IOR

Istituto per le Opere di Religione

ANNUAL REPORT 2016

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

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

Authorization n. 1 of 10/07/2015 issued by AIF,
to carrying out on a professional basis financial activities at Vatican City State

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"Money must serve, not rule."

His Holiness Pope Francis, Evangelii Gaudium, 2013

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

PRESIDENT OF THE COMMISSION OF CARDINALS' MESSAGE

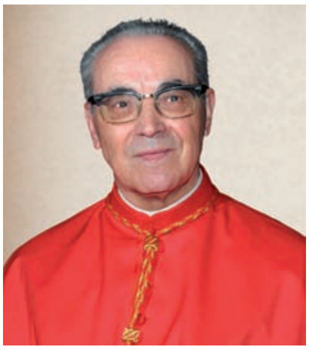
The presentation of an annual report provides a convenient opportunity to do a double internal examination. The first one relates to the last year and the second one refers to the current year, or better, the future years.

It seems to me that this rule can be applied to the presentation of the IOR annul report for the year 2016. In it, like every human work, one can find anxieties of great success, overcoming complex or inherited situations, To offer a service appropriate for everyone's mission, personal contribution to a cause that is worth serving for professional reasons or for high ethical, religious or humanitarian inspiration. I think this can be behind the figures presented in the IOR 2016 annul report.

But along with the best dispositions and personal efforts, there is also the stubborn realities of global economic and financial performance and the recurrent volatility phenomena that often complicate predictions and expectations.

In this complex context, during the year 2016, the effort of all the members of the large family of IOR, ecclesiastical or laity servants, each in its place of responsibility at the various levels, took place. But they come together to serve a global cause with that ethical and exemplary sense that the Holy Father rightly claims from us all and from each of us. This is His first directive and first requirement, and not efficiency at any cost.

In this line, as President of the Commission of Cardinals, I feel the duty to express the most heartfelt thanks to the Cardinals, the Prelate, the Board Members, the Directorate, the *Revisori* and the whole staff of our Institute. Allow me to remind all of us that the Holy Father, as he has clearly indicated on several occasions, requires competent and effective collaborators, but always guided by inalienable ethical principles, both inside and outside, as servants of the Church. It is our duty to continue to improve our services in the years to come.



Cardinal Santos Abril y Castelló
President of the Commission of Cardinals
Istituto per le Opere di Religione

PRELATE'S MESSAGE

I wish to add my own to the authoritative voices of the Cardinal President of the Commission of Cardinals', the President of the Institute and the Director General simply to express my thanks to all those who, through their commitment and work, have over the past year contributed to renewing the way the Institute operates. Thanks to them, one step at a time, the IOR has increasingly been becoming an entity that serves the Church straightforwardly and in a humble way, aware of its importance in connection with supporting the Holy See's and Catholic religious organisations' practical activities, and developing a conscience whereby the Institute is no longer viewed almost as a separate and independent entity but rather as one that takes as the reason for its very existence its subordination to projects targeted only to the real needs of Catholics works and not to making money for the sole purpose of making money. If thanks to management centred on Catholic social ethics there is money, that is positive, and if for whatever reason at times there is less than expected, never mind. The Lord will always lend His support to those who trust in Him: even "re oeconomica".

In these days of Easter, the people who work in our Institute ought to reflect upon the words Pietro said to the lame man: "Silver or gold I do not have, but what I have I give you: in the name of Jesus Christ of Nazareth, get up and walk!" (Acts 4-6). So we must go forward bravely, without ever forgetting that there is One above us who guides events and this should give us confidence but also a great sense of responsibility.

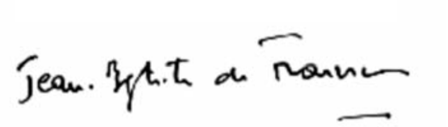
Msgr. Battista Mario Salvatore Ricca
Prelate
Istituto per le Opere di Religione

IOR Istituto per le Opere di Religione

MANAGEMENT REPORT

Chapter 1
STRATEGIC INFORMATION

Jean-Baptiste de Franssu
President of the Board of Superintendence
Istituto per le Opere di Religione



1. PRESIDENT OF THE BOARD OF SUPERINTENDENCE'S MESSAGE

Since its appointment in July 2014, the Board of Superintendence has worked on the necessary transformation of the IOR to serve with Prudence the Holy Father in fulfilling his mission as Universal Pastor. This meant focusing on the nature and the quality of services offered to clients and to the Church in a complex financial environment, the establishment of a framework with stronger and clearer governance principles, strict compliance with applicable laws and regulations including anti-money laundering procedures, the improvement of internal controls and risk management, the execution of tax agreements with the United States of America and Italy, and the review of legal issues in coordination with the appropriate Vatican authorities.

In 2016, the IOR has continued to make progress in rolling out the reform plan agreed upon by the Board, supported by the new Directorate and the work of all its employees. In doing so, the Board has given consideration to the words of the Holy Father regarding its particular responsibility and particularly "the responsibility of guiding the institute's strategic development in accordance with its mission to serve, the Board should never lose sight of the ethical dimension of the choices made in providing strategic guidance, recognizing that ethics is first and foremost in governing the IOR, and may never be subordinated to profit, nor open to compromise".

Collaboration between the Board and the Directorate

According to the Statute of the IOR, the Board has approved the business plan for 2016 which was the continuation of the 2015 plan with a core focus on ethics and customer satisfaction and has assisted the Directorate in its execution. It included the need to address the quality, reliability and sustainability of investment solutions offered as well as the technical support offered to IOR client base.

In addition, the Board has worked with the directorate towards strengthening the overall organization including:

1. Ensuring compliance with law XVIII and Regulation No.1;
2. Strengthening the control functions with clearer governance principles;
3. Addressing human resource issues, such as increasing staff training, strengthening internal communication, and hiring appropriate resources;

4. Consolidation of the IT infrastructure;
5. Revising and strengthening the existing governance policy where necessary;
6. Continuation of the efforts of building new relationships with Italian banks, particularly in the context of the tax agreement with Italy;
7. Continuing to reduce administrative costs, including dependency on outside consultants;
8. Developing a Risk Appetite Framework (RAF) for the IOR and reinforcing the risk-sensitive approach and the Catholic investment criteria in the investment process as to strengthen the quality of its products;
9. Addressing legacy issues to which IOR is exposed in coordination with the Vatican regulator and judicial authorities.

Significant efforts were also made to allow the IOR to be FATCA compliant and, in addition, in October, the Agreement between the Government of the Republic of Italy and the Holy See on tax matters became effective. Both of these events represented a major milestone for the IOR and are a very important step in all the efforts made to bring full transparency in the operations of the IOR. The Board, after meeting with the Revisori and the external auditors, approved the Institute's accounts and the management report for 2016, ensuring compliance with applicable requirements and new recommendations introduced by the AIF.

The net result for 2016 is Euro 36 million. This results - whose details are provided in "Financial Statement" Section - reflects the continuous down trend of interest rate in Europe and the conservative approach that the Institute has adopted on managing its assets since 2014. As described in Management Report, Section 2, Part 1 - 2016 Business Review, this was achieved in a year of complex financial and political evolutions.

In the meeting of the Board of Superintendence on 26 April 2017, attended by both the members of the Revisori and the external auditors, the financial statements for 2016 and the proposed distribution of profits to be made to the Holy See for 2016 were discussed and approved. As per the Statutes these informations were provided to the Commission of Cardinals to enable them to decide on the allocation of profits. The financial statements, prepared in accordance with IFRS, as adopted by the Circular issued by the AIF, have been audited by Deloitte & Touche S.p.A.

2017 and beyond

All the efforts lead by the Board since 2014 will continue in 2017. Improving client experience at IOR, working towards full compliance with AIF regulations, continuing its commitment to Anti-Money laundering, working on the evolution of certain aspects of the IOR's business model, developing IOR' approach to faith investing, furthering the work on governance, and consolidating the role of the control functions will represent the Board's main objectives.

Acknowledgements

I would like to thank all the Board members for their support, their contribution and their dedication. Many of them have devoted a considerable amount of their time to help guide the IOR through this year of transition and change.

In 2016, the Board has continued to strive towards building a close working relationship with the Commission of Cardinals. I wish to extend my gratitude to the president and all the members for their availability and support.

I also wish to express my appreciation for the work of Gian Franco Mammì, the Director General, the Prelate Mgr. Ricca and to all employees of the IOR.
The work performed by the members of the Revisori and the external auditors have also been critical to the progress made by the IOR.

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 mission of the IOR, established by its Statute, with reference to the Chirograph dated 1 March 1990 of His Holiness John Paul II, is "to provide for the custody and administration of goods transferred or entrusted to the Institute by natural or legal persons, designated for religious works or charity. The Institute can accept deposits of assets from entities or persons of the Holy See and of the Vatican City State".

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

The IOR is exclusively located on the sovereign territory of the Vatican City State and subject to the regulations and legislation applicable therein. The IOR is supervised and regulated by the "Autorità di Informazione Finanziaria" (AIF).

Customers of the IOR

Customers served by the Institute include:

a) Institutional counterparties (Sovereign Institutions of the Holy See and Vatican City State and related entities, nunciatures and apostolic delegations, embassies and diplomats accredited to the Holy See);
b) Non-institutional counterparties (Institutes of Consecrated Life and Societies of Apostolic Life, Dioceses and other Vatican legal 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).

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

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

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

Nature of the Institute's services

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

The Institute protects its clients' assets by primarily investing in financial instruments characterized as very low risk (e.g. government bonds, bonds issued by institutions and international organizations, as well as deposits in the interbank market).

Credit activity is residual and strictly subject to constraints of the internal policies as established by the Board of Superintendence.

The IOR does not issue, underwrite or place securities.

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

Customers are provided with services in IOR offices located in the Vatican City State. The IOR has no other locations.

3. CORPORATE GOVERNANCE

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

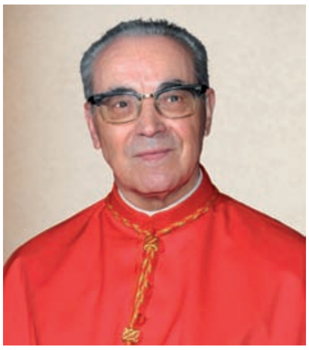
The **Commission of Cardinals** oversees the Institute's adherence to its Statute. It appoints and removes members of the Board of Superintendence.

Furthermore:

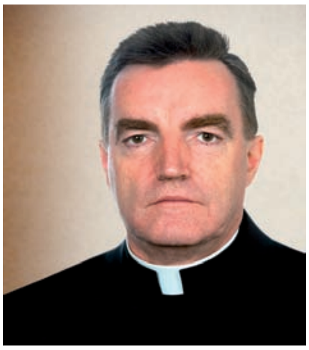
– It deliberates, after considering the financial statements and taking into account IOR's own financing needs, the distribution of profits;
– It proposes to the High Authority changes to the Statute;
– It deliberates the compensation due to members of the Board of Superintendence;
– It approves the appointment and removal of the Director General and of the Vice-Director made by the Board of Superintendence;
– Resolution of any issues concerning the members of the Board of Superintendence and the Directorate.

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

The current members are:



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



Cardinal Josip Bozanic
Archbishop of Zagabria

Cardinal Christoph Schönborn
Archbishop of Vienna

Cardinal Pietro Parolin
Secretary of State

Cardinal Thomas Christopher Collins
Archbishop of Toronto

Cardinal Jean-Louis Tauran
President of the Pontifical Council
for Interreligious Dialoue

The **Prelate** is appointed by the Commission of Cardinals. The Prelate:

– Oversees the activities of the Institute and may have access to its acts and documents;
– Participates, as Secretary, in meetings of the Commission of Cardinals, drafting the minutes of the meeting;
– Attends the meetings of the Board of Superintendence;
– Submits his comments to the Commission of Cardinals, notifying the Board of Superintendence.

Msgr. Battista Mario Salvatore Ricca was appointed as the **Prelate** of the Institute in June 2013.

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

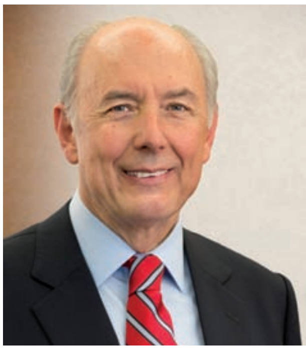
– Formulating general policy guidelines and basic strategies for the activities of the Institute in line with its mission;
– Defining the criteria for the implementation of annual programs and objectives of the Directorate, and approving its proposals;
– Verifying the economic-financial activities of the Institute;
– Monitoring compliance with established programs and objectives, with regard to investments and other activities;
– Defining the most appropriate financial structure for the Institute, proposing the ways to improve it, and in general, the best means to increase its assets and activities in the context of correct adherence to economic-financial rules and in full compliance with the overall mission of the Institute;
– Proposing to the Commission of Cardinals changes to the Statutes as long as they are unanimously approved by the Board of Superintendence;
– Arranging for the issuance of the Institute's Regulations, which are required to provide a detailed description of the powers and competencies of the Board and of the Directorate;
– Delegating signing power in the name of the Institute to the Director General and, at their request, the Vice-Director, Managers and Officers, in the manner prescribed in the Regulations;
– Approving the Financial Statements prepared by the Directorate.

The members of the Board of Superintendence are nominated by the Commission of Cardinals and serve for a five year term, and can be reappointed. The Board consists of 7 members.

Jean-Baptiste de Franssu
President

Mary Ann Glendon

Michael Hintze



Mauricio Larrain

Scott C. Malpass
(since December 2016)

Javier Martin Romano
(since December 2016)

Georg Freiherr von Boeselager
(since December 2016)

The Board of Superintendence fully performed its duties as defined by law and applicable procedures. It continued to advise and supervise the Directorate in rolling out the agreed reform plan and provided support for strategically important issues relating to the future development of the IOR.

In December 2016, 3 new members were appointed to the Board following notably the resignations of Dr. Carlo Salvatori and Dr. Clemens Boersig. The Board wishes to express its gratitude to Carlo Salvatori and Clemens Boersig for all the help and counsel they provided to the IOR during their tenure. The 3 new members, formally appointed on December 15, 2016, are Georg Freiherr von Boeselager, Scott Malpass and Javier Marin Romano.

In 2016, the Board of Superintendence convened for six meetings and dealt with the strategic and operating development of the IOR. All members participated in the meetings of the Board of Superintendence and the committees to which they belong to for the year under review.

The Board continued its work on strengthening IOR standards of corporate governance. The meetings of the Board of Superintendence continued to represent an open exchange of information and ideas to find the appropriate resolutions to meet the needs of this unique institution. During these meetings, the Board benefitted from each member's specific expertise in various subject matters, and the Board also held regular executive sessions to discuss specific topics in-depth.

Once approved, the minutes of all Board meetings were shared with the Revisori, the Directorate, the Prelate and the Commission of Cardinals. During the year, the Board passed resolutions on a number of matters after careful analysis and consultation, and in close coordination with the Directorate and the Commission of Cardinals, for which the Board's consent was mandatory.

In 2015, the Board created two **Board committees** to strengthen the Governance of the Institute and the Board's work, although such committees were not yet provided for by the Statute. An Audit & Risk and HR & Remuneration committees were first established. In 2016, the Board created a Past Abuses Committee to help and support the Board in its work of understanding and concluding the investigation of legacy issues to which IOR was exposed. The Committee completed its work at the end of January 2017, which included a thorough review of all cases and issued a detailed set of recommended legal actions. The results of this work has been filed with Vatican Regulator and Vatican Judicial Authorities.

Minutes were drafted for each committee meeting and distributed to all Board members, along with a specific report presented by the respective presidents of those committees at each Board meeting and an annual report at year end.

a) *Members of the Human Resources and Remuneration Committee*
Mary Ann Glendon – Chair
Carlo Salvatori (until May 2016)
Jean-Baptiste de Franssu (ex officio)
Mauricio Larrain
In attendance: Mario Busso, President of *Revisori*

b) *Members of the Audit and Risk Committee*
Sir Michael Hintze – Chair
Leslie Ferrar (non-board member)
Clemens Boersig (until May 2016)
Jean-Baptiste de Franssu (ex officio)
Wiet Pot (non-board member)
In attendance: Mario Busso, President of *Revisori*

c) *Members of the Past Abuse Committee (June 2016 – January 2017)*
Jean-Baptiste de Franssu - Chair
Sir Michael Hintze
In attendance: Giovanni Barbara, Member of *Revisori*

A focus was made in 2016 on the development of appropriate **control functions**, reinforcing their independence and ensuring that activities and controls were properly carried out. Today, they are comprised of:

– Internal Audit
– Risk management and Compliance

In accordance with law no. XVIII/2013 (see art. 27 et seq.) and best international practices, the Internal Audit function reports to the Board with a dotted line to the Directorate.

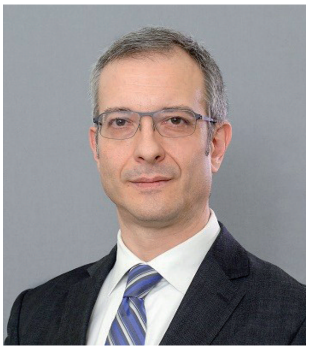
In terms of second-level controls, Risk management and Compliance department is directly responsible, among other things, for the AML/CFT (Anti Money Laundering/Combating the Financing of Terrorism) activities.

The *Revisori* and the External Auditors have regularly and thoroughly carried out their activities during 2016, as expected.

The **Directorate** is responsible for all operational activities of the Institute and is accountable to the Board of Superintendence.

The Directorate is appointed by the Board of Superintendence and approved by the Commission of Cardinals and consists of:

Gian Franco Mammì
Director General



Giulio Mattietti
"Aggiunto al Direttore"
with delegated functions

The **Revisori** must:

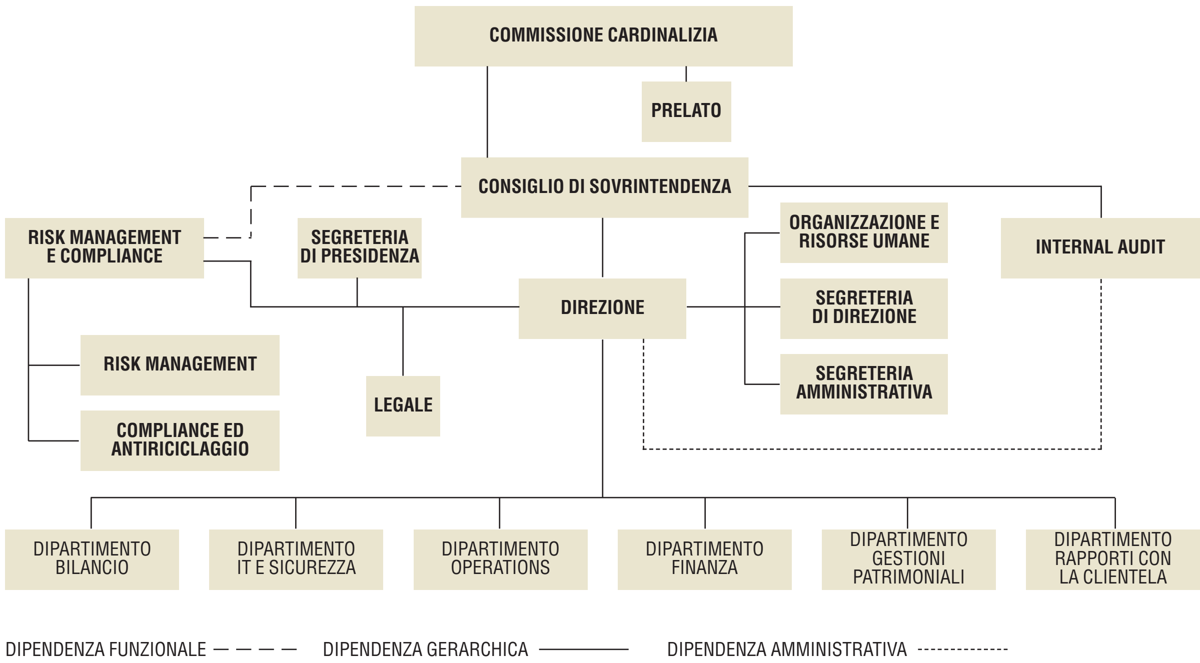
– Verify at least quarterly, the administrative and accounting review of the Institute's books and records;
– If requested by the Board of Superintendence, the *Revisori* may conduct internal audits or other inspections;
– Review the financial statements including the report of the Directorate and supporting documents, provide written comments to the Board of Superintendence and present their observations to the attention of the Directorate and the Prelate.

The *Revisori* consists of three members, appointed by the Board of Superintendence for a maximum period of three years. They can be reappointed.

Current members are:

– Mario M. Busso, President of the *Revisori*
– Giovanni Barbara
– Luca Del Pico

4. IOR ORGANIZATION CHART



5. REGULATORY FRAMEWORK AND TAX REQUIREMENTS

Regulatory framework

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

The Vatican legal framework recognizes the 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, 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 (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 part of.

The Institute is subject to Law no. XVIII of 8 October 2013 that covers norms of transparency, supervision, and financial intelligence and, as an entity that carries out financial activities on a professional basis in Vatican City State, it is also subject to Regulation No. 1 “Prudential Supervision of Entities carrying out financial activities on a professional basis” issued by AIF and enacted on 13 January 2015.

The Regulation No. 1, establishing a clear system of authorization, stipulates the criteria for the organization and management of entities and mechanisms of internal control.

On 15 December 2016, the AIF promulgated the "Circular relating to the preparation of the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis". These financial statements have been prepared in accordance with the aforementioned Circular.

Tax requirements

On 15 October 2016 the "Agreement between the Government of the Italian Republic and the Holy See in tax matters" became effective. The Agreement had also a two-fold impact on the Institute's activities. In fact, the agreement provides for clients resident in Italy for tax purposes, on one hand, the regularization of the client positions in the prior years from 2010 to 2015 and, on the other hand, henceforth, that clients fulfill their tax debts through a Fiscal Representative chosen by the Institute. Concerning previous years it has been provided by a specific implementing act of the Secretary of State that the IOR assist its clients in compiling the instance with reference to the data regarding the investments held at the Institute and the calculation of taxes due, in addition to all the related administrative tasks. For the current and future period, the IOR must provide the calculations and withhold taxes to customers which will be paid to the Italian Government via an Italian tax representative.

