement)

15.1 Net result of changes in the fair value (or the revalued value) or the presumable realisable value of tangible and intangible assets: detail

2020	Revaluations (a)	Impairment (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment		404			(404)
- Inventories					
A.2 Acquired under finance lease					
- Functional use					
- Held for investment					
B. Intangible assets					
B.1 Owned assets					
B.1.1 Internally generated by the Institute					
B.1.2 Other					
B.2 Acquired under finance lease					
Total		**404**			**(404)**

2019	Revaluations (a)	Impairment (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment		123			(123)
- Inventories					
A.2 Acquired under finance lease					
- Functional use					
- Held for investment					
B. Intangible assets					
B.1 Owned assets					
B.1.1 Internally generated by the Institute					
B.1.2 Other					
B.2 Acquired under finance lease					
Total		**123**			**(123)**

PART 4. INFORMATION ON COMPREHENSIVE INCOME

	2020			2019		
	Gross amount	Income tax	Net amount	Gross amount	Income tax	Net amount
10. Profit (loss) for the year	**36.375**		**36.375**	**38.012**		**38.012**
Other comprehensive income that will not be reclassified to the income statement						
20. Equity instruments designated at fair value through other comprehensive income						
a) change in fair value	129		129	286		286
b) transfer to other components of equity (equity securities canceled)						
30. Financial liabilities designated at fair value through profit or loss (own creditworthiness changes)						
40. Hedge accounting of equity instruments designated at fair value through other comprehensive income						
a) change in fair value (hedged item)						
b) change in fair value (hedging instrument)						
50. Tangible assets						
60. Intangible assets						
70. Defined-benefit plans	(3,292)		(3,292)	(7,055)		(7,055)
80. Non-current assets and disposal groups classified as held for sale						
90. Portion of valuation reserves from investments valued at equity method						
100. Income taxes relating to other income components without reversal to the income statement						
Other comprehensive income that will be reclassified to profit or loss (after tax)						
110. Foreign investments hedging						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
120. Foreign exchange differences						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
130. Cash flow hedging						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
of which: result of net positions						
140. Hedging instruments						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
150. Financial assets (different from equity instruments) at fair value through other comprehensive income						
(a) change in fair value	9,742		9,742	–		–
(b) transfer to the income statement						

(follows)

	2020			2019		
	Gross amount	Income tax	Net amount	Gross amount	Income tax	Net amount
(c) other changes						
160. Non-current assets and disposal groups classified as held for sale						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
170. Portion of valuation reserves from investments valued at equity method						
(a) change in fair value						
(b) transfer to the income statement						
(c) other changes						
180. Income taxes related to other comprehensive income that will be reclassified to Income Statement						
190. Total other comprehensive income	**6,579**		**6,579**	**(6,769)**		**(6,769)**
200. Comprehensive income (Item 10+190)	**42,954**		**42,954**	**31,243**		**31,243**

A.1 Disclosure concerning the fees of the independent auditors and services other than auditing

During 2020, the IOR did not pay fees to the companies belonging to the network of the audit firm Mazars Italia S.p.A. with the exception of those related to the audit of the annual accounts.

For audit services, fees amount to EUR 105,000.

The fees due are those contractually agreed, inclusive of any indexation and flat rate reimbursement of expenses. The amount does not include out-of-pocket expenses or taxes.

A.2 Exchange rates as of the balance sheet date

The balances at year-end denominated in foreign currencies are mainly measured at the exchange rates observed by the European Central Bank on the last working day of the year (in 2020: 30 December).

The exchange rates not quoted by the European Central Bank are provided by infoproviders on the same date.

For the 2020 financial statements, the rates were the following:

Currency		2020	2019
U.S. Dollars	USD	1,2281	1,1189
Swiss Francs	CHF	1,0857	1,0871
Canadian Dollars	CAD	1,5701	1,4621
English Pounds	GBP	0,9031	0,8521
Australian Dollars	AUD	1,6025	1,5992
Japanese Yen	JPY	126,57	122,19
Czech Crowns	CZK	26,252	25,4630
Danish Crowns	DKK	7,4393	7,4697
Norwegian Crowns	NOK	10,547	9,8460
Polish Zloty	PLZ	4,5565	4,2567
Swedish Crowns	SEK	10,0568	10,4400
South African Rand	ZAR	18,0053	15,7398
Hong Kong Dollars	HKD	9,521	8,7133
Singapore Dollars	SGD	1,6257	1,5577
New Zealand Dollars	NZD	1,7071	1,6638

A.3 Date of authorisation for issue

The financial statements were presented and authorised for issuance by the Directorate on 7 April 2021 and approved by the Board of Superintendence on 27 April 2021.

PART 5. INFORMATION ON RISKS AND HEDGING POLICIES

5.1 Introduction

The Institute's policies and procedures for the management and monitoring of risks arising from investment decisions are summarised in the following paragraphs, with a focus on the bodies involved and their responsibilities. The Institute considered it appropriate:

a) to assign risk measurement functions and risk control to a specific department, i.e. the Risk Management Department;
b) to assign the functions dedicated to the definition of operating limits, the authorisation of possible overruns or payment requests within assigned limits, to a Risk Committee.

Other bodies of the Institute are involved with and assigned different tasks in risk management and monitoring, such as the Board of Superintendence, Directorate, Internal Audit, Compliance, Chief Financial Officer and Finance & Treasury departments.

This structure is based on the Vatican laws and rules and requirements provided by the Supervisory and Financial Information Authority (ASIF) for an adequate internal audit system, as defined by Regulation no.1 on prudential supervision of entities carrying out financial activities on a professional basis ("Regulation no.1/2015"), implementing Title III of the Law no. XVIII promulgated on 8 October 2013 that covers norms on "Transparency, Supervision and Financial Intelligence" ("Law no. XVIII").

The Risk Management Department is a structure independent from risk-taking functions, which reports directly to the Directorate and reports functionally to the Board of Superintendence.

The following paragraphs disclose the roles of the different organisational structures and the governing bodies involved in the monitoring and management of risks.

5.1.1 Duties and responsibilities of bodies involved

The Institute bodies involved in various capacities in the management and monitoring of risk relating to investment decisions are the following:

– Board of Superintendence;
– Directorate;
– Risk Committee;
– Risk Management Department;
– Compliance Department;
– Internal Audit Department;
– Finance & Treasury Department;
– Chief Financial Officer (CFO).

5.1.1.1 Board of Superintendence

The Board of Superintendence is responsible for defining the strategic guidelines, the Risk Appetite and general policies for risk management. The Board of Superintendence can request the Directorate to update the guidelines for the measurement and assessment of risks and periodically monitors the performance of risks and compliance with the limits established on the basis of the information produced by the Risk Management Department and the Risk Committee.

Furthermore, the Board of Superintendence, in coherence with general roles and responsibilities assigned by the Statutes:

– defines and approves strategic decisions with regard to classification and measurement of financial instruments and provides for their periodic review, in relation to the business evolution of the Institute and the reference framework in order to guarantee their efficacy over time;
– defines and approves, based on a proposal from the Directorate, the Institute's business model on the basis of the international accounting principles in force from time to time;
– defines and approves, based on a proposal from the Directorate, changes to the current business model and the consequent reclassification of financial assets in compliance with provisions of the international accounting standards, and of the laws and regulations of the Holy See and Vatican City State, fully respecting the Institute's mission;

– ensures, through the Directorate, the programs implementation and the objectives defined with regard to investments and other activities, while verifying their consistency with the business models defined;
– ratifies, in case of stress circumstances, the disposals of financial assets held in the *Held to Collect* portfolio, authorised by the Directorate based on the proposal of the Risk Committee, notwithstanding the frequency and significance thresholds defined in the current policy (in terms of amounts).

For these responsabilities the Board of Superintendence is supported by the Audit & Risk Committee, set up according IOR Statutes.

5.1.1.2 Directorate

Based on the overall strategies, general policies and guidelines set forth by the Board of Superintendence, the Directorate establishes the risk management and monitoring methodologies and their implementation and integration proposed by the Risk Committee, and the general structure of market and credit operational limits (counterparty risk and issuer risk), consistent with the overall Risk Appetite.

The Directorate also establishes periodically, based on the proposal of the Risk Committee, the limits granted to new trading partners.

The Directorate monitors risk exposure on a daily basis through reports produced by the Risk Management Department and is informed promptly by the department when operational limits have been exceeded and can request an emergency meeting of the Risk Committee.

