IOR Istituto per le Opere di Religione

Annual Report

2015

"Money must serve, not rule."

His Holiness Pope Francis, Evangelii Gaudium, 2013

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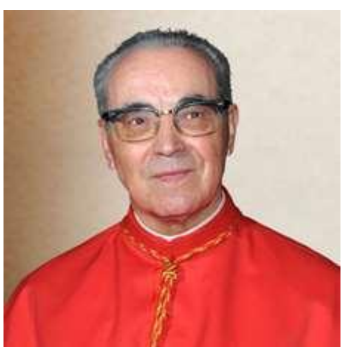
Chapter 1. Commission of Cardinals'message

Continuing the efforts of the transparency initiative undertaken in recent years, and in accordance with the Vatican law currently in force, the Commission of Cardinals is pleased to announce the publication of the 2015 Annual Report of the Istituto per le Opere di Religione.

During 2015, the Institute reaffirmed its commitment to serve the Holy Father in His mission as the universal Pastor, through the provision of dedicated financial advisory and payment services, in complete conformity with Vatican and international laws in force, at the service of Catholic congregations and institutions serving universal Church.

Our commitment was made possible by a fruitful synergy among all the members of the Institute who, despite the diversity of their roles and responsibilities, worked hard to achieve the same common goal reaffirmed in November 2015 by the Holy Father who, speaking to the members of the Board of Superintendence, responsible for the Institute's technical and strategic lines of direction, reminded us that "... the IOR cannot have the maximum possible gain as its first operational goal, but goals that are compatible with the norms of morality, consistent efficiency and practices respecting the specificity of its nature and due exemplarity in its mode of operation .... ".

The publication of this Annual Report represents a precious opportunity to thank personally and on behalf of the members of the Commission of Cardinals, which I have the honor of chairing, the Prelate, the Board of Superintendence, the Directorate, the Board of Auditors and the entire staff for the fruitful commitment shown day after day.



Cardinal Santos Abril y Castelló
President of the Commission of Cardinals

Istituto per le Opere di Religione

Chapter 2. Prelate's message

It is my pleasure to renew my commitment as the Prelate of our Institute for the year 2016.

2015 has been a critical year marked by new initiatives at every level and in particular by the nomination of our new Director General Gian Franco Mammì, who has worked to build cohesiveness amongst personnel and encourage open communication with the other organs of governance, as called for by our Statutes and AIF Regulation No 1. It was also a year of significant international initiatives aimed at ensuring cooperation of the Holy See with the USA and Italy on tax matters. That has led to a series of important initiatives on the part of the Institute to ensure compliance with the new accords, always in line with the Institute's mission.

The IOR is not, and must not become, a for-profit institution, much less a simple money-making machine; it is, rather, a canonical foundation called to promote works of religion. In that sense, just as our Holy Father is a servant of servants, so it is my sincere hope that our Institute will continue to aspire to mirror in its work the notion of helping others do more effectively their good works in the world. Doing so, the Institute can rightfully exercise its role as Ente della Chiesa Cattolica.

As in the case of any other institution, Psalm 126 also applies to the IOR:

"If the Lord does not build a house,
then those who build it work in vain.
If the Lord does not guard a city,
the the watchman stands guard in vain".

By following the good will of our intentions and acts, let's strive to be worthy of the Lord's protection and be accepted in a house built by him.

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

Chapter 3. President's message

"Money must serve, not rule." - HH Pope Francis - Evangelii Gaudium

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The work to reform and strengthen the IOR continues and, under the guidance of the Board of Superintendence, 2015 has proven to be a year of considerable progress.

The Board is looking forward to 2016 and to continuing its role in supporting the mission of the Institute, the Holy See and the Holy Father.

All work undertaken should be for the achievement of the common good, not just the achievement of efficiency and profit. His Holiness Pope Francis has often remarked that it is essential to ensure that the human person is at its heart, when talking about the need for reform in the global economy.

In the following sections, I would like to highlight progress achieved in key areas of the Institute.

Governance

First and foremost, in 2015 the Board of Superintendence has greatly strengthened standards of corporate governance at the IOR in conformity with its Statutes and Vatican rules and regulations. The Board performed its duties as defined in the Institute Statutes. The meetings of the Board of Superintendence represented an open exchange of information and ideas to find the appropriate resolutions to meet the needs of this unique institution. Agenda items for the Board meetings and materials on specific subjects important to the Board's understanding of the subject were distributed in advance. 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.

As previously announced in 2014, the Board advised and provided oversight over the work carried out by the Directorate in the management of the Institute, acknowledging 2015 as a year of major change and recognizing the need for such support.

The Board approved the Institute's accounts for 2014, ensuring compliance with the applicable requirements and new rules introduced by Regulation No 1.

The reserves of the IOR included in the net equity were partially reclassified to create IOR's capital as requested by AIF.

The Board also passed resolutions on a number of business matters, for which its consent was mandatory, subject to reviews and consultations in close coordination with the Directorate as well as the Commission of Cardinals, when necessary.

Once approved, the minutes of every Board meeting were shared with the Board of Auditors, the Directorate, the Prelate and the Commission of Cardinals.

The Commission of Cardinals was kept informed on every initiative and consulted as necessary on issues relating to potential changes in governance, in the IOR operating model or in leadership. For example, the Board presented a proposal to the Commission of Cardinals for adjusting the Statutes of the Institute and and is working on a draft Internal Regulations, overdue for many years that should be completed in 2016.

Since July 2014, the Commission of Cardinals attends one out of two Board meetings. Prior to every official Board meeting, informal gatherings are also organized with Board members, the President of the Commission of Cardinals and, when possible, other Cardinals.

Regular update meetings were held with the Prelate and the non-voting secretary of the Board to ensure, among other things, an adequate adjustment to the cultural background and the specific nature of the IOR as a canonical foundation. New rules and principles have also been introduced regarding the IOR charity funds.

During 2015, the Board created two informal Committees, the Human Resources and Remuneration Committee and the Audit and Risk Committee (the composition of these Committees are described below), intended to help and support the Board in their work.

Terms of Reference were established for each Committee. The Human Resources and Remuneration Committee convened four times in 2015, and the Audit and Risk Committee met on five occasions. These meetings, for the most part, were held the day prior to the Board meetings.

Minutes were prepared for each meeting and distributed to all Board members, along with a specific report presented by the two respective presidents at each Board meeting.

The purpose of the Human Resources and Remuneration Committee is to assist the Board in the oversight of human resources and compensation policies to be aligned with IOR's mission and AIF Regulation No.1.

The responsibilities of the Human Resources and Remuneration Committee included managing the selection process for a new Director General, making recommendations regarding a variety of personnel issues and establishing a work plan for 2016, with special consideration for the establishment of IOR's Internal Regulation.

The work covered for the Audit and Risk Committee included: reviewing proposals to reinforce IOR'control functions; reviewing the IOR action plans for the implementation of AIF Regulation No.1; designing a Risk Appetite Framework; reviewing IOR'proprietary portfolio; reviewing the Internal Audit Plan 2016-2018; receiving updates on Anti-Money Laundering and Know Your Customer procedures and working towards the introduction of a "whistle-blower" policy.