This required significant efforts to be made prior to the affectiveness of the agreement and in the following months. A specific task force was established at the Institute to provide assistance to clients with the calculation of the amounts due and related administrative activities.

Effective 2015, the IOR is subject also to the Foreign Account Tax Compliance Act (FATCA), a United States federal law that requires U.S. persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States to the U.S. Internal Revenue Service (IRS).

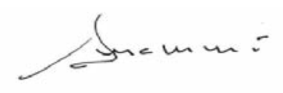
FATCA also requires foreign financial institutions to report to the IRS the accounts of their U.S. clients. In this context, the Holy See has reached an Intergovernmental agreement (IGA) with the United States signed in June 2015. Under the terms of the IGA, the Holy See is a jurisdiction treated by the US Authorities as if the IGA was effective as of 30 November 2014, and the IOR has been assigned an identification code (GIIN) by the IRS. The IOR fully complies with the terms of the IGA.

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

For the net profit for the year ended 31 December 2016 amounting to EUR 36.0m, the Board of Superintendence intends to propose to the Commission of Cardinals, that the profits be distributed in full without making any provision to the Reserves, also considering the adequacy of capital (for further details see Part 6 - paragraph 6.2.2 "Capital adequacy").

Chapter 2
OPERATIONAL INFORMATION

Gian Franco Mammì
Director General
Istituto per le Opere di Religione



1. 2016 BUSINESS REVIEW

Macroeconomic environment

Below is an overview of the macroeconomic environment that characterized 2016, with particular reference to those markets and events that had the strongest influence on the performance of the Institute's portfolio.

In 2016, financial market trends were characterized by the sharp increase in uncertainty and there were also several factors that increased risk aversion. In the first few weeks of the year, fears of a slowdown in advanced economies intensified, first and foremost in the US economy, in addition to fears of a contraction in the Chinese economy. The expectations of a new economic crisis that could have a domino effect to all the international markets therefore increased. Concerns over China also affected the market for raw materials and oil prices dropped to the lowest level of the year.

This turbulent start was followed by a mild recovery that lasted until the major electoral appointments of the year, the British Brexit referendum, the US elections and the Italian constitutional referendum. Although the outcomes were not what financial operators had hoped for, the markets proved to be unexpectedly resilient. In the UK, the outcome of the referendum to decide on whether or not to remain in the European Union resulted in a sharp devaluation of the Pound and led to the adoption of expansionary monetary measures. In the United States, the "shock" of Trump's victory was instead short-lived. His victory was viewed as a turning point attributed to announcements of implementation of fiscal stimulus measures, tax cuts and a corporate law reform, fuelling expectations of higher inflation. In Italy, while the victory of the "No" vote on the constitutional reform last December led to Prime Minister Renzi's resignation, it did not result in the feared meltdown on Italian government bonds.

At the macroeconomic level, 2016 was a year of modest growth for both Europe and the United States, with contrasting trends during the year. US economic growth was lower than expected in the first half. Indicators improved half way through the year, signalling the possibility of an increase in manufacturing activity towards the end of the year. However, 2016 ended with a slowdown in economic growth at 1.9% in the fourth quarter, although employment rates and incomes continued to grow. In the Eurozone, there were conflicting economic indicators. Quarterly GDP growth slowed during the April – June period, but the annual change remained sufficient to promote a gradual improvement in the labor market with a steady absorption of the unemployment rate, which still remains high. Inflation gradually increased towards the end of the year due to the rise in energy prices.

Central Bank Monetary Policies continued to be expansionary in many countries over the year. In March, the ECB cut interest rates, introduced new monetary stimulus measures extending, at least until the end of 2017, the government bond purchase program in order to jump start economic growth. By contrast, in the wake of the economic improvement, the US Federal Reserve decided to raise interest rates by 25 basis points in December, widely expected by the market.

The bond markets reacted positively for most of the year. The ECB's measures, combined with low inflation, have lowered yields on government securities in all sectors, with the yield on German ten-year bonds becoming negative. Italian government securities also benefited from the ECB's purchase program that helped keep Treasury bond yields low (10-year Treasury bond yield was 1.25% in mid-year, after having peaked at 1.7% in February) and limited the spread on German bond yields during turbulent market phases. Towards the end of the year, US, Japanese and European Treasury bond yields rose significantly, resulting in a significant reversal of the bond curve as a result of a change in the expectations of rising interest rates and expansionary fiscal policies aimed to counter weak economic growth. Bond rates remained very low but with the risk of an increase.

During 2016 the stock market was severely affected by political events, with European stocks showing lower yield trends compared to the US given the concerns about a possible disruption in the European political scenario, also as a result of the UK referendum. The first nine months of 2016 were characterized by pronounced volatility and heightened risk aversion among investors in the main international markets, particularly, in the Eurozone and Asia. In June, the unexpected victory of the "Leave" campaign in the Brexit referendum brought about a sharp downward adjustment in share prices and a new increase in investors' risk aversion (share prices in Italy experienced a sharp decline with a mid-year high of -25%, with twice that on the Italian banking sector index) before recovering towards the end of the year thanks to the improvement in the US economy, the continued flow of liquidity provided by monetary policies and the expectations of procyclical fiscal policies.

Currencies were at the forefront of news reports in 2016, particularly in the UK following the outcome of the referendum: in fact, the Pound immediately fell 10% against the dollar to close the year at -16%. The Euro declined against the dollar, due to the increasing marked divergence in terms of monetary policy. Overall, 2016 was another very positive year for the US dollar, against which the Euro and the Swiss Franc, in addition to the Pound, lost value. Instead, the Japanese Yen held its ground.

Lastly, with regards to raw materials, we experienced fluctuations in the prices of gold and oil. After almost two years of decrease in the prior of oil, the major commodity indices seems to have stabilized, going from 26 dollars per barrel in January 2016 to 50 dollars towards the end of year, in part to the agreement reached by OPEC. Gold, as the main safe haven asset in times of high risk aversion, peaked in the first half of 2016, having risen from its lowest price at 1061$/oz in December up to 1370$/oz in July. In the second half of the year, except for the short-lived surge that followed the election of Donald Trump, gold prices suffered to the point of reaching its lowest price in 10 months: 1,122.35$/oz, mainly because of the FED's announcement of an increase in interest rates and the expectation of another three increases in 2017.

Composition of the Client base

At the end of 2016, the IOR had 14,960 clients (2015: 14,801), of which the vast majority, measured by assets entrusted to the Institute, were legal persons under Canon Law. The IOR's customers have a common characteristic, which is that they are part of and serve the Catholic Church (see client definition in Chapter 1).

Measured by assets entrusted, the most important group of clients, was religious orders. They accounted for more than half of our client base in 2016 (54%), followed by Roman Curia departments, Holy See Offices and nunciatures (11%), entities of Canon Law (9%), cardinals, bishops and clergy (8%), episcopal conferences, dioceses and parishes (8%), with the remainder split between various others, such as Vatican employees and pensioners and Canon Law foundations.

In addition to depositing funds with us, we manage our clients' portfolios of assets on their behalf or act as custodians. As of 31 December 2016, the net value of assets held in managed portfolios was EUR 3.1bn (2015: EUR 3.2bn), the net value of assets held in non-managed portfolios was EUR 554.8m (2015: EUR 646.2m) and the value of customer deposits was EUR 2.0bn (2015: EUR 1.9bn), resulting in EUR 5.7bn in total client assets (2015: EUR 5.8bn).

(in thousand Euro)

	2016			2015		
	In Balance Sheet	Off Balance Sheet	Total	In Balance Sheet	Off Balance Sheet	Total
Customer deposits (including Legates)	2,028,973		2,028,973	1,946,854		1,946,854
Assets under Custody		554,763	554,763		646,161	646,161
Assets under Management	410,563 *	2,700,366	3,110,929	424,815	2,760,870	3,185,685
Total	**2,439,536**	**3,255,129**	**5,694,665**	**2,371,669**	**3,407,031**	**5,778,700**

*Deposits of Assets Management are net of commissions collected in the first days of 2017.

Assets under Custody mainly 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. For the purpose of table above, securities, gold and precious metals under custody are stated at market values.

Assets under Management consist mainly of client-owned securities held at the IOR for management purposes. Investment decisions are made by the IOR on the basis of portfolio management mandates signed with its clients. For the purpose of table above, securities under management are stated at market values.

Income Statement

In 2016, IOR's Net profit was EUR 36.0m (2015: EUR 16.1m). The increase from 2015 was mainly due to improved results from Net Income for trading activities, to the remeasurement of a provision for tax remediation to foreign countries recognized in 2015 and to the decrease in Administrative expenses. The results were partially offset by the decrease in Interest Margin and Net fee and commission income.

A brief overview of the main components of the Income Statement is presented below.

The most significant source of revenues is the profit derived from Treasury activities on proprietary portfolios.

The most important component was derived from bond yield which contributed for EUR 39.6 million (interests EUR 38,0 million plus trading results EUR 1.6 milion).

Interest Margin amounting to EUR 36.7m decreased by 16% compared to EUR 43.6m in 2015. This was mainly affected by the decline in the yield on investments in securities and bank deposits and a decline in interest paid to customers, although the average amounts of capital invested remained unchanged at EUR 2.9bn (2015: EUR 2.9bn); The average rate on customer deposits declined to 0.11% in 2016 from 0.22% in 2015, while the average yield on investments in securities and bank deposits declined to 1.35% in 2016 from 1.64% in 2015. Accordingly, the spread between the average rate received on assets and the average rate paid on liabilities decreased to 1.24% from 1.42%. This was mainly due to the expiration of securities in 2016 purchased in previous years with a nominal interest rate higher than those currently available on market.

Net Income for trading activities recognised a net loss of EUR 9.0m compared to a net loss of EUR 15.4m in 2015. The result was mainly affected by the decrease in UCI unit investment compared to 2015, amounting to EUR -12.8 milion. The improvement in the results was mainly due to the positive performance of the bonds held in the proprietary portfolio in 2016, compared to 2015, to market trends during the year.

More specifically, debt securities recognised a positive total net profit, including gains and losses from trading and gains and losses from valuation, amounting to EUR 1.6m in 2016 compared to a loss of EUR 17.1m in 2015.

Equity securities recorded a profit of EUR 94,000 in 2016, versus a loss of EUR 307,000 in 2015, while FX activity contributed for EUR 2.0 million versus EUR 1.9 million in 2015.

The value of UCI unit investment decreased by 2015 due to the write-down of an investment fund held in the portfolio in addition to other losses for a total of EUR 12.8 million in 2016 versus EUR 149.000 in 2015.

Dividends increased by 7.8% to EUR 2.1m from EUR 2.0m in 2015.

Net Fee and Commission income decreased 15.9% to EUR 12.8m in 2016 from EUR 15.2m in 2015. Fee and Commission Income decreased 10.6% to EUR 15.8m in 2016, from EUR 17.7m in 2015, while Fee and Commission Expense rose to EUR 3.0m in 2016 from EUR 2.5m in 2015 (+22.1%).

The most important component of the Fee and Commission Income was commissions from Asset Management services, which decreased 8.7% to EUR 12.5m in 2016 from EUR 13.7m in 2015. This was mainly due to the shift of some customers to asset management lines, mainly composed by bond securities, with lower commissions than lines composed mainly by equity securities, that the same clients owned before.

The increase in Fee and Commission Expense was mainly due to the fees paid for bank deposits (EUR 571,000 in 2016), paid for the first time in 2016, and to the increase in commission paid for custody and administration of securities, amounting to EUR 1.6m in 2016 from EUR 0.9m in 2015. This is partially offset by the decrease in commission paid for trading in financial instruments, which decreased to EUR 83,000 in 2016, from EUR 648,000 in 2015, due to the fact that, starting from 2016, clients directly pay commissions on securities transactions whereas previously, they were paid by the Institute and collected later.

Administrative Expenses were EUR 19.1m in 2016 (2015: EUR 23.4m). This includes Staff Expenses of EUR 10.2m in 2016, in reduction with the prior year amount (2015: EUR 11.3m, or -9.1%). As of December 31, 2016, the IOR had a total of 102 personnel (2015: 109). During the year, six employees retired and one resigned.

Administrative expenses also include expenses for professional services, which decreased from EUR 7.6m in 2015 to EUR 4.0m in 2016. This was due to lower extraordinary costs incurred during the year from the completion of certain projects.

Other administrative expenses slightly increased by 7.2% to EUR 4.9m in 2016 from EUR 4.6m in 2015 due to higher costs incurred for maintenance.

Net provisions to risks and charges in 2016 amounted to a profit of EUR 13.0m (2015: loss of EUR 16.5m) due to the reestimation of a tax provision for exposure in foreign countries recorded in 2015.

Other Operating Income (Expense) recognised income of EUR 7,000 (2015: income of EUR 10.5m); the difference, compaired to the previous year, is mainly due to EUR 13.6m of extraordinary income recorded in 2015 related to the closing of an issue from prior years.

Balance Sheet

As of 31 December 2016, total assets on the IOR's balance sheet was EUR 3.3bn (2015: EUR 3.2bn), with equity of EUR 672.6m (2015: EUR 670.3m).

On the Liabilities side, **Due to customers** is the most significant line item, representing 92.4% of total liabilities. The balance slightly increased from the prior year, amounting to EUR 2.4bn (+3.3%). Customer deposits increased by EUR 75.5m, while asset management liquidity decreased by EUR 14.3m.

Our clients expect a conservative approach in financial management by the IOR, with investments in liquid securities and high quality credit risk. Investments in the stock market and similar financial instruments are relatively limited and based on companies with strong fundamentals which generally tend to pay high dividends.

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

As previously reported in Chapter 1, credit activity is residual and strictly subject to constraints of the internal policies as established by the Board of Superintendence.

The asset side of the balance sheet mainly reflects bank deposits and securities, and less than 3% of total assets is held in UCI units and equities.

Bank Deposits totaled EUR 643.2m at the end of 2016 (2015: EUR 644.1m). These mainly consisted of EUR 457.6m in deposits on demand (2015: EUR 265.4m), and EUR 108.5m in term deposits in the interbank lending market (2015: EUR 292.5m). The remaining part, EUR 77.1m (2015: EUR 60.7) concerned term deposits with APSA.

The value of IOR **Securities** (debt securities, equity securities and investment funds) was EUR 2.5bn in 2016 (2015: EUR 2.3bn). Bonds, at EUR 2.4bn, were the most significant investments, representing 96.3% of the securities held as of 31 December 2016, while equities accounted for 2.4%, and investment funds for 1.3%. As previously explained, the volume of the securities in the portfolio slightly increased compared to 2015, while the portfolio composition remained unchanged.

Profitability ratios

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

Profitability ratios (%)	2016	2015
ROE (Returns on Equity)	5.66%	2.47%
ROA (Returns on Assets)	1.10%	0.50%
Operating costs / Earnings margin	15.52%	66.05%
Interest margin / Earnings margin	83.15%	96.03%
Net fee and commission income / Earnings margin	29.05%	33.51%
Interest margin / Total Assets	1.12%	1.36%
Earnings margin / Total Assets	1.35%	1.42%

The ratios ROE and ROA recorded an increase compared with the previous year due to the increase in Net profit.

The profitability, explained from the ratio "interest margin / total assets", amounted in 2016 to 1.12% against 1.36% recorded in 2015, due to the reduction of interest margin; the ratio "earnings margin / total assets" recorded almost a result in line with the previous year (1.35% in 2016, 1.42% in 2015).

These two ratios showed that the Institute ability to create income slightly decreased, but the negative effects were balanced by the decrease of operating costs, showing good flexibility in reacting promptly to market changes.

Other aspects

The IOR does not issue securities, neither underwrite or place securities; it protects its client assets by primarily investing in financial instruments characterized as very low risk (e.g. government bonds, bonds issued by institutions and international organizations, as well as deposits in the interbank market).

The IOR has no branches and provide services only at the IOR office located in the Vatican City State.

The Institute owns 100% of the real estate company SGIR S.r.l., with registered office in Italy. The Institute has a long-term zero-interest loan to its subsidiary SGIR S.r.l., amounting to EUR 3.3m. During 2015, the Institute signed a loan agreement for the use of 4 real estate properties at no cost with its subsidiary SGRI S.r.l. During 2016, SGIR S.r.l. did not earn rental income on these properties.

2. FORECAST FOR 2017

In the first months of 2017, the Institute's activity was in line with the Strategic Plan approved by the Board of Superintendence in January 2017. The main objective is to improve the quality of services offered to clients. The forecast for 2017 is a stable base of customer deposits, a result of a balance between the outflows due to the tax agreements signed between the Holy See and other countries and inflows due to the increased quality of services offered. By the end of 2018, the results of this work should be apparent.

The effort, already undertaken in recent years, to comply with Holy See laws and regulations and international best practice will continue to be implemented. The same will apply with international tax matters.

The issues of transparency and reputation will obviously be the core in this process of growth; many steps and activities have been taken from 2013 to make the Institute more transparent and aligned with international best practices.

The IOR will continue to operate in accordance with his Mission that is to serve the Holy Father with prudence, in His mission as the Universal Pastor, through the provision of dedicated financial advisory, in complete compliance with Vatican and international laws in force and with what the Holy Father said "the main goal of the IOR cannot be to have the maximum possible gain, but should be goals that are compatible with the norms of morality, consistent efficiency and practices respecting the specificity of its nature and exemplarity in its mode of operation".

IOR Istituto per le Opere di Religione

FINANCIAL STATEMENTS

BALANCE SHEET

IOR financial statements for 2016 are prepared in accordance with the Circular concerning the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis, issued by Authority of Financial Information on 15 December 2016.

The 2015 figures have been reclassified according to the provisions of the Circular above mentioned.

(in Euro)

ASSETS	2016	2015
10. Cash and cash equivalents	50,850,340	114,737,182
20. Financial assets held for trading	1,918,104,346	1,667,965,933
40. Financial assets available for sale	6,664,406	15,167,415
50. Financial assets held to maturity	558,955,610	614,818,290
60. Due from banks	643,229,012	644,089,443
70. Due from customers	29,152,785	86,233,851
100. Investment in subsidiaries	15,834,950	15,834,950
110. Tangible assets	3,095,565	2,981,724
120. Intangible assets	1,043,850	874,809
150. Other assets	41,958,806	41,556,606
Total Assets	**3,268,889,670**	**3,204,260,203**

LIABILITIES AND EQUITY	2016	2015
10. Due to banks		10,597,312
20. Due to customers	2,398,924,457	2,323,402,903
100. Legates	47,074,644	48,266,303
110. Other liabilities	18,709,825	20,086,868
120. Staff severance fund	6,992,585	6,788,489
130. Provision for risks and charges	**124,588,179**	**124,838,475**
(a) Provisions for pensions and similar obligations	121,088,179	108,338,475
(b) Other provisions	3,500,000	16,500,000
140. Valuation reserves	(45,534,851)	(27,981,254)
160. Reserves	**382,134,172**	**382,134,172**
(a) Unavailable reserves	100,000,000	100,000,000
(b) Available reserves	282,134,172	282,134,172
170. Capital	300,000,000	300,000,000
180. Net profit for the year	36,000,659	16,126,935
Total Liabilities and Equity	**3,268,889,670**	**3,204,260,203**

INCOME STATEMENT

(in Euro)

INCOME STATEMENT	2016	2015
10. Interest and similar income	39,831,730	48,640,984
20. Interest and similar expense	(3,168,836)	(5,002,810)
30. Interest margin	**36,662,894**	**43,638,174**
40. Fee and commission income	15,836,850	17,709,979
50. Fee and commission expense	(3,029,222)	(2,481,584)
60. Net fee and commission income	**12,807,628**	**15,228,394**
70. Dividends and similar income	2,107,013	1,954,367
80. Net income for trading activities	(8,982,924)	(15,377,567)
100. Profit (loss) on disposal or repurchase of:	**1,499,109**	
(b) Financial assets available for sale	1,499,109	
120. Intermediation margin	**44,093,720**	**45,443,368**
130. Net losses/reversal on impairment:	**(1,331,864)**	**197,034**
(a) Receivables	(1,045,306)	352,909
(b) Financial assets available for sale	(148,314)	
(d) Other financial operations	(138,244)	(155,875)
140. Net income from financial operations	**42,761,856**	**45,640,402**
150. Administrative expenses:	**(19,085,562)**	**(23,427,846)**
(a) Staff expenses	(10,244,959)	(11,268,224)
(b) Professional services expenses	(3,961,573)	(7,607,374)
(c) Other administrative expenses	(4,879,030)	(4,552,248)
160. Net provisions to risks and charges	13,000,000	(16,500,000)
170. Net value adjustments to/recoveries on tangible assets	(82,789)	(63,868)
180. Net value adjustments to/recoveries on intangible assets	(682,777)	(511,793)
190. Other operating income (expense)	7,287	10,489,260
200. Operating costs	**(6,843,841)**	**(30,014,247)**
220. Net result of fair value valuation of tangible and intangible assets	82,644	500,780
250. Profit (loss) from current operations before taxes	**36,000,659**	**16,126,935**
270. Profit (loss) from current operations after taxes	**36,000,659**	**16,126,935**
290. Profit (loss) for the year	**36,000,659**	**16,126,935**

STATEMENT OF COMPREHENSIVE INCOME

(in Euro)

	2016	2015
10. Profit (loss) for the year	**36,000,659**	**16,126,935**
Items that will not be reclassified to Income Statement		
40. Defined benefit plans	(13,275,014)	8,880,551
Items that are or may be reclassified to Income Statement		
100. Financial assets available for sale	(4,278,583)	4,777,470
130. Total other income items	**(17,553,597)**	**13,658,021**
Comprehensive income (item 10 + item 130)	**18,447,062**	**29,784,956**

STATEMENT OF CHANGES IN EQUITY

(in Euro)

