IOR

Istituto per le Opere di Religione

Annual Report 2022

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

Authorisation 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 2022

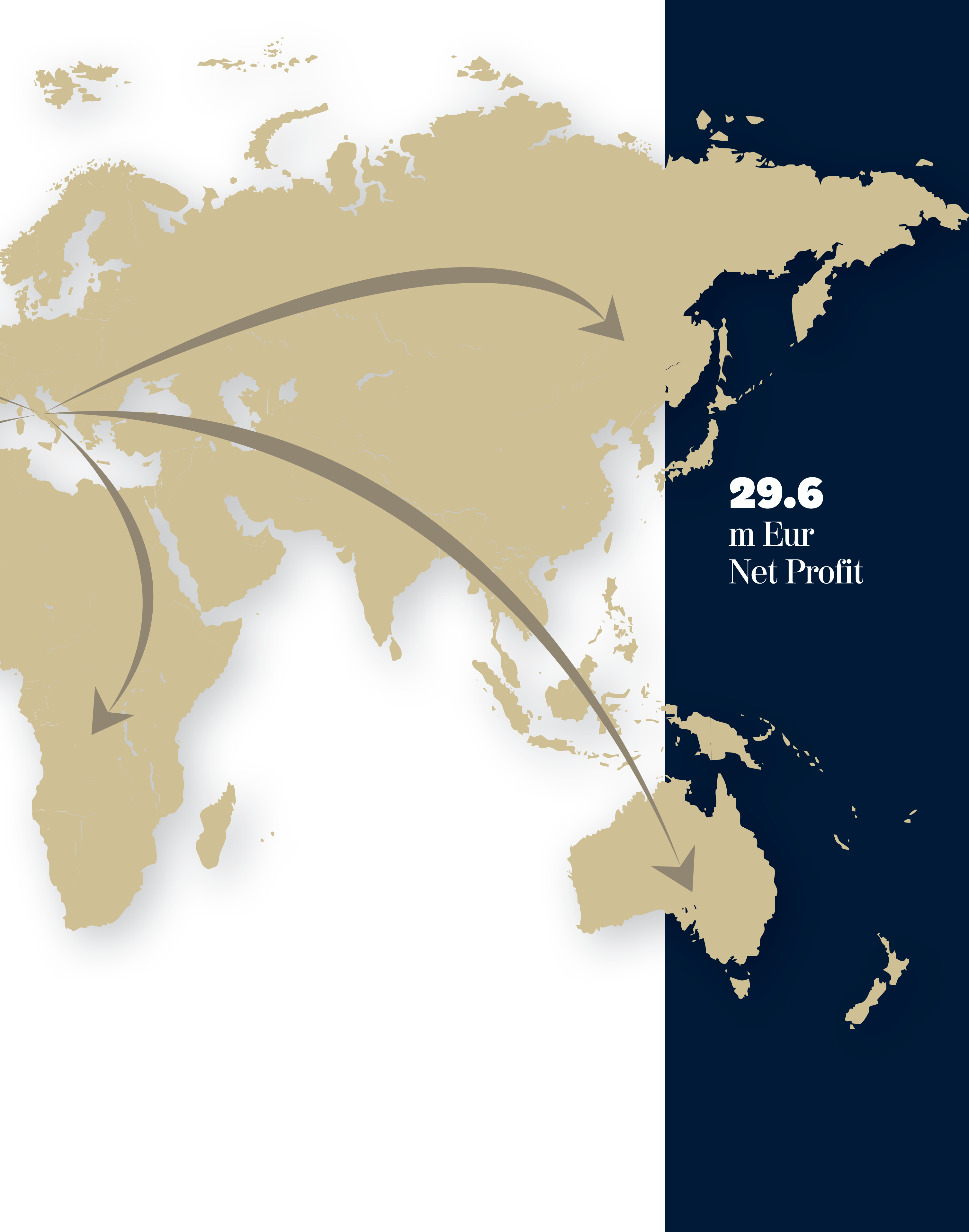
ONE LOCATION
Vatican City State

117
employees

112
reached countries

12,759
clients

CHURCH ALL OVER THE WORLD



29.6
m Eur
Net Profit

TABLE OF CONTENTS

Message from the President of the Commission of Cardinals 9

Message from the Prelate 10

Management Report 11

CHAPTER 1.
STRATEGIC INFORMATION 12

1. Message from the President of the Board of Superintendence 12
2. Mission, Customers and Services 15
3. Corporate governance 16
4. The external auditor 19
5. IOR Organisation chart 20
6. Control Function 20
7. Regulatory Framework and Tax Requirements 21
8. Proposal of distribution of the net profit for the year 22

CHAPTER 2.
OPERATIONAL INFORMATION 23

1. 2022 Business Review 23
2. Prevalence of Catholic principles and values in the management of proprietary and customers' financial assets 27
3. Charitable and social activities 27
4. Forecast for 2023 28

Financial Statements 29

Balance Sheet 31

Income Statement 32

Statement of Comprehensive Income 33

Statement of Changes in Equity 34

Cash Flow Statement 35

Explanatory Notes 36

Part 1. Accounting policies 36

Part 2. Information on the Balance Sheet 55

Part 3. Information on the Income Statement 84

Part 4. Information on comprehensive income 97

Part 5. Information on risks and hedging policies 100

Part 6. Information concerning equity 128

Part 7. Related party transactions 134

Report of the External Auditors 135

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

THE PUBLICATION of the Annual Report of the *Istituto per le Opere di Religione*, now in its eleventh year, is a good opportunity for me to present the important steps forward that were made during the previous financial year, which once again was in the wake of great renewal.

On 23 August 2022, the Holy Father issued the *Rescriptum* in which he reaffirmed the central role of the Institute in the management of the economic activities of the Holy See, establishing that the activity of asset management and custody of the assets of the Holy See and of the Institutions connected with the Holy See, be the exclusive competence of the IOR. The Institute is the only Vatican entity supervised by ASIF and therefore authorised for carrying out financial activities for the State.

It is a further evidence of the Holy Father's confidence in it, a confidence that is based on the successes and acknowledgements internationally achieved concerning the compliance pursued and achieved through strong diligence.

On 7 March 2023, the Holy Father renewed the Institute's Statutes, which had already been issued in 2019 *ad experimentum* for two years, "to make it consistent with best-in-class organisational requirements as well as with the operational needs that arise in the Institute's daily activities. In particular, the reform of the Statutes responds to the need to clearly and distinctly define the areas of competences and responsibilities of the IOR's governance bodies most involved in management (strategic and operational) while maintaining the spirit of close and loyal cooperation that must characterise the two bodies".

As a President of the Commission of Cardinals, I can say that the great changes in the Institute that took place over the past decade were made possible by the close and loyal cooperation between the strategic and the operational management. Without unity of purpose and common goals, there would not have been the result that everyone sees today.

In 2022 the first of the legal proceedings brought by the IOR, both in the Vatican and abroad, to bring justice to the past abuses came to an end. Also on the legal front, the Institute has achieved an important success with the final confiscation and recovery of significant amounts, confirming the will to pursue to the end those who have, in the past, damaged the image of the Institute.

Finally, with regard to ordinary activities it should be noted that, despite the various challenges of the financial environment characterised by volatility and uncertainty, the management has once again confirmed its ability to make wise and prudent choices.

As President of the Supervisory Commission of Cardinals of the Institute, I wish to express my thanks to those who have contributed to the good progress of business activity, from the members of the Board of Superintendence to the Director General and to all the employees who, with ever-increasing determination and steadfast ethical principles, have made this satisfactory result possible.

Regrettably, whilst I am writing this letter, the terrible conflict on Europe's doorstep that began more than a year ago is still going on.

In this scenario of war, the Institute will continue as far as possible to serve its ecclesiastical clients and the Nunciatures in the countries involved.

Santos Card. Abril

MESSAGE FROM THE PRELATE

Msgr. Battista Mario Salvatore Ricca
Prelate

IN THE PAST YEAR, the *Istituto per le Opere di Religione* has continued its renewal both by hiring new experienced and trained employees in specific positions, and primarily with steady adherence to the principles underlying the Holy See's economic reforms. Adhering to new concept of operating and, primarily, of being, is a process that cannot be concluded in a short time. Much work has been done in recent years in this regard.

Basically, we became aware that the Institute is part of a much bigger and more important Body and that this Body is not the financial world but the Holy See. The awareness on this has greatly reduced the idea of being independent in the actions and to operate almost free of any rule. In addition, the specter of the real past disasters always reminds us to keep alert.

We are all engaged in this task of renewal and adjustment: the Cardinals Fathers of the Commission, the Board, the Director General and every single employee. Everyone is trying to give the best they can.

In addition to the "big strategies," I would like to mention and repeat the "small strategy" of daily rescue. The IOR takes action with small or medium aid to rescue people in need: individuals, families, small communities. The aid ranges from paying rent, electricity bills, or essential supports for people with disabilities and more. Big economic philosophies starve people; small acts provide some relief. The existence of the IOR gives meaning to this: words have never "fed" anyone.

This reminded me of the conflict between St. Peter and Simon Magus in the Acts of the Apostles (8:20). St. Peter: "***Pecunia tua tecum sit in perditionem, quoniam donum Dei extimasti pecunia possideri***".

I translate: "May you and your money perish with you, because you thought you could buy the gift of God with your money".

The Institute, as other institutions, should be aware that the "**donum Dei**" cannot be bought. In our case, ***donum Dei*** could be translated by "affirmation of the Kingdom of God". How often people mistakenly believe that the Kingdom of God can be entered with material means especially with money. Therefore, I hope the IOR will always be down-to-earth as it is now, believing in Providence and not in ourselves. Which after all would be healthy for all, lest we hear again from St. Peter, "**Your heart is dipped in the gall of bitterness and in the bond of iniquity**". (Acts 8:23).

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

The reform process of the IOR started in 2013 and most of the current Board and I have been working with the management since 2014 to make this reform a success.

Many hurdles were overcome, and uncertainties addressed. The appropriate culture and level of competence which had lacked so often in the past, were introduced and developed. The quality of the products and services significantly improved. Ethics has now become a constant focus be it in the way assets are managed or the Institute is run. Customer relationships are more than ever at the heart of all the efforts. A strong governance enables all statutory bodies of the Institute to work in close and transparent coordination to the benefit of all stakeholders.

So, it is right for all board members and management to look back and be proud of having been able to deliver on the Holy Father's initial ambition to make the Institute a reliable and ethical partner for the work of religion.

But the task is not complete. Rules and regulations change, financial markets evolve as well as client's expectations, and the IOR will always need to continue to adapt its services to the demands of the Holy See and its client.

The year 2022 saw IOR's team focus on various aspects, including continuous improvement of IOR's investment management offering, expanding IOR ethical policies, rolling out a new IT platform, hiring additional senior professionals and the introduction of a policy on "staff evaluation and incentive system", hence creating a transparent and structured performance-based remuneration scheme for the Institute.

It is also particularly important to mention those efforts focused on responding to the New Apostolic Constitution of March 19th, 2022, and the subsequent Rescriptum of 22 August 2022 that will result in the centralisation at IOR of all asset management activities

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).

of the Holy See. Though not all practical aspects are yet confirmed, the IOR's responsibilities towards the Holy See will continue to grow. Ongoing dialogue is taking place with all parties involved to adequately put in place those changes.

Finally, amongst the important achievement of 2022, the Board was pleased to see that Euro 17,229,882, which had been stolen from the Institute before 2014, were recovered after a lengthy legal process. Further successes are expected in 2023 in the fight against past abuses.

Looking forward to 2023, IOR will focus on delivering on its strategic plan which include further improvement in its retail banking services including its online banking tool as well as facilitating international wire transfer for those Catholic organisations operating in some difficult parts of the world. The IOR's new IT operational platform will be of critical importance in achieving those objectives. Its financial team will focus on maintaining a high level of quality returns given clients ultimate objectives. It will further enhance its faith consistent investment process through its risk control and enhance return approach as well as its exclusion filters to do no harm and meet the principles of the Social Doctrine of the Church. The Board is ultimately looking forward to seeing a further increase in the total assets managed by the IOR.

Approval of 2022 accounts

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 2022 is Euro 29,583,152 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 its management report.

As to ensure that the Institute can sustain its long-term development goals, the Board recommendation to the Commission of Cardinals is to maintain a prudent dividend policy as in 2022. The need for such an approach was reinforced by the recent challenges in the banking sector in United States and in Europe and the need to protect the Institute over the long term given the specific circumstances in which it operates. The Board has proposed to the Commission of Cardinals to

FINANCIALS 2022

5.2
bn EUR Total client assets

100,000
Payment transactions

578.5
m EUR Net equity

46.14%
Core equity TIER 1

set the dividend for 2022 at Euro 5,200,000. Given IOR ultimate mission, which is to support the work of religion, the Commission of Cardinals confirmed in a resolution the payment of such a dividend broken down as follows:

- Euro 3,000,000 for the work of religion of His Holiness Pope Francis;
- Euro 2,000,000 for the charitable activity of the Commission of Cardinals;
- Euro 200,000 for the charitable activity coordinated by the Prelate of the Institute.

Corporate Governance

The IOR has a committed board which oversees IOR management and operations. It reviews the Institute's long-term strategy and evaluates the financial and non-financial risks and opportunities for its development. It also ensures that the Institute always fulfils its fiduciary responsibility to clients, employees and the Holy See.

The Board, according to article 17 of the Statutes, suggested some amendments to the Statute in order to make them consistent with best-in-class organisational requirements as well as with the operational needs that arise in the Institute's daily activities. Those changes include aligning the Statutes with the New Apostolic Constitution (Praedicate Evangelium) and reinforcing an effective governance structure, with better-defined roles among the various governing bodies. After their submission to the Commission of Cardinals, the Statutes were ultimately approved by the Holy Father and published on 7 March 2023.

The Board is currently composed of six members. As per the Statutes, it follows and supervises the work carried out by the Director General in the management of the Institute. In 2022, the Board met on four occasions and various informal meetings and discussions took place. 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 Director General, as well as the Commission of Cardinals (given their oversight authority in accordance with the Statutes of the Institute). Once approved, the minutes of every board meeting were shared with the Director General and the Prelate who were attending. Copies were distributed to the Commission of Cardinals too. The Cardinals were also 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.

In 2022, the Board commissioned Russel Reynolds, the international consulting firm, to review its work. The purpose of this evaluation was to refresh the Board assessment conducted in 2018. Russel Reynolds helped to measure progress and to issue development opportunities for the Institute's Board, its committees and leadership, in order to continue improving its effectiveness. Russel Reynolds positioned the Institute board in its spectrum of board effectiveness as "advanced board" (2nd best out of 4 categories).

Board Committees

As per article 17 paragraph 2 and 3 of the Statutes, at the end of 2022 the Board had three committees:

– Audit & Risk Committee;
– HR, Remuneration and Ethics Committee;
– Business Transformation Strategy Committee.

The composition of those Committees remains the same as in 2021.

In 2022, each of those Committees met on four occasions. Each committee has produced a 2022 summary activity report that details all the support that was provided to the Board throughout those months.

In October 2022 the Board, decided to stop the work of the BTS Committee considering that it had achieved its aims in terms contributing to the strengthening of the Institute asset management organisation. The Board will assign a new mandate to this Committee in the coming months.

Charitable work

In 2022 a total of Euro 1,139,000 was provided to various charitable cause by the Institute.

I still want to thank once more all the IOR team for their efforts and professionalism.

They have displayed particularly positive team spirit and developed a strong culture consistent with Catholic values.

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 Statutes, annexed to the Chirograph dated 7 March 2023 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.

In addition, the Institute accepts deposits of assets from entities or persons of the Holy See and of 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 to Vatican City State, 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:

– 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;
– 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

MEMBERS OF THE COMMISSION OF CARDINALS

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

Cardinal Konrad Krajewski
Apostolic Almoner

Cardinal Giuseppe Petrocchi
Archbishop of L'Aquila

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 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 and banking activities authorised by the ASIF: 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 authorisation 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 renewed on 7 March 2023 by Chirograph of the Holy Father. It consists of the following bodies: Commission of Cardinals, Prelate, Board of Superintendence and Director General.

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 on the distribution of profits, after considering the financial statements and taking into account IOR's minimum capital requirements;
– proposes changes to the Statutes to the Higher Authority;
– 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 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 Director General;
– has the authority to convene the Board of Superintendence and/or the Director General whenever it deems it appropriate.

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, Pro-Prefect of the Dicastery for Evangelisation.

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.

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

The **Board of Superintendence** is responsible for defining and approving the strategic guidelines and policies of the Institute as well as overseeing compliance with them. In particular, the Board has the task of:

Cardinal Christoph Schönborn
Archbishop of Wien

Cardinal Luis Antonio Gokim Tagle
Pro-Prefect of the Dicastery for Evangelisation

THE PRELATE

Msgr. Battista Mario Salvatore Ricca

MEMBERS OF THE BOARD OF SUPERINTENDENCE

Jean-Baptiste Douville de Franssu
President

Mauricio Larraín
Vice-President

Georg Freiherr von Boeselager

Sir Michael Hintze

- defining and approving the multi-year strategic plan and general policies for the activities of the Institute in line with its mission;
- defining and approving the criteria for identifying extraordinary and most relevant transactions subject to the preliminary assessment of the Board as well as take the relevant resolutions;
- approving annual budget targets in line with the risk profile of the Institute;
- defining and approving the Institute's risk profil;
- defining and approving the Institute's Code of Ethics also upon the proposal of the Director General;
- examining capital adequacy and consistency with the strategic targets of the Institute;
- supervising the Institute's activities and the achievement of the established targets;
- defining and approving the general guidelines of the internal controls system as well as appoint, evaluate and dismiss the Heads of control functions;
- proposing changes to the Statutes to the Commission of Cardinals;
- approving the Institute's statutory implementing Regulations, which are to contain *inter alia* a detailed description of the powers and areas of competence of the Board and the Director General, and submitting them to the Commission of Cardinals for approval;
- reviewing the annual report of the Director General and approve, no later than 30 April, the financial statements prepared by the Director General;
- 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) to perform the statutory audit of the accounts;
- reporting to the Commission of Cardinals on activities conducted, on overall management performance and its foreseeable evolution;
- deliberating on the remuneration payable to the Director General in accordance with the remuneration and incentive policies in force from time to time.

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.

There are six current members:
- 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 **Director General** is appointed by the Board of Superintendence with the approval of the Commission of Cardinals.

The Director General is responsible, according to the guidelines and strategies set out by the Board of Superintendence, for the management and control of all activities concerning:
- the administration, management and organisation of the Institute;
- the recruitment and management of the staff.