Given the critical nature of the work at hand, it was agreed to add two financial experts to this Committee to fulfil the responsibilities outlined above.

As of October 2014, the Board of Auditors has a new chairman, and in June 2015, two new members were nominated replacing Mr Molinuevo and Mr Bernasconi, whose mandates expired. They have attended all of IOR's Board meetings.

Cooperation between the Board and the Directorate

Under the Holy Father's guidance and in keeping with IOR Statutes, the Board has assisted the Directorate, particularly in the following ten areas:

1. Facilitate greater transparency and compliance with Regulation No.1 and law XVIII;

2. Strengthen the control function with clearer governance principles, well beyond AML and KYC, in light of the new Vatican regulatory frameworks. The Internal Audit function has been given increased support and attention with the appointment of a new head of the function and increased resources. As an illustration of this point is the revision of the IOR safe box and safe bags activity and the establishment of new and systematic criteria governing this activity;

3. Address Human Resources issues, such as increasing staff training, introducing a staff code of conduct, strengthening internal communication, establishing job descriptions, reviewing work flows and adapting working hours at the IOR;

4. Strengthen client service;

5. Consolidate the IT infrastructure;

6. Introduce new policies for cash advances for clients as the Board decided to stop issuing loans;

7. Revise the existing governance policy where necessary, and work towards the creation of internal regulations with the help of a dedicated working group, in coordination with the Commission of Cardinals. A review of IOR's Statutes is also underway to identify potential minor changes;

8. Re-establish working relationships with Italian banks and successfully unfreezing a number of IOR accounts in several Italian institutions;

9. Reduce the overall cost base by 17% between 2014 and 2015 and, in particular, reducing the dependency on outside consultants. This will be best illustrated in 2016 IOR budget, where annual consultant costs (without exceptional items) will be reduced close to 70% compared to 2013;

10. Develop a Risk Appetite Framework for the IOR.

In addition, the composition of IOR's proprietary portfolio was modified to reduce risk which has proven to be very timely given market trends. This was achieved after an in-depth portfolio review conducted during the fall of 2014. Also, an ad-hoc "investment and market" Committee, comprised of 3 Board members and IOR executives, met on several occasions. The IOR financials for 2015 are reflective of this thorough and cautious approach.

A risk-sensitive approach has also been introduced in the asset management activities, including a comprehensive review of existing processes to strengthen the quality of its products.

Significant efforts were made to allow IOR to become FATCA compliant and meet the criteria of the newly introduced tax regime between Italy and the Holy See. The Holy See's Secretariat of State has been involved throughout this process.

Accounting principles remained the same in 2015 and in 2014 but work has begun to prepare the 2016 accounts to conform to the AIF's new rules and procedures, which will be issued in the upcoming months.

Finally, it is important to mention that past abuse, to which the IOR had been exposed to, have been and continue to be vigorously addressed to allow for the truth to come forth and to allow for the IOR to recover what it is owed.

Personnel changes in the Directorate

In March 2015, Gian Franco Mammì was named Vice-Director, a position that had been vacant since December 2013.

In agreement with the Commission of Cardinals, a search for a new Director General began in June of 2015, considering both internal and external candidates. Ultimately, it led to a decision, announced by the Holy Father in His visit to the Board of the IOR on 24 November 2015, to nominate Gian Franco Mammì as Director General and Giulio Mattietti as "Aggiunto al Direttore con funzioni delegate" to support the Director General.

2016 and beyond

In 2016, the IOR will see the results of the many efforts undertaken, and will continue to move ahead with professionalism and focus on achieving its mission. The Board looks forward to offering continued support and expertise to the IOR.

Appreciation

I would like to thank, in particular, the Board members and the members of the Board of Auditors for their support, their contribution and their dedication. Many of them have devoted a considerable amount of their time to help steer the IOR through this year of transition, while it waited for the nomination of a new Director General which took place at the end of November.

Over the last months, the Board has strived to build a strong and technical working relationship with the Commission of Cardinals. I wish to extend my gratitude to its president and to all its members for their dedication and their contribution.

I also wish to express my appreciation for the work of Rolando Marranci, the previous Director General, the Prelate Msgr. Ricca and the non-voting secretary of the Board, Msgr. Xuereb.

I also want to thank the team at IOR and particularly its senior members who have worked so hard to allow for so many changes to occur in the day to day management of the Intistute.

IOR’s relationship with AIF, IOR's Supervisor, has grown in strength and professionalism and I wish to thank all those who have played a part in building this relationship during a period of profound change in the Vatican regulatory framework.

Going forward, it is up to Gian Franco Mammì, with the engaged support of Giulio Mattietti, and all IOR employees, to continue this work, which is now well both technically and in transparency and oversight. The Board will accompany and encourage all those efforts in accord with the Institute Statutes and in close relation with the Commission of Cardinals and all the governing bodies.

<u>a) Composition of the Human Resources and Remuneration Committee</u>

Mary Ann Glendon – chair

Jean-Baptiste de Franssu (ex officio)

Mauricio Larrain

Carlo Salvatori

In attendance : Mario Busso, President of the Board of Auditors

b) Composition of the Audit and Risk Committee

Sir Michael Hintze – chair

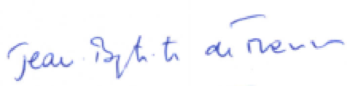
Clemens Börsig

Leslie Ferrar (non-board member)

Jean-Baptiste de Franssu (ex officio)

Wiet Pot (non-board member)

In attendance: Mario Busso, President of the Board of Auditors



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

Chapter 4. Director General's message

2015 was characterized as a year of great commitment from the employees, managers and superintendants of the Institute to ensuring compliance with the recent Vatican regulations on money laundering, to combatting the financing of terrorism, to transparency and prudential supervision.

The results achieved thus far allow me to state that the reform and consolidation of the 'new' IOR has reached an advanced stage.

For the Institute, this is the best business card in our relations with our counterparts, and for them it is an objective and tangible evidence of the reliability and solidity of the IOR today.

As Pope Francis emphasized, respect for the law is the key element in the reform of the IOR.

The reinvigorated renewal of relations with our counterparts, among these counterparts the nomination of a representative to implement the Agreement between the Holy See and Italy on fiscal matters and the progress made on the Fiscal Agreement between the Holy See and the United States: all these confirm that the IOR today, after having followed the path of transparency for some time now, can be a full member of the international financial community.

Putting our clients in a position whereby they can claim "transparency" in relation to tax requirements of their home countries creates an added value for the service provided and, at the same time, highlights the central role they play in the strategic plan of the Institute.

Day-to-day operations, which are the responsabilities of the Directorate, have been reorganised in consideration of the Institute's mission, which is to serve the Church all over the world, through our clients, in an efficient and skilful manner.

Our clients are our raison d'être and serving them as best we can remains our priority.

Lastly, through this brief open letter I would like to remember all those who, alongside our staff, contribute on a daily basis to the fulfilment of the mission of our Institute: the President and the members of the Commission of Cardinals, the Prelate, the President and the members of the Board of Superintendence, and the Board of Auditors.

Thanks to all of them.