2016				**Allocation of previous year profit**		**Changes during the year**			
	Total net equity at 31.12.2015	**Changes in opening balances**	**Total net equity at 01.01.2016**	**Reserves**	**Dividends and other allocations**	**Changes in reserves**	**Extra dividend distribution**	**Comprehensive income 2016**	**Net Equity at 31.12.2016**
Capital	300,000,000		300,000,000						300,000,000
Reserves									
(a) unavailable	100,000,000		100,000,000						100,000,000
(b) available	282,134,172		282,134,172						282,134,172
(c) other									
Valuation reserves	(27,981,254)		(27,981,254)					(17,553,597)	(45,534,851)
Net profit (loss) for the year	16,126,935		16,126,935		(16,126,935)			36,000,659	36,000,659
Net Equity	670,279,853		670,279,853		(16,126,935)			18,447,061	672,599,980

(in Euro)

2015				**Allocation of previous year profit**		**Changes during the year**			
	Total net equity at 31.12.2014	**Changes in opening balances**	**Total net equity at 01.01.2015**	**Reserves**	**Dividends and other allocations**	**Changes in reserves**	**Extra dividend distribution**	**Comprehensive income 2015**	**Net Equity at 31.12.2015**
Capital	300,000,000		300,000,000						300,000,000
Reserves									
(a) unavailable	100,000,000		100,000,000						100,000,000
(b) available	267,300,717		267,300,717	14,833,455					282,134,172
(c) other									
Valuation reserves	(41,639,275)		(41,639,275)					13,658,021	(27,981,254)
Net profit (loss) for the year	69,333,455		69,333,455	(14,833,455)	(54,500,000)			16,126,935	16,126,935
Net Equity	694,994,898		694,994,898		(54,500,000)			29,784,954	670,279,853

CASH FLOW STATEMENT

(in Euro)

	2016	2015
A. Operating activities		
1. Management	**42,833,712**	**48,037,261**
Interest income	48,639,880	55,060,588
Interest expense	(3,168,341)	(7,659,915)
Dividends and similar income	2,107,013	1,954,367
Net commissions	12,807,628	15,228,394
Realised profit (loss) from trading activities	2,024,715	(6,521,066)
Staff expenses	(10,566,173)	(10,043,861)
Other administrative expenses	(8,840,603)	(13,323,635)
Other income (expense)	(170,407)	13,342,389
2. Cash generated by/used in financial assets	**(206,618,819)**	**68,576,005**
Financial assets held for trading	(266,429,528)	41,765,424
Financial assets available for sale	5,575,219	
Due from banks: on demand	(192,197,353)	17,854,851
Due from banks: other receivables	192,249,112	(48,714,530)
Due from customers	54,408,236	61,305,128
Other assets	(224,505)	(3,634,868)
3. Cash generated by/used in financial liabilities	**62,216,802**	**13,182,507**
Due to banks: on demand	(10,591,428)	10,581,312
Due to banks: other payables		
Due from customers	75,515,176	12,469,195
Outstanding securities		
Legates	(1,191,659)	
Financial liabilities held for trading		
Financial liabilities carried at fair value		
Other liabilities	(1,515,287)	(9,868,000)
Cash generated by/used in operating activities	**(101,568,305)**	**129,795,773**
B. Investing activities		
1. Cash generated by:	**53,250,000**	**64,986,522**
Disposals of investments in subsidiaries		
Dividends received on investments in subsidiaries		
Disposal/reimbursement of financial assets held to maturity	53,250,000	64,986,522
Disposals of tangible assets		
Disposals of intangible assets		
2. Cash used in:	**(965,804)**	**(34,206,681)**
Purchases of investments in subsidiaries		
Purchases of financial assets held to maturity		(33,412,000)
Purchases of tangible assets	(113,986)	(240,681)
Purchases of intangible assets	(851,818)	(554,000)
Cash generated by/used in investing activities	**52,284,196**	**30,779,841**
C. Financing activities		
Issues/purchases of capital instrument		
Dividend distribution and other purposes	(16,126,935)	(54,500,000)
Cash generated by/used in financing activities	**(16,126,935)**	**(54,500,000)**
Cash generated/used during the year	**(65,411,044)**	**106,075,614**

Items	2016	2015
Cash and cash equivalents at beginning of the period	114,737,182	16,351,306
Cash generated/used during the year	(65,411,044)	106,075,614
Cash and cash equivalents: forex effect	1,524,202	(7,689,738)
Cash and cash equivalents at end of the period	50,850,340	114,737,182

EXPLANATORY NOTES

PART 1. ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

1.1.1 Statement of compliance with accounting standards

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

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 arrangement to the Monetary Convention between the European Union and the State of the Vatican City on 17 December 2009.

The 2015 figures have been reclassified according to the provisions of the above mentioned Circular.

1.1.2 Accounting policies

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.

Disclosures under IFRS 7 "Financial Instruments, disclosures" about the nature and extent of risks have been included in Part V "Information on Risks and Hedging Policies".

The accounting principles and valuation methods applied in the preparation of these financial statements, detailed below, are consistent with those of the previous financial year, except for new standards, new interpretations, or amendments of standards and except for gold, silver, medals and precious coins evaluation criteria. According to AIF Circular and IAS 2, starting from 1 January 2016, gold, silver, medals and precious coins are measured at the lower of cost and net estimated recoverable amount, as explained in the Section 1.1.4 "Other Aspects".

The financial statements of the Institute are prepared in Euro, while the explanatory notes are expressed in thousand Euro.

For the various items, the 2016 figures and corresponding values for the previous year are provided. Where necessary, the comparative figures have been adjusted to conform to changes in presentations in the current year.

The financial statements are prepared in Italian.

The financial statements of the IOR were prepared on a going concern basis in accordance with IAS 1 "Presentation of Financial Statements". As of the date of the approval of the financial statements, there were no material uncertainties and therefore no significant doubt regarding the Institute's ability to continue as a going 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 Directorate to make certain 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, 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 Directorate to exercise judgements in applying the IOR's accounting policies to estimate the carrying value of assets and liabilities not readily obtainable from other sources.

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

Those areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Section 1.1.4.1. "Critical accounting estimates and judgements".

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

The Institute, given the immaterial value of its subsidiary, does 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 of little relevance for the users of the financial statements.

The Institute provides the additional information required by IFRS 12 "Disclosure of interests in other entities" in Part 5, Section 5.2.6 "Disclosure of unconsolidated structured entities for accounting purposes".

The financial statements of the Institute are prepared by the Directorate and approved by the Board of Superintendence, which will be submitted to the Commission of Cardinals.

The Commission of Cardinals acknowledges the financial statements and decides on the distribution of profits, after taking into account the IOR's own financing needs.

1.1.3 Subsequent events

According the provisions of IAS 10, all events that took place subsequent to 31 December 2016 have been evaluated in the preparation of the 2016 Financial Statements.

1.1.4 Other aspects

Starting from the financial year 2016 IOR applies the provisions arranged by the AIF Circular issued on 15 December 2016 about gold, silver, medals and precious coins. The Circular provides that gold, silver, medals and precious coins are normally carried at the lower of cost (see IAS 2, paragraphs 10-18) and net estimated recoverable amount (see IAS 2 paragraphs 6-7).

According to IAS 8, the Institute considered the value as at 1 January 2015 (31 December 2014) as cost of the gold, silver and precious medals and coins, because was not feasible to make a measurement for the prior years.

As of 31 December 2015, the value of gold was lower than the cost and this involved only a reclassification of the loss, already recorded in the previous financial year, from the item "Net income for trading activities" to the item "Other operating income (expense)"; no other economic impacts were recorded.

The gold, silver, medals and precious coins held by the Institute are classified in the Balance Sheet, Item 150 Assets – "Other assets". Gold is mainly deposited with the U.S. Federal Reserve, while medals and precious coins are kept in the IOR vaults.

1.1.4.1 Critical accounting estimates and judgements

Critical judgements in applying the Institute accounting policies

In the process of applying the accounting policies adopted by IOR, which are described in Section II, there may be circumstances that lead the Directorate to make judgements that have a significant impact on the amounts recognized in the financial statements.

Such circumstances and related judgements may be part of the valuation process used for financial instruments. The Directorate makes critical judgements when deciding the asset category for classification, determining whether a market is active or not, whether the asset is liquid or illiquid, 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.

Retirement benefits and other post-employment liabilities are estimated trough an actuarial valuation performed by an independent expert. Such an evaluation is based on critical judgements because estimates are made about the likelihood of future events and the actual results could differ from those estimates.

Estimates that contain elements of uncertainty
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 2016 Financial Statements relate to the assessment of illiquid debt securities portfolio held for trading and external investment funds included within the portfolio held for trading, as disclosed in the section 1.4 "Fair value information".

Illiquid securities are not quoted in active markets and their fair value is not readily available in the market. These securities subject estimation uncertainties (Level 3 of fair value hierarchy) amounted to EUR 23.3m as of 31 December 2016 (2015: EUR 35.9m). These were exclusively comprised of externally managed investment funds.

With reference to the liabilities related to commitments linked to externally managed investment funds, they are valued taking into account all available information at the date of preparation of these financial statements. This assessment is made on the basis of assumptions and the process of estimation in characterized 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 charges in the evaluations made.

The IOR has also been working to review and confirm its tax position and that of its clients in countries where investment relationships exist. This review has identified probable contingencies that relate to prior years as a result of different interpretations regarding the legal nature of the Institute and the related applicable tax treatments.

As of 31 December 2016, based on the reviews performed and supported by external legal advisors, the Institute has estimated a provision of EUR 3.5m, included in the Balance Sheet, item 130 "Provision for risks and charges" line b "Other provisions". As this represents an estimate based on critical assumptions, actual results may differ from what is expected when the future event takes place.

1.1.5 Impact of New Accounting Pronouncements

Accounting standards, amendments and interpretations IFRS effective 1 January 2016

The following accounting standards, amendments and interpretations IFRS were adopted for the first time by the IOR effective 1 January 2016:

- Amendments to **IAS 19** "***Defined Benefit Plans: Employee Contributions***" (published on 21 November 2013): the amendments relate to the accounting treatment for contributions made by employees or third parties to a defined benefit plan. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.
- Amendments to **IFRS 11** ***"Accounting for acquisitions of interests in joint operations"*** (published on 6 May 2014): the amendments provide guidance on how to account for the acquisition of an interest in a joint operation whose activities constitute a *business*. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.
- Amendments to **IAS 16** and to **IAS 38** "***Clarification of acceptable methods of depreciation and amortisation***" (published on 12 May 2014): The amendments prohibit the use of revenue-based depreciation; the revenue generated by an activity that includes the use of the asset to be depreciated generally reflects factors other than just the consumption of economic benefits of the asset, which is a requirement for depreciation. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.
- Amendment to **IAS 1** "***Disclosure Initiative***" (published on 18 December 2014): the purpose of the amendment is to provide clarification on disclosure items that may be perceived as presenting impediments to a clear and intelligible preparation of financial statements. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.
- Amendment to **IAS 27** ***Equity Method in Separate Financial Statements*** (published on 12 August 2014): the amendment introduces the option to use the equity method in the separate financial statements of an entity for the valuation of investments in subsidiaries, jointly controlled entities and associated companies. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.
- Amendments to **IFRS 10**, **IFRS 12** e **IAS 28** "***Investment Entities: Applying the Consolidation Exception***" (published on 18 December 2014): the amendments contain changes relating to issues that arise from the application of the exception granted to the consolidation of investment entities. The adoption of the amendments had no impact on the disclosures or the amounts recognized in the Institute's financial statements.

Finally, as part of the annual process for the improvement of the accounting standards, dated 12 December 2013 the IASB published the document "***Annual Improvements to IFRSs: 2010-2012 Cycle***" (including IFRS 2 *Share Based Payments – Definition of vesting condition*, IFRS 3 *Business Com-*

bination – Accounting for contingent consideration, IFRS 8 *Operating segments – Aggregation of operating segments* e *Reconciliation of total of the reportable segments' assets to the entity's assets*, IFRS 13 *Fair Value Measurement – Short-term receivables and payables*) and in 25 September 2014 the document "***Annual Improvements to IFRSs: 2012-2014 Cycle***" (including IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations,* IFRS 7 – *Financial Instruments: Disclosure* e IAS 19 – *Employee Benefits*) which partially integrate existing standards. The adoption of the annual improvements had no impact on the disclosures or the amounts recognized in the Institute's financial statements.

Accounting standards, amendments and interpretations IFRS and IFRIC approved by the European Union, not yet mandatorily applicable and not early adopted by the Institute at 31 December 2016

- Standard **IFRS 15 – *Revenue from Contracts with Customers*** (published on 28 May 2014 and amended on 12th April 2016) will replace the following standards and interpretations: IAS 18 – *Revenue* IAS 11 – *Construction Contracts*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model, which will apply to all contracts with customers except those that fall within the scope of other IAS / IFRS standards as leasing, the insurance contracts and financial instruments. This core principle is delivered in a five-step model framework:
  - Identify the contract(s) with a customer;
  - Identify the performance obligations in the contract;
  - Determine the transaction price;
  - Allocate the transaction price to the performance obligations in the contract;
  - Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. However, the amendments to IFRS 15, *Clarifications to IFRS 15 - Revenue from Contracts with Customers*, published by the IASB on 12 April 2016, are not yet been endorsed by the European Union. At this stage, the Institute is evaluating the possible impacts of these changes on the financial statements.

- Final version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). The document recognized the results of IASB project to replace IAS 39:
  - Introducing new criteria for the classification and measurement of financial assets and liabilities;
  - With reference to the impairment model, the new standard requires that the estimate of credit losses is carried out on the basis of the expected losses model (and not on the incurred losses model used by IAS 39) using reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions;
  - Introducing a new hedge accounting model (types of transactions eligible for hedge accounting, changes in the method of accounting for forward contracts and options when included in a hedge relationship, changes in the effectiveness test).

The new standard is effective for financial statements beginning on 1 January 2018 or later.
The adoption of the IFRS 9 could have significant impacts on balance sheet income statement and disclosure. At the same time, for the time being the Institute is not able to provide a reasonable estimation of the above impacts without carrying out a thorough analysis.

Accounting standards, IFRS 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 amendments and the principles described below.

- Standard **IFRS 16 –** ***Leases*** (published on 13 January 2016), will replace the following standards and interpretations:
  - IAS 17 – *Leases*,
  - IFRIC 4 *Determining whether an Arrangement contains a Lease*,
  - SIC-15 *Operating Leases - Incentives,*
  - SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The Institute do not expect a significant impact in the financial statements from the application of this standard.

- Amendments to **IAS 7 "Disclosure Initiative"** (published on 29 January 2016). The document aims to provide some clarification to improve disclosures about financial liabilities. In particular, the amendments required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective from 1 January 2017, earlier adoption is permitted. It is not required to present comparative information relating to prior years. The Institute do not expect a significant impact in the financial statements from the application of this amendment.
- Document "***Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts***" (published on 12 September 2016). For entities whose predominant activity is issuing contracts within the scope of IFRS 4, the document is intended to clarify the concerns arising from the application of the new IFRS 9 to financial assets. The Institute do not expect a significant impact in the financial statements from the application of this document.
- Document "***Annual Improvements to IFRSs: 2014-2016 Cycle***", published on 8 December 2016, provides partial integration on existing standards, that include:
  - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*,
  - IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*,
  - IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard.*

The adoption of the above improvement would not affect significantly the Financial Statements.

- Interpretation **IFRIC 22** "***Foreign Currency Transactions and Advance Consideration***" (published on 8 December 2016). The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the exchange rate to use in circumstances in which consideration is received or paid in advance of the recognition of the related asset, expense or income. IFRIC 22 is effective from 1 January 2018. Earlier adoption is permitted.
  The Institute considers that the application of the above interpretation would not affect significantly the Financial Statements.
- Amendments to **IAS 40** "***Transfers of Investment Property***" (published on 8 December 2016). These amendments clarify the transfer of a property to, or from, investment property. In particular, an entity shall reclassify a property to, or from, investment property only when there

is evidence that there has been a change in use of the property. Such a change must be attributed to a specific event; a change of management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments are effective from 1 January 2018. Earlier adoption is permitted. The Institute considers that the application of the above amendments would not affect significantly the Financial Statements.

- Amendments to **IFRS 10 e IAS 28** "***Sales or Contribution of Assets between an Investor and its Associate or Joint Venture***" (published on 11 September 2014). The amendments address a conflict between the requirements of IAS 28 'Investments in Associates and Joint Ventures' and IFRS 10 'Consolidated Financial Statements' and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. At this stage, the IASB suspended the application of these amendments.

1.2 INFORMATION ON THE MAIN FINANCIAL STATEMENT ITEMS

1.2.1 Financial assets held for trading

A financial asset is classified under this category if acquired principally for the purpose of trading.

Purchases of financial assets held for trading are initially recognized at the transaction date, which is the date on which the IOR commits to purchasing the asset.

On initial recognition, financial assets held for trading are recognized at fair value, which generally corresponds to the initial cash consideration paid, excluding direct transaction costs or revenues directly attributable to the instrument.

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

Disposals are recognized on the trade date which is the date on which the Institute commits to dispose the assets.

Gains and losses arising from disposal or redemption and unrealised gains and losses arising from changes in the fair value are recognized in the Income Statement, item 80 "Net trading result".

Interest income and expense arising from the financial assets held for trading are recognized in the Income Statement on an accrual basis and recognized "pro rata" based on the contractual interest rate. These are recognized in the Income Statement, item 10 "Interest and similar income".

Dividends on financial assets held for trading are recognized in the Income Statement, item 70 "Dividend income" when the entity's right to receive payment is established.

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

All financial assets held for trading are derecognized 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.

1.2.2 Financial assets available for sale

Financial Assets classified as Available for sale are those intended to be held for an indefinite period of time, and those that are subject to agreements that restrict the sale for a specified period.

In addition, financial assets classified available for sale include non-derivative financial assets that are not classified as held for trading or loans and receivables or held to maturity investments.

Financial assets available for sale are initially recognized on the trade date, which is the date on which the IOR commits to purchasing the asset.

Financial assets available for sale are initially recognized at fair value plus any direct transaction costs.

Financial assets available for sale are subsequently measured at fair value, and any changes in the fair value are recognized in Other Comprehensive Income and therefore directly in an equity reserve.

Disposals are recognized on the trade date which is the date on which the Institute commits to dispose the assets.

At the time that the financial assets are derecognized or impaired, accumulated gain or loss from changes in the fair value of financial assets available for sale previously recognized in Other Comprehensive Income are reclassified and recognized in the Income Statement. When the financial assets available for sale are sold, any unrealised gains or losses previously recognized in Other Comprehensive Income, are reclassified into the Income Statement, item 100 “Profit (loss) on disposal or repurchase” line b “Financial assets available for sale”. In case of impairment losses, gains or losses previously recognized in Other Comprehensive Income are transferred to the Income Statement item 130 “Net losses/reversal on impairment” line b “Financial assets available for sale”.

At each balance sheet date, the IOR assesses whether there is objective evidence of impairment on financial asset available for sale. A significant or prolonged decline in the fair value of the financial asset below its cost is considered as objective evidence of a reduction in value. If there is such evidence, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less previously recognized impairment loss, is transferred from equity and recognized in the Income Statement in item 130 “Net losses/reversal on impairment” line b. If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognized in the Income Statement on equity instruments are not reversed through the Income Statement, but through the Fair Value Reserves, a component of equity. For debt instruments classified as available for sale, if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Income Statement.

The impairment policy adopted by IOR is that all equity securities classified as available for sale must be impaired when their market prices are below their carrying prices and the price decline is more than 20%, or when the decline to below the acquisition cost has persisted for more than 36 months.

Interest income and expense arising from the financial assets available for sale are recognized in the Income Statement on an accrual basis and recognized “pro rata” based on the effective interest rate method. These are recognized in the Income Statement, item 10 “Interest and similar income”.

Dividends on financial assets available for sale are recognized in the Income Statement, item 70 “Dividend income” when the entity’s right to receive payment is established.

For the fair value measurement please refer to Section 1.4 “Fair value information”.

All financial assets available for sale are derecognized 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.

1.2.3 Financial assets held to maturity

Financial assets held to maturity investments are quoted non-derivative financial assets with fixed or determinable payments and with fixed maturities which the IOR has the intention and ability to hold to maturity. If the IOR sells financial assets held to maturity, the entire category must be reclassified as available for sale and for two subsequent years, no financial asset can be classified in this category.

Financial assets held to maturity are initially recognized at the trade date, which is the date on which the IOR commits to purchasing the asset, and are recognized at fair value plus any direct transaction costs.

The financial assets held to maturity are subsequently measured at amortised cost using the effective interest rate method, and adjusted to take into account the effects of any impairment losses, when applicable the circumstances described below.

Gains and losses on financial assets held to maturity are recognized in the Income Statement through the financial amortisation process (item 10 "Interest and similar income") or when the assets are derecognized (item 100 "Profit (loss) on disposal or repurchase" line c "Financial assets held to maturity") or when impairment losses are recognized in the Income Statement (item 130 "Net losses/reversal on impairment" line c "Financial assets held to maturity").

As of each balance sheet date, the IOR assesses whether there is objective evidence of impairment on financial asset held to maturity. A financial asset is impaired and impairment losses are recognized when one or more loss events occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is directly reduced and the extent of the loss is recognized in the Income Statement item 130 "Net losses/reversal on impairment" line c "Financial assets held to maturity".

Interest income and expense arising from the financial assets held to maturity are recognized in the Income Statement on an accrual basis and recognized "pro rata" based on the effective interest rate method. These are recognized in the Income Statement, item 10 "Interest and similar income".

The effective interest method is a method calculating amortized 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 (or, if more reliable for a shorter period) exactly equal to the current book 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.

All financial assets held to maturity 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.

1.2.4 Credits

The item includes loans to customers and banks, with fixed or determinable payments, provided directly, not quoted in an active market and not initially classified as financial assets held for trading, available for sale or at fair value.

The item includes:

1. authorized financing agreements where the Institute provides money directly to the customers without the intention of subsequent re-negotiation;
2. Loans and Receivables debt securities offered through private placements, which the Institute does not designate as financial assets at fair value through profit or loss or available for sale.

These financial assets are subject to the risk of deterioration of the creditworthiness of the counterparty.

Financing agreements are recognized when the amount is advanced to the borrower. They are initially recognized at fair value, which is the value of the loan, plus any direct transaction costs. Financing agreements are subsequently measured at amortised cost using the effective interest rate method.

Securities are initially recognized on the trade date, which is the date on which IOR commits to purchasing the asset at fair value plus any direct transaction costs or income. Securities are subsequently measured at amortised cost using the effective interest rate method, and are subject to impaired test and impairment losses are recognized when one or more loss events occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset.