The Director General's areas of competence and specific powers are set out in the statutory implementing Regulations.

The Director General prepares a monthly written report 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.

In the first quarter of each year, the Director General prepares the financial statements for the previous business year, in accordance with generally accepted accounting standards together with a report on management performance of the Institute.

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 may assign to one of the managers the function of Deputy Director to replace him/her in the ordinary administration and management of the Institute in the event of absence, impediment or by delegation.

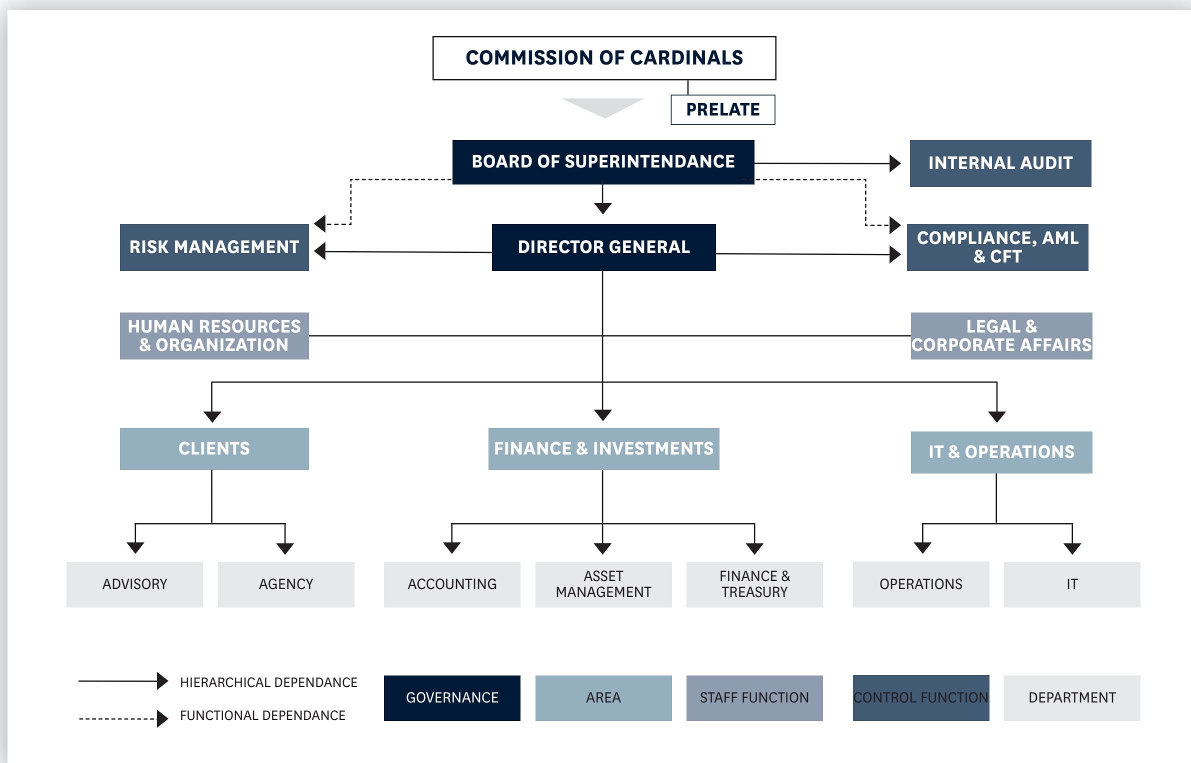
The Director General is Gian Franco Mammì, appointed in November 2015.

THE DIRECTOR GENERAL

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 and extended in May 2022.

5. IOR ORGANISATION CHART

The Institute's staff and employment relationship is characterised by its particular ecclesial service and special collaboration in the mission of the Supreme Pontiff and the Holy See, as specified in the letter of the Holy Father St. John Paul II on the meaning of work for the Apostolic See, dated 20 November 1982.

The juridical, administrative, organisational and economic aspects of the employment relationship are also inspired by this particular nature.

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

During the employment relationship, all Institute employees must have an exclusive employment obligation.

6. CONTROL FUNCTIONS

Control functions comprise:
– Internal Audit;
– Compliance;
– Risk Management.

This 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 covering norms of "Transparency, supervision and financial intelligence".

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

In terms of second-level controls, the Compliance Department and the Risk Management Department report to the Board with a dotted line and to the Directorate with a hard line.

The Compliance Department is also directly responsible for the AML/CFT (Anti Money Laundering/Combating the Financing of Terrorism) activities.

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 as well as to its own Statutes.

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 regarding Prudential Supervision as well as Anti Money Laundering / Combating the Financial of Terrorism.

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 amended 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 amended 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 emergency of Covid-19 (8 May 2020);
- Circular on a transitory treatment of unrealised gains and losses measured at fair value recognised in other comprehensive income considering the

Covid-19 pandemic (20 December 2022).

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 amended on 31 October 2017.

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

Tax requirements

Tax income

The IOR financial statements do not report a provision for taxes as there is no tax levy on operating profits by the Vatican City State.

Regarding the real estate properties (No. 3) owned by the Institute in Italy, detailed in Section 2 paragraph 3, the IOR files tax returns in Italy and pays the corresponding taxes (IRES and IMU).

FATCA

Since 2015, the Institute has been subject to FATCA, a U.S. federal law that requires foreign financial institutions to report to the U.S. Internal Revenue Service (IRS) the details of accounts held by U.S. clients.

In 2015, the Holy See signed the "Agreement between the Holy See, acting also in the name and on behalf of Vatican City State, and the United States of America, to improve international tax compliance and to implement the United States' Foreign Tax Account Compliance Act (FATCA)" and, as a result, by reason of its activity as a financial institution, the Institute is subject to this requirement.

Tax agreement with Italy

Since 2016, the Institute has been implementing the "Agreement between the Government of the Republic of Italy and the Holy See on tax matters". In accordance with the Agreement, clients resident in Italy for tax purposes may fulfil their tax obligations, arising from the possession of financial assets held at the Institute, through a Tax Representative chosen by the Institute. The IOR provides the calculations and withholds taxes from customers, which are then paid to the Italian Government through the Italian Tax Representative.

Qualified Intermediary

In June 2021, the Institute was recognised as a Qualified Intermediary (QI) by the IRS.

This status allows the Institute to fulfil its tax obligations towards the United States of America by applying much more streamlined procedures than previously and cutting out burdensome intermediary costs. In operational terms, this represented a major step forward in terms of compliance, efficiency and cost reduction. This acknowledgement is a concrete proof the Institute has procedures and processes in line with those of the best financial intermediaries operating in the world's financial markets.

Taxation of other countries

For customers who are non-resident in Italy, the principles of international tax law are applied. This means that each customer must declare his or her holdings and all derived income in his or her country of tax residence according to the laws of that country.

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

As to ensure that the Institute can sustain its long-term development goals, the Board recommendation to the Commission of Cardinals is to maintain a prudent dividend policy as in 2022. The need for such an approach was reinforced by the recent challenges in the banking sector in United States and in Europe and the need to protect the Institute over the long term given the specific circumstances in which it operates. The Board has proposed to the Commission of Cardinals to set the dividend for 2022 result at Euro 5.2 million. Given IOR ultimate mission which is to support the work of religion and charity, the Commission of Cardinals confirmed in a resolution the payment of such a dividend broken down as follows:

- Euro 3 million for the work of religion of His Holiness Pope Francis;
- Euro 2 million for the charitable activity of the Commission of Cardinals;
- Euro 200,000 for the charitable activity coordinated by the Prelate of the Institute.

Gian Franco Mammì
Director General

Chapter 2.
Operational information

1. 2022 BUSINESS REVIEW

Macroeconomic scenario

2022 was a year marked by high-impact economic-financial events globally. In addition to the still lingering effects of the pandemic, geopolitical uncertainty over the war in Ukraine and highly restrictive monetary policies in all major developed countries, with the aim of countering a sharply rising inflationary dynamic, have also impacted. The recovery of falling demand during the pandemic, material shortages in supply chains and upward pressures on commodity and energy prices actually pushed inflation up to 10 percent in developed countries, the highest levels in last the 40 years.

Monetary policies

After years of monetary expansion, in order to restore price stability, the Central Banks rather quickly implemented very restrictive monetary policies: during 2022 the Federal Reserve made total increases of more than four percentage points by raising rates from 0.25 percent to 4.5 percent, and the ECB after a few months, embarked on the same path with a total increase of 2.5 percentage points by raising rates from 0 percent to 2.5 percent.

The only exception in the international context was China, which implemented accommodative monetary and fiscal policies in 2022 to support growth and re-stimulate the economy held back by new waves of contagion.

Financial markets

The dynamics experienced in financial markets with larger and faster-than-expected rate hikes, combined with geopolitical uncertainties and deteriorating economic outlook, impacted on both equity and bond prices, which experienced significant losses.

– *Bond Markets*

In this context, government bond yields suffered under strong upward pressure, particularly on short-term maturities, reaching the maximum levels in recent years in both the United States and Europe; yield curves have flattened appreciably, inverting in some cases on the two- to 10-year stretch, also boosting the likelihood of a recession in the coming year. In the United States, 10-year TNote yielded over 3.5%, in Europe, the German Bund went from negative yields to 2.5%, and in Italy the Btp went from 1.2% to over 4%.

Corporate bonds were also affected by the rising rates, and at the same time both Investment Grade and High Yield bonds also suffered from widening credit spreads.

– *Equity Markets*

Equity markets in 2022 were also affected by rising rates and concerns of the possible fallout of a slowdown in the economic cycle on corporate earnings.

U.S. indices recorded the largest decreases with the S&P 500 down -18.3% and the Nasdaq down -32.9%. European stock markets (the EuroStoxx index recorded -8.7%) and emerging markets (-19.2%) also experienced significant decreases.

Commodities

For commodities an overall positive year just ended, particularly for the agricultural and energy sectors, with prices in many cases reaching their highest levels in recent years or even exceeding their all-time maximum, only to recede in the second half of the year. The precious metals index was almost unchanged (+1%) with gold closing a very volatile year above the $1,800/o threshold.

Currencies

On the currency front, 2022 was marked by the strong appreciation of the dollar against most currencies, including the Yen and the GB pound. The U.S. currency rose from 1.13 to 1.06 against the Euro, even touching 0.96 in the wake of the Fed's actions on raising rate.

Composition of the Client base

As of 31 December 2022, the IOR's clients totalled 12,759 (2021: 14,519). The reduction includes both closure by seminarians or clerics who returned to their countries and accounts closed by the Institute, as a result of increasingly frequent and granular periodic checks, for different reasons such as:

- loss of requirements;
- non-compliance with contractual rules applicable to the accounts;
- non-use for extended periods of time.

The opening and/or maintenance of accounts at the IOR is destined to become more and more selective in the following years in order to protect the Institute's service mission.

Measured by assets entrusted, IOR clients comprised religious orders (49%), departments of the Roman Curia, Holy See and Vatican City State Offices and nunciatures (26%), episcopal conferences, dioceses and parishes (9%), cardinals, bishops and clergy (7%), Vatican employees and pensioners (7%) and foundations and other entities under Canon Law (2%).

The value of customer deposits was EUR 1.8bn (2021: EUR 1.8bn), the net value of assets held in managed portfolios was EUR 2.9bn (2021: EUR 3bn) and the net value of assets held in non-managed portfolios was EUR 477.7m (2021: EUR 408.8m), resulting in EUR 5.2bn in total client assets (2021: EUR 5.2bn).

Income Statement

The IOR's net profit of 2022 was EUR 29.6m (2021: EUR 18.1m).

The IOR financial assets managed by Finance&Treasury Department made a positive contribution to the Intermediation Margin amounting to EUR 13.8m.

Debt securities achieved a profit through P&L of EUR 17.1m (2021: EUR 21m), coming from all portfolios: *Trading*, *Held to Collect* and *Held to Collect and Sell* portfolios.

Equity securities totalled a loss of EUR 0.1m, comprehensive of dividends (2021: gain EUR 0.1m).

Foreign exchange activity contributed positively to EUR 1.4m (2021: EUR 1.3m).

The **Interest Margin** amounting to EUR 22.6m increased by 3.7% (2021: EUR 21.8m). This result was affected the higher increase of the average yield on investments in securities and bank deposits compared to the increase of the average rate paid on customer deposits; in fact, during 2022, the average yield on investments in securities and bank deposits increased to 0.91% (2021: 0.86%) and the average rate paid on customer deposits increased to 0.10% (2021: 0.07%). Accordingly, the spread between the average rate received on assets and the average rate paid on liabilities in creased from 0.79% to 0.81%.

(in thousand Euro)

	2022			2021		
	On Balance Sheet	Off Balance Sheet	Total	On Balance Sheet	Off Balance Sheet	Total
Customer deposits (including Legates)	1,834,903	–	1,834,903	1,794,152	–	1,794,152
Assets under Management	304,177*	2,546,776	2,850,953	279,252*	2,687,777	2,967,029
Assets under Custody	–	477,714	477,714	–	408,770	408,770
Total	**2,139,080**	**3,024,490**	**5,163,570**	**2,073,404**	**3,096,547**	**5,169,951**

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

Net fee and commission income amounting to EUR 17.9m increased by 20.9% (2021: EUR 14.8m). This result was due to the increase in Fee and commission income, from EUR 19.4m in 2021 to EUR 23.2m in 2022 partially offset by the increase in Fee and commission expense, from EUR 4.6m in 2021 to EUR 5.3m in 2022.

The increase in Fee and commission income derives mainly from the commissions collected on individual portfolio management (EUR +2.1m), which settled at EUR 18.1m (2021: EUR 16m) mainly due to the update of commission chart and to the increased diversification offered to customers toward balanced lines with higher management content and higher margin for the Institute, in addition to forex effect caused by the appreciation of the US dollar against the Euro. The commissions on payment services increased as well mainly on POS payments for the increase in number of transactions due to the restart of business after the negative effect of Covid-19 pandemic (EUR +1.7m).

Fee and commission expense increased, although less than commission income, due to higher commission expense on collection and payment services (EUR +1.4m) (mirroring the increase in commission income) and on custody and administration of securities mainly due to increased number of transactions (EUR +0.4m).

At the same time, there was a positive effect due to lower commissions charged by the correspondent banks for maintaining liquidity in current accounts, due to the progressive increase in interest rates and the subsequent cancellation of deposit fees charged by correspondent banks.

Administrative Expenses were EUR 20.9m in 2022 (2021: EUR 19.2m). This includes Staff Expenses, which increased to EUR 13.8m (2021: EUR 12.6m) due to the hiring of new managers and employees. Administrative expenses also include expenses for professional services for EUR 3.2m (2021: EUR 3.0m) increased for the expenses related to the project management for rolling out the new software *front-to-back*. Other administrative expenses slightly increased to EUR 3.9m in 2022 (2021: EUR 3.7m).

Other operating income (expenses) settled to EUR 17.8m (2021: EUR 3.9m). During 2022 the Institute received an amount of EUR 17.2m as compensation of one of the lawsuits for past abuse. Conversely, the 2021 result derived from the closure of certain positions related to dormant inheritance of deceased clients acquired by IOR after the lapse of time provisioned by the legal prescription (EUR 3.1m).

FINANCIALS 2022

33.3

m EUR Intermediation margin

20.9

m EUR Administrative Expenses

29.6

m EUR Profit for the year

Balance Sheet

As of 31 December 2022, total assets on the IOR's balance sheet were EUR 2.8bn (2021: EUR 2.8bn), with Equity of EUR 578.5m (2021: EUR 649.3m).

The Equity decrease was mainly due to the reduction of the "Valuation reserves for Financial asset at fair value through other comprehensive income", primarily on debt securities (yearly change in unrealised reserve on debt securities -123.2m) due to the increase in interest rates in the world's major economies and the increase in the credit spead. This effect was partly offset by the actuarial gain recorded in "Valuation reserves on defined benefit plans", mainly due to the increase in the discount rate to 3.5% in 2022 from 0.98% in 2021(yearly change in actuarial reserve +36.4m).

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 205.4m at the end of 2022 (2021: EUR 287m). These consisted of EUR 175.7m in deposits on demand (2021: EUR 287m) and EUR 29.7m in term deposits in the interbank lending market with maturity under 7 days (2021: zero).

The value of IOR **Securities** (debt securities, equity securities and investment funds) was EUR 2.4bn in 2022 (2021: EUR 2.3bn). Debt securities, at EUR 2.35bn, were the most significant investments, representing 99.7% of the securities held as of 31 December 2022, while equities and investment funds accounted for 0.3%.

As of 31 December 2022, 60% of debt securities were managed according to the business model *Held to Collect and Sell*, 39% according to the business model *Held to Collect* and only 1% according to the business model "*Other / Trading*".

On the Liabilities side, **Due to customers** is the most significant line. The item, representing 79.9% of total liabilities at 2022 year-end, increased from the previous year (+3.3%), amounting to EUR 2.14bn (2021: EUR 2.08bn) due to increased customer deposits (+EUR 40.9m from 2021) and due to increased liquidity related to asset management mandates (+EUR 26.6m from 2021).

Profitability and efficiency ratios

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

ROE recorded an increase due to the increase in Net profit compared to 2021. For the same reason ROA increased as well.

The ratio "Interest Margin / Total Assets" remained unchanged in 2022; the remaining profitability index, i.e. the ratio "Intermediation margin/Total Assets", slightly decreased due to the reduction in the intermediation margin and the slight increase in total assets.

The increase in the "Administrative Expenses / Intermediation Margin" index was due to an increase in expenses and a decrease in intermediation margin.

There was a significant increase (over 10%) of the contribution of net commissions to the Intermediation Margin due to the increase in commission margin.

The increase in the Tier 1 ratio compared to the end of the previous year is due to of the decrease of credit and counterparty risk and to the sharp decrease in market risk. Accordingly, securities subject to credit and counterparty risk increased from EUR 2.6bn at the end of 2021 to EUR 2.7bn at the end of 2022 with a Capital Requirement at around EUR 85m compared to EUR 105m in previous year. Conversely, Capital Requirement related to market risk decreased from EUR 18.2m in 2021 to EUR 5.5m in 2022.