Gian Franco Mammì
Director General
Istituto per le Opere di Religione

Chapter 5. Management Report

Section 1. A Business Review of 2015

1.1 Macroeconomic environment

The following gives an overview of the macroeconomic environment during 2015, with a particular focus on those markets and developments most relevant to explaining the Institute's portfolio performance, given its conservative investment strategy.

In 2015, the U.S. economy registered, since the beginning of the first quarter, slow growth and job creation with inflation expectations beginning to return. The Federal Reserve kept interest rates unchanged for most of the year but in December, in line with these trends, increased the Fed Funds rate from 0.25% to 0.50%.

In contrast, most of the European economies continued to stagnate. In order to counteract deflationary pressures, the European Central Bank announced a massive expansion of its asset purchase program in January. The major impact of the ECB's quantitative easing program was to push Euro deposit rates lower and even into negative territory. This was evidenced by 3 month Euribor rates steadily falling from +8 basis points per annum at the beginning of the year to negative 13 basis points per annum by the end of the year. The ECB has made it difficult for all Eurozone banks to hold uninvested Euro cash which attracted negative interest rates on deposit.

The falling trend in interest rates in Europe, especially on Government Bonds, was temporarily inverted by the escalation of the Greek crisis. On January 25th, Greece elected a new government firmly committed to renegotiate with the international community (mainly EU and IMF) the terms of its massive debt repayment. Negotiations protracted for several weeks creating a sense of crisis in the Eurozone and increasing worldwide concern on the future of the Euro currency itself. The ECB asset purchase program offset concerns regarding a possible Greek default and exit from the Euro, keeping Eurozone Government bond yields and long term rates from rising too much until Greece, by the end of July, finally accepted most of the conditions imposed by the international community. Yields on 10 year Italian Government bonds (BTPs) began and finished the year at 1.6%, but during the Greek crisis rose as high as 2.4%. Yields on high rated Euro denominated bonds ended the year close to zero percent and in some cases with negative yields. Five year German Government bonds (BOBL) issued in April 2015 were yielding -0.15% per annum. Italian Government one year bonds (BOTs) were yielding negative 5 basis points(-0.05%) by the end of 2015.

Negative interest rates have made the Euro currency unattractive and the Euro fell in value versus the US dollar, starting the year at a rate of 1.20 and falling to 1.06 during the Greek crisis, which is close to where it finished in 2015. The Euro has only managed to maintain its value against GBP due to concerns regarding the 2016 "Brexit" referendum in the UK.

As the Greek stabilized in June, the next major event in financial markets came from China. Its economic growth has slowed mainly as a consequence of its transition from investment and manufacturing to consumption and services. The global spillovers from China's reduced rate of growth, through its diminished imports and lower demand for commodities, has been much larger than anticipated, most notably seen in the continued slide in the price of oil through most of 2015. China's stock market crashed in June through to September, losing 40% of its value.

On top of that, China devalued its yuan currency on August 11th, with Chinese regulators indicating the move as a bid to see the exchange rate better reflecting market forces but the main reason was linked to falling exports. Investors world-wide took the yuan devaluation as a sign that China's economy was performing worse than expected and consequently risky assets, especially equities, quickly sold off. The S&P 500 index fell more than 12% from peak to trough in the span of a week – the first correction of this size in four years.

Despite these significant events in Greece and China, what affected market sentiment the most was the fall in the price of crude oil from $60 to $35 during the year. These three events increased volatility in Western stock markets and credit spreads, but index levels still finished the year close to where they were at the start of the year. Even the VIX Index (measure of volatility) which spiked in August, finished the year at the same level it started. This relative stability in western markets combined with falling commodity prices led to the price of gold gently declining from $1,200 to $1,050.

1.2 Composition of customer basis

At the end of 2015, the IOR had 14,801 customers (2014: 15,181), of which the vast majority, measured by assets entrusted to the Institute, were legal persons under Canon Law. The IOR's customers all have one thing in common, which is that they are part of and serve the Catholic Church.

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 among legal persons. Clerics and members of Institutes of Consecrated Life and Societies of Apostolic Life, employees and pensioners of the Vatican among natural persons.

The most important group of customers, measured by assets entrusted, was religious orders. These accounted for almost half of our customers in 2015 (48%), followed by Roman Curia departments, Holy See Offices and nunciatures (11%), entities of Canon Law (9%), cardinals, bishops and clergy (8%), dioceses (7%), with the remainder split between various others, such as Vatican employees and pensioners and Canon Law foundations.

As well as depositing funds with us, we manage our customer's portfolios of assets on their behalf or act as custodians. As of 31 December 2015, the net value of assets held in managed portfolios was EUR 3.2bn (2014: EUR 3.2bn), the net value of assets held in non-managed portfolios was EUR 646.2m (2014: EUR 673.2m) and the value of customer deposits was EUR 1.9bn (2014: EUR 2.1bn), resulting in EUR 5.8bn in total client assets (2014: EUR 6.0bn).

1.3 Income Statement and Net profit for the Year

In 2015, IOR's Net profit was EUR 16.1m (2014: EUR 69.3m). The decrease from 2014 was mainly due to the negative impact of Net Trading Income from securities, the decrease of Net Interest Result and a provision for tax remediation to foreign countries, partially offset by extraordinary income related to the termination of a past years issue. A decline in extraordinary operating expenses in 2015 had a positive impact compared to 2014.

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

The most significant source of revenues comes from the profit derived from Treasury activities on proprietary portfolios, however, the I**nterest Margin** amounting to EUR 43.9m decreased by 13.4% compared to EUR 50.7m in 2014. This was mainly affected by the decline in average invested amounts during the year to EUR 2.9bn (2014: EUR 3.1bn). In 2015, the IOR recorded a decrease in the yield on investments in securities and bank deposits and a decline in interest paid to customers. The average rate on customer deposits declined to 0.22% in

2015 from 0.40% in 2014, while the average yield on investments in securities and bank deposits declined to 1.64% in 2015 from 1.94% in 2014. Consequently, the spread between the average rate received on assets and the average rate paid on liabilities decreased to 1.42% from 1.54%.

The Institute achieved its interest margin by consolidating short-term funds and into longer term investments at higher rates, while ensuring sufficient liquidity to meet any obligations that may become due.

Net Fee and Commission result increased 5.6% to EUR 15.2m in 2015 from EUR 14.4m in 2014. Fee and Commission Income increased 6.0% to EUR 17.7m in 2015, from EUR 16.7m in 2014, while Fee and Commission Expense rose to EUR 2.5m in 2015 from EUR 2.3m in 2014 (+8.7%).

The most important component of the Fee and Commission Income was commissions from Asset Management services, which increased 5.4% to EUR 13.7m in 2015 from EUR 13.0m in 2014. This was mainly due to the shift of some customers to asset management lines with higher commissions during 2015.

The increase in Fee and Commission Expense was mainly due to the increase in commission paid for securities transactions, to EUR 648,000 in 2015 from EUR 588,000 in 2014 (+10,2%) and in fees paid to banks, which was EUR 752,000 in 2015, up from EUR 662,000 in 2014 (+13.7%). This was a consequence of more transactions related to equity portfolio management, as well as increased transactions with IOR's external banking relationships.

Dividend Income fell 28.6% to EUR 2.0m from EUR 2.8m in 2014.