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. Subsequent recoveries of amounts previously written off are recognized in the Income Statement item 130 "Net losses/reversal on impairment" line a "Receivables".

Interest income and expense arising from loans and advances to customers are recognized in the Income Statement on an accrual basis and recognized "pro rata" using the effective interest rate method. These are recognized in the Income Statement, item 10 "Interest and similar income".

At each balance sheet date, the IOR assesses whether there is objective evidence of impairment. A financial asset is impaired and impairment losses are recognized when one or more loss events occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the extent of the loss is recognized in the Income Statement item 130 "Net losses/reversal on impairment" line a "Receivables".

Loans which are not individually impaired are subject to valuation on a portfolio basis based on historical data. The loss is recognized in the Income Statement item 130 "Net losses/reversal on impairment" line a "Receivables".

If, in a subsequent period, the impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Income Statement, Statement item 130 "Net losses/reversal on impairment" line a "Receivables". In any case, the reversal can not exceed the cost that the financial instrument prior to the recognition of any impairment loss.

Credits are derecognized 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.

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

It is to be mentioned that the Institute is not authorized by the Autorità di Informazione Finanziaria to carry out the activity of "lending" (cfr. art. l (l) (b) of the Law n.XVIII and art. 3 (24) (b) of the Regulation No. l), as credit activities on its own. However, it is authorized to make "advances" that is to disburse funds to its clients and to a limited extent following guarantee of future income (such as, for example, in the case of the advance of salary or pension paid by the Holy See or the Governatorato of Vatican City) or guaranteed by financial assets of the same amount deposited by the clients at the Institute.

1.2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date in which a derivative contract is entered into.

The initial fair value generally corresponds to the initial cash consideration, and subsequently remeasured at fair value with changes recognized through profit or loss.

The fair value of derivatives quoted in active markets is based on current bid prices. If the market for a financial derivative is not active, the IOR obtains fair value from third parties or establishes fair value by using valuation models that are primarily based on objective financial inputs, as well as considering prices utilised in recent transactions and prices of similar financial instruments. All derivatives are recognized as assets when the fair value is positive and as liabilities when fair value is negative.

Derivative financial instruments may include embedded derivatives in a hybrid financial instrument. IAS 39 requires that an embedded derivative be separated from its host contract and accounted for as a derivative when:

1. The economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
2. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
3. The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized through Income Statement.

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

As of 31 December 2016 and 2015, the Institute did not hold derivatives.

1.2.6 Investment in subsidiaries

Investment in subsidiaries consists of the stake in the wholly-owned real estate company SGIR, based in Rome, Via della Conciliazione. The principal assets of this company are real estate properties. Investment in subsidiaries is carried at cost, less impairment.

Real estate owned by the subsidiary is depreciated on a straight-line basis over its estimated useful life which management considers as between 30 and 50 years. Land is not depreciated.

1.2.7 Tangible assets

1.2.7.1 Tangible assets for investment - Investment properties

Investment properties are properties directly owned by the IOR. These are buildings not owner-occupied, but 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 recognized in the Income Statement, item 220 "Net result of fair value valuation of tangible and intangible assets".

Improvements to buildings increase their carrying amounts.

1.2.7.2 Tangible assets for business activities - Equipment, furniture and vehicles

All equipment, furniture and vehicles are stated at historical cost, minus accumulated depreciation. Historical cost is generally based on the fair value of the sum paid in exchange for assets and includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized 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. Equipment, furniture and vehicles are amortised on a straight-line basis over their expected useful lives (four years).

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, on each balance sheet date. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount 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 recognized in the Income Statement 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 recognized in the Income Statement, under item 190 "Other operating income (expense)".

1.2.8 Intangible assets

Intangible assets correspond to computer software licenses and to expenses related to their implementation. Acquired computer software licenses are recognized 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 (four years).

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount 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 result of the impairment test and the depreciations are recognized in the Income Statement item 180 "Net value adjustments to/recoveries on intangible assets".

Costs associated with maintenance of computer software programmes are recognized as an expense in the Income Statement when they are incurred.

1.2.9 Due to banks and to customers

Due to banks comprises interim current accounts overdrafts, as the Institute does not carry out funding activites on the interbank market.

Due to customers are composed by financial instruments (different from trading liabilities) that assumed the typical forms of funds, realised by IOR with customers.

The mentioned financial liabilities are recorded in the financial statements on the settlement date. They are initially recognized at the current value, which normally corresponds to the amount collected. The initial recognition value includes possible expenses and incomes from anticipated transaction and directly attributable to each liability; not included in the initial carrying amount are all charges which are paid back by the credit counterparty or that are attributable to internal administrative expenses.

After the initial recognition, due to banks and to customers are measured at amortized cost using the effective interest rate method. The short-term liabilities remain recorded at the amount received. Interest expense related to due to banks and to customers are recognized in the income statement, item 20 "Interest and similar expense".

Due to banks and to customers are derecognized when they expired or extinguished.

1.2.10 Legates

According to the Canon Law (Can. 1303), the term "Legati – non autonomous pious foundation" comprises: "temporal goods given in any way to a public juridical person and carrying with them a long-term obligation, such a period to be determined by particular law. The obligation is for the juridical person, from the annual income, to celebrate Masses, or to perform other determined ecclesiastical functions, or in some other way to fulfil the purposes mentioned in Can. 114, par. 2".

Based on such definition, this is understood to be an arrangement whereby capital is donated or willed to the IOR for religious or charitable purposes, based on the understanding that the transferred 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 statement on the settlement date. Legates are initially recognised at the current value, which normally corresponds to the amount received. The initial recognition value includes also expenses and incomes for anticipated transaction and directly attributable to each liability; not included in the initial carrying value are all charges which are paid back by the credit counterparty or that are attributable to internal administrative expenses.

The interest expense related to the Legates are recognized in the income statement, item 20 “Interest and similar expense”.

Legates are derecognised when they expired or extinguished.

1.2.11 Staff severance fund

Staff severance fund is a post-employment benefit that correspond 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. The liability is measured with utilizing certain actuarial assumptions, as the present value of the estimated future cash outflows according to the projected unit credit method required by IAS 19. Remeasurements arising from the defined benefit plan comprise actuarial gains and losses, recognized in Other Comprehensive Income. All other expenses related to the defined benefit plan in the Income Statement, item 150 “Administrative Expenses”, line a “Staff expenses”.

1.2.12 Provisions for risks and charges - Pension fund and similar obligations

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

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

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

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

The calculation is performed annually by a qualified actuary, who assesses the fairness of the liability, using the projected unit credit method. Remeasurements arising from the defined benefit plan comprise actuarial gains and losses. The IOR recognizes them immediately in Other Comprehensive Income and all other expenses related to the defined benefit plan in the Income Statement, item 150 “Administrative expenses”, line a “Staff expenses”.

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

On 1 January 2005, all IOR personnel also joined the general Vatican City State pension plan. This system is financed by contributions made by the Institute and employees. Contributions to the Vatican plan made by the IOR are recognized in the Income Statement, item 150 "Administrative expenses", line 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. For the employees' services from 1 January 2005, the obligation is limited to the part not covered by the Vatican City State Pension Plan taking into account the difference in the retirement age of the two pension systems.

1.2.13 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 "The effects of changes in foreign exchange rates" the functional currency is the currency of the primary economic environment in which the entity operates. This is the currency that determines the pricing of transactions, but it is not necessarily the currency in which transactions are denominated.

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

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

Transactions and balances

Foreign currency transactions, if they impact 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.

Non-monetary items carried at fair value are translated using the rate at the date of the determination 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 recognized in the Income Statement, item 80 "Net income for trading activities".

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

- recognized 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 in the equity.

1.2.14 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 recognized 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 amendments to IAS 39 and to IFRS 7 "Reclassification of financial assets" allow for the reclassification of certain financial assets after their initial recognition, out of the held for trading (HFT) and available for sale (AFS) portfolios.

In particular, those HFT or AFS financial assets that would have met the definition specified by international accounting standards for the loan portfolio (if such assets were not classified as HFT or AFS respectively on initial recognition) may be reclassified if the entity intends, and is able, to hold them for the foreseeable future or until maturity.

The Institute did not have any transfers between portfolios in 2016 and in previous years.

1.4 FAIR VALUE INFORMATION

1.4.1 Qualitative fair value information

For the measurement of fair value, the amendments to IFRS 7 and subsequent changes introduced by IFRS 13 defines a fair value hierarchy based on level of observable inputs, valuation techniques adopted and parameters used for measurement. The financial assets are classified according to the following hierarchy that consists of three levels.

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

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

The parameters of Level 2 are as follows:

- prices quoted on active markets for similar assets or liabilities;
- price quoted on non-active markets for similar or identical assets and liabilities;

- market observable inputs other than the quoted price for the asset or liability (interest rates, yield curve, credit spreads, volatility);
- parameters that derive mainly (or are corroborated by correlation or other techniques) from observable market data (market-corroborated inputs).

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

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

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

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

If the fair value measurement utilise observable inputs that require a significant adjustment based on unobservable inputs, the financial instrument should be considered in Level 3.

Level 3
Included in Level 3 are financial instruments valued using inputs unobservable market data (unobservable inputs). To be included in Level 3, at least one of the inputs must be unobservable on the market.

Level 3 financial instruments are valued using inputs are not derived from independent sources but on the reporting entity's own assumptions based on assumptions that market participants would use, based on observable inputs.

IFRS 13 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 utilization of inputs observable on the market and should rely as little as possible on the reporting entity's own data, internal valuations or unobservable inputs.

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

The criteria used by the IOR to determine the fair value of financial instruments are as follows.
The fair values of investments held by the IOR 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 an exchange or 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 instrument or financial instruments with similar characteristics. The valuation techniques include the discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

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

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

Consequently IOR models ensure that outputs reflect actual data and comparative market prices. In Level 1, the IOR has classified all financial instruments quoted in active markets.

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

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

To the extent that this is practical, the models use only observable data. However, areas such as default rates, volatilities and correlations require the Directorate to make estimates.

In this category the Institute has also classified other assets:

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

The NAV of funds, defined as the difference between the current value of the assets and liabilities of the fund, a Fair Value Adjustment was calculated to include other risk factors.

The Fair Value Adjustment (FVA) is defined as the amount to be added to the mid-price observed in markets, rather than the price determined by the model, with the aim of obtaining the fair value of the position. The FVA 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 adjusts the value of financial instruments measured at fair value on a recurring basis classified as Level 2 and Level 3 based on credit risk (Credit Valuation Adjustment), liquidity risk related to the disinvestment, close-out costs and available informations 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 60%.

Regarding the close-out cost, an adjustment is applied on the NAV of external investment funds if close-out penalties are stipulated.

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. 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.

For debt securities, transfers from level 3 to level 2 occurs when the relevant parameters used as inputs to the valuation technique are observable on the market. Transfers from level 3 to level 1 occurs when the presence of an active market has been verified, as defined by IFRS 13. Transfers from level 2 to level 3 occurs when some of the relevant parameters for determination of fair value are no longer directly observable on the market.

For equity instruments classified as available- for- sale, transfers between the fair value hierarchy occurs:

- during the period, when market observable inputs become available (e.g. prices are determined in comparable transactions on the same instrument between independent and knowledgeable counterparties), the Institute proceeds with the reclassification from level 3 to level 2;
- when inputs that are directly or indirectly observable in the market used as the basis for the valuation no longer exist, or no longer updated (e.g. No recent comparable transactions or market multiples are no longer applicable) and no other inputs are available, the Institute uses valuation techniques that use unobservable inputs.

Information on assets measured at fair value on a recurring basis

We provide below the IFRS 13 disclosure requirements about assets measured at fair value on a recurring basis. By definition, the carrying value of these items corresponds to the fair value.

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).

Financial assets held for trading
These consist of:

- **Debt securities**: the Institute has investments in debt securities valued at market price (mark-to-market) and regularly traded in active, liquid markets. Consequently, these instruments are classified as Level 1 in the fair value hierarchy, except for some bonds whose prices are determined internally on the basis of similar instruments quoted on active markets and are classified as Level 2; these amounted to EUR 81.5m.
- **Equity securities**: the Institute has investments in equity securities valued at market price (mark-to-market) and regularly traded in active, liquid markets. Consequently, these instruments classified as Level 1 in the fair value hierarchy.
- **Investments funds**: the Institute has external investment funds amounting to EUR 33.7m. With the exception of a fund of EUR 10.4m as Level 2 (liquid with monthly NAV), investment funds are classified as Level 3. Consequently, at 31 December 2016, a total of EUR 10.4m was classified as Level 2, while the remaining amount for EUR 23.3m was Level 3.

Financial assets available for sale
These are mainly classified as Level 1, comprise of shares quoted in active, liquid markets, except for two unlisted equity securities, one classified as Level 2 and the other classified as Level 3.

Tangible assets for investment
This item is comprised of properties directly owned by the Institute.

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

The appraisal is based on the real estate market data collected through surveys carried out by major industry players. The parameters used also reflect expert assumptions based on available information. For these reasons, the investment properties are classified as Level 3 on 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 is the information is required by IFRS 13.

Financial assets held to maturity
The fair value of financial assets held to maturity securities corresponds to the market value at the balance sheet date. The securities are classified as Level 1 in the fair value hierarchy since they are regularly traded on active, liquid markets.

Due from banks
This item is comprised of deposits on demand and time deposits with banks in addition to financial “Loans and Receivables” securities issued by banks.

Assuming that time deposits do not exceed ninety days, the carrying value of bank deposits, at the balance sheet date, approximates fair value and they are recorded in Level 1 of the fair value hierarchy.

For “Loans and Receivables” securities, the fair value represents the market value at the closing date of the financial statements.

By definition, “Loans and Receivables” securities are not quoted in active, liquid markets, but the valuation is sent weekly by the counterparty and is verified through an internal model.

For these reasons, “Loans and Receivables” securities are classified in Level 2 of the fair value hierarchy.

Due from customers
This item is comprised of receivables due from credits granted as advances to clients in addition to “Loans and receivables” securities issued from entities other than banks.

For Doubtful loans considered to be non-collectible, the Institute proceeded in the calculation of a specific impairment loss, and the carrying value represents fair value.

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

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

For “Loans and Receivables” securities the fair value represents the market value at the closing date of the financial statements.

By their nature, “Loans and Receivables” securities are not quoted in active, liquid markets, but the valuation is sent weekly by the counterparty and is controlled through an internal model.

For these reasons, “Loans and Receivables” securities are classified in Level 2 of the fair value hierarchy.

Liabilities not measured at fair value on a recurring basis

Due to banks
The carrying value of this item approximates fair value, considering their short maturity.

Due to customers
This item is comprised of client deposits on demand and time deposits, liquid accounts and term deposits related to Asset Management positions. Their carrying value approximates fair value, considering the short maturity.

As the fair value calculation is based on parameters not observable on markets, not even 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

	2016			2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	1,802,904	91,923	23,277	1,499,512	132,512	35,942
2. Financial assets carried at fair value						
3. Financial assets available for sale	6,157	499	8	13,348	1,811	8
4. Hedging derivatives						
5. Tangible assets			2,980			2,897
6. Intangible assets						
Total	**1,809,061**	**92,422**	**26,265**	**1,512,860**	**134,323**	**38,847**
1. Financial liabilities held for trading						
2. Financial liabilities carried 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 categorized 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 held for trading	Financial assets available for sale	Tangible assets
1. Opening balance	**35,942**	**8**	**2,897**
2. Additions			
2.1 Purchases			
2.2 Profit recognized in:			
2.2.1 Income Statement	1,693		136
- of which Gains	1,693		136
2.2.2 Net Equity			
2.3 Transfers from other levels			
2.4 Other variations in addition			
3. Disposals			
3.1 Sales			
3.2 Reimbursement			
3.3 Losses recognized in:			
3.3.1 Income Statement	(14,358)		(53)
- of which Losses	(14,358)		(53)
3.3.2 Net Equity			
3.4 Transfers to other levels			
3.5 Other variations in reduction			
4. Closing balance	**23,277**	**8**	**2,980**

(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

	2016				2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	558,956	583,392			614,818	650,020		
2. Due from banks	643,229	643,229			644,089	618,660	25,330	
3. Due from customers	29,153			30,418	86,234		62,116	25,374
Total	**1,231,338**	**1,226,621**		**30,418**	**1,345,141**	**1,268,680**	**87,446**	**25,374**
1. Due to banks					10,597	10,597		
2. Due to customers	2,398,924			2,398,924	2,323,403			2,323,403
Total	**2,398,924**			**2,398,924**	**2,334,000**	**10,597**		**2,323,403**

Key: BV = Book Value L1 = Level 1 L2 = Level 2 L3 = Level 3

1.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

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

PART 2. INFORMATION ON THE BALANCE SHEET

ASSETS

ITEM 10 - CASH AND CASH EQUIVALENTS

Detail

	2016	2015
(a) Cash	15,216	16,213
(b) Free deposits ex art. 9 (b)	35,634	98,524
(c) Free deposits ex art. 9 (c)		
(d) Other free deposits		
Total	**50,850**	**114,737**

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

ITEM 20 ASSETS - FINANCIAL ASSETS HELD FOR TRADING

2.1 Detail by asset type

	2016			2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	1,750,174	81,519		1,436,403	127,125	
2. Equity securities	52,730			63,109		
3. UCI units		10,404	23,277		5,387	35,942
4. Loans						
4.1 Outstanding repos						
4.2 Other						
Total A	**1,802,904**	**91,923**	**23,277**	**1,499,512**	**132,512**	**35,942**
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)	**1,802,904**	**91,923**	**23,277**	**1,499,512**	**132,512**	**35,942**

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

Financial assets held for trading is primarily comprised of debt securities classified as level 1 in the fair value hierarchy; the only financial assets classified as level 3 are shares of UCI units.

As of 31 December 2016, similar to the prior year, the Institute did not have any derivative financial instruments in the trading portfolio.

2.2 Detail by borrowers/issuers

	2016	2015
A. Cash assets		
1. Debt securities		
(a) Public entities	912,466	546,426
(b) Financial companies	703,239	705,268
(c) Insurance companies	9,286	21,217
(d) Non financial companies	206,702	290,617
(e) Other subjects		
2. Equity securities		
(a) Banks		
(b) Other issuers:		
- insurance companies	2,759	1,074
- financial companies	36,529	57,654
- non financial companies	13,442	4,381
- other		
3. UCI units	33,681	41,329
4. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non financial companies		
(e) Other subjects		
Total A	**1,918,104**	**1,667,966**
B. Derivatives		
(a) Banks		
(b) Customers		
Total B		
Total (A+B)	**1,918,104**	**1,667,966**

UCI units in the financial assets held for trading refers exclusively to investment funds managed by third parties composed by equity securities. Regarding the composition of the funds, refer to the table included in section 5.2.6 “Information on unconsolidated structured entities” of Part 5 “Information on risks and hedging policies”.

No borrowers/issuers are residents of the Vatican City State.

Line (a) Public entities of the item A.1 Debt securities is exclusively comprised of securities issued by Foreign Central Public Administrations.

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

Item 40 Assets - Financial assets available for sale

4.1 Detail by asset type

	2016			2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
2.1 Carried at fair value	6,157	499		13,348	1,811	
2.2 Carried at cost			8			8
3. UCI units						
4. Loans						
Total	**6,157**	**499**	**8**	**13,348**	**1,811**	**8**

4.2 Detail by borrowers/issuers

	2016	2015
A. Cash assets		
1. Debt securities		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non financial companies		
(e) Other subjects		
2. Equity securities		
(a) Banks		
(b) Other issuers:		
- insurance companies	6,157	13,348
- financial companies		
- non financial companies	507	1,819
- other		
3. UCI units		
4. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non financial companies		
(e) Other subjects		
Total A	**6,664**	**15,167**

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

In the portfolio of financial assets available for sale, there are no equity securities classified in default or at the risk of default.

4.3 Financial assets available for sale with specific hedges

The Institute did not hold financial assets available for sale with specific hedges.

Item 50 Assets - Financial assets held to maturity

5.1 Detail by asset type

	2016				2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
1. Debt securities								
- structured								
- other	558,956	583,392			614,818	650,020		
2. Loans								
Total	**558,956**	**583,392**			**614,818**	**650,020**		

Key: BV = book value, FV = fair value

Financial assets held to maturity is mainly comprised of government bonds issued by European countries and bonds issued by international financial entities.

As of 31 December 2016, securities with maturity less than 1 year (31 December 2017) had a balance sheet value amounting to EUR 316.4m.

5.2 Detail by borrowers/issuers

	2016	2015
1. Debt securities		
(a) Public entities	441,580	518,262
(b) Financial companies	88,033	66,998
(c) Insurance companies		
(d) Non financial companies	29,343	29,558
(e) Other subjects		
2. Loans		
(a) Public entities		
(b) Financial companies		
(c) Insurance companies		
(d) Non financial companies		
(e) Other subjects		
Total	**558,956**	**614,818**

No borrowers/issuers are residents of the Vatican City State.

Line (a) Public entities of the item A.1 Debt securities is exclusively comprised of securities issued by Foreign Central Public Administrations.

5.3 Financial assets held to maturity with specific hedges

The Institute did not hold financial assets held to maturity with specific hedges.

ITEM 60 ASSETS - DUE FROM BANKS

6.1 Detail by type

	2016				2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
A. Credits ex art. 14 (c)								
1. Fixed-term deposits	77,104	77,104			60,707	60,707		
2. Outstanding repos								
3. Others								
B. Credits ex art. 14 (d)								
1. Fixedterm deposits								
2. Outstanding repos								
3. Others								
C. Due from banks								
1. Loans								
1.1 Current accounts and demand deposits	457,624	457,624			265,426	265,426		
1.2 Outstanding repos	108,501	108,501			292,527	292,527		
1.3 Other loans:								
(a) Outstanding repos								
(b) Finance lease								
(c) Other								
2. Debt securities								
2.1 Structured securities								
2.2 Other debt securities					25,429		25,330	
Total	**643,229**	**643,229**			**644,089**	**618,660**	**25,330**	

Key: BV = book value, FV = fair value

No assets impairment was recorded.