2022 Tier 1 ratio was also positively impacted by the provisions of the ASIF Circular on a transitory treatment of unrealised gains and losses measured at fair value recognised in other comprehensive income considering the Covid-19 pandemic. As described in Section 6.2.B.1 "Own equity" of Part 6 "Information concerning equity", the new calculation of Common equity, which represents the numerator of the ratio, determined a higher Tier 1 ratio in comparison to the

Profitability and efficiency ratios (%)	2022	2021
ROE (Return on Equity)	5,4%	2,9%
ROA (Return on Assets)	1,1%	0,7%
Interest Margin / Total Assets	0,8%	0,8%
Intermediation Margin / Total Assets	1,2%	1,3%
Administrative Expenses / Intermediation Margin	62,7%	55,9%
Interest Margin / Intermediation Margin	67,9%	63,5%
Net Fee and Commission Income / Intermediation Margin	53,8%	43,0%
Core Equity TIER 1	46,14%	38,54%

Tier 1 calculated with the previous method (the Tier 1 ratio without the application of the temporary treatment would have been 45.16%).

Assets under Management

In a highly complex and troubled year due to high market volatility, Assets under Management overall outperformed the benchmark. In particular, in terms of assets, 91% of the standard lines recorded gross returns above the benchmark (68% on a net returns basis).

with the principles of the Social Doctrine of the Church and invests only in companies and States that respect those principles.

The Institute for many years has been adopting a well-tested proprietary methodology that uses very strict selection and monitoring criteria to ensure sustainable and responsible investment choices, fully consistent with Catholic ethics.

This valuable tool, which is constantly evolving, and the presence of a team of professionals with different backgrounds, skills, experience and seniority, have allowed the Institute to best serve its clients located in 112 countries and to achieve results in line with expectations even in a year as difficult as 2022.

(percentage values)

	Gross Performance (%)							2022	
	2015	2016	2017	2018	2019	2020	2021	Gross Annual Performance (%)	Gross Annual Performance vs Benchmark (%)
Monetary									
Montery Cash Plus - EUR	0.42	0.34	0.30	-0.93	0.53	0.49	-0.26	-1.47	-1.46
Montery Cash Plus - USD	0.54	091	1.09	1.91	3.13	1.63	0.09	0.32	-1.35
Bond									
Bond BT - EUR	0.56	0.71	0.85	-1.68	1.50	1.06	0.44	-2.56	1.97
Bond BT- USD	0.98	1.10	1.15	1.78	3.37	2.49	-0.41	-1.80	1.65
International BT - EUR	2.09	1.87	0.35	-1.22	2.02	0.96	0.60	-2.58	1.95
Balanced									
Mix 20% - EUR	0.88	1.79	1.64	-2.66	5.35	2.15	3.50	-4.59	0.71
Mix 20% - USD	0.07	1.85	5.04	-0.11	7.48	5.46	3.74	-4.83	1.70
Mix 30% - EUR	1.98	2.72	2.77	-3.38	8.35	2.42	5.18	-5.49	0.20
Mix 30% - USD	0.81	3.07	6.70	-0.95	10.41	7.60	5.91	-6.27	1.78
Mix 40% - EUR	–	–	–	–	–	–	–	-2.57	-0.17
Mix 40% - USD	–	–	–	–	–	–	–	-3.48	0.30
Mix 50% - EUR	3.09	4.75	3.99	-4.97	13.05	3.42	8.07	-7.15	-0.88
Mix 50% - USD	0.60	4.18	10.28	-2.39	15.36	10.32	9.47	-9.02	1.69
Multiasset									
Multiasset - EUR	–	–	–	–	–	3.49	2.86	-7.83	-0.73
Equities									
Equity - EUR	7.47	7.82	7.70	-7.10	25.13	4.01	20.80	-12.01	-3.32
Equity - USD	-0.79	7.11	20.53	-7.42	27.29	18.11	20.73	-15.43	1.29

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

Faith consistent investing

The IOR is a unique financial institution at the service of the Church in the world that bases its activities on the principle of consistency with Catholic ethics rather than the principle of maximum possible gain and operates in accordance with international banking standards and best practices.

In particular, the Institute bases its investment strategies on conservative management choices in line

3. CHARITABLE AND SOCIAL ACTIVITIES

In addition to the transfer of its profit to the Commission of Cardinals and to the Holy Father, the Institute contributes to the achievement of numerous charitable and social activities through:

- donations intended to respond to requests for aid or contributions;

– 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 monetary donations are always collegial, and are adopted directly by the Commission of Cardinals or by the Charity Committee chaired by the Prelate and composed of managers and employees of the Institute.

The most common donations are direct financial aid for destitute families (usually via parishes), specific help for missionary and charity work or contributions to young student priests for the completion of university studies.

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 throughout 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, would not be able afford to rent at market price;
– on loan for free use, for structures that offer hospitality and support to people in conditions of particular fragility or risk, such as migrants, refugees, single mothers and people with mental problems or families in financial difficulties who need accommodation to assist seriously ill relatives in long-term hospitalisation or in need of continuous therapy at health facilities in Rome. In the same facilities, Italian language literacy courses are designed to allow a real social integration of migrants and training courses for pastoral workers or family counsellors, who assist families in situations of distress, with problems as a couple or facing difficulties in parenting.

4. FORECAST FOR 2023

In 2023, the Institute will continue to operate in accordance with the Strategic Plan 2021-2025 approved by the Board of Superintendence:

– positioning IOR as the financial institution of reference for the Catholic community worldwide, increasing its market share;
– continuously updating 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.

In addition, the Institute will continue to implement the provisions of the new Apostolic Constitution *Praedicate Evangelium* of 19 March 2022 and the subsequent *Rescriptum* of 22 August 2022 regarding IOR role in the centralization of the Holy See's financial assets.

Conscious of the responsibility of the task assigned to it by the Holy Father who, through the mentioned *Rescriptum*, reaffirmed that "*... the activity of asset management and custody of the assets of the Holy See and of the Institutions connected with the Holy See exclusively compete to the IOR*", the Institute will continue with even greater commitment to provide quality banking and investment services to all its customers, fully in compliance with Catholic ethics.

IOR *Istituto per le Opere di Religione*

Financial Statements

BALANCE SHEET

(in Euro)

ASSETS	2022	2021
10. Cash and cash equivalents	15,017,250	16,161,005
20. Financial assets at fair value through profit or loss	19,649,065	242,059,628
of which:		
(a) financial assets held for trading	*19,649,065*	*242,059,628*
30.Financial assets at fair value through other comprehensive income	1,434,521,296	1,137,536,301
40. Financial assets at amortised cost	1,174,408,462	1,277,057,695
of which:		
(a) loans and advances to banks	*475,962,238*	*569,510,049*
(b) loans and advances to customers	*698,446,224*	*707,547,646*
70. Investment in subsidiaries	15,834,950	15,834,950
80. Tangible assets	2,407,841	3,115,880
90. Intangible assets	2,807,303	2,046,477
120. Other assets	87,588,500	57,496,290
Total Assets	**2,752,234,667**	**2,751,308,226**

(in Euro)

LIABILITIES AND EQUITY	2022	2021
10. Financial liabilities at amortised cost[IFRS 7§8 (g)]	2,144,819,182	2,077,269,522
of which:		
(a) due to banks	–	–
(b) due to customers	*2,144,819,182*	*2,077,269,522*
80. Legates	3,703,749	3,874,746
90. Other liabilities	17,825,405	12,405,303
100. Staff severance provision	5,689,953	6,745,387
110. Provisions for risks and charges	1,699,119	1,699,119
of which:		
(a) commitments and guarantees issued	*1,699,119*	*1,699,119*
*(b) provisions for pensions and similar obligations**	–	–
(c) other provisions for risks and charges	–	–
120. Valuation reserves	(159,402,788)	(61,493,192)
140. Reserves	408,316,895	392,716,450
of which:		
(a) unavailable reserves	*100,000,000*	*100,000,000*
(b) available reserves	*306,818,757*	*291,227,866*
(c) other reserves	*1,498,138*	*1,488,584*
150. Capital	300,000,000	300,000,000
160. Profit for the year	29,583,152	18,090,891
Total Liabilities and Equity	**2,752,234,667**	**2,751,308,226**

* Note: since 2021, the Institute acquired specific dedicated assets (Plan Assets) for the employees' Pension Plan. In accordance with IAS 19-*Employee Benefits*, the net value between the Liability for defined benefit obligation and the fair value of the Plan Assets is recognised in Assets item 120 "Other Assets" if the Fair Value of the Assets exceeds Liability; otherwise, i.e. if Liabilities exceed the Fair Value of the Assets, the net value is recognised in Liabilities and Equity, item 110 "Provisions for risks and charges (b) Provisions for pensions and similar obligations".

As at 2022 year-end, as well as 2021 year-end, the Fair Value of the Plan Assets exceeded Liability for defined benefit obligation and, therefore, the net value was recognised in Assets item 120 "Other Assets".

INCOME STATEMENT

(in Euro)

INCOME STATEMENT	2022	2021
10. Interest and similar income	24,381,821	23,062,514
20. Interest and similar expense	(1,807,738)	(1,225,211)
30. Interest margin	**22,574,083**	**21,837,303**
40. Fee and commission income	23,168,961	19,399,846
50. Fee and commission expense	(5,258,618)	(4,600,092)
60. Net fee and commission income	**17,910,343**	**14,799,754**
70. Dividends and similar income	16,202	99,757
80. Net trading result	(6,663,303)	(4,256,407)
100. Net gain (loss) on disposal or repurchase of:	(573,584)	1,914,123
(a) financial assets at amortised cost	*207,296*	–
(b) financial assets at fair value through other comprehensive income	*(780,880)*	*1,914,123*
120. Intermediation margin	**33,263,741**	**34,394,530**
130. Net impairment losses/recoveries for credit risk:	575,450	(324,369)
(a) financial assets at amortised cost	*444,167*	*1,002*
(b) financial assets at fair value through other comprehensive income	*131,283*	*(325,371)*
140. Net income from financial operations	**33,839,191**	**34,070,161**
150. Administrative expenses:	(20,864,472)	(19,236,773)
(a) staff expenses	*(13,759,855)*	*(12,582,294)*
(b) professional service expenses	*(3,165,045)*	*(2,999,908)*
(c) other administrative expenses	*(3,939,572)*	*(3,654,571)*
170. Net value adjustments to/recoveries on tangible assets	(414,405)	(328,510)
180. Net value adjustments to/recoveries on intangible assets	(855,409)	(320,360)
190. Other operating income (expense)	17,778,247	3,932,373
200. Operating costs	**(4,356,039)**	**(15,953,270)**
220. Net result of fair value measurement of tangible and intangible assets	100,000	(26,000)
250. Profit from current operations before taxes	**29,583,152**	**18,090,891**
270. Profit from current operations after taxes	**29,583,152**	**18,090,891**
290. Profit for the year	**29,583,152**	**18,090,891**

STATEMENT OF COMPREHENSIVE INCOME

(in Euro)

	2022	2021
10. Profit for the year	**29,583,152**	**18,090,891**
Items that will not be reclassified to Income Statement		
20. Equity instruments designated at fair value through other comprehensive income	191,057	94,759
70. Defined-benefit plans: change in actuarial reserve	36,366,694	1,505,101
70.1 Defined-benefit plans: Return on Plan assets	(11,231,673)	5,574,144
Items that will be reclassified to Income Statement		
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(123,226,121)	(21,903,276)
170. Total other comprehensive income items after taxes	**(97,900,043)**	**(14,729,272)**
180. Comprehensive income (item 10 + item 170)	**(68,316,891)**	**3,361,619**

STATEMENT OF CHANGES IN EQUITY

(in Euro)

2022				Allocation of previous year profit		Changes during the year			
	Total net equity at 31.12.2021	Changes in opening balances	Totale net equity at 01.01.2022	Reserves	Dividends and other allocations	Changes in reserves	Extra dividend distribution	Comprehensive income 2022	Net Equity at 31.12.2022
Capital	300,000,000		300,000,000						300,000,000
Reserves									
(a) unavailable	100,000,000		100,000,000						100,000,000
(b) available	291,227,866		291,227,866	15,590,891					306,818,757
(c) other	1,488,584		1,488,584					9,554	1,498,138
Valuation reserves	(61,493,192)		(61,493,192)					(97,909,596)	(159,402,788)
Net profit (loss) for the year	18,090,891		18,090,891	(15,590,891)	(2,500,000)			29,583,152	29,583,152
Net Equity	649,314,149		649,314,149		(2,500,000)			(68,316,891)	578,497,259

2021				Allocation of previous year profit		Changes during the year			
	Total net equity at 31.12.2020	Changes in opening balances	Totale net equity at 01.01.2021	Reserves	Dividends and other allocations	Changes in reserves	Extra dividend distribution	Comprehensive income 2021	Net Equity at 31.12.2021
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	9,093,694					291,227,866
(c) other	1,488,584		1,488,584						1,488,584
Valuation reserves	(46,763,920)		(46,763,920)					(14,729,272)	(61,493,192)
Net profit (loss) for the year	36,374,775		36,374,775	(9,093,694)	(27,281,081)			18,090,891	18,090,891
Net Equity	673,233,611		673,233,611		(27,281,081)			3,361,619	649,314,149

CASH FLOW STATEMENT

(in Euro)

DIRECT METHOD	2022	2021
A. Operating activities		
1. Ordinary activities	**36,849,939**	**28,859,410**
Interest income	26,336,828	27,131,928
Interest expense	(1,795,517)	(1,226,211)
Dividends and similar income	16,202	99,757
Net commissions	17,910,343	14,799,754
Realised profit (loss) from trading	(3,490,181)	778,789
Realised profit (loss) from *Held to Collect*	207,296	-
Realised profit (loss) from *Held to Collect and Sell*	(780,880)	1,914,123
Staff expenses	(12,227,782)	(11,916,511)
Other administrative expenses	(7,104,617)	(6,654,479)
Other operating income (expense)	17,778,247	3,932,260
2. Cash generated by/(used in) financial assets	**(140,817,061)**	**91,137,454**
Financial assets held for trading	218,252,466	353,057,689
Financial assets at fair value through other comprehensive income	(419,474,026)	(393,888)
Financial assets measured at amortised cost	101,728,382	(255,894,258)
Other assets	(41,323,883)	(5,632,089)
3. Cash generated by/(used in) financial liabilities	**106,565,732**	**(88,242,287)**
Financial liabilities measured at amortised cost	67,366,442	45,630,901
Other liabilities	39,199,290	(133,873,188)
Cash generated by/(used in) operating activities	**2,598,610**	**31,754,577**
B. Investing activities		
1. Cash generated by:	**620,000**	**–**
Sales of tangible assets	620,000	–
2. Cash used in:	**(1,842,601)**	**(998,894)**
Purchases of tangible assets	(226,366)	(140,861)
Purchases of intangible assets	(1,616,235)	(858,033)
Cash generated by/(used in) investing activities	**(1,222,601)**	**(998,894)**
C. Financing activities		
Dividend distribution and other purposes	(2,500,000)	(27,281,081)
Cash generated by/(used in) financing activities	**(2,500,000)**	**(27,281,081)**
Cash generated/(used) during the year	**(1,123,991)**	**3,474,602**

Items	**2022**	**2021**
Cash and cash equivalents at beginning of the period	16,161,005	12,617,961
Cash generated/(used) during the year	(1,123,991)	3,474,602
Cash and cash equivalents: forex effect	(19,764)	68,442
Cash and cash equivalents at end of the period	15,017,250	16,161,005

Explanatory Notes

PART 1. ACCOUNTING POLICIES

1.1 General information

1.1.1 Statement of compliance with accounting standards

The 2022 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 amended 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 financial statements are prepared in Italian.

The accounting policies and the measurement criteria adopted for the preparation of the 2022 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 2022 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 2022 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 these 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 Director General 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 of the Institute do not reflect a provision for taxes because there is no corporate income tax in the Vatican City State.

For the year ending 31 December 2022, 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 "Information on risks and hedging policies", Section 5.2.2.D "Information on unconsolidated structured entities".

The financial statements of the Institute are prepared by the Director General 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 to the provisions of IAS 10-*Events after the reporting period*, all events that took place subsequent to 31 December 2022 have been evaluated in the preparation of the 2022 financial statements.

There were no events occurring after 31 December 2022, which is the reporting date of these financial statements, and the date on which the financial statements are presented and authorised by the Director General, 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's 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 measurement process used for financial instruments. Fair value measurement requires the use of critical judgements such as determining criteria according to 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. Critical judgements are also 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 6.1m as of 31 December 2022 (2021: EUR 8.2m). 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 compensation 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 issued *inaudita altera parte*. The Institute challenged the seizure, as soon as full access to the file was 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 2022

The following accounting standards, amendments and interpretations of IFRS were adopted for the first time by the IOR effective 1 January 2022:

- **"Annual Improvements to IFRS Standards 2018–2020"** which contains proposed amendments to four standards (published on 28 June 2021):
  - **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 concerns an illustrative example;
  - **IAS 41**-*Agriculture* "Taxation in fair value measurements".

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

- **"Property, Plant and Equipment - Proceeds before intended use"** (published on 28 June 2021). 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. The adoption of these amendments did not significantly affect IOR financial statements.

- **"Reference to the Conceptual Framework"** (published on 28 June 2021.
  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. The adoption of these amendments did not significantly affect IOR financial statements.

- **"Onerous Contracts – Cost of Fulfilling a Contract"** (published on 28 June 2021).
  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 fulfill the contract). The adoption of these amendments did not significantly affect IOR financial statements.

Accounting standards, amendments and interpretations approved by the European Union, mandatorily or early adoptable at 1 January 2023

In this regard the novelty is:

- Standard **IFRS 17**-***Insurance Contracts*** (published on 18 May 2017 and updated on 25 June 2020), 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 the insurance sector.
  The standard is effective from 1 January 2023. Earlier adoption was permitted only for entities that apply **IFRS 9**-*Financial Instruments* and **IFRS 15**-*Revenue from Contracts with Customers.*
  No significant impact in the IOR financial statements from the adoption of this standard is expected.

- "**Accounting Policies Disclosure**" (published on 12 February 2021).
  Amendments to **IAS 1**-*Presentation of Financial Statements and to* **IFRS Practice Statement 2.**
  These amendments are intended to improve disclosure of accounting policies and require companies to provide disclosures about accounting policies considered material to their financial statements. The amendments provide guidance on when information on accounting standards is likely to be considered significant. The amendments are effective from 1 January 2023, with early adoption permitted. Because the IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- "**Changes and errors in estimates: Definition of estimates**" (published on 12 February 2021).
  Amendments to **IAS 8** - *Accounting Policies, Changes in Accounting Estimates and Errors.*
  The amendments added the definition of Accounting Estimates in IAS 8 and also clarified that the effects of a change in an input or valuation technique are changes in accounting estimates unless they result from the correction of prior period errors. 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:

- "**Presentation of Financial Statements: Classification of Liabilities as Current or Non-current**" (published on 23 January 2020 and updated on 25 June 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 were initially scheduled to become effective on 1 January 2022, with early adoption permitted. Subsequently, during the IASB meeting on June 2021, they were deferred to 1 January 2024. No significant impact in the IOR financial statements from the adoption of these amendments is expected.