When operational limits are exceeded, based on a proposal from the Risk Committee, the Directorate determines the way in which the overrun may be managed:
– the Directorate can authorise the overrun specifying the period for which the authorisation is granted;
– the Directorate can ask the head of the operating area involved for a recovery plan to be established. The Directorate then authorises the plan, or can ask for recovery in different ways and/or in periods other than the recovery period proposed.

Furthermore, the Directorate:
– ensures the implementation of the strategic decisions defined by the Board of Superintendence with regard to classification and measurement of financial instruments;
– proposes the Institute's business model on the basis of the international accounting principles (in force from time to time) for approval by the Board of Superintendence;
– proposes changes to the current business model and the consequent reclassification of financial assets to be approved by the Board of Superintendence, in accordance with international accounting principles and provisions, laws, and regulations of the Holy See and Vatican City State and regulation provided from time to time by the ASIF;
– leads and coordinates activities carried out by the Chief Financial Officer, for the implementation of programs and the objectives defined with regard to investments and other activities;
– authorises, in case of stress situations, the sales of financial assets within the *Held to Collect* portfolio, on proposal approved by the Risk Committee, notwithstanding the frequency and significance thresholds defined in the current policy (in terms of amounts).

5.1.1.3 Risk Committee

A Risk Committee has been established by the Directorate and chaired by the Head of Risk Management Department with the following aims:
– to propose a *Risk Appetite Framework* and management and control methodologies and all subsequent amendments thereof, in compliance with the general limits set up by *Risk Appetite Framework*;
– to propose to the Directorate the general structure of market and credit operational limits (counterparty risk and issuer risk);
– to propose periodically to the Directorate credit limits granted to the new trading partners, in compliance with the general limits defined in the *Risk Appetite Framework*;
– to periodically review the Institute's risk trend, with specific focus on the most relevant events or those with the greatest impact;
– in case of an emergency meeting, where operational limits have been exceeded, to express an opinion to the Directorate on the authorisation to exceed limits, or on recovery plan arrangements;

– to approve, on proposal by the Chief Financial Officer, in case of a stress situation, the sales of *Held to Collect* financial assets, for the subsequent authorisation by the Directorate, notwithstanding the frequency and significance thresholds defined in the current policy (in terms of amounts);
– to propose, with the participation of the Head of Accounting Department, any changes to the policy on "Classification and measurement of financial assets".

The organisational aspects of the Risk Committee are disclosed in an appropriate regulation.

5.1.1.4 Risk Management Department

The Institute's Risk Management Department:
– presents to the Risk Committee issues related to the Institute's exposure to market, credit, liquidity, operational and reputational risks, proposing methodologies, instruments and processes for the management of those risks;
– is responsible for the implementation, validation and maintenance of a risk exposure control system and its performance;
– on a daily basis, observes the market, credit and liquidity risks and trading activity performance, preparing specific reports for the Board, the Directorate, the CFO and the Finance&Treasury Department;
– monitors compliance with the risk indicators outlined in the *Risk Appetite Framework* approved by the Board of Superintendence, preparing specific reports;
– tests that the financial assets are managed in compliance with the to the *Risk Appetite Framework* and with the business model defined on the basis of international accounting principles;
– monitors adherence to operational limits in the Institute's trading activity, promptly informing the Directorate, the CFO and the Finance&Treasury Department of any overruns. When limits are exceeded, it can request an emergency meeting of the Risk Committee;
– calculates capital requirements in compliance with legal requirements;
– supports the Accounting Department for analyses of the financial instruments aimed at evaluating the business model and the resulting classification and measurement;
– monitors, within the scope of controls for which it is responsible, the execution of the SPPI test provided by the Finance&Treasury Department;
– monitors the respect of the defined compatibility thresholds in case of sale of securities of the *Held to Collect* portfolio.

5.1.1.5 Compliance Department

The IOR Compliance Department, in accordance with the ASIF Regulation no. 1/2015, oversees, using a risk-based approach, management of the risk of non-compliance in corporate activity.

In particular, it is responsible for managing the risk of non-compliance with the most important regulations, such as those relating to financial activity and brokerage, anti-money laundering, and management of conflicts of interest.

As regulated by Article 29 of Regulation no. 1/2015, the Compliance Department:
– continuously identifies the rules applicable to the Institute and its activities; measures and assesses the impact of any changes on existing processes and internal procedures;
– verifies compliance with external regulatory requirements and self-regulation;
– proposes organisational and procedural changes that ensure adequate supervision of the risk of non-compliance with identified rules;
– monitors effectiveness of the suggested organisational changes for prevention of the risk of non-compliance;
– prepares direct information flows for the Institute's governance bodies and for the other functions/structures concerned;
– provides advice and assistance to the Institute's governance bodies for all matters in which the non-compliance risk is relevant;
– collaborates in training personnel on the provisions applicable to their activities.

5.1.1.6 Internal Audit Department

As indicated in Article 29 of the General Regulations of the IOR and in line with the provisions of Article 31 of

the ASIF Regulation n. 1/2015, the Internal Audit function verifies (through third-level control activities) the evolution of results and risks, completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of the bodies of the Institute.

The Internal Audit Department:

– evaluates the completeness, adequacy, functionality and reliability of the system of internal controls, including their ability to detect errors and irregularities;
– assesses the effectiveness and efficiency of operational processes;
– assesses the effectiveness of the RAF definition process, the internal consistency of the overall framework and the compliance of operations with the RAF;
– verifies the regularity of operations and the compliance of all activities and Offices with laws, regulations and internal procedures;
– assesses the organisation, powers and responsibilities of the Risk Management function and the Compliance function.

As indicated in art. 29 of the IOR General Regulations and in line with the provisions of art. 27 par. 3 ii) of ASIF Regulation n. 1/2015, Internal Audit reports to the Board of Superintendence.

5.1.1.7 Finance&Treasury Department

The Finance&Treasury Department, which operates under the coordination of the CFO, performs the following tasks:

– defines the operating investment decisions to be realised on financial markets, ensuring consistency with strategic goals and predetermined limits;
– requests revisions to the assigned operational limits, or the authorisation to engage with new partners, subject to review by the Risk Committee;
– defines, within the limits of the authority granted, the necessary corrective actions to restore the defined risk/return profile;
– manages financial instruments consistent with the business model defined and approved by the Board of Superintendence, in compliance with laws and regulations of the Holy See and Vatican City State and with adherence to the best practice of international markets;
– assigns the business model to any new debt instrument within the Institute's property and is responsible for the business model test execution for classification purposes;
– executes the SPPI test, for the purposes of measuring any new debt instrument within the Institute's property.

5.1.2 Risk culture and further developments

Over the years, the Institute has implemented a complete overview of its current financial, credit, liquidity, operational and reputational risk management methodology through the strengthening of the first level controls, the second level controls (Risk Management and Compliance) and the third level controls (Internal Audit) as well as through the review of risk measurement and assessment systems and the adoption of the most common market practices.

The approval of a Risk Appetite Framework integrated in the activities of daily risk management allows for the development and dissemination of a risk culture, while the consolidation of the role of the Risk Committee has contributed to maintaining a high level of attention from management.

An ad hoc e-learning platform for training was delivered by the Institute given the specificities of the Institute and the current regulatory framework, in particular, to combat money laundering and the financing of terrorism. External training activities are planned for specific areas, in particular, in the case of regulatory changes or in order to provide new skills.

5.2 Credit risk

Information on credit risk and related hedging policies

5.2.1 Qualitative information

5.2.1.1 General aspects

Credit risk rises from the possibility that counterparties may not honour their commitments. Depending on the nature of those commitments, the Institute's credit risk concerns two categories:

a) credit risk arising from the Institute's investment and trading activity for their own account and on behalf of its clients. Credit risk represents the risk that a counterparty may not fulfil its contractual obligations related to a transaction concerning financial instruments. This risk may be classified into three categories:
   1. cash risk (e.g. deposits);
   2. issuer risk (e.g. bond purchases);
   3. counterparty risk, mainly generated by the operations in Delivery versus Payment (e.g. term operations, repos).

b) credit risk arising from loans to customers.

It should be mentioned that the Institute is not authorised by the Supervisory and Financial Information Authority to carry out the activity of "lending" (cfr. art. l (l) (b) of the Law no XVIII and art. 3 (24) (b) of the Regulation no. l), as credit activities on its own. However, IOR is authorised to make "advances" that is to disburse funds to its clients and to a limited extent following guarantee of future income (such as, for example, in the case of the advance of salary or pension paid by the Holy See or the Vatican City State Governorate) or guaranteed by financial assets of the same amount deposited by the clients at the Institute.

In general, the main sources of credit risk derive from the investment in bonds, mainly issued by government, financial and corporate "Investment Grade" rating agencies and by deposits with banks.