Line A. Credits ex art. 14 (c) is comprised of different deposits from free deposits held with the Public Authorities of the Holy See and Vatican City State with the statutory purpose of administering the assets owned by the Holy See (at present, APSA).

6.2 Credits with specific hedges

The Institute did not hold credits with specific hedges and it has not outstanding finance leases.

ITEM 70 ASSETS - DUE FROM CUSTOMERS

7.1 Detail by type

	2016						2015					
	Book value			Fair value			Book value			Fair value		
	Non impaired	Impaired					Non impaired	Impaired				
		Purch-ased	Other	L1	L2	L3		Purch-ased	Other	L1	L2	L3
A. Loans												
1. Current accounts	8,424		27			8,451	518		53			570
2, Outstanding repos												
3. Mortgages												
4. Credit cards, personal loans and loans on salary												
5. Finance lease												
6. Factoring												
7. Other loans	12,495		8,207			21,967	13,416		9,944			24,804
B. Debt securities												
1. Structured securities												
2. Other debt securities							62,303				62,116	
Total	**20,919**		**8,234**			**30,418**	76,237		9,997		62,116	25,374

Additional supporting information is provided in Part 5 "Information on risks and related hedging policies" of this document.

It is to be mentioned that the Institute is not authorized by the Autorità di Informazione Finanziaria to carry out the activity of "lending" (cfr. art. 1 (l) (b) of the Law n. XVIII and art. 3 (24) (b) of the Regulation No. 1), as credit activities on its own. However, it is authorized to make "advances" that is to disburse funds to its clients and to a limited extent following guarantee of future income (such as, for example, in the case of the advance of salary or pension paid by the Holy See or the Governatorato of Vatican City) or guaranteed by financial assets of the same amount deposited by the clients at the Institute.

7.2 Detail by borrowers

	2016			2015		
	Non impaired	Impaired		Non impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities						
(a) Public Entities						
(b) Financial companies				52,304		
(c) Insurance companies				10,000		
(d) Non financial companies						
(e) Other subjects						
2. Loans to:						
(a) Public Entities	8,290					
(b) Financial companies						
(c) Insurance companies						
(d) Non financial companies	3,315			3,510		
(e) Other subjects	9,314		8,234	10,423		9,997
Total	**20,919**		**8,234**	**76,237**		**9,997**

7.3 Credits with specific hedges

The Institute did not hold credits with specific hedges.

Item 100 Assets – Investment in subsidiaries

10.1 Information on investment in subsidiaries

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

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

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

There was no change in the value of the investment during 2016 and no dividends were paid.

The equity of SGIR S.r.l. as of 31 December 2016 was EUR 22.6m (2015: EUR 22.1m), including EUR 12.4m (2015: EUR 12.4m) for a Fiscal Revaluation Reserve.

Being the investment in an unlisted company, IOR has not carried out the measurement of the fair value.

10.3 Material investment in subsidiaries: financial information

	Cash and cash equiva-lents	Financial assets	Non financial assets	Financial liabilities	Non financial liabilities	Total income	Interest margin	Value adjustments and write-backs on tangible and intangible assets	Profit (loss) from current operations before taxes	Profit (loss) from current operations after taxes	Profit (loss) from groups of assets being disposed after taxes	Profit (loss) for the year (1)	Other income items after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Subsidiaries entities														
SGIR S.r.l.	262	596	25,783	3,975	100	1,687	-1	8	869	443		443		443
B. Entities subject to joint control														
C. Entities subject to significant influence														

ITEM 110 ASSETS - TANGIBLE ASSETS

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

	2016	2015
1. Owned assets		
(a) land		
(b) buildings		
(c) furniture	1	14
(d) electronic equipment	115	59
(e) other		11
2. Assets acquired under finance lease		
(a) land		
(b) buildings		
(c) furniture		
(d) electronic equipment		
(e) other		
Total	**116**	**84**

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

	2016				2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
1. Owned assets								
(a) land								
(b) buildings	2,980			2,980	2,897			2,897
2. Assets acquired under finance lease								
(a) land								
(b) buildings								
Total	**2,980**			**2,980**	**2,897**			**2,897**

Key: BV = book value, FV = fair value

11.5 Tangible assets in- use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening balance			2,628	4,335	32	**6,995**
A.1 Net total adjustments			(2,614)	(4,276)	(21)	**(6,911)**
A.2 Net opening balance			14	59	11	**84**
B. Increases:						
B.1 Purchases			1	113		**114**
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4 Positive fair value differences recognized in						
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			(14)	(57)	(11)	**(82)**
C.3 Impairment losses recognized in:						
a) Net Equity						
b) Income Statement						
C.4 Negative fair value differences recognized in						
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			2,629	4,448	32	**7,109**
D.1 Total net adjustments			(2,628)	(4,333)	(32)	**(6,993)**
D.2 Gross closing balance			1	115		**116**

All tangible assets in-use were measured at cost.

11.6 Tangible assets held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balance		2,897
B. Increases:		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive fair value differences		136
B.4 Write-backs		
B.5 Positive foreign exchange differences		
B.6 Transfer from tangible assets for functional use		
B.7 Other changes		
C. Decreases		
C.1 Sales		
C.2 Depreciation		(53)
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) current assets being disposed		
C.7 Other changes		
D. Closing balance		**2,980**

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

The item incudes 5 investment properties received in the past through donations, totaling EUR 3.0m. The item increased from 31 December 2015 due to an increase in fair values.

The Institute has surveys performed by a qualified independent expert.

As of 31 December 2016, the properties did not generate any rental income. In October 2015, the Institute signed a lease agreement with its subsidiary SGIR for the use of four properties for free. In 2016 SGIR did not receive rental income on these properties.

In relation to the fifth property, please note that during the month of December 2016 the IOR took the full ownership. At the same time the Institute has not yet the property of the real estate, due to the completion of some formalities related to the inheritance.

Item 120 Assets - Intangible assets

12.1. Detail by asset

	2016		2015	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1. Goodwill				
A.2. Other intangible assets				
A.2.1 Assets carried at cost:				
(a) intangible assets generated internally				
(b) other assets	1,044		875	
A.2.2 Assets carried at fair value				
(a) intangible assets generated internally				
(b) other assets				
Total	**1,044**		**875**	

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

12.2 Annual changes

		Other intangible assets generated internally		Other intangible assets: other		
	Goodwill	DEF	INDEF	DEF	INDEF	Total
A. Opening balance				6,229		**6,229**
A.1 Total net adjustments				(5,354)		**(5,354)**
A.2 Net opening balance				875		**875**
B. Increases						
B.1 Purchases				852		**852**
B.2 Increases of intangible assets generated internally						
B.3 Write-backs						
B.4 Positive fair value differences recognized in						
- Net Equity						
- Income Statement						
B.5 Positive foreign exchange differences						
B.6 Other changes						
C. Decreases						
C.1 Sales						
C.2 Impairment losses						
- Depreciation				(683)		**(683)**
- Write downs recognized in						
+ Net Equity						
+ Income Statement						
C.3 Negative fair value differences recognized in						
- 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				7,081		**7,081**
D.1 Total net adjustments				(6,037)		**(6,037)**
E. Gross closing balance				1,044		**1,044**

Intangible assets are carried at cost.

The IOR does not have internally generated intangible assets.

Item 150 Assets - Other assets

15. Other Assets

	2016	2015
1.Gold	22,394	22,766
2. Medals and precious coins	10,490	10,437
3. Securities sold not settled		
4. Sundry debtors	8,095	7,553
5. Prepayments	980	801
Total	**41,959**	**41,557**

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 and 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 and net estimated recoverable amount.

For further information regarding the accounting policies adopted, their impacts and their evaluation, please refer to Part. 1 “Accounting policies” Section 1.1.4 “Other aspects” in these financial statements.

Also included in Other Assets is Sundry debtors, for EUR 6.5m, representing commission from asset management services not yet received at the closing date of the financial statements. These commissions, pertaining to the second half of 2016, were collected at the beginning of 2017.

Furthermore, other assets include prepayments, which is comprised of EUR 799,000 deposited as guarantees for credit cards transactions and EUR 160,000 in advances for credit cards transactions.

LIABILITIES

ITEM 10 LIABILITIES - DUE TO BANKS

1.1 Detail by product

	2016	2015
1. Due to Public Authorities		
of which:		
- Public Authorities ex art. 24 (c)		10,597
2. Due to foreign Public Authorities		
of which:		
- Public Authorities ex art. 24 (d)		
3. Due to banks		
3.1 Current accounts and demand deposits		
3.2 Fixed-term deposits		
3.3 Loans		
3.3.1 Reverse repos		
3.3.2 Other		
3.4 Amounts due under repurchase agreements of own equity instruments		
3.5 Other liabilities		
Total		**10,597**
Fair value - level 1		10,597
Fair value - level 2		
Fair value - level 3		
Total fair value	–	**10,597**

Due to banks include amounts due to the Holy See and Vatican City State Public Authorities, the statutory purpose of which is to administer the Holy See's proprietary assets (at present APSA).

Amounts due as of 31 December 2015 was EUR 10.6m comprised solely by debt on demand to APSA.

As of 31 December 2016, there were no amounts due to banks.

1.2 Subordinated liabilities

There are no subordinated liabilities recognized in this item.

Item 20 Liabilities - Due to customers

2.1 Detail by type

	2016	2015
1. Current accounts and demand deposits	2,397,688	2,319,257
2. Fixed-term deposits	1,236	4,146
3. Loans		
3.1 Reverse repos		
3.2 Other		
4. Amounts due under repurchase agreements of own equity instruments		
5. Other payables		
Total	**2,398,924**	**2,323,403**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	2,398,924	2,323,403
Total fair value	**2,398,924**	**2,323,403**

Due to customers had a slight increase from 2015, recording, on one hand, an increase in the number of accounts and demand deposits, offset by a decrease in fixed-term deposits.

The above amounts include liquidity and term deposits related to the Asset Management agreements, for which IOR is the depository institution.

These are comprised of:

Deposits related to Asset management accounts	**2016**	**2015**
Deposits on demand	417,026	424,815
Time deposits		
Total	**417,026**	**424,815**

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 6.3m (2015: EUR 11.3m). The EUR 5.0m decrease was mainly due to the distribution of funds for charitable activities.

2.2 Subordinated liabilities

There are no subordinated liabilities recognized in this item.

Item 100 Liabilities - Legates

The item includes the deposits of the "Legates" amounting to EUR 47.1m (2015: 48.3m) as of 31 December 2016, comprised of 293 funds (2015: 295) donated to the Institute. The IOR has the burden, for a significant period of time, of fulfilling specific ecclesiastical functions or otherwise achieving purposes related to works of piety, apostolate and charity works, on the basis of its annual income.

ITEM 110 LIABILITIES - OTHER LIABILITIES

Other liabilities	2016	2015
Inheritances to be settled	6,384	7,587
Invoices to be received	4,515	5,161
Outstanding checks	1,070	1,105
Remunerations to be paid	914	966
Other sundry creditors	908	404
Funds for charitable contributions	3,220	3,303
Liabilities for guarantees issued and commitments towards third parties	1,699	1,561
Securities purchased not settled		
Total	**18,710**	**20,087**

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

The amount of EUR 1.7m (2015: EUR 1.6m) reported under "Liabilities for guarantees issued and commitments towards third parties" is due to guarantees in addition to the commitments to third parties to lend funds of uncertain use (see paragraph 13.1 Guarantees and commitments).

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

Fund for Missionary Activities

The Fund for Missionary Activities is used to distribute contributions to congregations and institutions that operate missionary and charitable activities.

It is mainly funded by small donations with a commitment to execute Missionary activities.

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

Distributions to the beneficiaries are approved by a Committee comprised of the Prelate, the "Aggiunto al Direttore" and the Client Relationship Manager.

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 with a commitment to the Holy Masses.

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

Distributions to the priests are approved by a Committee comprised of the Prelate, the "Aggiunto al Direttore" and the Client Relationship Manager.

The detail of Funds for charitable contributions is as follows:

Funds for charitable	2016	2015
A. Fund for Missionary Activities	**156**	**239**
1. Balance at 1 January	239	189
2. Donations received	86	145
3. Distributions for Missionary Activities	(169)	(95)
B. Fund for Holy Masses	**3,064**	**3,064**
1. Balance at 1 January	3,064	2,971
2. Donations received	83	154
3. Distributions for Holy Masses	(83)	(61)
Total	**3,220**	**3,303**

Distributions of funds to beneficiaries are subject to strict internal policies.

It should be noted that the charitable activities of the Commission of Cardinals are made through a deposit included in item 20 of the liabilities.

Item 120 Liabilities - Staff severance fund

10.1 Annual changes

	2016	2015
A. Opening balance	**6,788**	**6,551**
B. Increases		
B.1 Allocation for the year	534	530
B.2 Other changes	518	
C. Decreases		
C.1 Benefits paid	(624)	(84)
C.2 Other changes	(223)	(209)
D. Closing balance	**6,993**	**6,788**

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

The change in the fund balance is summarised as follows:

	2016	2015
Balance at 1 January	6,788	6,551
Current costs	459	457
Contribution by individuals	75	73
Transfers to benefit plan for pensions	(223)	
Advances	(80)	(84)
Advances restitution	148	
Consideration paid during the year	(544)	
Actuarial (gain) loss of the year	370	(209)
Balance at 31 December	**6,993**	**6,788**

The actuarial assumptions used for the valuation of the Staff severance fund are the same as those used for the Benefit Plan Liability for pensions, described in Item 130 (a) Liabilities.

As defined by IAS 19, a sensitivity analysis was performed on the variation of the main actuarial assumptions included in the calculation model; these assumptions are:

- annual discount rate;
- annual rate of salary growth;
- annaul inflation rate;
- annual mortality rate

	Annual discount rate		Annual rate of salary growth		Annual inflation rate		Mortality rate	
Liabilities	+0,50 p.p.	-0,50 p.p.	+0,50 p.p.	-0,50 p.p.	+0,50 p.p.	-0,50 p.p.	+0,025 p.p.	-0,025 p.p.
	6,866	7,127	7,117	6,874	6,992	6,994	6,965	7,008

10.2 Other information

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

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

No payments were made to the Vatican Pension Plan.

Funds were managed by the IOR Treasury department.

Item 130 Liabilities - Allowances for risks and charges

11.1 Detail by type

	2016	2015
1. Post employment benefits for pensions	121,088	108,338
2. Other allowances for risks and charges		
2.1 legal disputes		
2.2 staff expenses		
2.3 other	3,500	16,500
Total	**124,588**	**124,838**

11.2 Annual changes

	Provision for pension and similar obligations	Other provisions	Total
A. Opening balance	108,388	16,500	**124,838**
B. Increases			
B.1 Provision for the year	2,731		**2,731**
B.2 Time value changes			
B.3 Changes due to discount rate variations	12,905		**12,905**
B.4 Other changes	223		**223**
C. Decreases			
C.1 Utilization in the year	(3,109)	(13,000)	**(16,109)**
C.2 Changes due to discount rate variations			
C.3 Other changes			
D. Closing balance	**121,088**	**3,500**	**124,588**

11.3 Pension plan liabilities defined benefit obligations

More in detail, the changes in the Plan concern the following items:

	2016	2015
Opening balance	**108,338**	**117,396**
Current Service cost	607	780
Interest cost	2,031	1,811
Contribution by individuals	93	96
Transfer from staff severance fund	223	
Pensions paid during the year	(3,109)	(3,075)
Transfer out		
Actuarial (gain) loss of the year	12,905	(8,670)
Closing balance	**121,088**	**108,338**

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

	2016	2015
Annual inflation rate	2.00%	2.00%
Annual discount rate	1.43%	1.93%
Annual rate for revaluation of pension	2.00%	2.00%
Annual rate of real increase salary	2.35%	2.35%

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 from the 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 has actually occurred;
- the effect of the changes in actuarial assumptions.

The results are recognized directly to Equity in a specific reserve named “Valuation reserves” “Post-employment benefit actuarial gain (loss) reserves" and the actuarial gain or loss is recorded in Other Comprehensive Income.

For Staff severance fund and Provisions for pensions and similar obligations, in 2016, the Institute recognized an actuarial loss of EUR 13.3m (2015: gain of EUR 8.9m) in Other Comprehensive Income. Consequently, change in the "Valuation reserves" (item 140 Equity) was a loss of EUR 46.0m (2015: EUR -32.7m); the increased loss compared to the prior year is due to the decrease in the discount rate to 1.43% in 2016 from 1.93% in 2015.

A total of 102 employees are active and contribute to the Pension plan (2015:109). A total of 74 former employees are in retirement and benefit from the plan (2015: 70).

As defined by IAS 19, a sensitivity analysis was performed on the variation of the main actuarial assumptions included in the calculation model; these assumptions are:

- annual discount rate;
- annual rate of salary growth;
- annaul inflation rate;
- annual mortality rate.

	Annual discount rate		Annual rate of salary growth		Annual inflation rate		Mortality rate	
Liabilities	+0,50 p.p.	-0,50 p.p.	+0,50 p.p.	-0,50 p.p.	+0,50 p.p.	-0,50 p.p.	+0,025 p.p.	-0,025 p.p.
	110,727	133,037	120,674	119,123	131,768	109,479	120,757	121,407

11.4 Other information

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

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

No payments were made to the Vatican Pension Plan.

Funds were managed by the IOR Treasury department.

11.5 Other provisions

As of 31 December 2016, based on analysis performed with the support of legal consultants, a liability of EUR 3.5m was estimated for potential tax liabilities. The reestimation led to the recognition of EUR 13m in income included in the item 160 Income Statement "Net provisions to risks and charges" corresponding to item 130 Liabilities "Provision for risks and charges" line (b) "Other provisions" of the balance sheet. As the estimate was based on critical assumptions, actual results may differ from what is expected when the future event will take place.

The relative content of the item was explained in the paragraph 1.1.4.1 Other aspects - Critical accounting estimates and judgements, Part 1 Accounting policies.

ITEM 160 170 EQUITY - RESERVES

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 2016, no changes were recorded in Capital balance, amounting to EUR 300m.

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

12.2 Reserves

The equity balance is comprised of two different reserves, Available and Unavailable reserves.

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

Available Reserves are earning reserves representing earnings that could potentially fulfill a "stabilization" function, subject to a resolution of the Commission of Cardinals.

During 2016, no changes were recognized in Unavailable Reserves, amounting to EUR 100m, and Available Reserves, amounting to EUR 282m.

Unavailable reserves are comprised of securities, properties and precious metals. In detail are gold bars, medals and coins, investment in subsidiary (SGIR S.r.l.), real estate properties and liquid financial instruments traded on regulated markets.

The Available Reserve is comprised of securities, representing liquid financial instruments traded on regulated markets.

13 ADDITIONAL INFORMATION

13.1 Guarantees and commitments

	2016	2015
1) Financial guarantees given		
a) Banks	27	27
b) Customers	15	41
2) Commercial guarantees given		
a) Banks		
b) Customers		
3) Irrevocable commitments to lend funds		
a) Banks		
b) Customers		
i) of certain use		
ii) of uncertain use	4,000	4,000
4) Underlying commitments on credit derivatives: protection sales		
5) Assets pledged as collateral of third party commitments		
6) Other commitments		
Total	**4,042**	**4,068**

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

The IOR issued in past three guarantees covered by assets held in custody.

No new guarantees were issued in 2016.

The guarantees were initially recognized at their nominal value, which is their fair value. In subsequent periods, the guarantees are reported at the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

13.4 Asset Management and Brokerage on behalf of third parties

	2016	2015
1. Trading on behalf of customers		
(a) purchases		
(i) settled	129,087	
(ii) to be settled		
(b) sales		
(i) settled	84,530	
(ii) to be settled		
2. Portfolio management (assets management)		
(a) individual	3,110,929	3,185,685
(b) collective		
3. Custody and administration of securities		
(a) third party security held in deposit: related to depositary bank activities (excluding portfolio management)		
(i) security issued by the entity that prepare the financial statement		
(ii) other securities		
(b) third party securities held in deposit: other (excluding portfolio management)		
(i) security issued by the entity that prepare the financial statement		
(ii) other securities		
(c) third party securities deposited with third parties	554,763	646,161
(d) proprietary portfolio securities deposited with third parties	2,508,160	2,586,923
4. Other operations		

Assets under Management agreements are valued using the mark-to-market method. They include the total value of portfolios, and liquid and term deposits. Accruals are also included, both on securities and on liquid and term deposits. The IOR is the depository of liquid and for term deposits, amounting to EUR 417.2m (2015: EUR 424.8m), as disclosed in item 20 Liabilities "Due to customers".

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

Due to the change in accounting system, the data for 2015 were too heavy to be extracted and barely relevant in comparison to the information provided.

PART 3. INFORMATION ON INCOME STATEMENT

ITEM 10 INCOME STATEMENT - INTEREST AND SIMILAR INCOME

1.1 Interest income and similar income: detail

	2016				2015
	Debt securities	Loans	Other transactions	Total	Total
1. Financial assets held for trading	22,574			22,574	26,202
2. Financial assets available for sale					
3. Financial assets held to maturity	15,217			15,217	16,284
4. Due from banks	135	1,480		1,615	3,844
5. Due from customers	46	380		426	2,311
6. Financial assets carried at *fair value*					
7. Hedging derivatives					
8. Other assets					
Total	**37,972**	**1,860**		**39,832**	**48,641**

Interest and similar income (other than those recorded in the item Net value adjustments/write backs) accrued during the year in positions classified as impaired at the balance sheet date amounted to EUR 310,000. They were directly deducted from line 5 in the table above.

ITEM 20 INCOME STATEMENT - INTEREST AND SIMILAR EXPENSES

1.4 Interest and similar expenses: detail

	2016				2015
	Payables	Securities	Other transactions	Total	Total
1. Due to Public Entities					
(i) Public Authorities					
(ii) Foreign Public Authorities					
(iii) International and Regional Organizations					
2. Due to banks	(52)			(52)	(16)
3. Due to customers	(3,117)			(3,117)	(4,987)
4. Outstanding securities					
5. Financial liabilities held for trading					
6. Financial liabilities designated at *fair value through profit and loss*					
7. Other liabilities and funds					
8. Hedging derivatives					
9. Due to other subjects					
Total	**(3,169)**			**(3,169)**	**(5,003)**

In 2016 the Institute recorded a general decrease in all items related to interest margin, both income and expense, bringing consequently to a net reduction in the Interest Margin.