- "**Deferred Taxes related to Assets and Liabilities arising from a single transaction**" (published on 7 May 2021).
  Amendments to **IAS 12**- *Income Taxes* establishing that a deferred tax asset and a deferred tax liability must be recognised for all taxable and deductible differences, except for certain specific cases for which an exemption is provided upon initial recognition. Applying these amendments narrows the scope of the exemption, which will no longer apply to transactions that give rise to equal taxable and deductible temporary differences on initial recognition. The amendments were initially scheduled to become effective from 1 January 2023; subsequently they were deferred.
  No impact in the IOR financial statements from the adoption of these amendments is expected.

- "**Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information**" (published on 9 December 2021).
  The document deals with the transition period to **IFRS 17**-*Insurance Contracts* for companies adopting **IFRS 17**-*Insurance Contracts* and **IFRS 9**-*Financial Instruments* together for the first time and, in particular, introduces an option to improve the usefulness of comparative information presented for first adoption the two standards. The amendments were initially scheduled to become effective from 1 January 2023; subsequently they were deferred. No significant impact in IOR financial statements from the adoption of these amendments is expected.

- "**Exposure Draft International Tax Reform–Pillar Two Model Rules (Proposed Amendments to IAS 12)**" (published on 9 January 2023).
  The paper proposes amendments to **IAS 12** - *Income Taxes*, i.e. the introduction of a temporary exception to the calculation of deferred taxes related to the application of the provisions of Pillar Two. To ensure comparability between companies, this exception should be mandatory. The proposals in the Exposure Draft would introduce:
  - a temporary exception to the accounting for deferred taxes arising from the adoption of the Pillar Two model rules; and
  - targeted disclosure requirements.

  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 and equity securities acquired or incurred principally for the purpose of selling in the short term;
- all derivatives with a positive fair 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 to 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 to the *Held to Collect* or *Held to Collect and Sell* business models (i.e. those included under the "*Other / Trading*" business model) (item a. financial assets held for trading);
- debt securities and loans managed according to 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 2022, the financial assets classified in this category were mainly those acquired for trading purposes, therefore not managed according to 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.

During 2022, as well as in 2021, 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, the financial assets 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 stipulated. 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 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- *Financial Instruments* 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 to 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 of measuring the assets at fair value through other comprehensive income ("FVOCI option").

As of 31 December 2022, the financial assets classified in this category were debt securities managed according to the *Held to Collect and Sell* business model and two 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 equity reserve is reversed, in whole or in part, to the Income Statement (item 100 "Net gain (loss) on 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 changes in fair value 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-*Financial Instruments* with the consequent recognition of the expected losses in the Income Statement and in the equity reserve. More specifically, an expected loss calculated over a 12-months period 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 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 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 the SPPI test.

Loans consist 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 loans to 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, as 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. The measurement criterion at historical cost is also 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-*Financial Instruments* 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-*Financial Instruments* 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. In this case, the expected loss over a 12-

month period is calculated and impairment equal to the expected loss is recognised in the 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 in the 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 in the Income Statement;
- exposures that have seen their credit risk deteriorate significantly since initial recognition and for which 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 in the 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. those 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 (Credit Rating System) that consider the provisions of IFRS 9-*Financial instruments*.

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 occur when the assets are derecognised (item 100 "Net gain (loss) on 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 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 Italian standard OIC 16 because its 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 assets are measured on the basis of the lease contract cash flows.

The accounting policies adopted in these cases are as 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, usually measured in four years. For the new software *front-to-back*, the expected useful life was measured in five years and the relevant costs are amortised in five years.

When an impairment loss occurs, regardless of the amortisation already recorded, the intangible asset is impaired accordingly.

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".

If, in subsequent years, the reasons for the derecognition no longer occur, the original value is restored, adjusted only for depreciation and recognised 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 "Legates – 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 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 – Provisions 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 are 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 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 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.

Since 2021, the Institute acquired specific dedicated assets (Plan Assets) for the IOR's defined benefit plans for pensions.

In accordance with IAS 19-*Employee Benefits*, the net value between the Liability for defined benefit obligation and the fair value of the Plan Assets is recognised in the Balance Sheet. In detail, the net value between the Liability for defined benefit obligation and the fair value of the Plan Assets is recognised in Assets item 120 "Other Assets" if the the Fair Value of the Assets exceeds Liability; otherwise, i.e. if Liabilities exceed the Fair Value of the Assets, the net value is recognised in Liabilities and Equity, item 110 "Provisions for risks and charges (b) Provisions for pensions and similar obligations".

More information is disclosed in paragraph 12.2 "Separation of the IOR Employees' Pension Plan" of Part 2 "Information on the Balance Sheet".

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 presentation 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 presentation 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 exchange 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 2022.

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 from observable market data;
- parameters that 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 for the instrument to be 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.

Fair Value hierarchy

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 Levels: IOR policy

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 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.

The IOR has classified under Level 1 all financial instruments quoted in active markets.

The IOR has classified under Level 2 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 follows 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.

The IOR has classified under Level 3 financial instruments for which fair values are determined using a model based on internal parameters.

Therefore, IOR models use only observable data. However, notions such as default rates, volatilities and correlations require the Director General 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).

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

Financial instruments subject to Fair Value Adjustment are classified in Levels 2 and 3. 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 financial instrument. 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 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%.

Since 2020, the Institute has used an external supplier for the contribution of prices and level of fair value according to the fair value hierarchy. The external supplier assigns Level 2 when the prices are quoted on active markets for similar assets or when the prices are 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 and the relative classification of the Fair Value Levels is made according to the utilisation, or otherwise, of market parameters; this consists of:

– Investment funds for which the Institute holds a significant number of shares. For these funds, classified as Level 3, the relevant NAV, i.e., the difference between the present value of the fund's assets and liabilities, is adjusted using an internal model that takes into account both PD, LGD and other risk factors, such as close-out penalties, where there are exit fees and all available information on the value of the underlying assets;
– VISA INC. shares, which are unlisted preferred shares classified as Level 2. Their price is determined internally based on the common share price and using an official price multiplier provided by the issuing company;
– SWIFT SC shares are also classified in Level 2 because they are unlisted securities. Their price is determined in non-active markets.

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 2022 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 instruments 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 or 2 to Level 1 occur when the presence of an active market as defined by IFRS 13-*Fair value measurement* has been verified.

It should be noted that during 2022, in light of the macroeconomic situation and detectable stress in the financial markets, a general shift of securities from Level 1 to Level 2 was observed as a result of lower liquidity and lower price detectability in a direct mode.

SWIFT SC shares have been transferred from Level 3 to Level 2 because in 2021 they were measured at cost whereas in 2022 their price was provided by the issuer.

Assets measured at fair value on a recurring basis

The IFRS 13-*Fair Value Measurement* 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.

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 which provides prices and related Fair Value Levels. Therefore, it was not necessary to utilise an internal valuation model. As of 31 December 2022, the debt secoritiesare mostly classified at Level 1 of the Fair Value hierarchy there are no debt securities classified at Level 3 of the Fair Value hierarchy.
– Equity securities: the Institute usually 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. As of 2022 year-end, IOR did not hold equity securities in trading portfolio.
– ETFs, i.e. investment funds listed on the stock exchange passively managed as they link to a pre-existing stock index or similar: ETFs are regularly traded on active markets and easily negotiable, they are valued at market price (mark-to-market) and are therefore classified at Level 1 of the Fair Value hierarchy. As of 2022 year-end, IOR did not hold ETF in trading portfolio.
– Investment funds: investment funds with underlying securities regularly traded in active and liquid markets and whose NAV is available through infoproviders 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 2022, the IOR held investment funds for EUR 6.1m 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 is managed by the external provider which provides prices and related Fair Value Levels. Therefore, it was not necessary to utilise an internal valuation model. As at 2022 year-end, 63% of debt securities were classified as Level 1 of the Fair Value hierarchy and 37% were classified as Level 2. The carrying amount of the debt securities classified as Level 3 was zero.
– 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 price multiplier provided by the issuing company. The third one is also classified as Level 2 because its price is determined in non-active markets.

Tangible assets held for investment

This item consists of investment 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-*Fair Value Measurement*.

Financial assets measured at amortised cost

For securities, the fair value corresponds to the market value at the balance sheet date. As at 2022 year-end, 66% of securities are classified as Level 1 in the fair value hierarchy since they are regularly traded on active and liquid markets, while 34% of securities are classified as Level 2.

No bonds securities are classified as Level 3.

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, 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 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 the fair value.

As the fair value calculation for receivables from clients is based on parameters not observable on markets, 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, in addition to the liquidity related to Asset Management mandates. The carrying value of such amounts approximates the 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	2022			2021		
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	13,275	250	6,124	206,571	27,275	8,214
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	898,368	536,153	–	846,117	291,411	8
3. Hedging derivatives						
4. Tangible assets	–	–	1,897	–	–	2,365
5. Intangible assets						
Total	**911,643**	**536,403**	**8,021**	**1,052,688**	**318,686**	**10,587**
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 designated at fair value**	**Financial assets mandatorily at fair value**	**Financial assets at fair value through other comprehensive income**	**Hedging derivatives**	**Tangible assets**	**Intangible assets**
1. Opening balance	**8,214**	**8,214**			**8**		**2,365**	
2. Increases								
2.1 Purchases	–	–			–		52	
2.2 Profit recognised in:								
2.2.1 Income Statement	–	–			–		100	
- of which Unrealised Profit	–	–			–		100	
2.2.2 Net Equity								
2.3 Transfers from other levels								
2.4 Other increases								
3. Decreases								
3.1 Sales	–	–			–		(620)	
3.2 Reimbursement								
3.3 Losses recognised in:								
3.3.1 Income Statement	(2,090)	(2,090)			–		–	
- of which Unrealised Losses	(2,090)	(2,090)			–		–	
3.3.2 Net Equity								
3.4 Transfers to other levels	–	–			(8)		–	
3.5 Other decreases								
4.Closing balance	**6,124**	**6,124**			–		**1,897**	

(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	2022				2021			
	Carring Value	Fair Value			Carring Value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Financial assets at amortised cost	1,174,408	728,151	272,457	66,679	1,277,058	1,170,761	46,080	67,714
2. Tangible assets held for investment								
3. Non-current assets and disposal groups classified as held for sale								
Total	**1,174,408**	**728,151**	**272,457**	**66,679**	**1,277,058**	**1,170,761**	**46,080**	**67,714**
1. Financial liabilities measured at amortised cost	2,144,819	–	–	2,144,819	2,077,270	–	–	2,077,270
2. Liabilities classified as held for sale								
Total	**2,144,819**	**–**	**–**	**2,144,819**	**2,077,270**	**–**	**–**	**2,077,270**

Key: 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 - *Financial Instruments: Disclosures* 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, defined as an agreement of commercial substance between two or more parties capable of generating rights and obligations;
- identify each performance obligation in the contract;
- estimate requirements to fulfil each performance obligation;
- determine the price for each performance obligation, that is the expected remuneration for the transfer of goods or services to the customer;
- allocate each price to each performance obligation;
- recognise revenue when the entity satisfies each performance obligation.

Revenues from contractual obligations with customers are recognised in profit or loss when it is probable that the entity will receive the payment to which it is entitled in exchange for the goods or services transferred to the customer. This payment must be allocated to the single obligations covered by the contract and must be recognised as revenue in the Income Statement based on the timing of fulfilment of the obligation. In detail, revenues may be recognised in the Income Statement:

- at a particular point in time, when the entity settles its performance obligation by transferring the promised good or service to the customer, or
- over time, as the entity settles its performance obligation by transferring the promised good or service to the customer.

In the presence of variable consideration (redemptions, discounts, refunds, incentives, performance bonuses or

similar items), the revenue is recorded in the Income Statement when it is possible to estimate the revenue reliably and only if it is highly probable that this amount will not subsequently have to be reversed in the Income Statement, in whole or in a significant part. If the Institute receives a payment from the customer that it expects to refund to the customer, in whole or in part, against the revenue recognised in the Income Statement, a liability should be recognised, estimated on the basis of expected future refunds (known as a "refund liability"). The estimate of this liability is updated at each reporting date and is carried out based on the portion of the amount that the Institute expects not to be entitled to.

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

	2022	2021
(a) Cash	14,691	15,835
(b) Free deposits ex art. 9 (b)	326	326
(c) Free deposits ex art. 9 (c)		
(d) Other free deposits		
Total	**15,017**	**16,161**

The balance included under item (b) represents free deposits with Public Authorities of the Holy See and Vatican City State (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

	2022			2021		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities						
1.1. Structured securities						
1.2. Other debt securities	13,275	250	–	190,349	27,275	–
2. Equity securities	–	–	–	1,549	–	–
3. UCI units	–	–	6,124	14,673	–	8,214
4. Loans						
4.1. Outstanding repos						
4.2. Other						
Total A	**13,275**	**250**	**6,124**	**206,571**	**27,275**	**8,214**
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)	**13,275**	**250**	**6,124**	**206,571**	**27,275**	**8,214**

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

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.

The item decreased significantly due to the fully implementation of the *Held to collect and sell* business model with financial assets recognised in item 30 “Financial assets at fair value through other comprehensive income”.

As of 31 December 2022, Financial assets held for trading comprise debt securities classified mainly as Level 1 in the fair value hierarchy and shares of UCI units classified as Level 3. Shares of UCI units are the only financial assets held by the Institute classified as Level 3.

As of 31 December 2022, 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

	2022	2021
A. Cash assets		
1. Debt securities		
(a) Public entities	–	98,681
(b) Financial companies	12,118	94,922
(c) Insurance companies	–	723
(d) Non-financial companies	1,407	23,298
(e) Other issuers		
2. Equity securities		
(a) Banks	–	141
(b) Other issuers:		
- insurance companies		
- financial companies	–	327
- non-financial companies	–	1,081
- other		
3. UCI units	6,124	22,887
4. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non-financial companies		
(e) Other subjects		
Total A	**19,649**	**242,060**
B. Derivatives		
(a) Banks		
(b) Customers		
Total B		
Total (A+B)	**19,649**	**242,060**

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

Line (a) “Public entities” of the item A.1 Debt securities, in 2021 composed exclusively by securities issued by foreign Central Public Administrations, reset to zero as a result of the maturity or sale of securities during 2022.

In 2022 UCI units in the financial assets held for trading refer to investment funds managed by third parties, while in 2021 they comprised also ETFs.

Regarding the composition of the UCI units, the underlying asset class of the investment funds managed by third parties comprises real estate exclusively (EUR 6.1m).

Since for these investment funds the Institute holds a significant number of shares, more detail will be provided in section 5.2.2.D “Information on unconsolidated structured entities” of Part 5 “Information on risks and hedging policies”.

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

	2022			2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1. Structured securities						
1.2. Other debt securities	898,368	534,673	–	846,117	290,120	–
2. Equity securities	–	1,480	–	–	1,291	8
3. Loans						
Total	**898,368**	**536,153**	**–**	**846,117**	**291,411**	**8**

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

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.

As at 2022 year-end, 63% of debt securities are classified as Level 1 of the Fair Value hierarchy and 37% are classified as Level 2. The carrying amount of the debt securities classified as Level 3 is zero.

The table also includes equity securities that the Institute purchased to participate in the SWIFT and VISA circuits. For these equity securities the Institute applied the option to measuring the assets at fair value through other comprehensive income ("FVOCI option"). As of 31 December 2022, both financial assets are classified as Level 2 in the fair value hierarchy.

As at 2022 year-end, there are no equity securities arising from recovery of impaired loans.

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

	2022	2021
1. Debt securities		
(a) Public entities	651,924	230,815
(b) Financial companies	435,617	485,833
(c) Insurance companies	10,445	9,942
(d) Non-financial companies	335,055	409,647
(e) Other issuers		
2. Equity securities		
(a) Banks		
(b) Other issuers:		
- insurance companies		
- financial companies	1,444	1,291
- non-financial companies	36	8
- other		
3. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non-financial companies		
(e) Other (including customers)		
Total	**1,434,521**	**1,137,536**

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 *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	1,434,183	1,434,183			1,434,183	1,142			1,142	
Loans										
Total 2022	**1,434,183**	**1,434,183**			**1,434,183**	**1,142**			**1,142**	
Total 2021	**1,137,491**	**1,137,491**			**1,137,491**	**1,254**			**1,254**	
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 as required by IFRS 9-*Financial Instruments.*

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

	2022						2021					
	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/ originated	Other					Purchased/ originated	Other			
A. Loans to Public Authorities												
1. Time deposits												
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	175,725			175,726			286,954			286,954		
1.2 Time deposits	29,739			29,739			-			-		
1.3 Other loans:												
(a) Outstanding repos												
(b) Finance leases												
(c) Other	852			852			789			789		
2. Debt securities												
2.1 Structured securities												
2.2 Other debt securities	269,646			130,885	109,718		281,767			257,208	22,787	
Total	**475,962**			**337,202**	**109,718**		**569,510**			**544,951**	**22,787**	

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

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 in accordance with the accounting standard IFRS 9-*Financial Instruments.*

As at 2022 year-end, 66% of financial assets at amortised cost are classified as Level 1 in the fair value hierarchy since they are regularly traded on active and liquid markets, while 34% of securities are classified as Level 2. No debt securities are classified as Level 3.

The item does not include non-performing loans.

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

	2022						2021					
	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/ originated	Other					Purchased/ originated	Other			
A. Loans												
1. Current accounts	34					34	6					6
2. Outstanding repos												
3. Mortgages												
4. Credit cards and personal loans, including wage assignment												
5. Financial leasing												
6. Factoring												
7. Other loans	55,874		5,990			66,645	56,596		6,496			67,708
B. Debt securities												
1. Structured securities												
2. Other debt securities	636,548			390,949	162,739		644,450			625,810	23,293	
Total	**692,456**		**5,990**	**390,949**	**162,739**	**66,679**	**701,052**		**6,496**	**625,810**	**23,293**	**67,714**

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

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 amounts 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 in accordance with the accounting standard IFRS 9-*Financial Instruments*.

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

In this regard, the Institute is not authorised by the Supervisory and Financial Information Authority to carry out the activity of “lending” in the strict sense (see article 1 (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.

Since 2014 the Board of Superintendence decided to grant loans strictly in accordance with the mission of the Institute and exclusively in form of lombard loans.