At the end of 2020, the bond securities portfolio amounted to EUR 2.4bn with an average duration of 2.76 years and high credit standing (99.8% investment grade). The portfolio is composed of government bonds issued by major European countries (core and peripheral) by the U.S. government and residually by non-OECD countries, as well as financial and corporate bonds.

Additional details on the bond portfolio composition are provided in the following paragraphs.

5.2.1.2 Credit risk management policies

5.2.1.2.1 Organisational aspects

The Finance&Treasury Department is responsible for the management and monitoring of credit risks over trading activity which, as already disclosed, concerns almost all of the credit risk of the Institute; that provides a delegation process to the Finance&Treasury Department through the CFO. The Finance&Treasury Department is qualified to assume credit risk in compliance with operational limits. Particularly, the process of risk assumption involves the following:

- the Director General delegates the assumption of credit risks to the Finance&Treasury Department, through the CFO, within a predetermined amount, type and counterparty;
- the Finance&Treasury Department assumes credit risk in its operations in compliance with its defined limits. The assumption of credit risk for amounts greater than the predetermined limit assigned to the department requires the authorisation of the CFO, the Director General or the Board of Superintendence;
- the Risk Committee supports the Director General in establishing a system of credit risk management and monitoring, defining operational limits, analysing any overruns and in evaluating authorisations of exceeded limits;
- the Risk Management Department, on a daily basis, monitors compliance with operational limits, promptly reporting to the Directorate any unauthorised overruns.

5.2.1.2.2 Management, measurement and control systems

Credit risk monitoring activity is delegated to the Risk Management Department, applying the Institute's specific-methodology, validated by the Risk Committee and approved by the Director General.

This methodology provides, in particular, for the definition of:

- a set of determined counterparties with whom the Finance&Treasury Department is allowed to engage. For each counterparty, the type of risk that the Institute can assume and the maximum amount of exposure are defined;

– credit risk quantification criteria for each financial instrument, distinguishing between counterparts risk, issuer risk and cash risk.

Concerning the maximum amount of exposure to each counterparty, the methodology provides for the use of an internal rating, defined by the characteristics of the counterparty, the rating from International Rating Agencies.

5.2.1.2.3 Expected loss measurement models

The Institute has developed a methodology for estimating the expected loss in line with the IFRS 9 accounting standard, differentiating between the main types of debtors and financial assets to which credit exposures relate. In particular, with regard to advances, credit lines and overdrafts, two categories of customers have been identified: "Consumers" and "No Profit"; in the case of other exposures (debt securities and deposits), the categories "Corporates", "Financials" and "Sovereigns" have been identified.

For each category, the Institute has defined the methodological criteria and consistently estimated the credit parameters relating to the "*Probability of Default*" (PD), "*Loss Given Default*" (LGD) and "*Exposure at Default*" (EAD) using a combination of internally observed historical data (in particular in the case of the Consumer and No Profit categories) and external data taken from official and public databases.

Since no internal credit rating models have been developed with respect to the "Consumer" and "No Profit" classes, the parameters are estimated in aggregate terms, i.e. without differentiating between different degrees of risk, with the exception of the LGD and EAD parameters, which depend on the collaterals and the facility type. For the other categories of debtors, the risk differentiation is carried out in accordance with external ratings.

Consistently with the IFRS 9 accounting standard, a method has also been developed for the calculation of annual and multi-period expected losses ("lifetime"), in the latter case using econometric models to link the observed default rates to macroeconomic variables. With regard to the prospective estimates of the macroeconomic variables, the Institute uses as a reference the macroeconomic scenarios prepared by the European Central Bank.

The use of expected annual or multi-period losses depends on the stage of each credit exposure, i.e. the existence or otherwise of signs of significant deterioration in creditworthiness. In order to determine the stage of exposure, the Institute considers historical and, as far as possible, perspective data and information. In practice, for the categories "Consumers" and "No Profit" the main indicator considered is the number of past-due days.

5.2.1.2.4 Credit risk mitigation techniques

Currently, the Institute has no offsetting agreements in place with financial counterparties and does not operate in the credit derivatives market.

5.2.1.3 Non-performing financial assets

For amounts due from clients, an internal monitoring system has been implemented to determine if there is objective evidence of the impairment of loans, based on the following criteria:

– default in contractual payments of both capital and interest;
– delays in payments due to liquidity problems of customers;
– deterioration in the value of the guarantees provided.

The IOR has also issued guarantees requested by customers covered by assets held in custody, which are disclosed on paragraph 13.1 Part 2.

5.2.1.3.2 Write-offs

When a loan becomes uncollectible, it is written off against the related provision for loan impairment.

Such exposures are written off after all the necessary procedures have been performed and the extent of the loss has been determined.

Regarding loans to customers, at the end of each month, the Client Relationship Department analyses all exposures and submits to the Directorate a proposal on how to manage aged loans at risk for non-collection. Particularly, when the balance is deemed to be collectible within a short period, an impairment loss is not realised, but the trend is monitored; when the balance is deemed to be collectible in a mid/long term period, an analytic impairment loss is recognised; when the positions are past due and uncollectible, the department proposes to write off the amount as a loss on loans to the Directorate.

5.2.1.3.3 Purchased or originated impaired financial assets

Credit exposures that are already non-performing on initial recognition or origination are defined "Purchased or originated impaired financial assets" ("POCI") (IFRS 9 B.5.4.7, B.5.5.26).

The Institute qualifies as a POCI:

– the purchase of non-performing loans;
– new loans to customers who are already classified as non-performing;
– considerable contractual changes that lead to the derecognition of the existing credit and the recording of a new credit to a customer in a state of deterioration (in a non-performing condition);
– acquisition of non-performing loans in the context of a business combination transaction according to IFRS 3.

If a financial asset meets the definition of POCI, it must be recognised according to specific rules provided for this category until derecognition.

POCI impairment is always based on the ECL lifetime methodology.

The exit of a POCI from the category of non-performing thanks to an improvement in credit risk does not imply the allocation of this asset in a different category: no circumstance permits leaving POCI status.

During 2020, as well as during 2019, no POCI assets were recognised.

5.2.2 Quantitative information

5.2.2.A Credit quality

Financial assets included in the current section do not comprise equity securities and UCI units.

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical detail

A.1.1 Detail of credit exposures by portfolio classification and credit quality (carrying values)

	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at fair value through other comprehensive income					1,160,118	1,160,118
2. Financial assets at amortised cost	–	6,752	–	–	1,017,062	1,023,814
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets being disposed						
Total 2020	**–**	**6,752**	**–**	**–**	**2,177,180**	**2,183,932**
Total 2019	**–**	**7,011**	**15**	**90**	**1,303,500**	**1,310,616**

Note: *There are no forborne exposures.*

Performing past due exposures are loans classified as stage 2. They are not present at the closing date of these financial statements.

Bad loans are represented with zero value as they are fully impaired.

A.1.2 Detail of credit exposures by portfolio classification and credit quality (gross and net values)

	Non-performing assest			Performing assets			
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets at fair value through other comprehensive income	–	–	–	1,161,047	(929)	1,160,118	1,160,118
2. Financial assets at amortised cost	16,160	(9,408)	6,752	1,017,908	(846)	1,017,062	1,023,814
3. Financial assets designated at fair value							
4. Other financial assets mandatorily at fair value							
5.Financial assets being disposed							
Total 2020	**16,160**	**(9,408)**	**6,752**	**2,178,955**	**(1,775)**	**2,177,180**	**2,183,932**
Total 2019	**24,589**	**(17,563)**	**7,026**	**1,303,811**	**(221)**	**1,303,590**	**1,310,616**

	Assets with markedly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading			516,270
2. Hedging derivatives			
Total 2020			**516,270**
Total 2019			**1,484,179**

A.1.3. Breakdown of financial assets by past-due buckets (carrying value)

	Stage I			Stage II			Stage III		
	From 1 to 30 days	Over 30 and up to 90 days	Over 90 days	From 1 to 30 days	Over 30 and up to 90 days	Over 90 days	From 1 to 30 days	Over 30 and up to 90 days	Over 90 days
Financial assets at amortised cost	1	1	16	–	–	–	6,620	–	132
Financial assets at fair value through other comprehensive income									
Total 2020	**1**	**1**	**16**	**–**	**–**	**–**	**6,620**	**–**	**132**
Total 2019	**6**	**–**	**–**	**–**	**90**	**–**	**–**	**–**	**7,026**

A.1.4. Financial assets, commitments and financial guarantees issued: changes in overall impairment and provisions