Net Trading Result recorded a net loss of EUR 18.2m compared to a net gain of EUR 36.7m in 2014. The significant decrease in the Net Trading Result was mainly due to the negative performance of the bonds held in the proprietary portfolio in 2015, compared to 2014, as a result of the negative market trends during the year. Furthermore, the gain recognized on external investment funds during 2014 was not repeated in 2015.

This was due to the unrealized loss of EUR 9.2m recognized from debt securities and bonds in 2015, compared to a gain of EUR 10.7m in 2014; a decrease in realized gains from debt securities and bonds to a loss of EUR 8.0m in 2015, compared to a gain of EUR 14.8m in 2014; a decrease in realized gains from external investment funds from a profit of EUR 0.1m in 2015, down from EUR 10.3m in 2014; and the decrease in the value of gold, which led to a loss of EUR 2.9m in 2015 as opposed to a gain of EUR 0.6m in 2014.

Operating Expenses were EUR 24m in 2015 (2014: EUR 28.9m). This includes Staff Expenses of EUR 10.2m in 2015, in line with the prior year amount (2014: EUR 10.8m, or -5.6%). As of December 31, 2015, the IOR had a total of 110 personnel (2014: 112). During the year, no additional employees were hired, and one employee left the Institute.

Operating Expenses also include expenses for professional services, which decreased from EUR 11.5m in 2014 to EUR 7.6m in 2015. This was due to lower extraordinary costs incurred from the termination of certain projects, such as those incurred to meet international anti-money laundering and compliance requirements. The IOR engaged in a systematic screening of all existing customer records to identify missing or insufficient information required for completion of the new customer identity data templates, which the Institute introduced in May 2013, and concluded during 2014.

AML and KYC reviews are part of the day-to-day activities, and the IOR continues to invest in strengthening its tools and processes. 2015 costs of EUR 7.6m mainly relates to the costs of obligations for past activities fully executed.

Operating Expenses includes the depreciation of equipment and furnishings, the depreciation of intangible assets, the remunerations to the members of Board of Superintendence and Board of Auditors. It also includes "Other Operating Expenses" which decreased overall by 5.7% to EUR 6.2m (2014: EUR 6.6m), due to certain cost savings realized during the year.

Impairment losses in 2015 amounted to EUR 0.9m (2014: EUR 7.2m) exclusively due to unrealised losses on loans and advances to customers.

Other Net Income (Expense) recorded a negative result of EUR 1.8m (2014: gain of EUR 0.9m) mainly due, to extraordinary income of EUR 13.6m related to the closing of an issue from previous years, and a provision for tax remediation towards foreign countries of EUR 16.5m.

1.4 Balance Sheet

As of 31 December 2015, total assets on the IOR's balance sheet was EUR 3.2bn (2014: EUR 3.2bn), with equity of EUR 670.3m (2014: EUR 695.0m).

On the Liabilities side, **Due to depositors** represented the most significant line item, representing 93.6% of total liabilities. The balance remained consistent from the prior year, amounting to EUR 2.4bn (+0.4%). Customer deposits decreased by EUR 118.5m, while asset management liquidity grew by EUR 128.5m due to the market trends that supported the department's decision to maintain more liquidity.

Our customers expect a conservative approach in financial management by IOR, with investments in liquid securities and high quality credit risk. Investments in the stock market and in similar financial instruments are relatively restrained 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. Credit activity is residual and strictly subject to constraints subject to internal policies and procedures. As a result, on the asset side of the balance sheet mainly reflects bank deposits and securities, and only 5% of total assets is held in externally managed investment funds and equities.

Bank Deposits, net of deposits with Vatican City State Public Authorities, totaled EUR 558.7m at the end of 2015 (2014: EUR 516.0m). These mainly consisted of EUR 265.4m in deposits on demand (2014: EUR 283.3m), and EUR 293.3m in term deposits in the interbank lending market (2014: EUR 232.7m).

The value of IOR held **Securities** (bonds, equities and external investment funds) was EUR 2.4bn in 2015 (2014: EUR 2.6bn).

Bonds, at EUR 2.3bn, were the most significant investments, representing 95% of the securities held as of 31 December 2015, while equities accounted for 3%, and external investment funds for 2%. As already explained, the volumes of the invested amounts recorded a slight decrease, increasing the volumes of bank deposits, while the portfolio composition remained unchanged.

The key components of the assets in our balance sheet as of 31 December 2015 were as follows:

	Amount 31 December 2015 EUR 000	%
Cash and Bank Deposits		
Cash	16,213	
Free deposits towards Holy See and Vatican City State Public Authorities	158,505	
Bank Deposits	558,679	
Total	733,397	22.89%
Trading Securities		
Debt securities	1,563,528	
Equity securities	63,109	
External investment funds	41,329	
Total	1,667,966	52.05%
Loans and Receivables securities		
Debt securities	87,733	2,74%
Available for Sale securities		
Equity securities	15,167	0.47%
Held to Maturity securities		
Debt securities	614,818	19.19%
Other assets	85,177	2.66%
TOTAL ASSETS	**3,204,258**	**100%**

Section 2. Mission, Services and Customers

2.1 Mission of the Institute

The Istituto per le Opere di Religione (the "Institute" or "IOR") is an institute 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 IOR's purpose, set out in its Statutes, annexed 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 by protecting its wealth base 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 corps.

The IOR is exclusively located on the sovereign territory of the Vatican City State, and subject to the regulations and legislation applicable in the Vatican City State. The IOR is supervised and regulated by the "Autorità di Informazione Finanziaria" (AIF), the financial regulatory body for the Vatican City State and the Holy See.

2.2 Nature of the Institute's services

For its customers, the Institute carries out financial activities authorised by the AIF, offering 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 customers' assets by primarily investing in financial instruments characterized as very low risk (eg. government bonds, bonds issued by institutions and international organizations, as well as deposits in the interbank market).

Credit activity was carried out on a residual basis.

The IOR does not issue, underwrite or place securities.

Relationships 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 the IOR offices located in the Vatican City State. The IOR has no other locations and does not offer internet-based services.

2.3 Definition of IOR customers

The 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 pensioners of the Vatican as natural persons).

The IOR accepts as customers only individuals with a stable relationship to the Holy See; does not accept business customers.

In many cases, our customers 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 payments systems.

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

Section 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 Board of Auditors.

Group photo of Commission of Cardinals, Prelate, Board of Superintendence and Non-voting Secretary of the Board

The Commission of Cardinals oversees the Institute's observance of its Statutes norms. It appoints and removes members of the Board of Superintendence.

Furthermore:

a) It deliberates, after considering the financial statements and taking into account IOR's own financing needs, the distribution of profits;

b) It proposes to the High Authority changes to the Statutes;

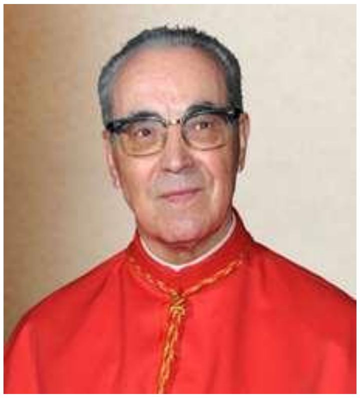
c) It deliberates the emolument due to members of the Board of Superintendence;

d) It approves the appointment and removal of the Director General and of the Vice-Director made by the Board of Superintendence;

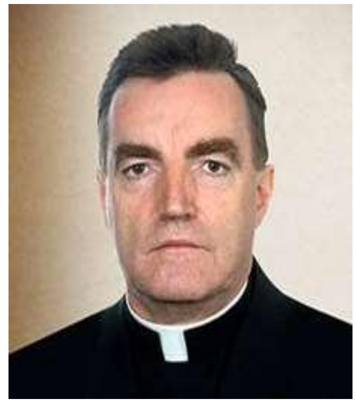
e) It deliberates any possible issues regarding members of the Board of Superintendence and the Directorate.