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

	2022			2021		
	I and II stage	III stage		I and II stage	III stage	
		Purchased/ originated	Other		Purchased/ originated	Other
1. Debt securities						
(a) Public entities	586,841			547,511		
(b) Financial companies	–			62,364		
(c) Insurance companies	43,577			34,575		
(d) Non-financial companies	6,130			–		
(e) Other subjects						
2. Loans						
(a) Public entities	30,155			47,135		
(b) Financial companies						
(c) Insurance companies						
(d) Non-financial companies	484		–	951		
(e) Other subjects	25,269		5,990	8,516		6,496
Total	**692,456**		**5,990**	**701,052**		**6,496**

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 adjustments				Partial *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	907,168	907,168	–	–	907,168	974	–	–	974	
Loans	262,357	–	1	14,809	277,167	134	–	8,819	8,953	
Total 2022	**1,169,525**	**907,168**	**1**	**14,809**	**1,184,335**	**1,108**	**–**	**8,819**	**9,927**	
Total 2021	**1,271,805**	**927,399**	**1**	**15,565**	**1,287,371**	**1,243**	**–**	**9,070**	**10,313**	
Of which: non-performing assets acquired or originated										

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 accounting 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 2022 and no dividends were paid.

The equity of S.G.I.R. S.r.l. as of 31 December 2022 was EUR 26m (2021: EUR 25.2m), including EUR 12.4m (2021: 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 the real estate located in Italy, mainly received as donations or legacies, in an easier and more transparent way. 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 recover-ies 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)	Compre-hensive income (3) = (1) + (2)
A. Entities subject to total control														
S.G.I.R. S.r.l.	1,212	157	25,735	981	102	2,131	(5)	34	1,209	770	-	770	-	**770**
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

	2022	2021
1. Owned assets		
(a) land		
(b) buildings		
(c) furniture		
(d) electronic equipment	386	510
(e) other		
2. Assets acquired under finance lease		
(a) land		
(b) buildings	91	138
(c) furniture		
(d) electronic equipment		
(e) other	34	103
Total	**511**	**751**

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

The item 80 "Tangible assets" comprises the assets included in the definition of right of use in accordance with accounting standard IFRS 16-*Leases*.

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 storage for archiving electronic data.

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

	2022			2021		
	L1	L2	L3	L1	L2	L3
1. Owned assets						
(a) land						
(b) buildings			1,897			2,365
2. Assets acquired under finance lease						
(a) land						
(b) buildings						
Total			**1,897**			**2,365**

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

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**	**5,605**	**341**	**8,854**
A.1 Net total adjustments		(141)	(2,629)	(5,095)	(238)	(8,103)
A.2 Net opening balance		**138**	**–**	**510**	**103**	**751**
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)	–	(299)	(68)	(414)
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		**91**	**–**	**386**	**34**	**511**
D.1 Total net adjustments		(188)	(2,629)	(5,394)	(307)	(8,518)
D.2 Gross closing balance		**279**	**2,629**	**5,780**	**341**	**9,029**

8.7 Tangible assets held for investment: annual changes

	Land	Buildings	Total
A. Opening balance		2,365	**2,365**
B. Increases:			
B.1 Purchases			
B.2 Capitalised improvement costs		52	**52**
B.3 Positive fair value differences		100	**100**
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		(620)	**(620)**
C.2 Depreciation			
C.3 Negative fair value differences			
C.4 Impairment losses			
C.5 Negative foreign exchange differences			
C.6 Transfer to other assets:			
a) tangible assets for functional use			
b) non-current assets being disposed			
C.7 Other changes			
D. Closing balance		1,897	**1,897**

The item includes 3 investment properties received in the past through donations, totalling EUR 1.9m. The item decreased from 31 December 2021 due to the sale of one property recognised for EUR 620,000 partially offset by the positive fair value difference of EUR 100,000 of the remaning properties, in addition to certain expenses incurred for improvements and capitalised for EUR 52,000.

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

During 2022 one property was sold for EUR 620,000. No profit or loss was recognised in the Income Statement item 190 “Other operating income (expense)” since the property was carried at sale value in the 2021 financial statements.

In 2022, IOR 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 2022, S.G.I.R. S.r.l. earned EUR 62,000 (2021: EUR 68,000) as rental income on these properties.

SECTION 9 – Intangible assets (Item 90 Assets)

9.1 Intangible assets: detail by asset type

	2022		2021	
	Definite life	**Indefinite life**	**Definite life**	**Indefinite life**
A.1. Goodwill				
A.2. Other intangible assets				
A.2.1 Assets carried at cost:				
(a) Internally generated intangible assets				
(b) Other assets	2,807		2,046	
A.2.2 Assets carried at fair value				
(a) Internally generated intangible assets				
(b) Other assets				
Total	**2,807**		**2,046**	

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

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. Exception is the new software *front-to-back* for which the expected useful life was measured in five years and the relevant costs are amortised in five years.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance				10,234		**10,234**
A.1 Total net adjustments				(8,188)		**(8,188)**
A.2 Net opening balance				2,046		**2,046**
B. Increases						
B.1 Purchases				1,616		**1,616**
B.2 Increases of internally generated intangible assets						
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				(855)		**(855)**
- 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				2,807		**2,807**
D.1 Total net adjustments				(9,043)		**(9,043)**
E. Gross closing balance				11,850		**11,850**

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

9.3 Intangible assets: other informations

At the balance sheet date, there were no:
– restrictions on the distribution of unrealised gains related to revalued intangible assets;
– intangible assets acquired for government concessions;
– intangible assets posted as collateral for own debts;
– commitments for purchasing intangible assets;
– intangible assets subject to rental transactions.

SECTION 12 - Other assets (Item 120 Assets)

12.1 Other assets: detail

	2022	2021
Gold	31,664	22,833
Medals and precious coins	10,720	10,673
Commission from asset management services not yet received	9,443	7,740
Other commission not yet received	309	589
Compensation to be received	2,440	–
Securities transactions pending settlement	9	606
Amounts related to customers pending reinvestment	53	5,170
Client Tax advances	3,268	3,345
Sundry debtors	139	38
Prepayments	747	637
Net Assets of IOR Employees' Pension Plan	28,797	5,865
Total	**87,589**	**57,496**

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 these financial statements for EUR 9.4 m. These commissions, pertaining to the second half of 2022, were collected at the beginning of 2023.

The line "Compensation to be received" concerns amounts to be received by the Institute as compensation following the closing of a lawsuit for past abuse; the amount was collected in early 2023.

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.

The "Client Tax advances" includes the two advances related to IVAFE that IOR has paid to the Italian Government on behalf of clients subject to Tax agreement with Italy. Clients are charged in February of the following year.

Net Assets of IOR Employees' Pension Plan, recognised in the item 120 "Other Assets", represents the net value between the Liability for defined benefit obligation for pensions and the fair value of the Plan Assets if the Fair Value of the Assets exceeds the Liability.

12.2 Separation of the IOR Employees' Pension Plan

Since 2021, the Institute decided to acquire specific dedicated assets (Plan Assets) for the employees' Pension Plan, after having carried out all relevant legal and accounting activities for the creation and mangement of such portfolio.

In particular, the IOR has taken following steps to:

- identify a dedicated assets for pension obligations. The IOR remains obliged, with the whole of its assets, to those entitled to pension benefits;
- identify the "IOR Pension Plan" for management and accounting purposes. The Pension Plan includes the assets,

the operating results, the charges arising from pension benefits and the collection of monthly contributions. The Pension Plan has no legal personality;
- establish the governance of the "IOR Pension Plan" through the Pension Policy and define and formalize the management, administration and control processes;
- identify a collegial body – "IOR Pension Plan Committee" - with governance and control responsibilities that include at least: the Director General, individuals with expertise in financial and pension management, and the control functions;
- establish an Asset Management Policy that regulates the policies to be followed by the Pension Plan manager. The Policy shall be established by the Committee, in accordance with guidelines established by the Board of Superintendence;
- assign to IOR Finance&Treasury Department the financial management of the dedicated Assets;
- attribute to the "IOR Pension Plan" the financial results of the dedicated Assets, management expenses, flows from contributions and withdrawals.

In accordance with IAS 19-*Employee Benefits*, the net value between the Liability for defined benefit obligation and the fair value of the Plan Assets is recognised in IOR Balance Sheet. Considering that, as of 31 December 2022, the Fair Value of the Assets exceeded the Liability, the net value, amounting to EUR 28.8m (2021: EUR 5.9m), is recognised in Assets item 120 "Other Assets".

Conversely, if the Fair Value of the Liability had exceeded the Assets the net value would have been recognised in Liabilities and Equity, item 110 "Provisions for risks and charges (b) Provisions for pensions and similar obligations".

Sec E - Amounts recognised in Balance Sheet	**2022**	**2021**
Defined benefit obligation for pensions	98,740	132,520
Fair value of Pension Plan Assets	127,537	138,385
Net defined benefit liability (asset) at 31 December	**(28,797)**	**(5,865)**

Sec G - Change in Balance Sheet	**2022**	**2021**
Net liability (asset) recognised at 1 January	(5,865)	132,992
Defined benefit cost included in P&L	4,194	3,936
Amounts recognised in Other Comprehensive Income (OCI)	(23,925)	(6,888)
Contributions by individuals	147	145
Contributions for creation of Plan Assets portfolio	-	(132,900)
Pensions paid during the year	(3,340)	(3,150)
Return of contributions	(8)	(1)
Net liability (asset) recognised at 31 December	**(28,797)**	**(5,865)**

12.2.1 Plan Assets portfolio

At 31 December 2022, Plan Assets portfolio was mainly comprised of equity and debt securities and totalled EUR 127.5m. In accordance with IAS 19-*Employee Benefits*, the fair value of the assets is based on IAS 19 - paras. 57 and 113. The yield of the assets, given by interest, dividends and realised or unrealised gains/losses, less any management expenses and taxes, is recognised in accordance with IAS 19 - par.57 letters c) and d).

Sec B - Change in Fair Value of Pension Plan Assets	2022	2021
Fair Value of Pension Plan Assets at 1 January	138,385	–
Contributions for creation of Pension Plan Assets portfolio	–	132,900
Return on Plan Assets (recognised in P&L=Interest income)	612	303
Administrative expenses paid (trading fees, custody fees, fees for maintaining liquidity, taxes)	(229)	(393)
Return on Plan Assets (recognised in OCI) (excluding interest income)	(11,231)	5,574
Fair Value of Pension Plan Assets at 31 December	**127,537**	**138,385**

Sec H - Class of Pension Plan Assets	2022	2021
H.1 Fair value of assets		
H.1.1 Cash and cash equivalents	1,098	13,322
H.1.2 Equity securities	22,208	-
H.1.3 Debt securities	92,150	-
H.1.4 Real estate		
H.1.5 Derivatives		
H.1.6 Investment funds	12,081	28,747
H.1.7 Assets held by insurance company		
H.1.8 ETF	-	96,316
H.1.9 Total of Pension Plan Assets at 31 December	**127,537**	**138,385**

12.2.2 Liabilities for Defined Benefit Plan for pensions (DBO)

The defined benefit obligation is the present value of future payments required to settle the pension obligation and is performed by a qualified actuary. As of 31 December 2022, this totalled EUR 98.7m (2021: EUR 132.5m). The recognition, measurement and presentation of the Liability is carried out in accordance with IAS 19, applying actuarial techniques to determine the value of the liability through the application of demographic and financial assumptions aimed at representing the trend of the population of members and the economic conditions in the short term.

Sec X - Annual changes in Liabilities for Defined Benefit Plan for pensions (DBO)	2022	2021
Net liability recognised at 1 January	132,520	132,992
Contributions by IOR (recognised in P&L=staff expenses)	4,578	3,847
Contributions by individuals	147	145
Pensions paid during the year	(3,340)	(3,150)
Return of contributions	(8)	(1)
Actuarial (gain) loss of the year	(35,157)	(1,314)
Net liability recognised at 31 December	**98,740**	**132,520**

Annual changes in the plan are detailed below:

	2022	2021
Opening balance	**132,520**	**132,992**
Current Service Cost	3,182	3,211
Interest Cost	1,282	447
New position cost	114	189
Contribution by individuals	147	145
Pensions paid during the year	(3,340)	(3,150)
Transfer out	(8)	(1)
Actuarial (gain) loss of the year	(35,157)	(1,313)
Closing balance	**98,740**	**132,520**

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

	2022	2021
Annual discount rate	3.50%	0.98%
Annual inflation rate	2.30%*	1.75%
Annual rate of nominal increase of pensions	2.30%	1.75%
Annual rate of real increase of salaries	2.00%	2.00%

* 8.0% for revaluation in the year 2023

The index utilised as discount rate was the “Markit – Iboxx Corporate AA 10+” observed on 31 December 2022.

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 presented in Other Comprehensive Income.

For the Provision for pensions, in 2022, the Institute recognised an actuarial gain of EUR 35.2m (2021: gain of EUR 1.3m) 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 18.7m (2021: EUR -53.8m).

The 2022 actuarial gain is mainly due to the increase of the discount rate 3.5% in 2022 from 0.98% in 2021. Total effect is partially offset by the increase of the annual inflation rate 2.30% in 2022 from 1.75% in 2021.

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	91,109	107,434	101,239	96,433	107,537	90,965	98,192	99,314

12.3 Other information concerning provision for pensions

More information about the calculation of the pension plan is provided in the paragraphs regarding accounting policies.

There are 102 active employees who contribute to the Pension plan (2021:98) and 91 former employees are in retirement and benefit from the plan (2021: 89).

The portion of employee gross salaries to participate in their pension plans retained by the Institute is 6%.

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

Funds are managed by the IOR Finance&Treasury Department.

12.4 Components of Income (Cost) of defined benefit plan

Sec F. Components of defined benefit income (cost) – Provision for pension	**2022**	**2021**
1. Current service cost	(3,296)	(3,400)
2. Net interest cost	(670)	(143)
a. Interest expense on DBO	(1,282)	(447)
b. Interest (income) on plan assets	612	303
4. Administrative expenses and/or taxes (not reserved within DBO)	(229)	(393)
Total income/(cost) recognised in P&L	**(4,195)**	**(3,936)**
a-b-c. Effect of changes in actuarial parameters (demographic and financial assumptions)	35,157	1,314
d. Return on Plan Assets (excluding interest income)	(11,231)	5,574
Total remeasurements included in OCI	**23,926**	**6,888**
7. Total defined benefit income/(cost) recognised in P&L and in OCI	**19,731**	**2,952**

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

As of 31 December 2022, as well as 31 December 2021, no financial liabilities were recognised in this item.

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

	2022	2021
1. Current accounts and demand deposits	2,127,862	2,065,922
2. Time deposits	16,957	11,348
3. Loans		
3.1 Repos		
3.2 Other		
4. Liabilities from commitments to repurchase own equity instruments		
5. Other liabilities		
Total	**2,144,819**	**2,077,270**

The item "Due to customers" slightly increased compared to 2021, mainly due to the increase of customer deposits and, to a lesser extent, to the forex effect caused by the appreciation of the US dollar and other currencies against the Euro.

The item includes liquidity related to the Asset Management mandates, for which the IOR is the depository institution, as of 31 December 2022 amounting to EUR 313.6m (2021: EUR 286.9m).

As of 31December 2022 the item "Time deposits" consisted entirely of deposits with no more than one year maturity.

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 0.8m (2021: EUR 0.8m). Donations made in 2022 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 3.7m (2021: 3.9m). These are 72 positions (2021: 76) related to funds donated to the Institute. The IOR has the burden, for a significant period, of performing specific ecclesiastical functions or otherwise achieving objectives related to works of piety, apostolate and charity, on the basis of the Legates' annual revenues.

The pious non-autonomous foundations entrusted to the Institute consist also of financial assets amounting to EUR 22.6m at year-end 2022 (2021: EUR 23.7m).

The reduction of the number of positions compared to 31 December 2021 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, as Ordinary, bearing in mind the more specifically sacred nature of these legacies. The amounts of these positions had already been transferred at the end of the previous year.

SECTION 9 – Other liabilities (Item 90 Liabilities)

9.1 Other liabilities: detail

	2022	2021
Client assets to be settled	5,188	–
Inheritances to be settled	5,077	4,000
Invoices to be received	4,124	4,202
Funds for charitable contributions	1,625	2,308
Outstanding cheques	351	397
Remunerations to be paid	894	894
Taxes payable on behalf of customers	175	11
Debts arising from leasing agreements (IFRS 16)	128	245
Other sundry creditors	263	348
Total	**17,825**	**12,405**

"Client assets to be settled" concerns securities transactions on behalf of customers executed but not yet settled as of 31 December 2022; these transactions were settled in the first days of the subsequent year.

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

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 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 in serious difficulties.

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 Agency.

The breakdown of Funds for charitable contributions is as follows:

Funds for charitable contributions	2022	2021
Fund for Holy Masses	1,347	2,219
Fund for Missionary Activities	278	89
Total	**1,625**	**2,308**

Changes in the funds balance are summarised as follows:

Fund for Holy Masses	2022	2021
Balance at 1 January	2,219	2,752
Donations received	49	46
Distributions for Holy Masses	(921)	(579)
Total	**1,347**	**2,219**

Fund for Missionary Activities	2022	2021
Balance at 1 January	89	316
Donations received	207	–
Transfers from distribution of the net profit of the year	200	150
Distributions for Missionary Activities	(218)	(377)
Total	**278**	**89**

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 carried out 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

	2022	2021
A. Opening balance	**6,745**	**7,112**
B. Increases		
B.1 Allocation for the year	714	632
B.2 Other changes	230	130
C. Decreases		
C.1 Benefits paid	(790)	(938)
C.2 Other changes	(1,209)	(191)
D. Closing balance	**5,690**	**6,745**

The Staff severance provision comprises indemnities to be paid to personnel when they leave the IOR.

The annual change in the provision balance is summarised as follows:

	2022	2021
Balance at 1 January	**6,745**	**7,112**
Current costs borne by the IOR	623	544
Contribution by individuals	91	88
Advances	(114)	-
Advances restitution	230	130
Consideration paid during the year	(676)	(938)
Actuarial (gain) loss of the year	(1,209)	(191)
Balance at 31 December	**5,690**	**6,745**

The main actuarial assumptions used for the measurement of the Staff severance provision are the same as those used for the Benefit Plan Liability for pensions and they are summarised as follows:

	2022	2021
Annual discount rate	3.50%	0.98%
Annual inflation rate	2.30%*	1.75%
Annual rate of real increase of salaries	2.00%	2.00%

8.0% for revaluation in the year 2023

The index utilised as discount rate was the "Markit – Iboxx Corporate AA 10+" observed on 31 December 2022.

For Staff severance provision, in 2022, the Institute recognised an actuarial gain of EUR 1.2m (2021: gain of EUR 0.2m) 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 1.2m (2021: EUR -2.4m).