	Overall write-downs													Total provisions on loans commitments and financial guarantees given			Total
	Financial assets stage I				Financial assets stage II				Financial assets stage III				Of which: acquired or originated impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Of which: individual impairment	Of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Of which: individual impairment	Of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Of which: individual impairment	Of which: collective impairment		Stage I	Stage II	Stage III	
Opening balance (gross amount)	**221**			**221**					**17,563**		**17,563**					**1,699**	**19,483**
Increases in acquired or originated financial assets									268		268						**268**
Reversals different from write-offs									(4,498)		(4,498)						**(4,498)**
Net losses/(recoveries) on credit impairment	626	929		1,555					(3,925)		(3,925)						**(2,370)**
Contractual changes without cancellation																	
Changes in estimation methodology																	
Write-off																	
Other changes																	
Closing balance (gross amount)	**847**	**929**		**1,776**					**9,408**		**9,408**					**1,699**	**12,883**
Recoveries from financial assets previously write-off																	
Write-off are not recognised directly through profit or loss																	

A.1.5 Financial assets, loan commitments and financial guarantees given: transfers between risk stages (gross and nominal values)

	Gross values/nominal values					
	Transfers between stage I and stage II		Transfers between stage II and stage III		Transfers between stage I and stage III	
	From stage I to stage II	From stage II to stage I	From stage II to stage III	From stage III to stage II	From stage I to stage III	From stage III to stage I
Financial assets at amortised cost		–	1		12	
Financial assets at fair value through other comprehensive income						
Loan commitments and financial guarantees given						
Total 2020		**–**	**1**		**12**	
Total 2019		**2**	**45**		**–**	

A.1.6 On- and off-balance sheet credit exposures to banks: gross and net values

	Gross exposure		Individual adjustments	Net exposure	*Write-offs*
	Non-performing assets	Performing assets			
A. On-balance sheet exposures					
a) Bad loans					
- of which: forborne exposures					
b) Unlikely to pay					
- of which: forborne exposures					
c) Non-performing past due exposures					
- of which: forborne exposures					
d) Performing past due exposures					
- of which: forborne exposures					
e) Other performing exposures		1,047,253	701	1,046,552	
- of which: forborne exposures					
Total A		**1,047,253**	**701**	**1,046,552**	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing					
Total B					
Total A + B		**1,047,253**	**701**	**1,046,552**	

On-balance sheet credit exposures to banks include all financial assets claimed from banks, irrespective of their portfolio of allocation.

As disclosed, the use of the term “credit exposures” excludes equity securities and UCI units.

A.1.7 On- and off-balance sheet credit exposures to customers: gross and net values

	Gross exposure		Individual adjustments	Net exposure	*Write-offs*
	Non-performing assets	Performing assets			
A. On-balance sheet exposures					
a) Bad loans	4,714		4,714	–	
- of which: forborne exposures					
b) Unlikely to pay	11,446		4,694	6,752	
- of which: forborne exposures					
c) Non-performing past due exposures					
- of which: forborne exposures					
d) Performing past due exposures					
- of which: forborne exposures					
e) Other performing exposures	–	1,647,972	1,075	1,646,897	
- of which: forborne exposures					
Total A	**16,160**	**1,647,972**	**10,483**	**1,653,649**	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing	–	1,576	–	1,576	
Total B	**–**	**1,576**	**–**	**1,576**	
Total A + B	**16,160**	**1,649,548**	**10,483**	**1,655,225**	

On-balance sheet credit exposures to customers include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation.

A.1.9 On-balance sheet non-performing credit exposures to customers: changes in gross non-performing exposures

	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross non-performing ex posures	**12,839**	**11,704**	**45**
- of which: exposures sold not derecognised			
B. Increases			
B.1 Transfers from performing loans	27	–	–
B.2 transfers from other non-performing exposure categories			
B.3 other increases	267	–	–
C. Decreases			
C.1 recoveries on impairment losses			
C.2 write-offs	(4,478)	–	(20)
C.3 recoveries on repayments	(3,941)	(258)	(25)
C.4 profits on disposal			
C.5 loss on disposal			
C.6 transfers to other non-performing exposure categories	–	–	–
C.7 other decreases			
D. Final total adjustments	**4,714**	**11,446**	**–**
- of which: exposures sold not derecognised			

A.1.11 On-balance sheet non-performing credit exposures to customers: changes in total adjustments

	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	**of which: forborne exposures**	**Total**	**of which: forborne exposures**	**Total**	**of which: forborne exposures**
A. Initial total adjustments	**12.839**		**4.694**		**30**	
- of which: exposures sold not derecognised						
B. Increases						
B.1 impairment losses	27		103		–	
B.2 losses on disposal						
B.3 transfers from other non-performing exposure categories						
B.4 other increases	267		–		–	
C. Decreases						
C.1 recoveries on impairment losses						
C.2 recoveries on repayments	(3,941)		(103)		(10)	
C.3 profits on disposal						
C.4 write-offs	(4,478)		–		(20)	
C.5 transfers to other non-performing exposure categories						
C.6 other decreases						
D. Final total adjustments	**4,714**		**4,694**		**–**	
- of which: exposures sold not derecognised						

A.2. Classification of exposures based on external and internal ratings

A.2.1 Detail off and on-balance sheet credit exposures by external rating class (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
1. Financial assets at amortised cost								
- Stage I	97,912	201,768	586,630	71,585	5,690	–	54,323	**1,017,908**
- Stage II								
- Stage III	–	–	–	–	–	–	16,160	**16,160**
2. Financial assets at fair value through other comprehensive income								
- Stage I	80,584	462,669	566,495	43,722	1,870	–	4,778	**1,160,118**
- Stage II								
- Stage III								
Total on-balance sheet financial assets	**178,496**	**664,437**	**1,153,125**	**115,307**	**7,560**	**–**	**75,261**	**2,194,186**
of which: acquired or originated impaired financial assets								
3. Loan commitments and financial guarantees given								
- Stage I	–	–	–	–	–	–	5,576	**5,576**
- Stage II								
- Stage III								
Total commitments and financial guarantees							**5,576**	**5,576**
Total	**178,496**	**664,437**	**1,153,125**	**115,307**	**7,560**	**–**	**80,837**	**2,199,762**

For the analysis of the credit rating of debtors, if only one credit rating is available from an external agency among those selected, this is assigned directly. If there are two credit ratings for the same exposure, the worst of the two is used. If there are more, the two best ratings are selected and the worst of the two is selected.

S&P ratings were used in the preparation of the above table.

The following is a reconciliation between risk classes and ratings:

Class 1 – from AAA to AA-

Class 2 – from A+ to A-

Class 3 – from BBB+ to BBB-

Class 4 – from BB+ to BB-

Class 5 – from B+ to B-

Class 6 – Others

A.3 Detail of guaranteed credit exposures by type of guarantee

A.3.2 Guaranteed credit exposures to customers

	Gross exposure	Net exposure	Real collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Credit commitments				
								Other derivatives								
			Real estate assets - mortgages	Real estate assets – financial lease	Securities	Other real guarantees	Credit Linked Notes	Governments and Central Banks	Other Public Entities	Banks	Other entities	Governments and Central Banks	Other Public Entities	Banks	Other entities	
1. Guaranteed on balance sheet credit exposures																
1.1 Totally guaranteed	265	264	265													**265**
- of which non-performing																
1.2 Partly guaranteed																
- of which non-performing																
2. Guaranteed off-balance sheet credit exposures																
2.1 Totally guaranteed																
- of which non-performing																
2.2 Partly guaranteed																
- of which non-performing																

5.2.2.B Distribution and concentration of credit exposures

B.1. Detail by sector of on-balance and off-balance sheet credit exposures to customers (carrying value)

Exposures/conterparties	Holy See / VCS			Foreign Public Sector												Foreign Private Sector											
	Public Authorities			Foreign Public Authorities			Regional – Local Public Authorities			International Public Authorities			Other Public Entities			Financial companies			Insurance companies			Non-financial companies			Other		
	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments
A. On-balance sheet exposures																											
A.1 Bad loans																										(4,714)	
-of which forborne exposures																											
A.2 Unlikely to pay																								6,752		(4,694)	
-of which forborne exposures																											
A.3 Non-performing past due exposures																											
-of which forborne exposures																											
A.4 Performing exposures	43,468		(28)	947,162		(453)										255,312		(230)	27,267		(44)	364,293		(302)	9,395		(18)
-of which forborne exposures																											
TOTAL A	**43,468**		**(28)**	**947,162**		**(453)**										**255,312**		**(230)**	**27,267**		**(44)**	**364,293**		**(302)**	**16,147**	**(9,408)**	**(18)**
B. Off-balance sheet exposures																											
B.1 Bad loans																											
B.2 Unlikely to pay																											
B.3 Other non-performing assets																											
B.4 Other exposures																								1,576			
TOTAL B																								**1,576**			
TOTAL (A+B) 2020	**43,468**		**(28)**	**947,162**		**(453)**										**255,312**		**(230)**	**27,267**		**(44)**	**364,293**		**(302)**	**17,147**	**(9,408)**	**(18)**
TOTAL (A+B) 2019				**1,218,753**		**(136)**										**109,573**						**128,662**			**18,505**	**(17,503)**	**(79)**