Interest income decreased due to the impact of lower interest rates determined by the European Central Bank in 2014, 2015 and 2016, and the expiration of many positions with higher interest rates. Interest expense decreased on interest payable on customer deposits (-37%) from the expiration of term deposits with high interest rates.

ITEM 40 INCOME STATEMENT - FEE AND COMMISSION INCOME

2.1 Fee and commission income: detail

	2016	2015
a) Guarantees given/received	1	1
b) Credit derivatives		
c) Administration, brokerage and consultancy services:		
1. trading in financial instruments	654	1,340
2. trading in currencies		
3. portfolio management		
3.1 individual	12,483	13,667
3.2 collective		
4. Custody and administration of securities	113	208
5. Custodian bank		
6. Securities placement		
7. Receipt and transmission of orders activity		
8. Consulting		
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	2,196	2,053
e) *servicing* of securitization operations		
f) factoring services		
g) rate and tax collection office services		
h) multilateral trading systems management		
i) current account keeping and management	369	400
j) other services	21	41
Total	**15,837**	**17,710**

The decrease in Fee and Commission income was due to the general reduction in customer transactions, the decrease in assets under management agreements, and the shift of some high network clients from equity lines to asset management lines (especially bond ones) with lower commission.

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

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

Item 50 Income Statement - Fee and commission expense

2.3 Fee and commission expense: detail

	2016	2015
a) Guarantees given/received		
b) Credit derivatives		
c) Administration, brokerage and consultancy services:		
1. trading in financial instruments	(83)	(648)
2. trading in currencies		
3. portfolio management		
3.1 own portfolio		
3.2 third-party portfolio		
4. Custody and administration of securities	(1,613)	(913)
5. Placement of financial instruments		
6. Sales of financial instrument, products and services through other outlets		
d) Collection and payment services	(761)	(921)
e) Administration and management of current accounts	(571)	
f) Other services	(1)	
Total	**(3,029)**	**(2,482)**

The increase in Fee and commission expense was mainly due to the increase in custody and administration fees for securities (doubled compared with 2015) and fee and commissions charged by correspondent banks on current accounts of the Institute as charges for the management of liquidity.

Item 70 Income Statement - Dividends and similar income

3 Dividends and similar income: detail

	2016		2015	
	Dividends	Income from UCI	Dividends	Income from UCI
A. Financial assets held for trading	860	812	686	800
B. Financial assets available for sale	435		468	
C. Financial assets carried at *fair value through profit and loss*				
D. Investment in subsidiaries				
Total	**1,295**	**812**	**1,154**	**800**

Dividends received in 2016 for financial assets held for trading was EUR 1.7m (2015: EUR 1.5m), an increase of 12.5%.

In 2016, the Institute received dividends of EUR 435,000 from investment securities recorded as financial assets available for sale (2015: EUR 468,000).

ITEM 80 INCOME STATEMENT - NET INCOME FROM TRADING ACTIVITIES

4. Net income from trading activities: detail

	2016				
	Gains (A)	Profit from trading activities (B)	Losses (C)	Losses from trading activities (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	6,167	1,429	6,041		**1,555**
1.2 Equity securities	1,603		1,509		**94**
1.3 UCI units	1,693		14,445		**(12,752)**
1.4 Loans					
1.5 Other		126			**126**
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	1,529	470	5		**1,994**
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					
Total	**10,992**	**2,025**	**(22,000)**		**(8,983)**

	2015				
	Gains (A)	Profit from trading activities (B)	Losses (C)	Losses from trading activities (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	2,467	8,698	11,632	16,670	**(17,137)**
1.2 Equity securities	2,330	2,604	1,873	3,368	**(307)**
1.3 UCI units	63	104		18	**149**
1.4 Loans					
1.5 Other		18			**18**
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	24	2,727	236	617	**1,899**
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					
Total	**4,884**	**14,133**	**13,741**	**20,673**	**(15,378)**

Below is a summary of the net trading results in 2016 compared to 2015.

In 2016, debt securities recognized a gain of EUR 1.6m from a loss of EUR 17.1m in 2015. Realized gain from trading activity was EUR 1.4m compared to a loss of EUR 8.0m in 2015, and the unrealized gain was EUR 120,000 compared to a loss of EUR 9.1m in 2015.

In 2016, equity securities recognized a gain of EUR 94,000 from a loss of EUR 307,000 in 2015. No realized profit (loss) was recognized compared to a loss of EUR 764,000 in 2015, while unrealized gain (loss) was EUR 94,000, compared to EUR 457,000 in 2015.

In 2016, UCI units recognized a loss of EUR 12.8m from a gain in 2015 of EUR 149,000. No realized gain was recorded in 2016 compared to a gain of EUR 86,000 in 2015, while unrealized loss was EUR 12.8m compared to an unrealized gain of EUR 63,000 in 2015.

Line 1.5 "Financial assets held for trading: other" includes gains (losses) from currency trade, gold and other precious metals, recognizing a gain of EUR 126,000 in 2016 from EUR 18,000 in 2015 (realized).

"Financial assets and liabilities: exchange differences" recognized a gain of EUR 2.0m from a profit of EUR 1.9m in 2015, comprised of EUR 470,00 realized profit in 2016 compared to EUR 2.1m in 2015 and unrealized profit of EUR 1.5m in 2016 compared to unrealized loss of (EUR 212,000) in 2015.

ITEM 100 INCOME STATEMENT - PROFIT (LOSS) ON DISPOSAL OR REPURCHASE

6. Profit (loss) on disposal or repurchase: detail

Voci/Componenti reddituali	2016			2015		
	Profit	Losses	Net income	Profit	Losses	Net income
Financial assets						
1. Due from banks						
2. Due from customers						
3. Financial assets available for sale						
3.1 Debt securities						
3.2 Equity securities	1.518	(19)	1.499			
3.3 UCI units						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**1.518**	**(19)**	**1.499**			
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Outstanding securities						
Total liabilities						

ITEM 130 INCOME STATEMENT - NET LOSSES/REVERSAL ON IMPAIRMENT

8.1 Net impairment losses on loans: detail

	Value adjustments (1)			Write-backs (2)					
	Specific		Portfolio	Specific		Portfolio			
	Derecognition	Other		A	B	A	B	2016 (1)+(2)	2015
1. Due from banks									
- Loans									
- Debt securities									
2. Due from customers									
Purchased impaired loans									
- Loans									
- Debt securities									
Other receivables									
- Loans		(1,453)		350		58		(1,045)	353
- Debt securities									
Total		(1,453)		350		58		(1,045)	353

8.2 Net impairment losses on financial assets available for sale: detail

	Value adjustments (1)		Write-backs (2)			
	Specific		Specific			
	Derecognition	Other	A	B	2016 (1)+(2)	2015
1. Debt securities						
2. Equity securities		(148)			(148)	
3. UCI units						
4. Loans to banks						
5. Loans to customers						
Total		(148)			(148)	

8.4 Net impairment losses on other financial assets: detail

	Value adjustments (1)			Write-backs (2)					
	Specific		Portfolio	Specific		Portfolio			
	Derecognition	Other		A	B	A	B	2016 (1)+(2)	2015
1. Guarantees given		(138)						(138)	(156)
2. Credit derivatives									
3. Commitments to lend funds									
4. Other operations									
Total		(138)						(138)	(156)

Item 150 Income Statement - Administrative expenses

9.1 Personnel expenses: detail

	2016	2015
A. Staff		
1. Wages and salaries	(5,078)	(5,534)
2. Social security charges		
3. Termination indemnities		
4. Supplementary benefits	(630)	(658)
5. Provisions for termination indemnities	(459)	(457)
6. Provisions for post employment benefits		
(a) defined contribution plans		
(b) defined benefit plans	(2,638)	(2,591)
7. Payments to external pension plans		
(a) defined contribution plans		
(b) defined benefit plans		
8. Other benefits in favor of employees	(546)	(889)
B. Current Personnel with contracts pursuant to ex art. 10 (1)		
1. letter (b)		
2. letter (c)		
3. letter (d)		
C. Fees and charges for:		
1. Board of Superintendence	(504)	(796)
2. Directorate	(299)	(241)
3. *Revisori*	(91)	(101)
D. Early retirement cost		
E. Recovery of expenses for employees seconded to other entities		
F. Reimbursement of expenses for employees of the institutions and organizations of the Holy See and the Vatican City State placed at the Institute		
Total	**(10,245)**	**(11,267)**

9.2 Average number of employees by categories

Type	Total	Managers	Officials	Staff
Average number	104	2	5	97

Reimbursement of expenses for employees of the institutions and organizations of the Holy See and the Vatican City State placed at the Institute.

9.3 Post employment defined benefit plans: costs and revenues

Post employment defined benefit plans: costs	2016	2015
Current Service cost of internal Pension Plan	607	780
Interest cost of internal Pension Plan	2,031	1,811
Post employment costs: contribution to Vatican Pension Plan	630	658
Total Costs	**3,268**	**3,249**
Post employment defined benefit plans: revenues		
Total	**3,268**	**3,249**

9.5 Professional service expenses: detail

	2016	2015
A. Professional services expenses		
1. Legal services	(2,437)	(4,552)
2. Directional consultants	(718)	(1,438)
3. Technical consultants	(288)	(301)
4. Operational consultants	(342)	(1,132)
5. Translational services	(56)	(41)
B. Expenses related to works contract		
1. ex art. 10 (1) (a)		
2. ex art. 11 (1)		
C. Expenses related to outsourcing contracts		
D. Expenses related to external auditors	(121)	(143)
Total	**(3,962)**	(7,607)

9.6 Other administrative expenses: detail

	2016	2015
1. Software maintenances	(1,441)	(1,247)
2. Other maintenances	(800)	(592)
3. Local rent	(1,000)	(1,000)
4. Information providers	(379)	(483)
5. AIF contribution	(346)	(230)
6. Other expenses	(913)	(1,000)
Total	**(4,879)**	(4,552)

Item 160 Income Statement - Net provision for risks and charges

Detailed information is provided in Item 130 (b) Liabilities.

ITEM 170 INCOME STATEMENT - NET VALUE ADJUSTMENTS TO/RECOVERIES ON TANGIBLE ASSETS

11. Net value adjustments to/recoveries on tangible assets: detail

	2016			
	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net income (a+b-c)
A. Tangible assets				
A.1 Owned assets				
- Functional use	(83)			(83)
- For investment				
A.2 Acquired under finance lease				
- Functional use				
- For investment				
Total	**(83)**			**(83)**

	2015			
	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net income (a+b-c)
A. Tangible assets				
A.1 Owned assets				
- Functional use	(64)			(64)
- For investment				
A.2 Acquired under finance lease				
- Functional use				
- For investment				
Total	**(64)**			**(64)**

ITEM 180 INCOME STATEMENT - NET VALUE ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS

12. Net value adjustments to/recoveries on intangible assets: detail

	2016			
	Amortization (a)	Impairment losses (b)	Recoveries (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned assets				
- Generated internally by the Institute				
- Other	(683)			(683)
A.2 Acquired under finance lease				
Total	**(683)**			**(683)**

	2015			
	Amortization (a)	Impairment losses (b)	Recoveries (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned assets				
- Generated internally by the Institute				
- Other	(512)			(512)
A.2 Acquired under finance lease				
Total	**(512)**			**(512)**

ITEM 190 INCOME STATEMENT – OTHER OPERATING INCOME (EXPENSE)

13.1 Other operating income (expense): detail

	2016	2015
A. Income	736	**13,720**
Extraordinary income	558	120
Recovery of amounts for gold and precious metals	178	
Closure of past years issue		13,600
B. Expenses	(729)	**(3,231)**
1. Operating losses	(715)	(54)
2. Extraordinary expenses	(14)	(324)
3. Impairment of amounts for gold and precious metals		(2,853)
Total	7	**10,489**

ITEM 220 INCOME STATEMENT – NET RESULT OF FAIR VALUE VALUATION OF TANGIBLE AND INTANGIBLE ASSETS

15. Net result of fair value valuation of tangible and intangible assets: detail

2016	Revaluations (a)	Impairment (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net income (a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment	136	(53)			83
A.2 Acquired under finance lease					
- Functional use					
- Held for investment					
B. Intangible assets					
B.1 Owned assets					
B.1.1 Generated internally by the Institute					
B.1.2 Other					
B.2 Acquired under finance lease					
Total	**136**	**(53)**			**83**

2015	Revaluations (a)	Impairment (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net income (a-b+c-d)
A. Tangible assets					
A.1 Owned assets					
- Functional use					
- Held for investment	517	(16)			501
A.2 Acquired under finance lease					
- Functional use					
- Held for investment					
B. Intangible assets					
B.1 Owned assets					
B.1.1 Generated internally by the Institute					
B.1.2 Other					
B.2 Acquired under finance lease					
Total	**517**	**(16)**			**501**

PART 4. INFORMATION ON COMPREHENSIVE INCOME

2016	Gross amount	Income tax	Net amount
10. Profit (loss) for the year	**36,001**		**36,001**
Other comprehensive income that may not be reclassified to the income statement			
20. Tangible assets			
30. Intangible assets			
40. Defined benefit plans	(13,275)		(13,275)
50. Non current assets held for sale			
60. Share of valuation reserves connected with investments carried at equity			
Other comprehensive income that may be reclassified to the income statement			
70. Hedges of foreign investment			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
80. Foreign exchange differences			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
90. Cash flow hedges			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
100. Financial assets available for sale			
(a) fair value changes	(1,838)		(1,838)
(b) reclassification to the income statement			
- impairment losses	148		148
- gains (losses) from disposals	(2,589)		(2,589)
(c) other changes			
110. Non current assets held for sale			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
120. Share of valuation reserves connected with investments carried at equity:			
(a) fair value changes			
(b) reclassification to the income statement			
- impairment losses			
- gains (losses) from disposals			
(c) other changes			
130. Total other comprehensive income	**(17,554)**		**(17,554)**
Total Comprehensive Income (item 10 + item 130)	**18,447**		**18,447**

2015	Gross amount	Income tax	Net amount
10. Profit (loss) for the year	**16,127**		**16,127**
Other comprehensive income that may not be reclassified to the income statement			
20. Tangible assets			
30. Intangible assets			
40. Defined benefit plans	8,880		8,880
50. Non current assets held for sale			
60. Share of valuation reserves connected with investments carried at equity			
Other comprehensive income that may be reclassified to the income statement			
70. Hedges of foreign investment			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
80. Foreign exchange differences			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
90. Cash flow hedges			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
100. Financial assets available for sale			
(a) fair value changes	4,777		4,777
(b) reclassification to the income statement			
- impairment losses			
- gains (losses) from disposals			
(c) other changes			
110. Non current assets held for sale			
(a) fair value changes			
(b) reclassification to the income statement			
(c) other changes			
120. Share of valuation reserves connected with investments carried at equity:			
(a) fair value changes			
(b) reclassification to the income statement			
- impairment losses			
- gains (losses) from disposals			
(c) other changes			
130. Total other comprehensive income	**13,657**		**13,657**
Total Comprehensive Income (item 10 + item 130)	**29,784**		**29,784**

ATTACHMENTS

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

During 2016, the IOR did not pay fees to the companies belonging to the network of the audit firm Deloitte & Touche S.p.A. with the exception of those related to the audit of the annual accounts amounting to EUR 121.

The fees due are those contractually agreed, inclusive of any indexation and reimbursement of expenses calculated as a forfeit. Fees do not include out-of-pocket expenses or taxes.

A.2 Exchange rates as of the balance sheet date

The balances at year-end, denominated in foreign currencies, are measured at the exchange rates observed by the European Central Bank on the last working day of the year (in 2016: 30 December).

For the other currencies, the rates used are those provided by infoproviders on the same date.

For the 2016 financial statements, the rates were determined as follows:

Currency		2016	2015
U.S. Dollars	USD	1.0541	1.0926
Swiss Francs	CHF	1.0739	1.0814
Canadian Dollars	CAD	1.4188	1.5171
English Pounds	GBP	0.8562	0.7380
Australian Dollars	AUD	1.4596	1.4990
Japanese Yen	JPY	123.40	131.66
Czech Crowns	CZK	27.0210	27.029
Danish Crowns	DKK	7.4344	7.4625
Hungarian Forints	HUF	309.83	313.15
Norwegian Crowns	NOK	9.0863	9.6160
Polish Zloty	PLZ	4.4103	4.2400
Swedish Crowns	SEK	9.5525	9.1878
Brazilian Reais	BRE	3.4305	4.2590
South African Rand	ZAR	14.4570	16.8847
Hong Kong Dollars	HKD	8.1751	8.4685
South Korean Won	KRW	1,224.94	1,284.79
Singapore Dollars	SGD	1.5234	1.5449
New Zealand Dollars	NZD	1.5158	1.5959

A.3 Date of authorisation for issue

The financial statements were presented and authorised for issuance by the Directorate on 27 March 2017 and approved by the Board of Superintendence on 26 April 2017.

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 investments decisions, are summarized in the following paragraphs, with a focus on the parties involved and their responsibilities. The Institute considers it appropriate:

a) to assign risk measurement functions and risk integrated control to a specific department, headed by the Risk Management department;
b) to assign the functions dedicated to the definition of operating limits, the authorization of possible overruns or payment requests within assigned limits, to the appropriate Risk Committee.

Other bodies of the Institute are involved and assigned with different tasks in risk management and monitoring, such as the Board of Superintendence, Directorate, Internal Audit department, Treasury department, Compliance.

This structure is based on the rules and the requirements provided by the Financial Information Authority (AIF) for a compliant internal audit system, as defined by Regulation No.1/2015 on "Prudential Supervision of Entities Carrying out financial activities on a professional basis ("Regolamento n.1"), implementing Title III of the Law introducing norms of "Transparency, Supervision and Financial Intelligence" no. XVIII issued on 8 October 2013 ("Law no. XVIII").

The Risk Management function is an independent structure from the risk-taking functions, reporting directly to the Directorate and with functional reporting also to the Board of Superintendence. The following paragraphs set out the rules of the different organizational structures and the governing bodies involved in the monitoring and managingement of risks.

5.1.1 Duties and responsibilities of bodies involved

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

- Board of Superintendence;
- Directorate;
- Risk Committee;
- Risk Management Department;
- Compliance Department;
- Internal Audit Department;
- Head of Treasury Department;
- Investment Committee.

5.1.1.1 Board of Superintendence

The Board of Superintendence is responsible for defining the strategic guidelines and general policies for risk management. The Board of Superintendence can request the Directorate to update the guidelines for the measurement and assessment of risks.

5.1.1.2 Directorate

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

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

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

When operational limits are exceeded, based on a proposal from the Risk Committee, the Directorate determines the way in which the overrun may be managed:

a) The Directorate can authorize the overrun specifying the period for which the authorization is granted;
b) The Directorate can ask the head of the operating area involved for a recovery plan to be established. The Directorate then authorizes the plan, or can ask for recovery in different ways and/or in different periods than the recovery period proposed.

5.1.1.3 Risk Committee

A Risk Committee has been established by the Directorate and chaired by Head of Risk Management department with the aim:

- to propose a Risk Appetite Framework and management and control methodologies and all subsequent amendments thereof, in compliance with the general limits set up by RAF;
- to propose to the Directorate the general structure of market and credit operational limits (counterparty risk and issuer risk);
- to propose periodically to the Directorate credit limits granted to the new trading partners, within the general limits defined in the RAF;
- to periodically review the Institute's risk trend, with specific focus on the most relevant events or those with the greatest impact;
- in case of an emergency meeting, where operational limits have been exceeded, to express an opinion to the Directorate on the authorization for exceeding limits, or on the recovery plan arrangements.

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

5.1.1.4 Risk Management Department

The Institute's Risk Management department:

- presents to the Risk Committee issues related to the Institute's exposure to market, credit, liquidity, operational and reputational risks, proposing methodologies, instruments and processes for the management of those risks;
- is responsible for the implementation, validation and maintenance of an adequate risk exposure control system and its performance;
- on a daily basis, observes the market, credit and liquidity risks and trading activity performance, preparing specific reports for the Board, the Directorate and the head of Treasury Department;
- monitors the compliance with the risk indicators outlined in the Risk Appetite Framework (RAF) approved by the Board of Superintendence, preparing specific reports;
- monitors the adherence to operational limits in the Institute's trading activity, promptly informing the Directorate and the head of Treasury Department of any overruns. When limits are exceeded, it can request an emergency meeting of the Risk Committee;
- calculates capital requirements in compliance with legal requirements.

5.1.1.5 Compliance Department

The IOR Compliance Department, in accordance with AIF Regulation No. 1, oversees, using a risk-based approach, management of the risk of non-compliance in corporate activity, ensuring that internal procedures are suitable to prevent such risk.

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, ensuring that the internal procedures are suitable to mitigate these risks.

As regulated by Article 29 of Regulation No. 1, in order to achieve its mission, the Compliance Department:

- remains current on the rules applicable to the Institute and its activities and measures/assesses the impact of any changes on existing processes and internal procedures;
- verifies compliance with external regulatory requirements and self-regulation;
- proposes organizational and procedural changes that ensure adequate supervision of the risk of non-compliance with identified rules;
- monitors effectiveness of the suggested organizational changes for prevention of the risk of non-compliance;
- prepares direct information flows for the Institute's governance bodies and for the other concerned functions/structures;
- provides advice and assistance to the Institute's governance bodies for all matters in which the non-compliance risk is relevant as well as collaboration in training personnel on the provisions applicable to their activities.

5.1.1.6 Internal Audit Department

The Institute's Internal Audit department verifies through the audit plan:

- the adherence to risk management procedures as established by the Board of Superintendence and by the Directorate, based on a proposal from the Risk Committee;
- the adequacy of the risk monitoring tools and procedures related to the Institute's investment decisions.

5.1.1.7 Head of Treasury Department

- Defines the operating investment decisions to be made on financial markets, ensuring consistency with the strategic goals and predetermined limits.
- Requests revisions to the assigned operational limits, or the authorization to engage with new counterparties, subject to the review of the Risk Committee.
- Defines, within the limits of the authority granted, the necessary corrective actions to restore the defined risk/return profile.