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

The current members are:



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



Cardinal Josip Bozanic
Archbishop of Zagreb

Cardinal Thomas Christopher Collins
Archbishop of Toronto

Cardinal Pietro Parolin
Secretary of State

Cardinal Christoph Schönborn
Archbishop of Vienna

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

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

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

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

Msgr. Battista Mario Salvatore Ricca

The **Board of Superintendence** is responsible for administration and management of the Institute, as well as the oversight and supervision of financial, economic and operational activites. 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 yearly 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 respect to investments and other activities;
- Defining the most appropriate financial structure for the Institute, proposing the best way to improve it, and in general, by indicating the best means through which to increase its assets 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 the latter's bidding, the Vice-Director, Managers and Officers, according to the practices set out 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, which can be renewed. The Board consists of six members and a non-voting secretary.

Jean-Baptiste Douville de Franssu
President

Clemens Börsig

Mauricio Larraín

Mary Ann Glendon

Carlo Salvatori

Michael Hintze

Msgr. Alfred Xuereb
Non-voting Secretary

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 is composed by:

Gian Franco Mammì
Director General

Giulio Mattietti
"Aggiunto al Direttore" with delegated functions

Dr. Giulio Mattietti currently supports the Director General in carrying out the duties of the Directorate.

Until November 2015, the Directorate was comprised of Rolando Marranci as Director General and from March 2015, Gian Franco Mammì as Vice-Director.

The **Board of Auditors** must:

- Verify at least quarterly, the administrative and accounting review of the Institute's accounting books and records;

- If requested by the Board of Superintendence, the Board of Auditors may proceed to 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 Board of Auditors consists of three members, appointed by the Board of Superintendence for a maximum period of three years. They can be renewed.

The current members are:

- **Mario M. Busso**, President of the Board of Auditors
- **Giovanni Barbara**
- **Luca Del Pico**

Until March 2015, the Board was comprised of the following:

- **Mario M. Busso**, President of the Board of Auditors
- **Rodolfo Molinuevo Orue**
- **Pierluigi Bernasconi**

Section 4. Regulatory Framework and Tax Requirements

4.1 Regulatory framework

The IOR is subject to the legislation and regulatory framework of the Holy See and Vatican City State.

The Vatican legal framework recognises Canon Law as the primary source of legislation and the primary criterion for its interpretation. 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, if transposed by the competent Vatican authority. They are adopted on condition that they do not contravene the precepts 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 derived from treaties and other accords of which the Holy See is part of.

The Istituto per le Opere di Religione is supervised by the Financial Intelligence Authority (AIF).

It is under Law no. XVIII of 8 October 2013 which 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, establishing a clear system of authorization, stipulates the criteria for the organisation and management of entities and mechanisms of internal control.

In order for the Institute to be fully compliant with the provisions of the Regulation, specific work streams policies and procedures have been put in place during 2015.

Ahead of the issue of new regulations on the preparation and publication of financial statements, which will be applied to the upcoming 2016 financial statements, the financial statements presented herein have been prepared applying generally accepted accounting standards, as required by the current Statutes and consistent with the previous years.

In this regard, the Institute has adopted International Financial Reporting Standards IAS/IFRS.

Financial Risk Management disclosures were made consistent with International Accounting Standards, allowed during the transition period prior to the full compliance with the Vatican framework regarding prudential supervision.

Accordingly, beginning with the Annual Report 2016, the information provided to the readers of the financial statements will be prepared in compliance with the new Regulations to be issued.

Pursuant to AIF Regulation No.1 and subsequent communications with the same Authority, during 2015, the Institute, at the conclusion of a process involving the Directorate, Board of Superintendence, Commission of Cardinals and Board of Auditors, has identified the items "Capital", “Unavailable reserves” and “Available reserves”, as components of Equity, so that these are now clearly and distinctly identifiable.

4.2 Tax requirements

In 2015, the IOR continued to revise its tax requirements related to proprietary and customer assets, an activity started in 2014.

Effective 2015, the IOR is subject 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) in substance with the United States on 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 effect 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.

The IOR has also been working to review and confirm its tax position and that of its customers towards countries with which they have investment relationships. This activity has identified probable contingencies which relate to prior years as a result of different interpretations regarding the legal nature of the Institute and consequently related tax treatments. For this purpose, on the basis of the reviews made so far supported also by external legal advisors, these financial statements include an estimated liability, amounting to EUR 16.5m.

Chapter 6. Proposal of distribution of the net profit for the year

For the net profit for the year ended 31 December 2015 amounting to EUR 16.1m, 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 Capital adequacy results.

Chapter 7. Financial Statements

Chapter 7. Financial Statements

Section I. Balance Sheet as of 31 December 2015

(in thousand Euro)

BALANCE SHEET AS OF 31 DECEMBER 2015			
		2015	*2014*
		EUR 000	*EUR 000*
ASSETS	Notes		
Cash and Bank deposits	1	733,397	567,358
Trading securities	2	1,667,966	1,718,136
Gold, medals and precious coins	3	33,202	33,208
Derivative financial instruments	4	-	-
Loans and advances to customers	5	23,930	22,408
Loans and receivables securities	6	87,733	187,677
Investment securities, equities available for sale	7	15,167	10,390
Held to maturity securities	8	614,818	645,054
Investment in subsidiaries	9	15,835	15,835
Investment properties	10	2,897	2,181
Equipment and furnishings	11a	84	123
Intangible assets	11b	875	833
Other assets	12	8,354	7,572
Total Assets		**3,204,258**	**3,210,775**
LIABILITIES			
Due to banks	13	10,597	16
Due to depositors	14	2,371,669	2,361,863
Derivative financial instruments	4	-	-
Other liabilities	15	36,587	29,955
Post-employment benefit plans	16	115,127	123,947
Total Liabilities		**2,533,980**	**2,515,781**
PATRIMONIO / EQUITY			
Equity reserves		-	309,874
Retained earnings reserve		-	357,426
Capital		300,000	-
Unavailable reserves		100,000	-
Available reserves		282,133	-
Fair Value reserve investment securities, equities available for sale		4,777	-
Post-employment benefit actuarial gain (loss) reserve		(32,759)	(41,639)
Net profit for the year		16,127	69,333
Total Equity		**670,278**	**694,994**
Total Liabilities and Equity		**3,204,258**	**3,210,775**

As of 31 December 2015, the Institute has separately identified and presented Capital, Unavailable and Available Reserves as components of Total Equity, as required by laws in force in the Vatican City State.

For the details of Equity items, please refer to “Statement of changes in equity” in Section I.