B.2. Detail by geographical area of on- and off-balance sheet credit exposures to customers (carrying value)

Exposures / Geographical areas	HOLY SEE / VCS		EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Bad loans			–	(4,714)						
A.2 Unlikely to pay			6,752	(4,694)						
A.3 Non-performing past due exposures										
A.4 Performing exposures	17,039	(18)	1,293,869	(892)	254,051	(113)	71,529	(46)	10,409	(6)
Total A	**17,039**	**(18)**	**1,300,621**	**(10,300)**	**254,051**	**(113)**	**71,529**	**(46)**	**10,409**	**(6)**
B. Off balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performing assets										
B.4 Performing exposures			1,576							
Total B			**1,576**							
Total A+B 2020	**17,039**	**(18)**	**1,302,197**	**(10,300)**	**254,051**	**(113)**	**71,529**	**(46)**	**10,409**	**(6)**
Total A+B 2019	**55**	**–**	**1,161,602**	**(17,718)**	**269,324**	**–**	**35,606**	**–**	**8,906**	**–**

B.3. Detail by geographical area of on- and off-balance sheet credit exposures to banks (carrying value)

Exposures / Geographical areas	HOLY SEE / VCS		EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Bad loans										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures										
A.4 Performing exposures	–	–	866,205	(650)	165,920	(51)	96	–	14,330	–
Total A	**–**	**–**	**866,205**	**(650)**	**165,920**	**(51)**	**96**	**–**	**14,330**	**–**
B. Off-balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performingassets										
B.4 Performing exposures										
Total B										
Total A+B 2020	**–**	**–**	**866,205**	**(650)**	**165,920**	**(51)**	**96**	**–**	**14,330**	**–**
Total A+B 2019	**50,241**	**(31)**	**1,108,495**	**(31)**	**100,387**	**(4)**	**2,838**	**–**	**58,910**	**–**

B.4. Large exposures

With regard to the concentration risk coming from exposures towards a counterparty, a customer or a group of connected customers, the Institute presents exposures - as defined in art. 108 of ASIF Regulation no. 1/2015 - mainly towards the Italian Republic and the Kingdom of Spain. In all cases, these exposures do not determine additional own funds requirements as a zero weighting coefficient for credit risk is applied to them, as governed by art. 108 c. 2-ter of the ASIF Regulation no.1/2015.

5.2.2.C Securitisation

No securitisation transactions were made by the IOR.

5.2.2.D Information on unconsolidated structured entities

For unconsolidated structured entities, the Institute considers the shares held in externally managed investment funds, when it is the owner of a significant number of shares. In fact, the Institute does not control these funds because it does not participate in investment decisions, either directly or indirectly, and it does not have the ability to affect the returns of the above-mentioned funds.

The information required by IFRS 12 on the unconsolidated structured entities is given below.

As of the balance sheet date, the Institute holds external funds in its trading portfolio for EUR 42.5m. No dividends were collected in 2020, nor in 2019.

The funds currently present in the portfolio are both closed-end and open-end funds. For closed-end funds, i.e., funds that can be subscribed to by specific parties and only at certain times, the bank does not have control. The Institute holds two open-ended funds for an amount of 30.6 million euros, which is the total outstanding amount for these funds.

With regard to their underlying asset classes, closed-end funds held by the Institute invest almost exclusively in real estate. Conversely, open-end funds invest in emerging market equities and developed market equities.
Regarding geographical distribution, using the criteria of the legally registered domicile, all the funds are located within the European Union.

	2020		2019	
	Balance sheet exposure		Balance sheet exposure	
	Nominal Value (quantity)	Carrying amount	Nominal Value (quantity)	Carrying amount
Fund type				
Open-end fund	2,800,000	30,628		
Closed-end fund	19,770,677	11,878	19,770,677	13,003
Hedge fund				
Exchange traded fund				
Unit Investment Trust				
Fund of fund				
Seed Fund				
Total		**42,506**		**13,003**
Underlying asset class				
Equity	2,800,000	30,628		
Debt				
Asset Allocation				
Money Market				
Real Estate	19,770,000	11,860	19,770,000	12,984
Commodity				
Alternative Investments	677	18	677	19
Total		**42,506**		**13,003**
Geographical Area				
EU	22,570,677	42,506	19,770,677	13,003
USA				
Total		**42,506**		**13,003**

During 2020, the IOR did not provide any guidance to unconsolidated structured entities on their investment policies. The Institute has not sponsored any unconsolidated structured entities.

At the balance sheet date, the Institute had a standing commitment to one of these funds to third parties of EUR 4m.

S.G.I.R. S.r.l. is 100% owned by IOR. The Institute does not prepare consolidated financial statements because the resulting information would not be relevant to the readers of the financial statements. The total balance sheet assets of the subsidiary are insignificant when compared with those of the Institute and, accordingly, the consolidated financial statements would not differ significantly from these financial statements.

5.2.2.F Models for the measurement of credit risk

For credit risk measurement, the Institute has adopted the standard methodology defined by ASIF Regulation no. 1, articles 63-89. No individual and portfolio internal models are used.

5.3 Market risks

Information on market risk and relative hedging policies

5.3.1 Interest rate risk and trading portfolio price risk

5.3.1.1 Qualitative information

5.3.1.1.1 General aspects

Interest rate risk related to the trading portfolio is derived from the Institute's trading activity in financial instruments, both simple and complex, exchanged on organised markets and over-the-counter markets, put in place by the Finance&Treasury Department. This risk pertains to positions in bonds, particularly those based on a fixed rate, the value of which is closely linked to the trend in interest rates. In line with the objectives of the CFO in liquidity management and capital, and with the Institute's risk threshold, the level of risk in the trading portfolio is rather low, as indicated by the short holding period (0.50 years). In anticipation of an increase in interest rates, the Institute has further reduced the overall holding period in order to mitigate any negative impact on the value of the portfolio.

Price risk comes from the exposure on equity securities, ETF and funds. The Institute reduced the threshold for such risk and exposures, mainly out of the need to obtain a diversified return from proprietary investments, in a period characterised by low interest rates.

5.3.1.1.2 Operating procedures and methods for measuring interest rate risk and price risk

Interest rate risk and price risk are measured and managed as part of the overall management and monitoring of risk.

Market risk is the risk of change in portfolio value from adverse fluctuations in market parameters, such as interest or currency rates, equity prices or prices of commodities underlying derivative contracts.

The Institute's trading portfolio consists mainly of bond securities, and the main associated risks are interest rate and LIBOR spread variation risk, as further described in the following paragraphs.

The power to assume market risk lies with the Directorate, which plays an active role in risk management and monitoring, according to the guidelines issued by the Board of Superintendence. Specifically, the Director General delegates the assumption of market risk and management to the Finance&Treasury Department, through the CFO, which operates autonomously in accordance with the limits assigned to the department.

Market risk assumption and management is separate from the confirmation, settlement, matching and execution and of the Risk Management Department.

During 2020, as well as during 2019, the Institute did not hold quoted derivatives. A project analysing future interest rates is being carried out, with the goal of providing an instrument for hedging the interest rate risk of the bond portfolio.

The system of measurement of financial risks and the establishment of operational limits of the Institute are based on the use of statistic calculation tools. Specifically, the three measures of potential loss are: Value at Risk, Expected Shortfall and Stress Test. These measures are defined as follows:

- Value at Risk (VaR) is defined as the maximum loss that the Institute could withstand, with probability equal to predetermined confidence levels, in the case of market trends adverse to the position taken;
- Expected Shortfall is defined as the average loss that the Institute could withstand in case of a VaR overrun;
- Stress Test is defined as the loss that the Institute could withstand in case of negative events affecting main risk indicators (equity prices and indexes, interest rates, currency rates, credit spread) analysed independently and as established by the *Risk Appetite Framework*.

The VaR and the Expected Shortfall are calculated using the historic method (at least one year of data and quarterly update of the scenarios), with a 10 dais timeline and confidence level at 99%.