5.1.2 Risk culture and further developments

The Institute is involved in a complete overhaul of its current financial, credit, liquidity, reputational and operational risks management programs. This involves the strengthening of the Risk Management department through the acquisition of new skills, the revision of the integrated system of risk measurement and the development of specific frameworks for the management of reputational and operational risks.

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, particularly in the functions dedicated to the management of financial risks, which are the main source of risk. The development and implementation of framework dedicated to reputational and operational risks, as well as the focus on the risks of non-compliance, will allow even stronger risk culture across the Institute. These actions, together with the controls already in place on anti-money laundering and combating the financing of terrorism, will complete the system of risk management and monitoring of the Institute.

5.2 Credit risk

Format and content of information on credit risk and related hedging policies.

5.2.1 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 may be divided in two categories:

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

b) credit risk arising from loans to customers, classified in the financial statements as "Due from customers"; within this risk category, the Institute considers it appropriate not to measure this risk because:
   - the item is not material when compared to total assets;
   - the exposure is limited to Catholic congregations and Vatican employees, both of which have low risk categories by their nature;
   - credits are usually accompanied by guarantees: securities, asset management or, for the Institute employees, post employment benefits.

It is to be mentioned that the Institute is not authorized by the Autorità di Informazione Finanziaria to carry out the activity of "lending" (cfr. art. l (l) (b) of the Law n.XVIII and art. 3 (24) (b) of the Regulation No. l), as credit activities on its own. However, it is authorized to make "advances" that is to disburse funds to its clients and to a limited extent following guarantee of future income (such as, for example, in the case of the advance of salary or pension paid by the Holy See or the Governatorato of Vatican City) or guaranteed by financial assets of the same amount deposited by the clients at the Institute.

In general, the main credit risks associated with investment in securities, mainly issued by government entities and bank deposits. Considering the overall interest rates and returns offered, the strategy during 2016 was to focus mainly on issuers and purchases with high returns, considering implicit risks, giving preference to Eurozone government issuers with BBB rating and increasing purchases in USD currency.

At the end of 2016, the bond securities portfolio amounted to EUR 2.4bn with an average duration of 1.37 years and high credit standing (99.6% investment grade). The bond securities portfolio is mainly comprised of Italian and Spanish government bonds (45.57% of the total) and bank securities (23.18% of the total).

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

5.2.2 Credit risk management policies

5.2.2.1 Organizational aspects

The Treasury Department is responsible for the management and monitoring of credit risks over trading activity and collections of amounts due from clients. The Treasury Department is qualified to assume credit risk in compliance with operational limits. Particularly, the process of risk assumption involves the following:

- the Director General, delegates the assumption of credit risks to the Treasury Department, within predetermined by amount, type and counterparty;
- the 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 Director General;
- the Risk Committee, supporting the Director General in establishing a system of credit risk management and monitoring, the definition of operational limits, the analysis of any overruns and in evaluating authorisations of limits exceeded;
- the Risk Management Department, daily monitors compliance with operational limits, promptly reporting to the Directorate any unauthorized overruns.

5.2.2.2 Management, measurement and control systems

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

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

- a set of determined counterparties with which the Treasury department is allowed to engage with. 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 counterpart risk, issuer risk and cash risk;
- add-on quantification criteria to be applied to all contracts with future settlement, diversified by maturity and margining practices.

Concerning the maximum amount of exposure to each counterparty, the methodology provides for the use of an internal rating, defined by the characteristics of the counterparty, the rating from International Rating Agencies (Moody's, S&P, Fitch) and credit spread level quoted in the market (spread on Credit Default Swaps). The use of the credit default swaps spread enables prompt updating of the internal rating and their credit maximum exposure when the market shows signs of difficulties with a determined issuer before these difficulties can lead to a change of the counterparty's rating.

In addition to the limits defined above, the Board of Superintendence defined other limits at trading portfolio level based on a sensitivity spread, distinguishing between government and corporate issuer. The impact of this stress test at the closing date of this financial statements amounting respectively to EUR 18.9m and EUR 18.2m.

5.2.2.3 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.

5.2.2.4 Non-performing financial assets

For amounts due from clients, an internal monitoring system assists the Directorate to determinine if there is objective evidence of the impairment of loans, based on the following criteria established by the Institute:

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

The IOR has also issued guarantees requested by customers covered by assets held in custody, which are disclosed on paragraph 13.1 Part 3.

5.2.3 Credit quality

As disclosed in AIF Circular, the use of the term "credit exposures" excludes equity securities and UCI units. The use of the term "exposures" includes equity securities and UCI units.

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

1.1 Detail of credit exposures by portfolio classification and credit quality (book values)

	Bad loans	Unlikely to pay	Non performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets available for sale						
2. Financial assets held to maturity					558,956	**558,956**
3. Due from banks					643,229	**643,229**
4. Due from customers		7,469	764	71	20,848	**29,152**
5. Financial assets carried at *fair value*						
6. Financial assets being disposed						
Total 2016		**7,469**	**764**	**71**	**1,223,033**	**1,231,337**
Total 2015		**7,718**	**2,278**	**681**	**1,334,464**	**1,345,141**

Note*: There are no forborne exposures.*

The amount of past due exposures (EUR 71,000) has remained the same for more than 1 year. Based on the analysis of debtors at the balance sheet date, there was no objective evidence of potential insolvency of the customer and no impairment loss was recognized.

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

	Non-performing assets			Performing assets			
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	Total (net exposure)
1. Financial assets available for sale							
2. Financial assets held to maturity				558,956		558,956	**558,956**
3. Due from banks				643,229		643,229	**643,229**
4. Due from customers	24,842	(16,609)	8,233	21,541	(622)	20,919	**29,152**
5. Financial assets carried at *fair value*							
6. Financial assets being disposed							
Total 2016	24,842	(16,609)	8,233	1,223,726	(622)	1,223,104	1,231,337
Total 2015	25,344	(15,348)	9,996	1,335,825	(680)	1,335,145	1,345,141

	Assets of evidently low credit		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading			1,831,693
2. Hedging derivatives			
Total 2016			**1,831,693**
Total 2015			**1,563,528**

1.3 On- and off-balance sheet credit exposures to banks: gross and net values and past due brackets

Type of exposure/value	Gross exposure							
	Non-performing assets							
	Up to 3 months	3-6 months	6-12 months	Over 1 year	Performing assets	Individual adjust-ments	Collective adjust-ments	Net exposure
A. On balance sheet exposures								
a) Bad loans								
- of which: forborne exposures								
b) Unlikely to pay								
- of which: forborne exposures								
c) Non-performing past due exposures								
- of which: forborne exposures								
d) Performing past due exposures								
- of which: forborne exposures								
e) Other performing exposures					1,197,481			1,197,481
- of which: forborne exposures								
Total A					**1,197,481**			**1,197,481**
B. Off-balance sheet exposure								
a) Non performing								
b) Performing								
Total B								
Total A + B					**1,197,481**			**1,197,481**

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

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

Type of exposure/value	Gross exposure							
	Non-performing assets							
	Up to 3 months	3-6 months	6-12 months	Over 1 year	Performing assets	Individual adjust-ments	Collective adjust-ments	Net exposure
A. On balance sheet exposures								
a) Bad loans				9,876		(9,876)		
- of which: forborne exposures								
b) Unlikely to pay				12,098		(4,629)		7,469
- of which: forborne exposures								
c) Non-performing past due exposures				2,868		(2,104)		764
- of which: forborne exposures								
d) Performing past due exposures					76		(5)	71
- of which: forborne exposures								
e) Other performing exposures					1,857,863		(617)	1,857,246
- of which: forborne exposures								
Total A				**24,842**	**1,857,939**	**(16,609)**	**(622)**	**1,865,550**
B. Off balance sheet exposure								
a) Non performing								
b) Other					42			42
Total B								
Total A + B				**24,842**	**1,857,981**	**(16,609)**	**(622)**	**1,865,592**

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

1.8 On-balance sheet credit exposures to customers: changes in gross non-performing exposures

	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposures	**6,853**	**12,500**	**5,991**
- of which: exposures sold not derecognised			
B. Increases			
B.1 inflows from performing exposures			
B.2 transfers from other non-performing exposure categories	3,090		
B.3 other increases	178		72
C. Decreases			
C.1 outflows toward performing exposures			
C.2 write-offs			
C.3 repayments	(245)	(402)	(105)
C.4 credit disposals			
C.5 losses from disposals			
C.6 transfers to other non-performing exposure categories			(3,090)
C.7 other decreases			
D. Final gross exposures	**9,876**	**12,098**	**2,868**
- of which: exposures sold not derecognised			

1.10 On-balance sheet non performing credit exposures to customers: changes in total adjustments

Reason / Categories	Bad loans		Unlikely to pay		Non performing past due exposures	
	Total	of which: forborne exposures	Total	of which forborne exposures	Total	of which forborne exposures
A. Initial total adjustments	**6,853**		**4,782**		**3,713**	
- of which: exposures sold not derecognised						
B. Increases						
B.1 impairment losses	762				691	
B.2 losses on disposal						
B.3 transfers from other non performing exposure categories	2,290					
B.4 other increases	258				53	
C. Decreases						
C.1 recoveries on impairment losses			(153)			
C.2 recoveries on repayments	(287)				(63)	
C.3 profits on disposal						
C.4 write-offs						
C.5 transfers to other non-performing exposure categories						
C.6 other decreases					(2,290)	
D. Final total adjustments	**9,876**		**4,629**		**2,104**	
- of which: exposures sold not derecognised						

2 Classification of exposures based on external and internal ratings

2.1 Detail off and on-balance sheet credit exposures by external rating class

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On balance sheet exposures	623,780	697,578	1,588,979	10,277	20,873		121,544	**3,063,031**
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees given							42	42
D. Commitments to lend funds								
E. Other								
Total	**623,780**	**697,578**	**1,588,979**	**10,277**	**20,873**		**121,586**	**3,063,073**

For the analysis of the credit risk of the borrowers / guarantors, the Institute use S&P rating; when S&P are not available, the Institute utilizes the equivalent value from the Moody's rating agency.

In the preparation of the above table S&P ratings have been used.

Below a reconciliation between risk classes and the S&P 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

3 Detail of guaranteed credit exposures by type of guarantee

3.2 Guaranteed credit exposures to customers

		Real collateral (1)				Guarantees (2)									
						Credit derivatives					Credit commitments				
							Other derivatives								
	Net exposure	Real estate assets - mortgages	Real estate assets - financial lease	Securities	Other real guarantees	Credit Linked Notes	Governments and Central Banks	Other Public Entities	Banks	Other entities	Governments and Central Banks	Other Public Entities	Banks	Other entities	Total (1)+(2)
1.Guaranteed on balance sheet credit exposures															
1.1 totally guaranteed	451	451													451
- 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															
Partly guaranteed															
- of which non performing															

5.2.4 Distribution and concentration of credit exposures

1. Detail by sector of on-balance and off-balance sheet credit exposures to customers (book value)

	Domestic			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 companies		
	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 - of which forborne exposures																										9,876	
A.2 Unlikely to pay - of which forborne exposures																									7,469	4,629	
A.3 Non-performing past due exposures - of which forborne exposures																									764	2,104	
A.4 Performing exposures - of which forborne exposures	8,290			1,354,046												237,021			9,286			239,360			9,315		622
TOTAL A	**8,290**			**1,354,046**												**237,021**			**9,286**			**239,360**			**17,548**	**16,609**	**622**
B. Off-balance sheet exposures																											
B.1 Bad loans																											
B.2 Unlikely to pay																											
B.3 Other non-performing assets																											
B.4 Other exposures																									42		
TOTAL B																									**42**		
TOTAL (A+B) 2016	**8,290**			**1,354,046**												**237,021**			**9,286**			**239,360**			**17,590**	**16,609**	**622**
TOTAL (A+B) 2015																											

Due to the change in accounting system, the data for 2015 were too heavy to be extracted and barely relevant in comparison to the information provided.

2. Detail by geographical area of on- and off-balance sheet credit exposures to customers (book value)

Exposures / Geographical areas	Domestic		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 e exposure	Total adjustments
A. On balance sheet exposures										
A.1 Bad loans			9,876	(9,876)						
A.2 Unlikely to pay			12,098	(4,629)						
A.3 Non performing past due exposures			2,868	(2,104)						
A.4 Performing exposures	8,326	(2)	1,576,148	(615)	217,127	(2)	50,415		5,923	(2)
Total A	8,326	(2)	1,600,990	(17,224)	217,127	(2)	50,415		5,923	(2)
B. Off balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performing assets										
B.4 Performing exposures			42							
Total B			42							
Total A+B 2016	8,326	(2)	1,601,032	(17,224)	217,127	(2)	50,415		5,923	(2)
Total A+B 2015										

Due to the change in accounting system, the data for 2015 were too heavy to be extracted and barely relevant in comparison to the information provided.

3. Detail by geographical area of on- and off-balance sheet credit exposures to banks (book value)

Exposures / Geographical areas	Domestic		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 e 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			976,812		148,537		1,396		70,736	
Total A			976,812		148,537		1,396		70,736	
B. Off balance sheet exposures										
B.1 Bad loans										
B.2 Unlikely to pay										
B.3 Other non-performing assets										
B.4 Performing exposures										
Total B										
Total A+B 2016			976,812		148,537		1,396		70,736	
Total A+B 2015										

Due to the change in accounting system, the data for 2015 were too heavy to be extracted and barely relevant in comparison to the information provided.

4. Large exposures

IOR has no large exposures as defined by art. 46 of AIF Regulation No. 1.

5.2.5 Securitisation

No securitisation transactions were made by the IOR.

5.2.6 Information on unconsolidated structured entities

For unconsolidated structured entities, the Institute considers the shares held in externally managed investment funds.

For some external funds, the Institute is the owner of a significant number of shares, but does not control these funds because, it does not participate in investment decisions, either directly or indirectly, and it does not hold the ability to affect the returns of the above-mentioned funds.

The information required by IFRS 12 on the unconsolidated structured entities is below.

As of the balance sheet date, the Institute holds EUR 33.7m in investments in external funds in its trading portfolio. Dividends collected in 2016 on such funds amount to EUR 812,000 (EUR 800,000 in 2015).

70% of the funds in the portfolio are closed-ended funds, and can be subscribed to only at given times by specific parties, who, as mentioned, have no control and the remaining 30% of funds are related to funds that can be subscribed to by different entities at any time and for any amount (open-ended funds).

Conversely, with regard to their asset classes, funds held by the Institute invest in equity securities (30%), debt securities (30%) and the real estate market (40%). Regarding geographical distribution, the criteria used in the above mentioned table was used to separate funds based on their legally registered domicile.

According to those criterion, all of the funds are located within the European Union.

	2016		2015	
	Balance sheet exposure		Balance sheet exposure	
	Nominal Value	Carrying amount	Nominal Value	Carrying amount
Investment Fund type				
Open-end fund	75,160	10,404	38,499	5,387
Closed-end fund	20,170,677	13,333	20,170,677	23,357
Hedge fund				
Exchange traded fund				
Unit Investment Trust				
Fund of fund	2,300	9,944	2,300	12,585
Seed Fund				
Total	**20,248,137**	**33,681**	**20,211,476**	**41,329**
Underlying asset class focus				
Equity	2,300	9,944	2,300	12,585
Debt	75,160	10,404	38,499	5,387
Asset Allocation				
Money Market				
Real Estate	20,170,000	13,311	20,170,000	23,333
Commodity				
Alternative Investments	677	22	677	24
Total	**20,248,137**	**33,681**	**20,211,476**	**41,329**
Geographical Area				
UE	20,248,137	33,681	20,211,476	41,329
USA				
Total	**20,248,137**	**33,681**	**20,211,476**	**41,329**

At the balance sheet date, the IOR did not provide any guidance to unconsolidated structured entities on their investment policies. The Institute has not sponsored any unconsolidated structured entities.

At the balance sheet date, the Institute had a standing commitment to one of these funds to third parties of EUR 4m.

SGIR 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.

5.2.7 Models for the measurement of credit risk

For the credit risk measurement, the Institute adopted the standard methodology defined by AIF Regulation No. 1, articles 63-89. No individual and portfolio internal models are used.

5.3 Market risks

Format and content of information on market risk and relative hedging policies

5.3.1 Interest rate risk and trading portfolio price risk

5.3.1.1 General aspects

Interest rate risk related to the trading portfolio is derived from the Institute's trading activity in financial instruments, simple and complex, exchanged on organized markets and over-the-counter markets, put in place by the Treasury department. This risk pertains to positions in bonds, particularly those based on a fixed rate, the value of which is closely linked to the trend in interest rates. In line with the objectives of the Treasury Department in liquidity management and capital, and in line with the Institute's threshold for risk, the level of risk in the trading portfolio is rather low, as indicated by the short holding period (1.37 years). In anticipation of an increase in interest rates, the Institute has further reduced the overall holding period in order to mitigate any negative impact on the value of the portfolio.

Price risk comes from the exposure on equity securities, ETF and funds. The Institute reduced the threshold for such risk and exposures come mainly from the need to obtain a diversified return on own equity, in a period characterized by low interest rates.

5.3.1.2 Operating procedures and methods for measuring interest rate risk and price risk

Interest rate risk and price risk are measured and managed as part of the overall management and monitoring of risk.

Market risk is the risk of change in portfolio value from adverse fluctuations in market parameters, such as interest or currency rates, equity prices or prices of commodities underlying derivative contracts.

The Institute's trading portfolio is comprised mainly of bond securities, and the main associated risks are interest rate and LIBOR spread variation risk, as further described in the next paragraphs.

The power to assume market risk lies with the Directorate, which plays an active role in risk management and monitoring, according to the guidelines issued by the Board of Superintendence. Specifically, the Director General delegates the assumption of market risk and management to the Treasury department that operates autonomously in accordance with the limits assigned to the department.

Market risk assumption and management is separate from the confirmation, settlement, matching and execution (Back Office) and of the Risk Management department.

At 31 December 2016, the Institute did not hold quoted derivatives. A project analysing future interest rates is being performed, with the goal of providing an instrument for hedging the interest rate risk of the bond portfolio.

The system of measurement of financial risks and the establishment of operational limits of the Institute are based on the use of statistic calculation tools. Specifically, the three measures of potential loss are: Value at Risk, Expected Shortfall and Stress Test. These measures are defined as follows:

- Value at Risk (VaR) is defined as the maximum loss that the Institute could withstand, with probability equal to predetermined confidence levels, in the case of adverse market trends 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 impacting main risk indicators (equity prices and indexes, interest rates, currency rates, credit spread) analyzed independently and as established by the RAF.

In addition to the aforementioned measures, the Institute utilises an indicator of realized losses on a 10-day time horizon, defined as the sum of the negative results realized on closed positions and unrealized losses on open positions, valued at market, with reference to the last five working days.

The VaR and the Expected Shortfall are calculated using the historic method (at least one year of data and quarterly update of the scenarios), with a daily timeline and confidence level at 99%.

The Stress Tests are calculated by simulating extreme scenarios of the main risk factors, starting from the worst movements recorded in the history of the world's financial markets, as further described in the following paragraphs. In particular:

- for interest rate risk, the variations in interest rates that make up the market curve, the rate volatility risk and correlation risk. On a daily basis, stress test analyses are conducted on the rates curve, assuming substantial shifts of the curve (-40% / +50% with a floor equal to 50 basis points);
- for LIBOR spread variation risk, the stress scenarios consider increases depending on the absolute spread level: more precisely, these are set equal to -20/+40 bps for securities with a spread lower than Libor, -40/+80 bps for securities with a spread between 0 and 100 bps and -40%/+80% of the spread for securities with a spread above 100 bps;
- for price risk, different categories of instruments are adequately presented: equities securities, equities indexes, funds and ETF. A stress test analysis is then conducted, applying the defined scenarios to spot prices (from -30% to +30%).

Monitoring compliance with limits on a daily basis is performed by the Risk Management department, which provides daily updates to the Directorate on the level of risk assumed and compliance with operational limits.

When operational limits have been exceeded, the Risk Management department promptly informs the Directorate of the overrun and the Director General decides on the appropriate action.

In establishing a system of market risk measurement, definition of operational limits, and the monitoring of compliance with the limits, the Director General is supported by the Risk Committee, who serves as an advisor on the following matters:

- assignment and review limits for of VaR, Expected Shortfall, Stress Test and WCL to the Treasury department;
- assignment of additional limits, determined based on nominal sensitivity factor (portfolio sensitivity to the single risk factors), etc;
- periodical trend analysis of the Institute's risk position and identification of the root causes of the unusual trends;
- monitoring risks assumed and compliance with the pre-established limits;
- total or partial disruption of the activities in certain sensitive financial instruments to risk factors;
- analysis of the ordinary and extraordinary events, following particular market turbulences and macroeconomic scenarios.

During 2016 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 4.92m, a daily maximum VaR of EUR 6.2m and a daily minimum VaR of EUR 3.72m; the operational limits calculated on 10 working days, determined as EUR 25m under RAF, was never exceeded. At the end of 2016, the VaR amounted to EUR 11.0m. The portfolio only contained highly liquid products.

The Risk Management department, to verify the adequacy of the VaR calculation, periodically conducts retrospective reviews, comparing the actual trading results achieved, with the VaR measures previously calculated. During 2016, the Institute did not identify events where actual daily losses exceeded the risk measures expressed in terms of VaR on a daily basis.

The potential impact of a shock of +/- 100 basis point on the portfolio held for trading could have an impact of EUR 24.9m, representing 56.49%, 69.19% and 3.70% of interest margin, profit for the year and equity, respectively.

Stress test data at the end of 2016 shows, for interest rate risk, an exposure equal to EUR 12.7m 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 70% and on USD rate risk for the remaining 30%.

The management and monitoring of risk is continuously improving, and the project related to implementation of the new system by the Treasury department is under completion; when completed, the project will allow:

- monitoring of positions, profits and risks real time (automatic feed of main risk parameters and continuous revaluation of the position, calculation of the VaR position at any time of the day);
- possibility of monitoring P&L trend and risks in different aggregation levels, from the single instrument, to the entire position of the Treasury department.