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%	+0.50%	-0.50%	+25%	-25%	+0.50%	-0.50%
Provision	5,467	5,930	5,768	5,616	5,688	5,692	5,771	5,596

10.2 Staff severance provision: other information

More information on the calculation of employee termination indemnities is provided in the paragraphs regarding the accounting policies.

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

No payments are made to the Vatican Pension Plan.

Funds are 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

	2022	2021
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		
4. Other allowances for risks and charges		
4.1 legal disputes		
4.2 staff expenses		
4.3 other		
Total	**1,699**	**1,699**

This item "3. Provisions for pensions" amounts to zero as a result of the new representation of the Pension Plan, following the acquisition of dedicated assets (Plan Assets) for the IOR employees' Defined Benefit Plans for pensions (Pension Plan), which are disclosed on paragraph 12.2 "Separation of the IOR Employees' Pension Plan" of Part 2 - Assets.

11.2 Provisions for risks and charges: annual changes

	Provisions for credit risk on commitments and financial guarantees granted	Provisions for other commitments and other guarantees granted	Provisions for pensions	Other provisions	Total
A. Opening balance	-	**1,699**	-	-	**1,699**
B. Increases					
B.1 Provision for the year					
B.2 Time value changes					
B.3 Changes due to discount rate variations					
B.4 Other changes					
C. Decreases					
C.1 Utilization during the year					
C.2 Changes due to discount rate variations					
C.3 Other changes					
D. Closing balance	-	**1,699**	-	-	**1,699**

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

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

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 2022, 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

Equity is also comprised of three different earning reserves: Unavailable Reserves, Available Reserves and Other reserves which include First Time Adoption Reserve and Realised FVOCI Reserve.

Earning Reserves: composition

	2022	**2021**
Unavailable reserves	100,000	100,000
Available reserves	306,819	291,228
Other reserves	1,498	1,489
1. First Time adoption reserve	*1,489*	*1,489*
2. Realised FVOCI reserve	*9*	-
Total	**408,317**	**392,717**

Unavailable Reserves are earning reserves designed to further strengthen the Institute's Equity and long-term stability. As of 31 December 2022, the Unavailable Reserves amount to EUR 100m and no changes were recorded.

Available Reserves are earning reserves representing earnings that could potentially be distributed, following to a resolution of the Commission of Cardinals. Available Reserves amounting to EUR 306.8m (2021: EUR 291.2m), increased during 2022, as a result of the allocation of a portion of the 2021 net result. In fact, when the 2021 net profit was distributed, the Commission of Cardinals resolved that EUR 15.6m had to be allocated to the Available Reserves of IOR.

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–*Financial Instruments* 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-*Leases* accounting standard and no adjustments were required to be recognised at the date of first-time adoption. No new accounting standards requiring allocation to the Reserve were adopted after 2019.

Realised FVOCI Reserve amounting to EUR 9,000 includes realised profits from equity securities not held for trading, for which the entity applied the option granted by the standard measuring the assets at fair value through other comprehensive income ("*FVOCI option*"), and as required by the accounting standard IFRS 9-*Financial Instruments,* profits are not recognised in the Income Statement but remain in the reserves. Specifically, the amount concerns liquidity received from VISA following the share exchange from a corporate stock dividend. The total value of the Institute's investment remained unchanged but the total number of shares held increased.

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.

Available Reserves are 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 assets at fair value through other comprehensive income and Valuation Reserves for gains (losses) on defined benefit plans.

Valuation Reserves: composition

	2022	2021
Valuation Reserves for Financial assets at fair value through other comprehensive income	(133,914)	(10,870)
1. Debt securities	*(135,387)*	*(12,161)*
2. Equity securities	*1,473*	*1,291*
Valuation Reserves for gains (losses) on defined benefit plans	(25,489)	(50,623)
1. Defined benefit plans- Actuarial gains (losses)	*(19,831)*	*(56,197)*
2. Defined benefit plans- Return on Plan Assets:		
2.1 Gains (Losses) realised	*(3,833)*	*7*
2.2 Gains (Losses) unrealised	*(1,825)*	*5,567*
Totale	**(159,403)**	**(61,493)**

Valuation Reserves for Financial assets 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. With regard to debt securities, the negative change in the unrealised reserve, amounting to EUR -123.2m in 2022, recognised in Other Comprensive Income, was mainly due to the increase in interest rates in the world's major economies and the increase in the credit spread.

Valuation Reserves for gains (losses) on defined benefit plans represent both the actuarial unrealised gain or loss related to two the post-employment benefit plans and the return on Pension Plan Assets.

For Staff severance provision and Provisions for pensions, in 2022, the Institute recognised an actuarial gain of EUR 36.4m (2021: gain of EUR 1.5m) 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 19.8m (2021: EUR -56.2m). The 2022 actuarial gain recorded in "Valuation reserves on defined benefit plans", was mainly due to the increase in the discount rate to 3.5% in 2022 from 0.98% in 2021. However, the effect was partially offset by the increase in the inflation rate to 2.3% in 2022 from 1.75% in 2021.

The Defined benefit plans - Profitability Return on Plan Assets, as at 2022 year-end, was negative for EUR 5.7m (2021: EUR +5.6m) mainly on equity exposure in Euro.

13.1 Guarantees and commitments

	Notional value of commitments and financial guarantees granted				
	I stage	**II stage**	**III stage**	**2022**	**2021**
1) Financial guarantees granted to					
a) Banks					
b) Customers	1,203			**1,203**	**1,328**
c) Public Authorities					
d) Foreign Public Authorities					
e) Other financial entities					
f) Non-financial entities					
2) Irrevocable commitments to disburse funds to					
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	**5,203**			**5,203**	**5,328**

As of 31 December 2022, the Institute has granted two guarantees. The first was released before the year 2000 and is in favour of a bank and guarantees the performance of a religious congregation for EUR 27,000. The second one released in 2019, is in favour of an Italian university and guarantees the performance of a Vatican institution for EUR 1.2m. During 2022 a third guarantee released in 2018 in favour of an Italian university and guaranteed the performance of a Vatican institution has been closed; as of 31 December 2021, it amounted to EUR 26,000. All guarantees issued by the IOR are counter-guaranteed by securities held in custody.

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

13.5 Asset Management and trading on behalf of clients

	2022	2021
1. Trading on behalf of customers		
(a) purchases		
(i) settled	247,046	31,359
(ii) to be settled		
(b) sales		
(i) settled	16,604	48,500
(ii) to be settled		
2. Portfolio management (Assets under Management)		
(a) individual	2,850,953	2,967,029
(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)	477,714	408,770
(d) proprietary portfolio securities deposited with third parties	2,248,462	2,308,695
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 liquidity related to Asset Management mandates. Accruals are also included, both on securities and on liquidity. The IOR is the depository of liquidity, amounting to EUR 313.6m (2021: EUR 286.9m), 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	2022	2021
1. Financial assets at fair value through profit or loss					
- Financial assets held for trading	1,948	–	–	**1,948**	**3,484**
- Financial assets designated at fair value					
- Other financial assets mandatorily at fair value					
2. Financial assets at fair value through other comprehensive income	8,693	–	–	**8,693**	**8,605**
3. Financial assets at amortised cost					
- Loans and advances to banks	4,191	1,245	–	**5,436**	**2,986**
- Loans and advances to customers	7,751	554	–	**8,305**	**7,988**
4. Hedging derivatives					
5. Other assets					
6. Financial liabilities					
Total	**22,583**	**1,799**	**–**	**24,382**	**23,063**
of which: interest income on non-performing financial assets	–	**56**	**–**	**56**	**62**

Interest income increased from the previous year mainly due to higher interest received from banks on term deposits triggered as a form of investment following the rise in interest rates that occurred in 2022.

The change in composition reflects the greater emphasis in 2022 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 56,000 (2021: EUR 62,000). They were directly deducted from line 3 "Financial assets at amortised cost - Loans and advances to customers".

1.2 Interest income and similar revenues: details in currencies other than the Euro

	Debt securities	Loans	Other transactions	2022	2021
1. Financial assets at fair value through profit or loss					
- Financial assets held for trading	703	–		**703**	**1,343**
- Financial assets designated at fair value					
- Other financial assets mandatorily at fair value					
2. Financial assets at fair value through other comprehensive income	5,393	–		**5,393**	**4,629**
3. Financial assets at amortised cost					
- Loans and advances to banks	1,103	1,005		**2,108**	**344**
- Loans and advances to customers	908	13		**921**	**842**
4. Hedging derivatives					
5. Other assets					
6. Financial liabilities					
Total	**8,107**	**1,018**		**9,125**	**7,158**
of which: interest income on non-performing financial assets					

1.3 Interest expense and similar charges: detail

	Payables	Securities	Other transactions	2022	2021
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	(8)			**(8)**	**(2)**
- Due to customers	(1,797)			**(1,797)**	**(1,219)**
- Debt securities issued					
3. Financial liabilities held for trading					
4. Financial liabilities designated at fair value					
5. Other liabilities and funds	(3)			**(3)**	**(4)**
6. Hedging derivatives					
7. Other financial assets					
Total	**(1,808)**			**(1,808)**	**(1,225)**

Interest expense increased due mainly to the Institute's resolution to remove the cap on the remuneration of customer deposits in U.S. dollars, established in previous years (the table below, details in currencies other than the Euro show this effect better).

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

1.4 Interest expense and similar charges: details in currencies other than the Euro

	Payables	Securities	Other transactions	2022	2021
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	(7)			**(7)**	**(1)**
- Due to customers	(1,015)			**(1,015)**	**(450)**
- Debt securities issued					
3. Financial liabilities held for trading					
4. Financial liabilities designated at fair value					
5. Other liabilities and funds					
6. Hedging derivatives					
7. Other financial assets					
Total	**(1,022)**			**(1,022)**	**(451)**

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

2.1 Fee and commission income: detail

	2022	2021
a) Guarantees granted/received	11	12
b) Credit derivatives		
c) Asset management, brokerage and advisory services:		
1. trading in financial instruments	119	47
2. trading in currencies		
3. portfolio management		
3.1 individual	18,063	16,048
3.2 collective		
4. Custody and administration of securities	582	628
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	4,015	2,265
e) *Servicing* of securitization		
f) Factoring services		
g) Tax collection services		
h) Multilateral trading systems management		
i) Current account keeping and management	379	386
j) Other services	–	14
Total	**23,169**	**19,400**

Commission income increased compared to the previous year mainly due to higher asset management fees (EUR +2.1m); this increase was mainly due to the update of commission chart and to the customers' choice to invest in higher-margin lines, to the forex effect caused by the appreciation of the US dollar versus the Euro. In addition, there was a positive effect caused by higher commissions on payment services (EUR +1.7m) mainly on POS payments for the increase in number of transactions due to the restart of business after the negative effect of Covid-19 pandemic.

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

	2022	2021
a) Guarantees granted/received		
b) Credit derivatives		
c) Asset management and brokerage services:		
1. trading financial instruments	(22)	(40)
2. trading currencies		
3. portfolio management		
3.1 own portfolio		
3.2 third-party portfolio		
4. Custody and administration of securities	(1,831)	(1,442)
5. Placement of financial instruments		
6. Off-site offer of financial instruments, products and services		
d) Collection and payment services	(2,778)	(1,434)
e) Current account keeping and management		
current account keeping	(67)	(55)
liquidity management	(505)	(1,609)
f) Other services	(56)	(20)
Total	**(5,259)**	**(4,600)**

Fee and commission expense increased overall, due to higher commission expense on collection and payment services (mirroring the increase in commission income) and on custody and administration of securities mainly due to increased transactions.

At the same time, there was a positive effect due to lower commissions charged by the correspondent banks for maintaining liquidity in current accounts, due to the progressive increase in interest rates and the subsequent cancellation of deposit fees charged by correspondent banks.

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

3.1 Dividend income and similar revenues: detail

	2022		2021	
	Dividends	Income from UCI	Dividends	Income from UCI
A. Financial assets at fair value through profit or loss				
Financial assets held for trading	-	8	2	91
Other financial assets mandatorily at fair value				
B. Financial assets at fair value through other comprehensive income	8	-	7	-
C. Investment in subsidiaries				
Total	**8**	**8**	**9**	**91**

The item "Dividends and similar income" decreased as a result of the disposal of ETF securities which had paid dividends in 2021.

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

4.1 Net trading result: detail

	2022				
	Unrealised profit (A)	Realised profit (B)	Unrealised loss (C)	Realised loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	–	130	1,032	4,027	(4,929)
1.2 Equity securities	–	8	–	100	(92)
1.3 UCI units	14	–	2,112	1,050	(3,148)
1.4 Loans					
1.5 Other	–	149	–	–	149
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	–	1,377	20	–	**1,357**
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	**14**	**1,664**	**3,164**	**5,177**	**(6,663)**

	2021				
	Unrealised profit (A)	Realised profit (B)	Unrealised loss (C)	Realised loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	119	608	1,747	2,414	**(3,434)**
1.2 Equity securities	60	102	5	41	**116**
1.3 UCI units	227	2,980	3,758	1,713	**(2,264)**
1.4 Loans					
1.5 Other	–	3	–	–	**3**
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	68	1,255	–	–	**1,323**
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	**474**	**4,948**	**5,510**	**4,168**	**(4,256)**

Debt securities recorded a loss of EUR 4.9m in 2022 (2021: loss of EUR 3.4m): the realised loss was EUR 3.9m (2021: realised loss of EUR 1.8m) and the unrealised loss was EUR 1.0m (2021: unrealised loss of EUR 1.6m).

Equity securities recorded a loss of EUR 92,000 (2021: gain of EUR 116.000): the realised loss was EUR 92,000 (2021: realised gain of EUR 61,000), while the unrealised gain was zero as all the securities in portfolio have been disposal (2021: unrealised gain of EUR 55.000).

The UCI units recorded a loss of EUR 3.1m (2021: loss of EUR 2.3m): realised loss was EUR 1.1m (2021: realised gain EUR 1.3m) and unrealised loss was EUR 2.1m (2021: unrealised loss EUR 3.6m).

Line 1.5 "Financial assets held for trading: other" includes gains (losses) from currency trade, gold and other precious metals, while recognising a realised gain of EUR 149,000 in 2022 compared to a realised loss of EUR 3,000 in 2021.

Line 3 "Financial assets and liabilities: exchange differences" includes a gain of EUR 1.36m (2021: gain of EUR 1.3m): realised gain was EUR 1.38m (2021: realised gain of EUR 1.2m), while unrealised loss was EUR 20,000 (2021: unrealised gain of EUR 68,000).

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

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

	2022			2021		
	Profits	**Losses**	**Net Result**	**Profits**	**Losses**	**Net Result**
Financial assets						
1. Financial assets at amortised cost						
- Loans and advances to banks	82	–	82	–	–	–
- Loans and advances to customers	125	–	125	–	–	–
2. Financial assets at fair value through other comprehensive income						
2.1 Debt securities	1,599	(2,380)	(781)	9,919	(8,005)	1,914
2.2 Loans						
Total assets	**1,806**	**(2,380)**	**(574)**	**9,919**	**(8,005)**	**1,914**
Financial liabilities at amortised cost						
Due to banks						
Due to customers						
Debt securities issued						
Total liabilities						

This item recorded gain (loss) arising from disposal of debt securities managed according to the *Held to Collect and Sell* and *Held to Collect and Sell* business model. Regarding debt securities held in the *Held to Collect* business model, the positive result comes from the sale of securities close to maturity. Regarding debt securities held in the *Held to Collect and Sell* business model, the negative result is the consequence of the conservative selective reduction of higher-risk exposures due to the downgrading of their credit ratings.

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	2022 (1)+(2)	2021 (1)+(2)
1. Loans and advances to banks:							
a) Acquired or originated impaired							
- Loans							
- Debt securities							
b) Other receivables							
- Loans							
- Debt securities	–	–	(46)	–	–	**(46)**	**(92)**
2. Loans and advances to customers							
a) Acquired or originated impaired							
- Loans							
- Debt securities							
b) Other receivables							
- Loans	(1)	(226)	(73)	534	–	**234**	**387**
- Debt securities					256	**256**	**(294)**
Total	(1)	**(226)**	**(119)**	**534**	**256**	**444**	**1**

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 to the *Held to Collect* business model in accordance with the accounting standard IFRS 9-*Financial Instruments*.

The adjustments relating to stage III recognised in 2022 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 or recognised at the end of the previous year.

The recoveries relating to stage III recognised in the year refer to the consideration received from non-performing exposures, fully or partially impaired during previous years.

The recoveries relating to stage I and II recorded on debt securities in the year refer to the decrease of expected losses on debt securities compared to the origination or 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)		2022 (1)+(2)	2021 (1)+(2)
	III stage						
	Write-off	Other	I and II stage	III stage	I and II stage		
1. Debt securities					131	**131**	**(325)**
2. Loans							
of which acquired or originated impaired							
- to banks							
- to customers							
Total					131	**131**	**(325)**

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 to the *Held to Collect and Sell* business model in accordance with the accounting standard IFRS 9-*Financial Instruments*.

The recoveries relating to stage I and II recorded in the year refer to the decrease of expected losses on debt securities compared to the origination or recognised at the end of the previous year.