The Stress Tests are calculated by simulating extreme scenarios of the main risk factors (interest rate, spread equity price), starting from the worst movements recorded in the history of the world's financial markets:

Monitoring compliance with limits on a daily basis is performed by the Risk Management Department, which updates to the Directorate on the level of risk assumed and compliance with operational limits.

When operational limits have been exceeded, the Risk Management Department promptly informs the Direc-

torate, the CFO and the Finance&Treasury Department about the overrun for the appropriate action.

In establishing a system of market risk measurement, the definition of operational limits, and the monitoring of compliance with the limits, the Directorate is supported by the Risk Committee.

During 2020, the Institute maintained a prudential approach in the management of financial risks. Specifically, during the year, the held for trading portfolio had a daily average VaR of EUR 8m, a daily maximum VaR of EUR 13.5m and a daily minimum VaR of 4.6m EUR; the operational limit calculated on the basis of 10 working days, determined as EUR 20m under *Risk Appetite Framework*, was never exceeded. At the end of 2020, the VaR amounted to EUR 9.4m. The portfolio only contained highly liquid products.

The Risk Management Department, to verify the adequacy of the VaR calculation, periodically conducts retrospective reviews (back testing), comparing the actual trading results achieved, with the VaR measures previously calculated. During 2020, there were no overruns in terms of VaR values on a daily basis, as a result of the particularly short duration of the trading book.

The potential impact of a shock of +/- 100 basis point on the portfolio held for trading could have an impact of EUR 3.6m, representing 7.4%, 89.2% and 0.5% of interest margin, profit for the year and equity, respectively.

Stress test data at the end of 2020 shows, for interest rate risk, an exposure equal to EUR 1.3m for a variation of +50% of interest rates, with a minimum variation of 50 basis points; the exposure is focused on the EUR rate risk for 91% and on USD rate risk for the 7.7%.

The management and monitoring of risk is also supported by the position keeping system utilised by the Finance&Treasury Department which allows:

- monitoring of positions, profits and risks real time (automatic feed of main risk parameters and continuous revaluation of the position, calculation of the VaR position at any time of the day);
- possibility of monitoring P&L trend and risks in different aggregation levels, from the single instrument, to the entire position of the Finance department.

5.3.1.2 Quantitative information

1. Trading portfolio: detail by re-pricing date of financial assets and liabilities on balance sheet and financial derivatives

Type / Re-pricing	On demand	Up to 3 months	3 - 6 moths	6 - 12 months	1 - 5 years	5 - 10 years	Over 10 years	Undefined
1. Cash assets								
1.1 Debt securities								
- with early redemption option		20,348	11,716	1,446	9,144	84	–	
- other		322,456	43,972	84,446	18,585	3,364	236	
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other derivatives								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other derivatives								
+ Long positions								
+ Short positions								

2. Trading portfolio: detail of equity securities and index exposures for the main countries quoted markets

Type / Quotation index	Quoted							Not quoted
	Italy Italian Stock Exchange	UK London Stock Exchange	Germany Xetra	USA NYSE	USA NASDAQ GS	France Paris Euronext	Others	
A. Equity securities								
- long positions	22,323	15,693	1,521	1,202	–	–	78	–
- short positions								
B. Transactions not yet settled on equity securities								
- long positions								
- short positions								
C. Other derivatives on equity securities								
- long positions								
- short positions								
D. Derivatives on equity index								
- long positions								
- short positions								

The application of a 30% shock on the value of equity securities would have an impact of EUR 10.1m, corresponding respectively to 26.9%, 33.7% and 1.94% of the intermediation margin, operating result and equity.

With reference to the price risk of other financial instruments classified as held for trading, at the end of 2020, the Institute's portfolio had the following exposure:

– Closed-end investment funds EUR 11.9m;

– Open-ended investment funds EUR 30.6m.

5.3.2 Interest rate risk and price risk of portfolios other than trading portfolio

5.3.2.2 Quantitative information

1. Portfolios other than trading portfolio: detail by re-pricing date of financial assets and liabilities

Type / Re-pricing	On demand	Up to 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5 - 10 years	Over 10 years	Undefined
1. Cash assets								
1.1 Debt securities								
- with early redemption option	–	146,359	42,601	87,774	105,815	168,260	26,767	
- other	–	294,016	129,257	97,538	489,075	216,641	51,409	
1.2 Loans to banks	267,396	–	–	–	–	–	–	
1.3 Loans to customers								
- current accounts	17							
- other loans:								
a) with early redemption option	41,966							
b) other	19,041							
2. Cash liabilities								
2.1 Due to customers								
- current accounts	1,999,926							
- other liabilities:								
a) with early redemption option								
b) other	–	18,952	407	201	–	–	–	
2.2 Due to banks								
- current accounts								
- other liabilities								
2.3 Debt securities								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other derivatives								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other derivatives								
+ Long positions								
+ Short positions								
4. Other off balance sheet transactions								
+ Long positions								
+ Short positions								

Regarding interest rate risk for financial instruments other than those classified as trading, the Institute's exposure refers to the assets measured at amortised cost and assets measured at fair value through other comprehensive income.

The application of a variation of interest rates of +/- 100 basis points to the portfolio, including other financial instruments (EUR 1.8b) shows a potential impact of EUR 11.6m, in terms of variation of the coupon flow representing 61.9%, 32.4% and 1.9% of interest margin, profit for the year and equity, respectively.

With reference to the price risk of financial instruments not classified as trading, at the end of 2020, the Institute's portfolio had the following exposure:

– Equity instruments measured at FVOCI EUR 1.3m;

– Investment in subsidiaries S.G.I.R. S.r.l. EUR 15.8m.

Regarding limits, the Board of Superintendence established thresholds for the investment in financial assets included in the *Held to collect* portfolio in percentage of Net Equity. For this portfolio, a measure of VaR is also calculated (respectively EUR 1.3m, 3.7m and 4.7m of minimum, medium and maximum daily value), but not associated with limits.

At the end of the year, the 10-day VaR was equal to EUR 13.8m.

A VaR measure is also calculated for the *Held to Collect and Sell* business model (1.8m; 14.4m and 24.2m are respectively the minimum, average and maximum daily values for the year); at the end of the year, the 10-day VaR was EUR 22.4m.

5.3.3 Currency risk

General aspects, operating procedures and methods for measuring currency risk

5.3.3.1 Qualitative information

Currency risk is the risk that the Institute can incur losses due to the adverse variation of currency rates. As mentioned above, the management of currency risk is based on the system in place for the management of financial risks.

For the currency rate, as it was for interest rates, custom stress scenarios were used for each currency providing shock higher for minor currencies and for those not pegged to the Euro. The potential impact of these shocks, only for Assets, on trading component could result in a loss of approximately EUR 4.1m.

5.3.3.2 Quantitative information

1. Detail by currency of financial assets, liabilities and derivatives

	Currencies					
	USD	GBP	CAD	AUD	CHF	Other currencies
A. Financial assets						
A.1 Debt securities	467,589	4,286	1,263	1,044	8,302	–
A.2 Equity securities	18,092	–	–	–	–	13
A.3 Loans to banks	38,631	7,446	3,177	4,094	3,049	3,413
A.4 Loans to customers	372	–	–	–	–	–
A.5 Other financial assets	6,897	93	107	49	128	109
B. Other assets						
C. Financial liabilities						
C.1 Due to banks						
C.2 Due to customers	508,718	11,288	4,632	4,266	12,632	1,676
C.3 Debt securities						
C.4 Other financial liabilities	8,391	39	2	968	3	–
D. Other liabilities						
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions						
+ Short positions						
Total Assets	**531,581**	**11,825**	**4,547**	**5,187**	**11,479**	**3,535**
Total Liabilities	**517,109**	**11,327**	**4,634**	**5,234**	**12,635**	**1,676**
Difference (+/-)	**14,472**	**498**	**(87)**	**(47)**	**(1,156)**	**1,859**

The exchange rate risk exposure resulting from the application of the aforementioned stress tests of 100 basis points resulted in an amount equal to EUR 120,000, representing 0.26%, 0.33% and 0.02% of interest margin, profit for the year and equity, respectively.

2. Internal models and other methods for sensitivity analysis

For the capital requirement calculation related to currency risk, the IOR adopted the standard methodology provided by ASIF Regulation no. 1/2015.

5.4 Derivative instruments

Derivative instruments and hedging policies

In 2020, IOR did not hold derivative financial instruments.