The notes on each item of Assets and Liabilities are disclosed in Section IV “Explanatory notes to the financial statements”.

Income Statement for the Year ended 31 December 2015

(in thousand Euro)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015			
		2015	*2014*
		EUR 000	*EUR 000*
	Notes		
Interest income	17	48,894	61,088
Interest expense	17	(5,003)	(10,428)
Net interest result		**43,891**	**50,660**
Fee and commission income	18	17,710	16,666
Fee and commission expense	18	(2,482)	(2,304)
Net fee and commission result		**15,228**	**14,362**
Dividend income	19	1,954	2,781
Net trading result	20	(18,231)	36,717
Operating result		**42,842**	**104,520**
Operating expenses	21	(24,004)	(28,880)
Net operating result		**18,838**	**75,640**
Impairment losses	23	(866)	(7,157)
Other net income (expense)	22	(1,845)	850
Net profit for the year		**16,127**	**69,333**

The notes on each item are disclosed in Section IV of these financial statements.

Statement of Comprehensive Income for the Year ended 31 December 2015

(in thousand Euro)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015			
		2015	*2014*
		EUR 000	*EUR 000*
	Notes		
Net profit for the year		**16,127**	**69,333**
Items that may be reclassified subsequently to Income Statement			
Net fair value gain (loss) on available for sale investment securities	7	4,777	-
Net loss on impairment, decrease of fair value gain (loss) on available for sale investment securities recorded in the prior years	7	-	(5,368)
Items never reclassified subsequently to Income Statement			
Post-employment benefit actuarial gain (loss) of the year	16	8,880	(34,018)
Total Comprehensive Income		**29,784**	**29,947**

The notes are disclosed in Section IV of these financial statements.

Cash Flow Statement for the Year ended 31 December 2015

(in thousand Euro)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

DIRECT METHOD		Notes	*2015* *EUR 000*	*2014* *EUR 000*
Cash flows from operating activities				
Interest, fees and commissions received			72,770	79,988
Interest, fees and commissions paid			(10,142)	(17,012)
Dividend received			1,954	2,781
Realised Net trading result			(6,522)	27,381
Other income (expense)			(2,930)	498
Cash payments to employees and suppliers			(23,368)	(28,528)
			31,762	65,108
Changes in operating assets and liabilities				
Net (increase) or decrease in trading securities and derivatives			41,766	38,541
Net (increase) or decrease in gold, medals and precious coins			(2,847)	(2,760)
Net (increase) or decrease in term deposits with banks			(97,881)	(62,000)
Net (increase) or decrease in loans and advances to customers			(1,447)	4,098
Net (increase) or decrease in other assets			(782)	347
Net increase or (decrease) in due to banks			10,581	15
Net increase or (decrease) in due to depositors			12,469	(178,135)
Net increase or (decrease) in other liabilities			6,633	(7,971)
Net cash from operating activities	A		254	(142,757)
Cash flows generated - used in investing activities				
Purchase of furnishings and equipment		11a	(25)	(15)
Disposal of furnishings and equipment		11a	-	-
Purchase of intangible assets		11b	(554)	(235)
Improvements of real estate properties		10	(216)	(73)
Purchase of investment securities AFS		7	-	(6,321)
Disposal of investment securities AFS		7	-	2,432
Purchase of HTM or L&R securities		6,8	(33,412)	(174,061)
Disposal of HTM or L&R securities		6,8	165,111	173,084
Net cash from (used in) investing activities	B		130,904	(5,189)
Cash flows used in financing activities				
Distribution of prior year profits	C		(54,500)	(55,000)
Forex effects	D		(7,689)	(9,403)
Net increase (decrease) in cash and cash equivalents	**(A+B+C+D)**		68,969	(212,349)
Cash and cash equivalents at beginning of the year			480,632	692,981
Cash and cash equivalents at the end of the year		1	**549,601**	**480,632**

The notes are disclosed in Section IV of these financial statements.

Statement of Changes in Equity

(in thousand Euro)

STATEMENT OF CHANGES IN EQUITY	Equity reserves	Capital	Retained earnings reserve	Unavailable Reserves	Available Reserves	Comprehensive Income: Fair value reserve investment securities Available for sale	Comprehensive Income: Post employment benefit actuarial gain (loss) reserve	Comprehensive Income: Net profits	Total
	EUR 000	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*
Balance at 31 December 2013	**309,874**	**-**	**409,561**	**-**	**-**	**5,368**	**(7,621)**	**2,865**	**720,047**
Distribution according the indications of Commission of Cardinals	-		-			-	-	(55,000)	(55,000)
Transfer from available retained earnings reserve	-		(52,135)		-	-	-	52,135	-
Net loss on impairment, decrease of fair value gain (loss) on available for sale investment securities recorded in the prior years						(5,368)	-	-	(5,368)
Post-employment benefit actuarial gain (loss) of the year	-					-	(34,018)		(34,018)
Items of other comprehensive income	-		-			(5,368)	(34,018)	-	(39.386)
Net profit for the year 2014	-		-			-		69,333	69,333
Total comprehensive income 2014	-		-			(5,368)	(34,018)	69,333	29,947
Balance at 31 December 2014	**309,874**	**-**	**357,426**	**-**		**-**	**(41,639)**	**69,333**	**694,994**
Distribution according the indications of Commission of Cardinals	-		-			-	-	(54.500)	(54.500)
Transfer to available retained earnings reserve	-				14,833	-	-	(14.833)	-
Reversal of FV loss on AFS securities at impairment into Income Statement (note 7)	-		-			-	-	-	-
Identification of new Equity items	(309,874)	300,000	(357,426)	100,000	267,300				-
Net fair value gain (loss) on available for sale investment securities (note 7)	-		-			4,777	-	-	4,777
Post-employment benefit actuarial gain (loss) of the year			-				8,880		8,880
Items of other comprehensive income	-		-			4,777	8,880	-	13,657
Net profit for the year 2015	-		-			-		16.127	16,127
Total comprehensive income 2015	-		-			4,777	8,880	16.127	29,784
Balance at 31 December 2015	**-**	**300,000**	**-**	**100,000**	**282,133**	**4,777**	**(32,759)**	**16,127**	**670,278**

As previously mentioned, during 2015, the Institute specified the items Capital, Unavailable and Available Reserves within the Equity category.

The notes are disclosed in Section IV of these financial statements.

Section II. General information and summary of significant accounting policies

2.1 General information

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.

2.2 Accounting policies

2.2.1 Basis of preparation

The 2015 IOR's financial statements, in continuity with previous years, have been prepared in accordance with International Financial Reporting Standards (IAS/IFRS).

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 (Chapter 7, Section II-Section VI) .

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

The principal accounting policies 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.

The 2016 financial statement will be prepared in accordance with the Accounting Policies issued by AIF during the year.

The financial statements of the Institute are prepared in Euro. Unless otherwise stated, all amounts are provided in thousands of Euros. For all 2015 items, 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 of the IOR was prepared on a going concern basis in accordance with IAS 1 "Presentation of Financial Statements". On the date of the approval of the financial statements, there were no material uncertainties and therefore no significant doubt regarding the Institute's ability to continue as a going concern for 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 a large number of estimates and assumptions with regard to the future that may, naturally, not coincide with actual future conditions. Estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues and expenses. In addition, changes in assumptions may have a significant impact on the financial statements from the period during which the assumptions changed.