SECTION 9 – Administrative expenses (Item 150 Income statement)

9.1 Staff expenses: detail

	2022	2021
A. Staff		
1. Wages and salaries	(6,413)	(6,210)
2. Social security charges		
3. Severance pay		
4. Supplementary benefits	(781)	(767)
5. Staff severance provision	(623)	(544)
6. Provisions for post-employment benefits		
(a) defined contribution plans		
(b) defined benefit plans	(4,578)	(3,847)
7. Payments to complementary pension plans		
(a) defined contribution plans		
(b) defined benefit plans		
8. Other benefits in favour of employees	(580)	(446)
B. Personnel with contracts pursuant to art. 10 (par.1)		
1. letter (b)		
2. letter (c)		
3. letter (d)		
C. Fees and charges for Board of Superintendence and Director General	(785)	(768)
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	**(13,760)**	**(12,582)**

9.2 Average number of employees by categories

Category	Total	Executives	Officials	Staff
Average number	113	10	20	83

9.3 Post-employment defined benefit plans: costs and revenues

Post-employment defined benefit plans: costs	**2022**	**2021**
Service Cost of internal Pension Plan	(3,183)	(3,211)
Interest Cost of internal Pension Plan	(1,282)	(447)
New position cost	(113)	(189)
Contribution to Vatican Pension Plan	(781)	(767)
Total Costs	**(5,359)**	**(4,614)**
Post-employment defined benefit plans: revenues	–	–
Total	**(5,359)**	**(4,614)**

9.5 Professional service expenses: detail

	2022	**2021**
A. Professional service expenses		
1. Legal services	(1,614)	(1,644)
2. Notary services		
3. Management consultancies	(296)	(294)
4. Technical consultancies	(275)	(216)
5. Operational consultancies	(828)	(689)
6. Translation services	(63)	(51)
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	(89)	(106)
Total	**(3,165)**	**(3,000)**

9.6 Other administrative expenses: detail

	2022	**2021**
1.Software maintenance	(1,052)	(1,138)
2.Other maintenance	(494)	(384)
3.Information providers	(1,200)	(989)
4.Other expenses	(1,194)	(1,144)
Total	**(3,940)**	**(3,655)**

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

	2022				2021			
	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	(298)			**(298)**	(213)			**(213)**
- For investment								
- Inventories								
A.2 Acquired under finance lease								
- Functional use	(116)			**(116)**	(116)			**(116)**
- For investment								
Total	**(414)**			**(414)**	**(329)**			**(329)**

The item includes depreciation on assets under lease contracts recognised in accordance with the accounting standard IFRS 16-*Leases* adopted by the Institute, 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

	2022				2021			
	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	(855)			**(855)**	(320)			**(320)**
A.2 Acquired under finance lease								
Total	**(855)**			**(855)**	**(320)**			**(320)**

The increase in depreciation is due to the start of operation of a new software front-to-back.

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

13.1 Other operating income (expense): detail

	2022	2021
A. Income	**17,925**	**4,160**
Legates closure	–	–
Compensation	17,230	–
Closure of positions due to limitation period	–	3,129
Extraordinary income	312	1,014
Write-backs from gold and precious metals	–	–
Gain on sale of property	–	17
P&L result of employees' Pension Plan (gain)	383	
B. Expenses	**(147)**	**(228)**
Operating losses	(145)	(24)
Extraordinary expenses	(2)	(115)
Impairment on gold and precious metals	–	–
P&L result of employees' Pension Plan (loss)	–	(89)
Total	**17,778**	**3,932**

During 2022 the Institute received an amount of EUR 17.2m (of which EUR 2.4m collected in early 2023) as compensation of a lawsuit for past abuse.

Conversely, 2021 result derived from the closure of certain positions related to dormant inheritance of deceased clients acquired by IOR after the lapse of time provisioned by the legal prescription (EUR 3.1m).

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

2022	Revaluations	Impairment	Exchange differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment	100				100)
- 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	**100**				**100**

2021	Revaluations	Impairment	Exchange differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment		26			(26)
- 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		**26**			**(26)**

PART 4. INFORMATION ON COMPREHENSIVE INCOME

	2022			2021		
	Gross amount	**Income tax**	**Net amount**	**Gross amount**	**Income tax**	**Net amount**
10. Profit (loss) for the year	**29,583**		**29,583**	**18,091**		**18,091**
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	182		182	95		95
b) transfer to other components of Equity (equity securities cancelled)						
c) transfer to the Income Statement	9		9			
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: change in actuarial reserve	36,366		36,366	1,505		1,505
70.1 Return on Plan Assets of defined-benefit plans	(11,231)		(11,231)	5,574		5,574
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 Income Statement (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	(122,778)		(122,778)	(15,113)		(15,113)
(b) transfer to the Income Statement	(448)		(448)	(6,790)		(6,790)

(follows)

	2022			2021		
	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	**(97,900)**		**(97,900)**	**(14,729)**		**(14,729)**
200. Comprehensive income (Item 10+190)	**(68,317)**		**(68,317)**	**3,362**		**3,362**

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

During 2022, 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 89,000 (2021: EUR 106,000).

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

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 2022: 30 December).

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

For the 2022 financial statements, the rates were the following:

Currency		2022	2021
U.S. Dollars	USD	1,0666	1,1334
Swiss Francs	CHF	0,9847	1,0363
Canadian Dollars	CAD	1,4440	1,4481
English Pounds	GBP	0,8869	0,83930
Australian Dollars	AUD	1,5693	1,5594
Japanese Yen	JPY	140,66	130,44
Czech Crowns	CZK	24,116	24,917
Danish Crowns	DKK	7,4365	7,4365
Norwegian Crowns	NOK	10,5138	9,9703
Polish Zloty	PLZ	4,6808	4,5960
Swedish Crowns	SEK	11,1218	10,2438
South African Rand	ZAR	18,0986	18,0173
Hong Kong Dollars	HKD	8,3163	8,8399
Singapore Dollars	SGD	1,4300	1,5330
New Zealand Dollars	NZD	1,6798	1,6545

A.3 Date of authorisation for issue

The financial statements were presented and authorised for issuance by the Director General on 7 April 2023 and approved by the Board of Superintendence on 25 April 2023.

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 decided:

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

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

The Risk Management Department is a structure independent from risk-taking functions, which reports to the Director General with a hard line and reports to the Board of Superintendence with a dotted line.

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;
- Director General;
- Control Functions Committee;
- Risk Management Department;
- Compliance Department;
- Internal Audit Department;
- Finance & Treasury Department.

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 Director General 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 Control Functions Committee.

Furthermore, the Board of Superintendence, consistently 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 effectiveness over time;
- defines and approves, based on a proposal from the Director General, 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 Director General, 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 Director General, the implementation of the programs 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 Director General based on the proposal of the Control Functions Committee, exceeding the frequency and significance thresholds defined in the existing policy.

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

5.1.1.2 Director General

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

The Director General 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 Control Functions Committee.

When operational limits are exceeded, an escalation procedure is defined with the involvement of different levels of governance, including the Board of Superintendence, as well as specific deadlines for return, depending on the significance of the events. When needed and supported by the Control Functions Committee, the Director General determines further and specific way in which the overrun may be managed:

– the Director General can authorise the overrun specifying the period for which the authorisation is granted;
– the Director General can ask the head of the operating area involved for a recovery plan to be established.

Furthermore, the Director General:

– 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 included in the *Held to Collect* portfolio, on proposal of the Control Functions Committee, exceeding the frequency and significance thresholds defined in the existing policy.

5.1.1.3 Control Functions Committee

A Control Functions Committee has been established by the Director General and chaired by the Head of Risk Management Department with the aim of supporting the Director General on control and risk management issues, through assessments of relevant risk for the Institute, of deficiencies in the internal control system and of progress on corrective actions to be implemented for risk mitigation.

The Control Functions Committee:

– monitors and assesses the risks relevant to the Institute, including the main risks arising from non-compliance with rules and regulations that may lead to sanctions or damage the Institute's reputation, highlighting the corrective actions agreed to mitigate such risks;
– enables coordination between the Control Functions in planning and carrying out control activities;
– examines the results of the monitoring activities carried out by the first, second and third level units, by the Supervisory Authority and by the independent auditors;
– examines the results of the monitoring activities carried out in the area of IT risks and by the Delegates Law No. LIV, analysing any incidents, in order to understand their causes and plan the corrective actions required;
– analyses the progress of corrective actions, highlighting any delays in their implementation and obtaining from the Director General the acceptance of the risk in the event that the corrective actions are not deemed feasible, from a cost/benefit perspective, by the Institute's operational areas;
– makes proposals to the Board of Superintendence for the definition of the *Risk Appetite Framework*, defining a

limit structure for the Institute's operational areas;
– analyses RAF metrics;
– reviews the reports produced by the Control Functions;
– examines the ICAAP report on the Institution's capital adequacy before it is submitted to the Board of Superintendence;
– proposes policies relating to Business Continuity to the Director General.

In case of emergency, the Control Functions Committee together with the Management Committee represents the Crisis Committee.

The Control Functions Committee also performs the following relevant tasks for the financial reporting:
– decides on the proposal of the CFO, in the event of stress situations, the disposal of financial assets held in the *Held to Collect* portfolio, for the subsequent authorisation of the Director General, exceeding the frequency and significance thresholds defined in the existing policy;
– proposes, with the support of the Head of the Accounting Department, any changes to the policy on the classification and mesurement of financial assets.

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

5.1.1.4 Risk Management Department

The IOR Risk Management Department:
– presents to the Control Functions 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;
– observes the market, credit and liquidity risks and trading activity performance of IOR securities on a daily basis, preparing specific reports for the Board, the Director General, 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 *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 Director General and the Finance&Treasury Department of any overruns. When limits are exceeded, it can request an emergency meeting of the Control Functions Committee;
– calculates capital requirements in compliance with regulatory requirements;
– supports, together with the Accounting Department, the Finance&Treasury 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 frequency and significance thresholds in case of sale of securities of the *Held to Collect* portfolio,
– supports the Business functions in identification and managing operational risks and consolidates the relative information in reporting to the Director General, the Control Functions Committee and the Board of Superintendence;
– periodically monitors the risk mitigation actions taken by Business functions on the main operational risks identified;
– promotes risk culture within the Institute, in particular regarding operational risks.

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 no. 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 its 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 no. 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 Control Functions 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 bought for the IOR portfolio 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 bought for the IOR portfolio.

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 Control Functions Committee has contributed to maintaining a high level of attention from the 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, to combat money laundering, the financing of terrorism and operational risk. 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. bank deposits);
2. issuer risk (e.g. debt securites);
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" (see art. 1 (l) (b) of the Law no XVIII and art. 3 (24) (b) of the Regulation no. 1), as credit activities on its own. However, IOR is authorised to make "advances" that is to provide funds to its clients 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 deposited by the clients at the Institute, as collateral.

Since 2014 the Board of Superintendence decided to grant loans strictly in accordance with the mission of the Institute and exclusively in form of lombard loans.

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

At the end of 2022, the bond securities portfolio amounted to EUR 2.4bn with an average duration of 3.81 years and high credit standing (94% investment grade). The portfolio is composed of government bonds issued by major European countries (core and peripheral), by the United States and residually by non-OECD countries, as well as financial and corporate bonds.

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

5.2.1.2 Credit risk management policies

5.2.1.2.1 Organisational aspects

The credit risks related to proprietary investment activity, as already disclosed, concerns almost all of the credit risk of the Institute and is managed by Finance&Investment Area. The Finance&Treasury Department is responsible for managing credit risk on operational basis in compliance with operational limits.

In particular, the process of risk assumption involves the following:

– the Board of Superintendence which approves the Budget, the RAF and investment portfolio strategy and risk profile including exposure to overall credit risks;

– the Director General delegates, through the CFO, the operational management of market risks, including credit risk, to the Finance&Treasury Department, within the limits defined by the RAF and the operational limits predetermined;
– 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 Control Functions 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 any unauthorised overruns to the Director General.

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 Control Functions Committee and approved by the Director General.

This methodology provides, in particular, for the definition of:
– a set of specific 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 counterparty risk, issuer risk and cash risk.

In order to quantify the maximum amount of exposure to each counterparty the method provides the use of an internal rating, defined according to the characteristics of the counterparty, by the credit rating expressed from the main International Rating Agencies.

5.2.1.2.3 Expected loss measurement models

The Institute has developed a methodology for measuring the expected loss in line with the accounting standard IFRS 9-*Financial instruments*, 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 accounting standard IFRS 9-*Financial instruments*, 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 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

5.2.1.3.1 Strategies and policies for managing 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.

Same happens for guarantees issued by IOR and covered by assets held in custody, which are disclosed on paragraph 13.1 “Guarantees and commitments” of the Part 2 “Information on the Balance Sheet”.

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, periodically, the Client Area analyses all exposures and submits to the Director General 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 analytic impairment loss is not recognised, 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 area proposes to write off the amount as a loss on loans to the Director General.

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 following an improvement in credit risk does not imply the allocation of this asset in a different category: no circumstance permits leaving POCI status.

During 2022, as well as during 2021, 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	–	–	–	–	1,433,041	1,433,041
2. Financial assets at amortised cost	–	5,990	–	1	1,168,417	1,174,408
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets being disposed						
Total 2022	**–**	**5,990**	**–**	**1**	**2,601,458**	**2,607,449**
Total 2021	**–**	**6,495**	**–**	**1**	**2,406,799**	**2,413,295**

Note*: There are no forborne exposures.*

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

Loans Unlikely to pay comprise two partially impared positions.

Non-performing past due exposures are not present at the closing date of these financial statements.

Performing past due exposures are loans classified as stage 2. They are with low value at the closing date of these financial statements.

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

	Non-performing assets			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	–	–	–	1,434,183	(1,142)	1,433,041	1,433,041
2. Financial assets at amortised cost	14,809	(8,819)	5,990	1,169,526	(1,108)	1,168,418	1,174,408
3. Financial assets designated at fair value							
4. Other financial assets mandatorily at fair value							
5.Financial assets being disposed							
Total 2022	**14,809**	**(8,819)**	**5,990**	**2,603,709**	**(2,250)**	**2,601,459**	**2,607,449**
Total 2021	**15,565**	**(9,070)**	**6,495**	**2,409,297**	**(2,497)**	**2,406,800**	**2,413,295**

	Assets with markedly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading			13,525
2. Hedging derivatives			
Total 2022			**13,525**
Total 2021			**217,624**

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		3	1			5,990		
Financial assets at fair value through other comprehensive income									
Total 2022	**1**		**3**	**1**			**5,990**		
Total 2021	**3**	**-**	**-**	**-**	**1**		**6,495**		

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)	**1,243**	**1,254**		**2,497**					**9,070**		**9,070**					**1,699**	**13,266**
Increases in acquired or originated financial assets									56		56						**56**
Reversals different from write-offs																	
Net losses/ (recoveries) on credit impairment	(137)	(131)		(268)					(308)		(308)						**(576)**
Contractual changes without cancellation																	
Changes in estimation methodology																	
Write-off																	
Other changes	2	19		21					1		1						**22**
Closing balance (gross amount)	**1,108**	**1,142**		**2,250**					**8,819**		**8,819**					**1,699**	**12,768**
Recoveries from financial assets previously written off																	
Write-off recognised directly through profit or loss																	

A.1.5 Financial assets, loan commitments and financial guarantees granted: 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			1	12
Financial assets at fair value through other comprehensive income						
Loan commitments and financial guarantees granted						
Total 2022		**1**			**1**	**12**
Total 2021		-			-	**10**

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		888,347	918	887,429	
- of which: forborne exposures					
Total A		**888,347**	**918**	**887,429**	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing					
Total B					
Total A + B		**888,347**	**918**	**887,429**	

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	4,124	–	4,124	–	
- of which: forborne exposures					
b) Unlikely to pay	10,684	–	4,694	5,990	
- of which: forborne exposures					
c) Non-performing past due exposures					
- of which: forborne exposures					
d) Performing past due exposures	–	1	–	1	
- of which: forborne exposures					
e) Other performing exposures	–	1,728,887	1,332	1,727,555	
- of which: forborne exposures					
Total A	**14,808**	**1,728,888**	**10,150**	**1,733,546**	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing	–	1,203	–	1,203	
Total B	**–**	**1,203**	**–**	**1,203**	
Total A + B	**14,808**	**1,730,091**	**10,150**	**1,734,749**	

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 exposures	**4,376**	**11,189**	
- of which: exposures sold not derecognised			
B. Increases			
B.1 Transfers from performing loans	16	–	
B.2 transfers from other non-performing exposure categories			
B.3 other increases	56	–	
C. Decreases			
C.1 recoveries on impairment losses	(3)	–	
C.2 write-offs	(1)	–	
C.3 recoveries on repayments	(320)	(505)	
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 gross non-performing exposures	**4,124**	**10,684**	
- 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		Not-performing past due exposures	
	Total	of wich: forborne exposures	Total	of wich: forborne exposures	Total	of wich: forborne exposures
A. Initial total adjustments	**4,376**		**4,694**		**-**	
- of which: exposures sold not derecognised						
B. Increases						
B.1 Impairment losses	15		214		-	
B.2 Losses on disposal						
B.3 Transfers from other non-performing exposure categories						
B.4 Other increases	56					
C. Decreases						
C.1 Recoveries on impairment losses	(3)					
C.2 Recoveries on repayments	(320)		(214)			
C.3 Profits on disposal						
C.4 Write-offs						
C.5 Transfers to other non-performing exposure categories						
C.6 Other decreases						
D. Final total adjustments	**4,124**		**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	66,090	192,724	803,216	50,719	735	–	56,042	**1,169,526**
- Stage II							1	**1**
- Stage III							14,808	**14,808**
2. Financial assets at fair value through other comprehensive income								
- Stage I	121,859	469,923	772,698	52,876	11,202	–	4,483	**1,433,041**
- Stage II								
- Stage III								
Total on-balance sheet financial assets	**187,949**	**662,647**	**1,575,914**	**103,595**	**11,937**	**–**	**75,334**	**2,617,376**
of which: acquired or originated impaired financial assets								
3. Loan commitments and financial guarantees granted								
- Stage I							5,203	**5,203**
- Stage II								
- Stage III								
Total commitments and financial guarantees							**5,203**	**5,203**
Total	**187,949**	**662,647**	**1,575,914**	**103,595**	**11,937**	**–**	**80,537**	**2,622,579**

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

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.

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 leases	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	49,882	49,759	240		70,950											**71,190**
- 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/counterparties	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																										(4,124)	
-of which forborne exposures																											
A.2 Unlikely to pay																									5,990	(4,694)	
-of which forborne exposures																											
A.3 Non-performing past due exposures																									-	-	
-of which forborne exposures																											
A.4 Performing exposures	29,968		(32)	1,238,765		(604)										36,268		(42)	54,022		(118)	343,078		(435)	25,455		(101)
-of which forborne exposures																											
TOTAL A	**29,968**		**(32)**	**1,238,765**		**(604)**										**36,268**		**(42)**	**54,022**		**(118)**	**343,078**		**(435)**	**31,445**	**(8,818)**	**(101)**
B. Off-balance sheet exposures																											
B.1 Bad loans																											
B.2 Unlikely to pay																											
B.3 Other non-performing assets																											
B.4 Other exposures																									1,203		
TOTAL B																									**1,203**		
TOTAL (A+B) 2022	**29,968**		**(32)**	**1,238,765**		**(604)**										**36,268**		**(42)**	**54,022**		**(118)**	**343,078**		**(435)**	**32,648**	**(8,818)**	**(101)**
TOTAL (A+B) 2021	**47,906**		**(40)**	**877,006**		**(663)**										**181,751**		**(180)**	**45,240**		**(137)**	**433,898**		**(532)**	**16,377**	**(9,070)**	**(16)**

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			–	(4,124)						
A.2 Unlikely to pay			5,990	(4,694)						
A.3 Non-performing past due exposures										
A.4 Performing exposures			1,408,240	(1,194)	277,697	(123)	18,907	(12)	22,712	(3)
Total A			**1,414,230**	**(10,012)**	**277,697**	**(123)**	**18,907**	**(12)**	**22,712**	**(3)**
B. Off balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performing exposures										
B.4 Performing exposures			1,203							
Total B			**1,203**							
Total A+B 2022	**–**	**–**	**1,415,433**	**(10,012)**	**277,697**	**(123)**	**18,907**	**(12)**	**22,712**	**(3)**
Total A+B 2021	**16,989**	**(19)**	**1,174,763**	**(10,400)**	**323,524**	**(174)**	**50,061**	**(32)**	**36,031**	**(13)**

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	–	–	732,871	(857)	117,906	(36)	27,050	(17)	9,602	(8)
Total A	**–**	**–**	**732,871**	**(857)**	**117,906**	**(36)**	**27,050**	**(17)**	**9,602**	**(8)**
B. Off-balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performing exosures										
B.4 Performing exposures										
Total B										
Total A+B 2022	**–**	**–**	**732,871**	**(857)**	**117,906**	**(36)**	**27,050**	**(17)**	**9,602**	**(8)**
Total A+B 2021	**–**	**–**	**941,164**	**(902)**	**83,512**	**(27)**	**348**	**–**	**5,854**	**–**

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. This exposure does not determine additional own funds requirements as a zero-weighting coefficient for credit risk is applied to it, as provisioned 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-*Disclosure of interests in other entities* 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 6.1m.