5.5 Liquidity risk

Information on liquidity risk and relative hedging policies

5.5.1 Qualitative information

5.5.1.1 General aspects, operating procedures and methods for measuring liquidity risk

Liquidity risk is the risk that the Institute will encounter difficulties in meeting payment obligations by cash or by expected or unexpected delivery, compromising the daily operations or the financial situation.

Regarding liquidity risk, during 2020, the IOR did not encounter any notable problems; at year-end 2020, the liquidity risk indicator (LCR), calculated over a period of 30 days, resulted in a value equal to 3398%, well above the regulatory limit of 200% established by RAF. It is important to note that Institute liabilities are represented by, other than equity, deposits from customers, mainly on demand. Moreover, the Institute does not carry out funding transactions on the interbank market or on the capital market.

Due to the specific characteristics of the Institution's customers, deposits are considered "stable" in accordance with the methodological guide provided by the EBA for the calculation of risk indicators (cfr. The EBA methodological guide risk indicators and detailed risk analysis tools).

From an organisational standpoint, the Institute's liquidity risk is managed by the Finance&Treasury Department, which monitors the expected and realised flows in currencies and maintains an adequate portfolio of liquid assets to meet any unexpected payments.

Monitoring of liquidity and adherence to liquidity operating limits are performed daily by the Risk Management Department.

5.5.2 Quantitative information

The following tables show the Institute's assets and liabilities with current values, divided by contractual maturities of the financial liabilities and the expected maturities of the financial assets. The first table includes only financial assets and liabilities in Euro, while the second table comprises only financial assets and liabilities in currencies other than the Euro.

1.1 Detail by contractual residual maturity of financial assets and liabilities in Euro

Type / Residual maturity	On demand	1 - 7 days	7 - 15 days	15 – 30 days	1 - 3 months	3 - 6 months	6 -12 months	1 - 5 years	Over 5 years	Undefined
Cash assets										
B.1 Government bonds	2	–	281	–	311,256	44,013	115,752	218,793	112,318	
B.2 Other debt securities	15	6	13,672	9,852	51,590	51,474	85,560	501,054	343,321	
B.3 UCI units	–	–	–	–	–	–	–	–	–	42,506
B.4 Loans										
- Banks	207,586	–	–	–	–	–	–	–	–	
- Customers	8	133	–	3	26,452	28	22	33,740	265	
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	1,466,259	–	–	–	10,016	–	–	–	–	–
B.6 Debt securities										
B.7 Other liabilities										
Off balance sheet transactions										
B.8 Financial derivatives with exchange of capital										
- long positions										
- short positions										
B.9 Financial derivatives without exchange of capital										
- long positions										
- short positions										
B.10 Deposits and loans to be settled										
- long positions										
- short positions										
B.11 Irrevocable commitments to lend funds										
- long positions	–	–	–	–	–	–	–	–	–	4,000
- short positions										
B.12 Financial guarantees given	–	–	–	–	–	–	79	–	1.470	27
B.13 Financial guarantees received										
B.14 Credit derivatives with exchange of capital										
- long positions										
- short positions										
B.15 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.2 Detail by contractual residual maturity of financial assets and liabilities in currencies other than the Euro

Type / Residual maturity	On demand	1 - 7 days	7 - 15 days	15 – 30 days	1 - 3 months	3 - 6 months	6 -12 months	1 - 5 years	Over 5 years	Undefined
Cash assets										
B.1 Government bonds	1	–	1	412	4,585	1,757	4,054	82,974	47,131	
B.2 Other debt securities	–	43	4,804	15,041	8,543	11,287	28,923	181,931	76,211	
B.3 UCI units										
B.4 Loans										
- Banks	59,810	–	–	–	–	–	–	–	–	
- Customers	9	–	–	–	–	–	–	363	–	
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	533,667	839	2,096	5,672	329	407	201	–	–	
B.6 Debt securities										
B.7 Other liabilities										
Off balance sheet transactions										
B.8 Financial derivatives with exchange of capital										
- long positions										
- short positions										
B.9 Financial derivatives without exchange of capital										
- long positions										
- short positions										
B.10 Deposits and loans to be settled										
- long positions										
- short positions										
B.11 Irrevocable commitments to lend funds										
- long positions										
- short positions										
B.12 Financial guarantees given										
B.13 Financial guarantees received										
B.14 Credit derivatives with exchange of capital										
- long positions										
- short positions										
B.15 Credit derivatives without exchange of capital										
- long positions										
- short positions										

5.6 Operational risk

Information on operational risk and relative hedging policies

5.6.1 General aspects, operating procedures and methods for measuring operational risk

Operational risks represent the risk of loss caused by inadequate and failure of processes, human resources and internal systems, or caused by external events.

Operational risk does not include strategic and reputational risks, but includes legal risk, which is the risk of loss from violations of laws and regulations, contractual or non-contractual liability, or other disputes.

Operational risks include, among other things, administrative risk (for example, absence or inadequacy of line controls), human resources risk (for example, a lack of professional training for staff), and IT risk (for example, inadequacy of the computer system that could cause loss of data or interruption of operations).

The Institute has adopted a policy for the management of operational risk and is in the process of implementing a structured process for the monitoring and assessment of operational risk that includes the identification of mitigation actions and the monitoring of their implementation. More specifically, as part of the annual risk assessment, the operational risk inherent in each process and the effectiveness of existing mitigation actions are assessed in order to evaluate the residual risk.

Operating losses have been recorded during 2020 for a total amount of EUR 35,000.

PART 6. INFORMATION CONCERNING EQUITY

6.1 Shareholders' Equity

6.1.1 Qualitative information

The Institute's equity represents capital funding provided by the owner or generated by the business to create value.

In managing capital (a broader concept than "equity" presented in the balance sheet and consistent with regulatory capital, which is not comprised solely of equity in the strict sense), the Institute's objectives are:

– to safeguard the Institute's ability to continue as an ongoing concern, so that it can continue to provide benefits for all stakeholders;

– to maintain a strong capital base to support business growth.

The Institute pursues its objectives of capital management during the planning processes, through the analysis of risks associated with planned activities, and during the monitoring processes through the analysis and monitoring compliance with limits.

In managing capital, the Institute observes regulatory capital requirements established by the regulatory framework related to prudential supervision.

6.1.2 Quantitative information

6.1.2.A.1 Detail

	2020	2019
1. Capital	300,000	300,000
2. Reserves		
(a) Earning reserves		
(i) Unavailable	100,000	100,000
(ii) Available	282,134	282,134
(b) Other	1,489	1,489
3. Equity instruments		
4. Valuation reserves		
(a) Financial asset at fair value through other comprehensive income	10,938	1,067
(b) Tangible assets		
(c) Intangible assets		
(d) Hedging of foreign investments		
(e) Cash flows hedging		
(f) Hedging instruments (non-designated items)		
(g) Exchange differences		
(h) Non-current assets held for sale		
(i) Financial liabilities at fair value through income statement (change in credit rating)		
(j) Actuarial gains (losses) on defined benefit plans	(57,702)	(54,410)
(k) Share of valuation reserves connected with investments carried at equity		
5. Profit (loss) for the year	36,375	38,012
Total	**673,234**	**668,292**

Capital, clearly identified as a component of Equity, represents a permanent endowment that cannot be reduced or distributed, except in case of cessation or liquidation of the entity.

Unavailable Reserves are profit reserves designed to further strengthen the Institute's Equity and long-term stability.

Available or "distributable" Reserves are earnings available for distribution, following to a resolution of the Commission of Cardinals.

Other Reserves consists of the First Time Adoption Reserve created on 1 January 2018 in order to achieve the equity impacts arising from the first time adoption of IFRS 9.

Valuation Reserves for Financial asset at fair value through other comprehensive income represent the net fair value gain/loss recognised on debt securities managed according the *Held to Collect and Sell* business model that pass the SPPI test and on equity securities designated at fair value through other comprehensive income.

Valuation Reserves for Actuarial gains (losses) on defined benefit plans represent the actuarial unrealised gain or loss related to both the post-employment benefit plans.