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 III “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 small value of the subsidiary, does not prepare consolidated financial statements, because the additional information coming from the consolidated financial statements is largely irrelevant, in the context of the IAS Framework.

The Institute provides the additional information required by the standard IFRS 12 “Disclosure of interests in other entities”.

This standard lists the information to provide in the financial statements related to the investments in unconsolidated structured entities.

According the provisions of IAS 10, all events that took place subsequent to December 31, 2015 have been evaluated in the preparation of the 2015 Financial Statements.

2.2.2 Impact of New Accounting Pronouncements, new Standards, interpretations and amendments to published standards

2.2.2.1 Impact of New Accounting Pronouncements, new Standards, interpretations and amendments to published standards effective 1 January 2015 and relevant to the IOR’s accounting

“Annual Improvements to IFRSs: 2010-2012 Cycle” (Amendment) (December 2013) (effective 1 July 2014); the document incorporates the changes to the standards as part of the annual process of improvement. Main changes include:

IFRS 2 Share Based Payments – The amendment is to clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions of "performance conditions" and "service condition" (previously included in the definition of "vesting condition").

IFRS 3 Business Combinations - Accounting for contingent consideration. The amendment clarifies that a contingent consideration under business combination classified as a financial asset or liability shall be remeasured at fair value at each balance sheet date of the accounting period, and changes in fair value must be recognised in the Income Statement or among the elements of comprehensive income on the basis of the requirements of IAS 39 (or IFRS 9).

IFRS 8 Operating segments - Aggregation of operating segments. The amendment requires an entity to provide information regarding the assessments made by management in the application of the criteria for aggregation of operating segments, including a description of the operating segments and aggregate economic indicators considered in determining whether these operating segments have similar economic characteristics.

IFRS 8 Operating segments - Reconciliation of total of the reportable segments' assets to the entity's assets. The amendment clarifies that the reconciliation between the total assets of the operating segments and the total assets of the entity as a whole must be made if the total assets of the operating segments are regularly reviewed by the chief operating decision maker of the entity.

IFRS 13 Fair Value Measurement - Short-term receivables and Payables. The amendment to the Basis for Conclusions of IFRS 13 clarifies that the issuance of IFRS 13, and subsequent amendments to IAS 39 and IFRS 9, did not remove the ability to measure short-term trade receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect is not material.

IAS 16 “Property, plant and equipment” and IAS 38 “Intangible Assets - Revaluation method: proportionate restatement of accumulated depreciation/amortisation. The amendments eliminate the inconsistencies in the recognition of depreciation when a tangible asset or intangible asset is revalued. The amended standards clarify that the gross carrying value must be consistent with the post-revaluation carrying value of the asset, and that the accumulated depreciation must be equal to the difference between the carrying value and the gross carrying amount, net of accumulated impairment losses.

IAS 24 “Related Party Disclosures - key management personnel”. This clarifies that when the services of key management personnel are provided by an entity (and not a natural person), this entity should be regarded as a related party.

The Institute adopted the amendment from 1 January 2015 but the application of the amendments had no impact on the disclosures or the amounts reocgnised in the Institute’s financial statement.

“Annual Improvements to IFRSs: 2011-2013 Cycle” (Amendment) (December 2013) (effective 1 July 2014); the document incorporates the changes to the standards as part of the annual process of improvement. The main changes include:

IFRS 3 Business Combinations - Scope exception for joint ventures. The amendment states that paragraph 2 (a) of IFRS 3 excludes the accounting for the formation of all types of joint arrangement, as defined by IFRS 11.

IFRS 13 Fair Value Measurement - Scope of portfolio exception (para. 52). The amendment clarifies that the portfolio exception included in paragraph 52 of IFRS 13 applies to all contracts included within the scope of IAS 39 (or IFRS 9), regardless of whether they meet the definition of financial assets and liabilities provided by IAS 32.

IAS 40 Investment Properties - interrelationship between IFRS 3 and IAS 40. The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the scope of IFRS 3 and IAS 40, it is necessary to refer respectively to the specific guidance provided by IFRS 3 or IAS 40.

The Institute adopted the amendment from 1 January 2015 but the application of the amendments had no impact on the disclosures or the amounts recognised in the Institute’s financial statement.

IAS 19 (Amendment) (November 2013) “Employee Benefits plans: employee contributions” (effective 1 July 2014).

The amendments clarify the accounting treatment for contributions (relating only to the service provided by the employee during the year) made by employees or third parties to a defined benefit plan. According to the amendments, discretionary contributions made by employees or third parties reduce the service cost upon payment of these contributions to the plan. The amendments were the results of the introduction of the new IAS 19 (2011), where it is believed that such contributions are to considered to be a component of post-employment benefit, rather than a short term benefit and, therefore, that this contribution is to be recognized over the years of service of the employee. The amendment requires retrospective application.

The Institute adopted the amendment from 1 January 2015 but the application of the amendments had no impact on the disclosures or the amounts recognised in the Institute’s financial statement.

2.2.2.2 Standards, interpretations and amendments to published standards effective 1 January 2015 that are not relevant to the IOR

IFRIC 21 (May 2013) ”Levies” (effective 1 January 2015). Liability should only be recognised in interim reports once the event giving rise to the liability has occurred.

2.2.2.3 Standards, interpretations and amendments to published standards potentially relevant to the IOR’s accounting that are not yet effective and that have not been early adopted

The following new standards and interpretations of existing standards have been published that are not mandatority effective for the year ending 31 December 2015 and not yet early adopted by the IOR:

IFRS 9 (New Standard) (July 2014) “Financial Instruments: Classification and Measurement - Financial Assets” (effective 1 January 2018).

The new standard uses a single approach based on the management of financial instruments and the contractual cash flow characteristics of the financial assets to determine the valuation criteria, replacing the many different rules in IAS 39. The main change concerns the accounting treatment of changes in fair value of a financial liability designated as financial liability at fair value through profit or loss, if these variations are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognized in “Other comprehensive income” and not in the Income Statement. With reference to the impairment model, the new standard requires that the estimate of loan losses is made on the basis of the model of expected losses and not on the model of incurred losses, using supportable information that are available without unreasonable effort or expense, which includes historical and prospective data. The standard requires that the impairment model applies to all financial instruments and financial assets carried at amortised cost, financial assets measured at fair value through other comprehensive income, receivables arising from leases and trade receivables. The standard introduces a new model for hedge accounting in order to modify the requirements of the current IAS 39, which were often considered as too stringent and not reflecting the risk management policies of companies. Under the new standard, an entity applying the fair value option to measure its financial liabilities can no longer recognise any fair value changes related to its own credit risk in the income statement, but instead recognise these effects in the Comprehensive Income Statement and therefore directly in Equity.

IFRS 11 (Amendment) (May 2014) “Accounting for Acquisitions of Interests in Joint Operations” (effective 1 January 2016).

The Amendments provide guidance on how to account for the acquisition of an interest in a joint operation.

IFRS 15 (New Standard) (May 2014) “Revenue from Contracts with Customers” (effective 1 January 2017).