They are closed-end funds, i.e. funds that can be subscribed to by specific parties and only at certain times. The Institute does not have control over these closed-end funds.

With regard to their underlying asset classes, closed-end funds held by the Institute invest exclusively in real estate.

Regarding geographical distribution, using the criteria of the legally registered domicile, all the funds are located within the European Union.

No dividends were collected from these funds in 2022, or in 2021.

	2022		2021	
	Balance sheet exposure		Balance sheet exposure	
	Nominal Value (quantity)	Carrying amount	Nominal Value (quantity)	Carrying amount
Fund Type				
Open-end fund				
Closed-end fund	19,770,000	6,124	19,770,000	8,214
Hedge fund				
Exchange traded fund				
Unit Investment Trust				
Fund of fund				
Seed Fund				
Total		**6,124**		**8,214**
Underlying asset class				
Equity				
Debt				
Asset Allocation				
Money Market				
Real Estate	19,770,000	6,124	19,770,000	8,214
Commodity				
Alternative Investments				
Total		**6,124**		**8,214**
Geographical Area				
EU	19,770,000	6,124	19,770,000	8,214
USA				
Total		**6,124**		**8,214**

During 2022, 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 for one of these funds towards third parties for 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. 1/2015, articles 63-89. No individual and portfolio internal models are used.

5.3 Market risk

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

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, limited in amount of exposure because the Institute prefers the *Held to Collect and Sell* business model, consists mainly of bond securities and the main associated risks are interest rate and the issuer's creditworthiness.

Interest rate risk related to the trading portfolio is derived from the Institute's trading activity in financial instruments, mainly exchanged on regulated 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 budget 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.

Price risk comes from the exposure on equity securities, ETFs 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.

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.

The power to assume market risk belongs to the Director General, 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 and the approved budget.

The department responsible for the assumption and the management of market risk is separate from the department that deals with confirmation and settlement, which are, in any case, external to the Risk Management Department.

During 2022, as well as during 2021, the Institute did not hold derivatives.

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, over a period of time, 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 is calculated using the historic method (one year of data), with a 1-day timeline and confidence level at 95%.

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 Director General on the level of risk assumed and compliance with operational limits.

When operational limits have been exceeded, there is a process for reporting and eventual authorisation of the same. The Risk Management Department promptly informs the Director General, the CFO and the Finance&Treasury Department about the overrun for the appropriate action, the Director General deliberates on the matter.

In establishing a system of market risk measurement, the definition of operational limits, and the monitoring of compliance with the limits, the Director General is supported by the Control Functions Committee, which has advisory functions.

During 2022, 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 206,000, a daily maximum VaR of EUR 370,000 and a daily minimum VaR of EUR 57,000; the operational limit was never exceeded. At the end of 2022, the VaR amounted to EUR 129,000. The portfolio only contained highly liquid products.

The Risk Management Department, in order to verify the adequacy of the VaR calculation, periodically conducts retrospective reviews (backtesting), comparing the actual trading results achieved, with the VaR measures previously calculated. During 2022, there have been 19 overruns in terms of VaR values on a daily basis, in face of 13 events statistically expected; such result can be explained by the high volatility of the market portfolio experienced during 2022.

The potential impact of a shock of +/- 100 basis point on the portfolio held for trading could have an impact of EUR 221,000, representing 0.7%, 0.7% and 0.0% of interest margin, profit for the year and equity, respectively.

Stress test data at the end of 2022 shows, for interest rate risk, an exposure equal to EUR 48,000 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 79.9% and on USD rate risk for the 19.8%.

The management and monitoring of risk is also supported by the position keeping system utilised by the Finance&Treasury Department which allows the monitoring of positions and profits with different levels of aggregation, from single deal to portfolio.

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 date	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		–	7,000	6,202				
- Other		71	–	179				
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

As at 2022 year-end, IOR does not hold equity securities in trading portfolio.

With reference to the price risk of other financial instruments classified as held for trading, at the end of 2022, the Institute's portfolio had the following exposure:

– Closed-end investment funds for EUR 6.1m.

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 date	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	–	7,445	13,168	29,893	421,875	60,611	–	–
- other	–	114,405	88,017	106,575	1,031,360	463,945	1,941	–
1.2 Loans to banks	176,577	29,739						
1.3 Loans to customers								
- current accounts	220							
- other loans:								
a) with early redemption option	60,775							
b) other	903							
2. Cash liabilities								
2.1 Due to customers								
- current accounts	2,127,862							
- other liabilities:								
a) with early redemption option								
b) other	–	3,309	3,620	10,028				
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 2.3b) shows a potential impact of EUR 63m, in terms of variation of the coupon flow representing 189.8%, 213.4% and 10.9% 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 2022, the Institute's portfolio had the following exposure:

– Equity instruments measured at FVOCI EUR 1.5m;
– 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 1.5m, 3.7m and 4.8m of minimum, medium and maximum daily value), but not associated with limits.

At the end of the year, the 1-day VaR was equal to EUR 4.6m.

A VaR measure is also calculated for the *Held to Collect and Sell* business model (1.6m; 4.2m and 5.4m are respectively the minimum, average and maximum daily values for the year); at the end of the year, the 1-day VaR was EUR 5m.

5.3.3 Currency risk

5.3.3.1 Qualitative information

General aspects, operating procedures and methods for measuring currency risk

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 at year-end 2022, on trading component would have generated a loss of approximately EUR 0.2m.

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	477,575	–	–	179	5,409	–
A.2 Equity securities	1,444					
A.3 Loans to banks	38,410	7,796	5,953	1,854	9,712	3,111
A.4 Loans to customers	150					
A.5 Other financial assets	5,096	165	347	141	240	327
B. Other assets						
C. Financial liabilities						
C.1 Due to banks						
C.2 Due to customers	560,925	7,984	6,633	1,028	17,527	1,635
C.3 Debt securities						
C.4 Other financial liabilities	3,463	–	3	988	5	34
D. Other liabilities						
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions						
+ Short positions						
Total Assets	**522,675**	**7,961**	**6,300**	**2,174**	**15,361**	**3,438**
Total Liabilities	**564,388**	**7,984**	**6,636**	**2,016**	**17,532**	**1,669**
Difference (+/-)	**(41,713)**	**(22)**	**(336)**	**158**	**(2,171)**	**1,768**

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 8,000, representing 0.02%, 0.03% and 0% of interest margin, profit for the year and equity, respectively.

The difference (+/-) in U.S. dollar (-41.7m) does not represent a foreign exchange exposure but is due to the "Fair value reserve of financial asset at fair value through other comprehensive income " with regard to debt securities in U.S. dollar.

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 2022, IOR did not hold derivative financial instruments.

5.5 Liquidity risk

Information on liquidity risk and relative hedging policies

5.5.1 Qualitative information

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 daily operations or the financial situation.

Regarding liquidity risk, during 2022, the IOR did not encounter any notable problems; at year-end 2022, the liquidity risk indicator (LCR), calculated over a period of 30 days, resulted in a value equal to 2522%, well above the regulatory limit of 200% established by RAF. It is important to note that Institute liabilities are represented by own equity and 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 IOR customers, deposits are considered mainly "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 is 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	–	–	55,718	35,166	558	59,857	79,698	582,498	308,124	–
B.2 Other debt securities	10	–	2,292	932	10,088	29,977	29,741	668,925	166,263	–
B.3 UCI units										6.124
B.4 Loans										
- Banks	114,478	25,002								
- Customers	213	118	–	–	29,968	6	11,150	20,054	239	–
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	1,538,256	–	–	–	–	3,620	7,210	–	–	–
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 granted									1,176	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										

IOR does not hold financial assets subject to securitisation transactions.

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	82	64	4,735	18	2,550	10,127	1,518	145,499	68,375	
B.2 Other debt securities	–	90	3,155	571	11,267	13,466	47,865	211,878	31,147	
B.3 UCI units										
B.4 Loans										
- Banks	62,100	4,736	–	–	–	–	–	–	–	
- Customers	7	–	–	–	–	–	–	143	–	
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	589,606	1,889	–	–	1,420	–	2,818	–	–	
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 granted										
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										

IOR does not hold financial assets subject to securitisation transactions.

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 risk represents 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 risk includes, among other things, the risk arising from the insufficient process setting (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) or risk from external cyber attacks.

The Institute has adopted a policy for the management of operational risk and has implemented a framework for identification, assessment, management and monitoring of operational risk. More specifically, the Institute has defined the process of data collection of losses and related accounting reconciliation process. In addition, the Institute monitors risk evolution through the analysis of results of Key Risk Indicators defined on the relevant processes and identifies action plans for risk mitigation of the key risks.

Within the annual risk assessment, the operational risk inherent in each process is evaluated, identifying the Risk Map of the Institute's operational risks. This activity also includes the identification of mitigation actions and the monitoring of their implementation.

Regarding the year 2022, 57 (2021: 29) operational risk events were recorded, with total losses of EUR 160,000 (2021: EUR 26,000). Compared to the previous year, the increased number of events and the higher losses was due to an ever-improving ability to identify operational events and due to the undesirable effects of changes in specific IT processes.

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 of 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

	2022	2021
1. Capital	300,000	300,000
2. Reserves		
(a) Earning reserves		
(i) Unavailable	100,000	100,000
(ii) Available	306,819	291,228
(b) Other	1,498	1,489
3. Equity instruments		
4. Valuation reserves		
(a) Financial asset at fair value through other comprehensive income	(133,914)	(10,870)
(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 profit or loss (change in credit rating)		
(j) Actuarial gains (losses) on defined benefit plans	(19,831)	(56,197)
(j.1) Return on Plan Assets of defined-benefit plans	(5,658)	5,574
(k) Share of valuation reserves connected with investments carried at equity		
5. Profit (loss) for the year	29,583	18,091
Total	**578,497**	**649,314**

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. Available Reserves increased during 2022, as a result of the allocation of a portion of the 2021 net result. In fact, when distributing the 2021 net profit, the Commission of Cardinals resolved that EUR 15.6m be allocated to the Reserves of the Institute.

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 the accounting standard IFRS 9-*Financial instruments*.

Other Reserves also includes realised profit of 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").

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 to 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. Reserves include the Return on Plan Assets related to the Pension Fund.

6.1.2.A.2 Fair value reserve of financial asset at fair value through other comprehensive income: detail

	2022		2021	
	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
1.Debt securities	–	(135,387)	–	(12,161)
2.Equity securities	1,473		1,291	
3.Loans				
Total	**1,473**	**(135,387)**	**1,291**	**(12,161)**

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	**(12,161)**	**1,291**	
2. Positive changes			
2.1 Fair value increases	–	182	
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	(122,778)	–	
3.2 Impairment for credit risk			
3.3 Reclassification from positive reserves to the Income statement:			
- For disposal	(448)	–	
3.4 Transfer to other components of equity (equity securities)			
3.5 Other changes			
4. Closing balance	**(135,387)**	**1,473**	

6.1.2.A.4 Valuation reserves related to defined benefit plans- Actuarial gains (losses): annual changes

	Provision for pensions	Staff severance provision	Defined benefit plans
1. Opening balance	**(53,835)**	**(2,362)**	**(56,197)**
2. Positive changes			
2.1 Actuarial gain of the year on defined benefit plans	35,157	1,209	36,366
3. Negative changes			
3.1 Actuarial loss of the year on defined benefit plans			
4. Closing balance	**(18,678)**	**(1,153)**	**(19,831)**

6.1.2.A.5 Valuation reserves related to defined benefit plans- Profitability: annual changes

	Provision for pensions	Defined benefit plans
1. Opening balance	**5,574**	**5,574**
2. Positive changes		
2.1 Profit of the year on defined benefit plans		
- Realised gain		
- Unrealised gain		
3. Negative changes		
3.1 Loss of the year on defined benefit plans		
- Realised Loss	(3,839)	(3,839)
- Unrealised Loss	(7,393)	(7,393)
4. Closing balance	**(5,658)**	**(5,658)**

6.2 Own equity and prudential supervision ratios

6.2.B.1 Own equity

On 20 December 2022, ASIF issued a Circular on a transitory treatment of unrealised gains and losses measured at fair value recognised through other comprehensive income considering the Covid-19 pandemic. For reporting period from 1 January 2022 to 31 December 2022, IOR decided to adopt the provisions of the Circular.

As provided in the Circular, a discount factor of 0.4 of the value of the Reserve has been applied to the amount of accumulated unrealised gains and losses from 31 December, 2021 to 31 December, 2022, recognised on debt securities measured at fair value through other comprehensive income regarding the exposures towards central governments, regional governments, or local authorities referred to Article 65, par. 3 of the ASIF Regulation no. 1. The Common Equity is EUR 11.8m higher than the same value without the discount factor, and Tier 1 Capital is higher than the same amount. As required by the Circular, the table shows the column "2022 Without temporary treatment" with Item A. Positive Components (c) Reserves calculated without the application of the discount factor.

	2022	2022 without temporary treatment	2021
A. Positive components			
1. Capital	300,000	300,000	300,000
2. Supplemental Capital			
Retained earnings			
(i) Unavailable	100,000	100,000	100,000
(ii) Available	306,819	306,819	291,228
(iii) Others	1,498	1,498	1,489
Provisions			
Reserves	(147,555)	(159,403)	(61,493)
3. Positive prudential filter IAS/IFRS			
B. Negative components			
1. Goodwill			
2. Intangible assets	(2,807)	(2,807)	(2,046)
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	(737)	(737)	(3,433)
Common Equity	**557,218**	**545,370**	**625,745**

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 proportionally 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 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 2022 amounted to EUR 557.2m (2021: EUR 625.7m).

Considering the items comprising the Institute's equity, the sole prudential filter in common equity is applied to the positive fair value reserve relating to debt securities at fair value through other comprehensive income that are managed according to 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 having utilised the "FVOCI option". These reserves are computed using a negative prudential filter, for an amount equal to 50%. As of 31 December 2022, the prudential filter relates only to equity securities positive fair value reserve.

In the calculation of the Regulatory Capital 2022, the Net profit for the year was not included, as it was 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 2022 and corresponding values for the previous year.

Category/Amounts	Unweighted amounts		Weighted amounts/ Capital requirements	
	2022	2021	2022	2021
A. Risk asset				
A.1 Credit and counterparty risk				
1. Standardised approach	2,715,627	2,569,908	1,068,647	1,308,905
2. Approach based on internal ratings				
2.1 Based				
2.2 Advanced				
3. Securitisations				
B. Capital requirements				
B.1 Credit and counterparty risk			85,492	104,712
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach			5,462	18,187
2. Internal model				
3. Concentration risk				
B.5 Operational risk				
1. Basic indicator approach			5,755	6,982
2. Standardised approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			96,611	129,882
C. Risk weighted assets and capital ratios				
C.1 Risk-weighted assets			1,207,634	1,623,521
C.2 Capital/ Risk-weighted assets			24.84%	18.48%
C.3 Common equity/Risk-weighted assets (Tier 1)			46.14%	38.54%

The increase in the Tier 1 ratio compared to the end of the previous year is due to of the decrease of credit and counterparty risk and to the sharp decrease in market risk.

Accordingly, securities subject to credit and counterparty risk increased from EUR 2.6bn at the end of 2021 to EUR 2.7bn at the end of 2022 with a Capital Requirement at around EUR 85m compared to EUR 105m in previous year. Conversely, Capital Requirement related to market risk decreased from EUR 18.2m in 2021 to EUR 5.5m in 2022.

In line with this, Capital/Risk-weighted assets reached 24.84% and Common equity/Risk-weighted assets reached 46.14%.

2022 Tier 1 ratio was also positively impacted by the provisions of the ASIF Circular on a transitory treatment of unrealiszed gains and losses measured at fair value recogniszed in other comprehensive income considering the Covid-19 pandemic, to the calculation of Reserves as disclosed in Section 6.2.B.1 "Own equity" of this Part. The new calculation of Common equity, which represent the numerator of the ratio, determines a higher Tier 1 ratio in comparison to the Tier 1 calculated with the previous method (the Tier 1 ratio without application of the temporary treatment would have been 45.16%).

PART 7. RELATED PARTY TRANSACTIONS

Related parties of the Institute include the Commission of Cardinals and key management personnel (Board of Superintendence and Director General).

Transactions with these related parties relate to salaries and remuneration.

Details of key management compensation

Compensation due to related parties was EUR 513,000 in 2022, of which EUR 200,000 was not yet paid as of 31 December 2022.

These amounts are related to Board of Superintendence and Director General and 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 2022, 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 1.4m.

Key management personnel had deposits totalling EUR 201,000.

The Institute has a long-term zero-interest loan to its subsidiary S.G.I.R. S.r.l., amounting to EUR 485,000 as of 31 December 2022. Furthermore, the Institute signed a lease agreement with S.G.I.R. S.r.l. for the use of 3 real estate properties for free. In 2022, S.G.I.R. S.r.l. earned rental income for EUR 62,000 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 2022

ORMB/NSDN/vbrb – R2023/00410

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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, 2022 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, 2022, 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 Supervisory and Financial Information 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), 07 April 2023

Mazars Italia S.p.A.

Signed on the original

Olivier Rombaut
Partner

(*)This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

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Iger & Partners S.r.l.
Rome - Italy

June 2023