6.1.2.A.2 Fair value reserve of financial asset at fair value through other comprehensive income: detail

	2020		2019	
	Positive Reserve	**Negative Reserve**	**Positive Reserve**	**Negative Reserve**
1.Debt securities	9,742		–	
2.Equity securities	1,196		1,067	
3.Loans				
Total	**10,938**		**1,067**	

6.1.2.A.3 Fair value reserve of financial assets at fair value through other comprehensive income: annual changes

	Debt securities	**Equity securities**	**Loans**
1.Opening balance	**–**	**1.067**	
2.Positive changes			
2.1 Fair value increases	9,742	129	
2.2 Reclassification from negative reserves to the Income statement:			
- For impairment for credit risk			
- For disposal			
2.3 Transfer to other components of equity (equity securities)			
2.4 Other changes			
3.Negative changes			
3.1 Fair value decreases			
3.2 Impairment for credit risk			
3.3 Reclassification from positive reserves to the Income statement:			
- For disposal			
3.4 Transfer to other components of equity (equity securities)			
3.5 Other changes			
4.Closing balance	**9,742**	**1,196**	

6.1.2.A.4 Valuation reserves related to defined benefit plans: annual changes

	Defined benefit plans	Provision for pensions	Staff severance provision
1. Opening balance	**(54,410)**	**(52,508)**	**(1,902)**
2. Positive changes			
2.1 Post-employment benefit actuarial gain of the year			
3. Negative changes			
3.1 Post-employment benefit actuarial loss of the year	(3,292)	(2,641)	(651)
4. Closing balance	**(57,702)**	**(55,149)**	**(2,553)**

6.2 Own equity and prudential supervision ratios

6.2.B.1 Own equity

	2020	2019
A. Positive components		
1. Capital	300,000	300,000
2. Supplemental Capital		
(a) Retained earnings		
(i) Unavailable	100,000	100,000
(ii) Available	282,134	282,134
(iii) Others	1,489	1,489
(b) Provisions		
(c) Reserves	(46,764)	(53,343)
3. Positive prudential filter IAS/IFRS		
B. Negative components		
1. Goodwill		
2. Intangible assets	(1,509)	(621)
3. Impairments on loans		
4. Losses recognised in previous years and in current year		
5. Regulatory downs of assets carried at fair value		
6.Negative prudential filter IAS/IFRS	(5,469)	(534)
Common Equity	**629,881**	**629,125**

Capital is defined by ASIF Regulation no.1 art. 3 (8) as the initial funding or subsequent integration of capital by the Holy See or Vatican City State:

a. it is paid pursuant to the legislation of the Holy See and Vatican City State;
b. it is clearly and distinctly identified in the financial statements;
c. it cannot be reduced or distributed, except in the case of cessation or liquidation of the entity, ensuring that it is distributed proportionality to legitimate creditors, in accordance with the legislation of the Holy See and Vatican City State and acquired by the Apostolic See.

For regulatory purposes, the term "Capital" shall be considered as equivalent to "core capital".

The Supplemental Capital is defined under the ASIF Regulation no. 1 art. 3 (68) as the sum of retained earnings, accumulated as other comprehensive income and other reserves.

The Common Equity is defined under Regulation no. 1, art. 3 (12) as:

– the sum of the following positive components:
a. the Capital;

b. the Supplemental Capital;

– deducting the following components:

a. goodwill;

b. intangible assets;

c. adjustments to the value of receivables;

d. losses recognised in previous financial periods and in the current period;

e. adjustments to the regulatory value of assets valued measured at fair value.

For regulatory purposes, "common equity" shall be considered as equivalent to "common equity tier 1".

Regulatory capital consists of common equity and is calculated by the Institute on a monthly basis, although the Supervisory Authority requires that it be calculated only quarterly.

The Common Equity at the end of 2020 amounted to EUR 629.9m (2019: EUR 629.1m).

Considering the items comprising the Institute's equity, the sole prudential filter in common equity at 31 December 2020 is applied to the positive fair value reserve relating to debt securities at fair value through other comprehensive income that are managed according the *Held to Collect and Sell* business model and positive fair value reserve relating to equity securities designated at fair value through other comprehensive income. These reserves are computed using a negative prudential filter, for an amount equal to 50%.

In the calculation of the Regulatory Capital 2020, the Net profit for the year was not included, as it is conservatively considered fully distributed.

6.2.B.2 Capital adequacy

The monitoring of key ratios is performed daily by the Risk Management Department, in order to continuously monitor compliance with regulatory requirements. The table below shows the data relating to capital requirements at the end of 2020 and corresponding values for the previous year.

	Unweighted amounts		Weighted amounts/ Capital requirements	
	2020	2019	2020	2019
A. Risk asset				
A.1 Credit and counterparty risk				
1. Standardised approach	2,222,889	1,355,513	1,101,620	237,857
2. Approach based on internal ratings				
2.1 Based				
2.2 Advanced				
3. Securitisations				
B. Capital requirements				
B.1 Credit and counterparty risk			88,130	19,029
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach			32,881	35,939
2. Internal model				
3. Concentration risk				
B.5 Operational risk				
1. Basic indicator approach			5,795	6,112
2. Standardised approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			126,805	61,080
C. Risk weighted assets and capital ratios				
C.1 Risk-weighted assets			1,585,063	763,494
C.2 Capital/ Risk-weighted assets			18.93%	39.29%
C.3 Common equity/Risk-weighted assets (Tier 1)			39.74%	82.40%

The decrease in the Tier 1 ratio compared to the end of the previous year is attributable to the heavy increase in the ratio denominator, i.e. Risk-weighted assets, mainly due to a higher credit risk in the counterparty risk component. In fact, in January 2020 the lines defined by the Board of Superintendence, aimed at pursuing an adequate profitability considering the level of market rates, were implemented through the introduction of the *Held to Collect and Sell* business model and the selection of a greater volume of corporate, financial and high yield issuers. Accordingly, securities subject to credit and counterparty risk increased from EUR 1.3bn at the end of 2019 to EUR 2.2bn at the end of 2020 with a Capital Requirement that stands at around EUR 88m compared to EUR 19m in previous year. In this context, however, the control of risk measures and capital absorption, which are well above regulatory limits, was guaranteed.

In line with this, Capital/Risk-weighted assets reached 18.93% and Common equity/Risk-weighted assets reached 39.74%.

PART 7. RELATED PARTY TRANSACTIONS

Related parties of the Institute include the Commission of Cardinals and key management personnel (Directorate and Board of Superintendence).

Transactions with these related parties relate to salaries and remuneration.

Details of key management compensation

Compensation due to related parties was EUR 448,000 in 2020, of which EUR 160,000 was not yet paid as of 31 December 2020. Specifically, these expenses relate to:

- EUR 244,000 for the Board of Superintendence of which EUR 160,000 has not yet been paid;
- EUR 204,000 for the Directorate.

These amounts are recognised in the Income Statement as Staff Expenses.

Members of the Commission of Cardinals do not receive any remuneration for their role at the IOR.

Related-party transactions

During 2020, there were no transactions with key management, except for the management of the deposit accounts opened with the Institute and the salaries and remuneration discussed above.

As of the balance sheet date, the balance of deposits by the members of the Commission of Cardinals was EUR 1.7m.

Key management personnel had deposits totalling EUR 122,000.

The Institute has a long-term zero-interest loan to its subsidiary S.G.I.R. S.r.l., amounting to EUR 1.4m as of 31 December 2020. Furthermore, the Institute signed a lease agreement with S.G.I.R. S.r.l. for the use of 5 real estate properties for free. In 2020, S.G.I.R. S.r.l. earned rental income for EUR 68,000 on these properties.

IOR

Istituto per le Opere di Religione

Report of the External Auditors

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Istituto per le Opere di Religione

Independent auditors' report

(translation of the original report issued in Italian)

Financial statements as of 31 December 2020

ORMB/NSDN/vbrb - R2021/00247

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Independent auditors' report

(translation of the original report issued in Italian)

To the Members of the Board of Superintendence
of Istituto per le Opere di Religione

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Istituto per le Opere di Religione (the "Institute") which comprise the balance sheet as of December 31, 2020 and the income statement, statement of comprehensive Income, statement of changes in equity and cash flow statement for the year then ended and explanatory notes including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Institute as of December 31, 2020, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the regulations issued by the Financial Intelligence Authority of the Vatican City State (the "Requirements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Institute in accordance with the ethical and independence principles of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants and we have fulfilled our responsibilities in accordance with these principles. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Superintendence and the Directorate are responsible for the preparation of the sections of the management report within their respective competence in accordance with the Requirements. Our opinion on the financial statements does not cover the management report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management report controlling the presentation of the same in all its components and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the management report, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Directorate for the Financial Statements

The Directorate is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards adopted by European Union as well as the Requirements and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directorate is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directorate either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of Internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directorate;
- conclude on the appropriateness of Directorate's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, identified at an appropriate level as required by ISAs, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rome (Italy), 8 April 2021

Mazars Italia S.p.A.

Olivier Rombaut
Partner – Registered auditor

Signed on the original. This report has been translated into English from the Italian original solely for the convenience of international readers.

Press
Iger & Partners S.r.l.
Rome - Italy

June 2021