2.1 Trading portfolio: detail by maturity date (re-pricing date) of financial assets and liabilities on balance sheet and financial derivatives

Type / Expiration date	On demand	Up to 3 months	3-6 months	6-12 months	1-5 years	5-10 years	Over 10 years	Non defined
A. Cash assets								
1.1 Debt securities								
- with early redemption option	70,199	3,392						
- other	729,708	295,561	80,132	589,870	55,488	515		
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								

2.2 Trading portfolio: detail of equity securities and index exposures for the main countries quoted markets

Type / Quotation index	Quoted						
	Italian Stock Exchange	NYSE Arca	Xetra	New York	NASDAQ GS	Other	Non quoted
A. Equity securities							
- long positions	23,002	10,515	7,441	3,833	3,330	4,609	
- short positions							
B. Transactions not yet settled on equity securities							
- long positions							
- short positions							
C. Other derivatives on equity securities							
- long positions							
- short positions							
D. Derivatives on equity index							
- long positions							
- short positions							

With reference to price risk of other financial instruments classified as held for trading, at the end of 2016, the Institute's portfolio had the following exposure:

- Closed-end funds EUR 23,3m;
- Open-end funds EUR 10,4m.

5.3.2 Interest rate risk and price risk of other financial instruments in portfolio

2.1 Other financial instruments in portfolio: detail by expiration date (re-pricing date) of financial assets and liabilities

Type / Expiration date	On demand	Up to 3 months	3-6 months	6-12 months	1-5 years	5-10 years	Over 10 years	Non defined
1. Cash assets								
1.1 Debt securities								
- with early redemption option					10,020			
- other		24,280	231,679	75,436	168,784	48,757		
1.2 Loans to banks	457,624	100,006		60,548	25,052			
1.3 Loans to customers								
- current accounts	8,452							
- other loans								
- with early redemption option	13,527							
- other	7,174							
2. Cash liabilities								
2.1 Due to customers								
- current accounts	2,397,688							
- other liabilities								
- with early redemption option								
- other		855	382					
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 mainly to the assets classified as held to maturity and to interbank deposits, already listed in the paragraph related to credit risk.

The application of a variation of interest rates of +/- 100 basis points to the portfolio, including other financial instruments (EUR 559m) shows a potential impact of EUR 8.65m, representing 19.62%, 24.03% and 1.29% of interest margin, profit for the year and equity, respectively.

With reference to price risk of financial instruments not classified as trading, at the end of 2016, the Institute's portfolio had the following exposure:

- Financial assets available for sale EUR 6,7m;
- Investment in subsidiaries SGIR S.r.l. EUR 15,8m.

Regarding the limits, the Board of Superintendence established limits for the investment in financial assets held to maturity in relation to equity. For this portfolio a measure of VaR is also calculated (respectively EUR 0.74m, 0.97m and 2.23m of minimum, medium and maximum daily value), but not associated with limits.

5.3.3 Currency risk

General aspects, operating procedures and methods for measuring currency risk

Currency risk is the risk that the Institute can incur losses on the portfolio held for trading due to the adverse variation of currency rates and the price of gold. 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, the following pre-defined Stress Test scenarios were used for each currency providing shock higher for minor currencies and for those not related to Euro. The potential impact of these shocks could result in loss of approximately EUR 2.8m.

2.1 Detail by currency of financial assets, liabilities and derivatives

	Currencies					
Items	USD	GBP	CAD	AUD	CHF	Other currencies
A. Financial assets						
A.1 Debt securities	581,767	2,373	471	1,894	3,986	226
A.2 Equity securities	31,189	684			7	6
A.3 Loans to banks	55,625	16,320	8,716	7,237	146	6,123
A.4 Loans to customers	17					
A.5 Other financial assets	7,561	127	959	353	1,145	1,173
B. Other assets	**21,715**					
C. Financial liabilities						
C.1 Due to banks						
C.2 Due to customers	664,165	13,213	5,036	7,007	9,506	2,414
C.3 Debt securities						
C.4 Other financial liabilities	3,049	42	907	2	5	
D. Other liabilities						
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions						
+ Short positions						
Total Assets	**697,874**	**19,404**	**10,146**	**9,484**	**5,284**	**7,528**
Total Liabilities	**667,214**	**13,255**	**5,943**	**7,009**	**9,511**	**2,414**
Difference (+/-)	**30,660**	**6,149**	**4,203**	**2,475**	**(4,227)**	**5,114**

The exchange rate risk exposure resulting from the application of the abovementioned stress tests of 100 basis point at 31 December 2016 resulted in an amount equal to EUR 0.45m, representing 1.02%, 1.25% and 0.07% of interest margin, profit for the year and equity, respectively.

For capital requirement calculation related to currency risk, the IOR adopted the standard methodology provided by AIF Regulation No. 1.

5.3.4 Derivative instruments

In 2016 IOR did not hold derivative financial instruments.

5.4 Liquidity risk

Format and content of information on liquidity risk and relative hedging policies

5.4.1 General aspects, operating procedures and methods for measuring liquidity risk

Liquidity risk is the risk that the Institute will encounter difficulties in meeting payment obligations by cash or by expected or unexpected delivery, compromising the daily operations or the financial situation.

Regarding liquidity risk, during 2016, the IOR did not encounter any notable problems: starting from January 2016, the liquidity risk measurement methodologies have been defined according to the provisions of AIF Regulation No. 1; the liquidity risk indicator (LCR), calculated over a period of 30 days, resulted in a value equal to 395.4%, well above the regulatory limit of 200% established by RAF. It is important to note that Institute liabilities are represented, other than equity, by deposits from customers, mainly on demand. Moreover the Institute does not carry out funding transactions on the interbank market or on the capital market.

From an organizational standpoint, the Institute's liquidity risk is managed by the Treasury Department which monitors the expected and realized flows in currencies and maintains an adequate portfolio of liquid assets to meet any unexpected payments.

Monitoring of liquidity and adherence to liquidity operating limits are performed daily by the Risk Management Department.

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 other currency than 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	Non defined
Cash assets										
B.1 Government bonds				31	5,457	52,298	151,027	166,128	939,595	
B.2 Other debt securities			1	7,820	13,416	20,008	204,681	136,914	480,608	
B.3 UCI units										33,681
B.4 Loans										
- Banks	363,455	80,000			20,006		60,548	25,052		
- Customers	8,436	37			7	57	3,980	4,857	11,762	
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	1,697,582									
B.6 Debt securities										
B.7 Other liabilities										
Off balance sheet transactions										
B.8 Financial derivatives with exchange of capital										
- long positions										
- short positions										
B.9 Financial derivatives without exchange of capital										
- long positions										
- short positions										
B.10 Deposits and loans to be settled										
- long positions										
- short positions										
B.11 Irrevocable commitments to lend funds										
- long positions										
- short positions										
B.12 Financial guarantees given										
B.13 Financial guarantees received										
B.14 Credit derivatives with exchange of capital										
- long positions										
- short positions										
B.15 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.2 Detail by contractual residual maturity of financial assets and liabilities in other currency than 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	Non defined
Cash assets										
B.1 Government bonds			159	1	27	331	25,906	61,607	3,339	
B.2 Other debt securities				89	161	12,243	25,870	9,221	30,114	
B.3 UCI units										
B.4 Loans										
- Banks	94,168									
- Customers	17									
Cash liabilities										
B.5 Deposits and current accounts										
- Banks										
- Customers	700,105		649		206	382				
B.6 Debt securities										
B.7 Other liabilities										
Off balance sheet transactions										
B.8 Financial derivatives with exchange of capital										
- long positions										
- short positions										
B.9 Financial derivatives without exchange of capital										
- long positions										
- short positions										
B.10 Deposits and loans to be settled										
- long positions										
- short positions										
B.11 Irrevocable commitments to lend funds										
- long positions										
- short positions										
B.12 Financial guarantees given										
B.13 Financial guarantees received										
B.14 Credit derivatives with exchange of capital										
- long positions										
- short positions										
B.15 Credit derivatives without exchange of capital										
- long positions										
- short positions										

5.5 Operational risk

Format and content of information on operational risk and relative hedging policies

5.5.1 General aspects, operating procedures and methods for measuring operational risk

Operational risks represent the risk of loss caused by inadequate and failure of processes, human resources and internal system, or caused by external events.

Operational risk does not include strategic and reputational risks, but includes legal risk, which is the risk of loss from violations of laws and regulations, contractual or non-contractual liability, or other disputes.

Operational risks include, among other things, administrative risk (for example, absence or inadequacy of line controls), human resources risk (for example, a lack of professional training for staff), and IT risk (for example, inadequacy of the computer system that could cause loss of data or interruption of operations).

The Institute is defining a framework for operational risk management, establishing the organizational processes for measurement, management and control of that risk. More specifically, the risk assessment framework for the Institute's activities provides an assessment of the operational risk of each process (unmitigated risk), a verification of the tools for monitoring and mitigation of this risk and an assessment of the residual risks (mitigated risk).

Definition of a framework for the recognition of operational risk events is also under analysis, which will include an Institute database which such events and the mitigating actions taken will be input. "Operational risk event" is an event of any nature that "potentially" may generate a loss for the Institute, and not only events that have caused an actual loss. Generally, these events do not generate losses, but it is important to record them to highlight possible areas of exposure to a high number of events. The Institute has to take action with regard to these events with organizational changes (when there are problems with the processes), technological changes (when there are technical problems) and/or training changes (when there are problems related to human errors). This activity allows the Institute to mitigate the risk that these events, if repeated in the future, can generate real losses.

For compliance with the Regulation No. 1, the business lines will be directly involved in the Operational Risk Management process, through the establishment of specifically in the collection and classification of data about events that have generated operating losses, and the risk assessment associated with the operating environment.

From an organizational point of view, the monitoring of the Institute's operational risks will be managed by an Operational Risk Management (ORM) unit, located within the IOR Risk Management department. The ORM will be responsible for development of methodologies for risk measurement and the processing of loss data, and will also responsible for the preparation of reporting tools.

The ORM will promptly inform the Directorate of the most significant operational events, and will prepare a periodical report analyzing the trend in operational risks, events that have occurred, and the actions taken to resolve the main critical issues.

Extraordinary losses and operating losses have been recorded during 2016 for a total amount of EUR 729,000, of which around EUR 250,000 related to external transactions not authorized (credit cards and payment services). In this regard, corrective measures have been taken to prevent such events from happening again in the future. In addition, negative accounting reconciliation was recorded for approximately EUR 386,000 related to the customers assets (or securities) deposited with third parties, of which the Institute decided to cover. Finally, there is a provision to risks and charges item amounting to EUR 3.5m related to probable contingencies related to tax issues towards foreign countries, decreasing from the previous year.

PART 6. INFORMATION CONCERNING EQUITY

6.1 Shareholders' Equity

6.1.1 Qualitative information

The Institute's equity represents capital funding provided by the owner or generated by the business to create value.

In managing capital (a broader concept than "equity" presented in the balance sheet and consistent with regulatory capital, which is not comprised solely of equity in the strict sense), the Institute's objectives are:

- to safeguard the Institute's ability to continue as a going concern, so that it can continue to provide benefits for all stakeholders;
- to maintain a strong capital base to support business growth.

The Institute pursues its objectives of capital management during the planning processes, through the analysis of risks associated with planned activities, and during the monitoring processes through the analysis and monitoring compliance with limits.

In managing capital, the Institute observes regulatory capital requirements established by the regulatory framework related to prudential supervision.

6.1.2 Quantitative information

1 Detail

	2016	2015
1. Capital	300,000	300,000
2. Reserves		
(a) Earning reserves		
(i) Unavailable	100,000	100,000
(ii) Available	282,134	282,134
(iii) Other		
(b) Other		
3. Equity instruments		
4. Valuation reserves		
(a) Available for sale assets	499	4.777
(b) Tangible assets		
(c) Intangible assets		
(d) Hedging of foreign investments		
(e) Cash flows hedging		
(f) Exchange differences		
(g) Non current assets held for sale		
(h) Actuarial gains (losses) on defined benefit plans	(46,034)	(32,759)
(i) Share of valuation reserves connected with investments carried at equity		
5. Profit (loss) for the year	36,001	16,127
Total	**672,600**	**670,278**

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, subject to a resolution of the Commission of Cardinals.

Fair Value Reserves for available for sale securities represents the net fair value gain/loss recognized on investment securities classified as available for sale.

Post-employment benefit actuarial gain (loss) Reserves represents the actuarial unrealised gain or loss related to the post-employment benefit plans.

2 Fair value reserve of financial assets available for sale: detail

	2016		2015	
	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
1. Debt securities				
2. Equity securities	499		4,777	
3. UCI units				
4. Loans				
Total	**499**		**4,777**	

3 Fair value reserve of financial assets available for sale: annual changes

	Debt securities	Equity securities	UCI units	Loans
1. Opening balance		4,777		
2. Positive changes				
2.1 Fair value increases		112		
2.2 Reclassification from negative reserves to the Income statement:				
From Impairment		148		
From disposal				
2.3 Other changes				
3. Negative changes				
3.1 Fair value decreases		(1,949)		
3.2 Impairment				
3.3 Reclassification from positive reserves to the Income statement:				
From disposal		(2,589)		
3.4 Other changes				
4. Closing balance		**499**		

4 Valuation reserves related to defined benefit plans: annual changes

	Defined benefit plan
1. Opening balance	**(32,759)**
2. Positive changes	
2.1 Post-employment benefit actuarial gain of the year	
3. Negative changes	
3.1 Post-employment benefit actuarial loss of the year	(13,275)
4. Closing balance	**(46,034)**

6.2 Own equity and prudential supervision ratios

1 Own equity

	2016	2015
A. Positive components		
1. Capital	300,000	300,000
2. Supplemental Capital		
Retained earnings		
(i) Unavailable	100,000	100,000
(ii) Available	282,134	282,134
(iii) Others		
Provisions		
Reserves	(45,535)	(27,981)
3. Positive prudential filter IAS/IFRS		
B. Negative components		
1. Goodwill		
2. Intangible assets	(1,044)	(875)
3. Impairments on loans		
4. Losses recognized in previous years and in current year		
5. Regulatory downs of assets carried at fair value		
6. Negative prudential filter IAS/IFRS	(250)	(2,389)
Common Equity	**635,305**	**650,888**

Capital is defined by AIF Regulation No.1 art. 3 (8) as the initial funding or subsequent integration of capital by the Holy See or the Vatican City State.

a. it is paid in pursuant to the legislation of the Holy See and the Vatican City State;
b. it is clearly and distinctly identified in the financial statements;
c. it cannot be reduced or distributed, except in the case of cessation or liquidation of the entity, ensuring that it is distributed proportionality to legitimate creditors, according to the legislation of the Holy See and the 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 AIF 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 (if negative):
  a. goodwill;
  b. intangible assets;
  c. adjustments to the value of receivables;
  d. losses recognized in previous financial periods and in the current period;
  e. adjustments to the regulatory value of assets valued at their "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 only required to be calculated by the Supervisory Authority quarterly.

As required, the amount of annual and half-yearly earnings, excluding the amounts that can potentially be allocated to dividends, contributes to the calculation of regulatory capital for the months of December and June.

The Common Equity at the end of 2016 amounted to EUR 635.3m (2015: EUR 650.9m).

Considering the items comprising the Institute's equity, the sole prudential filter in common equity at 31 December 2016 is associated with the positive fair value reserve relating to the investment securities held in the Available for Sale portfolio. This reserve is computed using a negative prudential filter, for an amount equal to 50%.

In the calculation of the Regulatory Capital 2016, the Net profit for the year not included, as it is considered fully distributed.

6.2.2 Capital adequacy

The monitoring of key ratios is performed daily by the Risk Management Department, in order to continuously monitoring compliance with regulatory requirements. The table below shows the data relating to capital requirements at the end of 2016 and at the end of 2015 for comparison. In order to allow a correct comparison, the 2015 figures have been restated to take account the Authority's latest notes regarding the weighting of some risks.

	Unweighted amounts		Weighted amounts/ Capital requirements	
	2016	2015	2016	2015
A. Risk asset				
A.1 Credit and counterparty risk				
1. Standardised approach	1,333,514	1,533,600	360,173	457,872
2. Approach based on internal ratings				
2.1 Based				
2.2 Advanced				
3. Securitizations				
B. Capital requirements				
B.1 Credit and counterparty risk			28,814	36,630
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach			40,245	39,814
2. Internal model				
3. Concentration risk				
B.5 Operational risk				
1. Basic indicator approach			9,699	9,405
2. Standardised approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			78,758	85,849
C. Risk weighted assets and capital ratios				
C.1 Risk-weighted assets			984,472	1,073,116
C.2 Capital/ Risk-weighted assets			30.47%	27.96%
C.3 Common equity/Risk-weighted assets			64.53%	60.65%

PART 7. RELATED PARTY TRANSACTIONS

Related parties of the Institute include key management personnel (Directorate and Board of Superintendence), the Commission of Cardinals and the *Revisori*.

Transactions with these related parties relate to salaries and remuneration

Details of key management compensation

Compensation due to related parties were EUR 647,000 in 2016, of which EUR 203,200 was not yet paid as of 31 December 2016. Specifically, these expenses relate to:

- EUR 264,500 for the Board of Superintendence of which EUR 120,000 has not yet been paid;
- EUR 299,300 for the Directorate;
- EUR 83,200 for the *Revisori*, completely paid.

These amounts are recognized in the Income Statement as Operating Expenses.

Related-party transactions

During 2016, no transactions with key management were entered into, except for the management of the deposit accounts opened with the Institute and 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 3.4m.

Key management personnel and *Revisori* had deposits totaling EUR 610,000.

The Institute has a long-term zero-interest loan to its subsidiary SGIR S.r.l., amounting to EUR 3.3m. In October 2015, the Institute signed the loan for the use of 4 real estate properties at no cost with its subsidiary SGIR S.r.l. During 2016, SGIR S.r.l. did not earn rental income on these properties.

IOR Istituto per le Opere di Religione

REPORT OF THE REVISORI

**To the Board of Superintendence
of the Institute**

In this report, drawn up in accordance with Article 28 of the Statute, the Board of Auditors of the Institute (the "Institute" or the "IOR") remarks on the annual financial statements, the report and the supporting documents, as prepared by the Directorate for the financial year 2016.

In performing its work, the Board has responded to the Holy Father's venerable invitation, expressed in his letter of 30 January 2017, to apply "determination in observing the statutory requirements". This invitation follows the ethical path already demarcated by His Holiness at the meeting of November 2015, where it was indicated that the Board of Auditors should "act with due impartiality and independence".

During the financial year, the Board of Statutory Auditors convened periodically to perform its duties and attended, upon invitation, all the meetings of the Board of Superintendence.

The meetings of the Board of Auditors were characterized by intense work sessions and benefited from the members' diverse skills as well as the solid support of the President, the Directorate and, where necessary, the Institute's Administration and Control Functions.

The Board also noted that in 2016, through the provision of dedicated services, the Institute confirmed its commitment to serving the Holy Father in the fulfilment of his mission as universal pastor.

Activities carried out in compliance with the Statute's provisions

The Board reports that, in accordance with Article 27 of the Statute, during 2016 it carried out the audits of treasury assets falling within its jurisdiction, as well as the administrative and accounting review of the books and accounts, also by obtaining information from the heads of the internal control functions, and has no remarks to make in this respect.

At the specific request of the Board of Superintendence, the Board of Auditors also carried out internal reviews and other checks.

In relation to these activities, the Board notes that the Board of Superintendence instructed certain Board members to take part in a working group in order to draft the Internal Regulations of the Institute, in accordance with the requirements set out under Articles 3, 17 and 24 of the Statute, also taking into account the recommendations made by the Holy Father during his intervention at the Board of Superintendence meeting of 24 November 2015.

2016 financial statements

Pursuant to Article 28 of the current Statute, the Board of Auditors of the Institute examined the 2016 financial statements ("Financial Statements") and the Management Report.

The Financial Statements were drawn up in accordance with the Circular on the Preparation of the Annual Financial Statements and Consolidated Financial Statements of Entities carrying out Financial Activities on a Professional Basis, issued by the Financial Information Authority on 15 December 2016.

Since this is the first financial year to which these new drafting principles have been applied, the financial data for 2015 have also been reclassified in accordance with the provisions laid down in the Circular, to make a comparison possible.

The Financial Statements are made up of the following:

• Balance Sheet;
• Profit and Loss Statement;
• Comprehensive Profit and Loss Statement;
• Statement of Cash Flows;
• Statement of Changes in Equity.

The Annual Report includes the above documents as well as a description of the Institute's activities, a summary of the accounting policies as well as the risks and uncertainties linked to the use of estimates, the explanatory notes to the Financial Statements, and financial risk information prepared in accordance with the Vatican rules on prudential supervision.

The Financial Statements may be summarised as follows:

	EUR000
BALANCE SHEET	
Total assets	3,268,890
Total liabilities	2,596,290
Net assets	672,600
PROFIT AND LOSS ACCOUNT	
Net result from financial activities	42,762
Net operating profit	36,001
Profit available for distribution	36,001

The Financial Statements have been audited by Deloitte & Touche S.p.A., which expressed a clean and unqualified opinion on 26 April 2017.

Based on the audits that have been performed, and taking into account the conclusions drawn by the internal control functions and the audit firm's unqualified opinion, this Board of Auditors:

- is in favour of the approval of the 2016 financial statements (Financial Statements) included in the Annual Report, as prepared by the Directorate;
- agrees with the proposed allocation of the net operating profit.

Vatican City State, 26 April 2017

The Board of Statutory Auditors

Mario Busso Giovanni Barbara Luca Del Pico

This report has been translated into the English language solely for convenience of international readers.

IOR Istituto per le Opere di Religione

REPORT OF THE EXTERNAL AUDITORS

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Superintendence Board
of Istituto per le Opere di Religione

Opinion

We have audited the financial statements of Istituto per le Opere di Religione (the "Institute"), which comprise the balance sheet as at December 31, 2016 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 at December 31, 2016, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the regulations issued by the Financial Intelligence Authority of the Vatican City State (the "Requirements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Institute in accordance with the ethical and independence principles of the Code of Ethics for Professional Accountants 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.

Deloitte.

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 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 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.

Deloitte.

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.

DELOITTE & TOUCHE S.P.A.

Signed by
Antonio Sportillo
Partner

Rome, Italy

April 26, 2017

This report has been translated into the English language solely for the convenience of international readers.

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