The new standard establishes a new model for revenue recognition, which will apply to all contracts, insurance contracts and financial instruments with customers except for contracts related to that come under other standards IAS / IFRS standards (for example leasing, insurance contracts and financial instruments). The basic steps for the recognition of revenue under the new model are:

identification of the contract with the customer; identification of performance obligations of the contract; pricing; allocation of the price to the performance obligations of the contract; criteria for inclusion of revenue when the entity satisfies each performance obligation.

IFRS 16 (New Standard) (January 2016) "IFRS 16 - Leases" (effective 1 January 2019 - Early application is permitted for those adopting IFRS 15).

The standard provides a new definition of lease and introduces an asset condition a criterion based on the control (right of use) of an asset to distinguish leases from service contracts for lessees. The criteria to identify the leases are: identification of the property asset, the right to replacement, the right to obtain all economic benefits arising from the use of the asset and the right to direct control the use of the underlying asset of the contract.

The standard establishes a single model of recognition and measurement of the lease agreements for the lessee, where the lease (including operating leases) is recognised as an asset with a corresponding financial liability. The standard also provides the opportunity to not recognize as leasing contracts related to "low-value assets" and lease contracts with duration of 12 months or less. Conversely, the Standard does not include significant changes for lessors.

IFRS 10 – IAS 28 (Amendments) (September 2014) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (effective 1 January 2016).

The Amendments provide that when a sale/ transfer of assets to a subsidiary or joint venture occurs, the measure of profit or loss to be recognised in the balance sheet of the assignor depends on whether or not the assets/business has transferred, and whether they constitute a business corporate asset recognised in the balance sheet of the assignor, as defined by IFRS 3. In the event that the assets or the subsidiary sold/transferred represents a business corporate asset, the entity shall recognise the gain or loss on the entire investment held. If not, the entity should not recognise the portion of profit or loss related to the share still held by the entity.

IFRS 10 – IFRS 12 – IAS 28 (Amendments) (December 2014) “Investment Entities: Applying the Consolidation Exception” (effective 1 January 2016).

The amendments contain changes relating to issues that arise from the application of the exception granted to the consolidation of investment entities.

Annual Improvements to IFRSs: 2012-2014 Cycle (Amendment) (September 2014) (effective 1 January 2016); the document incorporates the changes to the standards as part of the annual improvement process. Main changes include:

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal." The amendment introduces specific guidance to IFRS 5 when an entity reclassifies an asset (or group of assets being disposed of) from the held-for-sale category to the held-for-distribution category (or vice versa), or when the requirements to classify an asset as held-for-distribution no longer apply.

IFRS 7 "Financial Instruments: Disclosure. Servicing contracts”. The amendments introduce additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets.

IAS 19 "Employee Benefits - Discount rate: regional market issue". The amendment clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

IAS 34 "Interim Financial Reporting - Disclosure of Information elsewhere in the interim report”. The amendment clarifies the requirements in the event that the information required to presented in the interim financial is reported outside the interim financial statements. The amendment specifies that such information is included through a cross-reference from the interim financial statements to other parts of the interim financial report and that the document is available to readers of the financial statements in the same manner and at the same times as the interim financial statements.

IAS 1 (Amendment) (December 2014) “Disclosure Initiative” (effective 1 January 2016).

The purpose of the amendment is to clarify the elements of information that may be perceived as representing impediments to a clear and intelligible preparation of financial statements. The changes are as follows:

- Materiality and aggregation: it is specified that a company should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating immaterial items that have different natures or functions. Materiality considerations should be applied to the financial statements, notes and specific disclosure requirements of IFRS. The disclosures required by IFRS must be provided only if the information is material.

- Statement of financial position and statement of comprehensive income: it is stated that the list of entries specified by IAS 1 for these tables can be disaggregated and aggregated as appropriate. Also included is a guideline on the use of subtotals in statements.

- Presentation of items of other comprehensive income ("OCI"): clarifies that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate in a single item, separately disclosing items subject to future reclassifications in the income statement, and those that are not.

- Notes: clarifies that entities have flexibility in defining the structure of the notes and provides guidance on how to set up a systematic order of the notes.

IAS 16 (Amendment) (May 2014) “Property, plant and Equipment - Clarification of acceptable methods of depreciation and amortisation” (effective 1 January 2016).

The amendment prohibits 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.

IAS 27 (Amendment) (August 2014) “Equity Method in Separate Financial Statements” (effective 1 January 2016).

The amendment introduces, the option to use the separate financial statements and the equity method in such statements. Specifically, the amendment allows an entity to account for investments in subsidiaries, jointly controlled entities and associates in separate financial statements at cost; as required by IFRS 9 (or IAS 39); or using the equity method.

IAS 38 (Amendment) (May 2014) “Intangible Assets - Clarification of acceptable methods of depreciation and amortisation”. (effective 1 January 2016).

The amendment introduces a relative presumption, that a depreciation method based on revenues is considered generally inappropriate for the same reasons as set out by the amendments made to IAS 16. In the case of intangible assets, however, this presumption can be overcome, but only in limited and specific circumstances.

2.2.2.4 Standards, interpretations and amendments to published standards that are not yet mandatorily effective and that are not relevant to the IOR’s accounting.

IFRS 14 (New standard) (January 2014) “Regulatory Deferral Accounts” (effective 1 January 2016).

IAS 41 (Amendment) (June 2014) “Agriculture – Bearer Plants” (effective 1 January 2016) and IAS 16 (Amendment) (June 2014) “Property, plant and Equipment - Clarification” (effective 1 January 2016).

2.2.3 Foreign currency conversion

2.2.3.1 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 n 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.

2.2.3.2 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 dates of the transactions.

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 using the initial recognition rate.

Non-monetary items carried at fair value are translated using the rate at the date their fair value was measured.

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

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

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

2.2.4 Cash and cash equivalents

The item "Cash and cash equivalents" comprises balances with less than three months' maturity from the date of acquisition, including: cash, non-restricted balances with Public Authorities of the Holy See and Vatican City State, non-restricted balances with central banks and bank deposits, including loans and advances to banks.

2.2.5 Financial assets

The IOR classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

The Directorate determines the classification of investments at the time of initial recognition, taking into account the nature and purpose of the financial assets.

All financial assets 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.

Sales of financial assets are recognised on the trade date, which is the date on which the IOR commits to selling the asset.

Initial recognition and subsequent measurement criteria change according to the relevant category.

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

A financial asset is classified under this category if acquired principally for the purpose of selling in the short term or if the Directorate designates it as at a FVTPL. This category contains financial assets held for trading, which are reported under “Trading securities".

Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Purchases of financial assets at fair value through profit or loss are recognised on the trade date which is the date on which the IOR commits to purchasing the asset. Financial assets at fair value through profit or loss are initially recognised at fair value, which generally corresponds to the initial cash consideration paid, excluding direct transaction costs or revenue. For the subsequent measurements, the financial assets at FVTPL are carried at fair value, with any gains or losses arising on remeasurement recognised in the Income Statement.

Gains and losses arising from changes in the fair value of the financial assets in the FVTPL category are included in “Net trading result” in the period in which they arise. Realised gains and losses from the sale or reimbursement of the financial assets at FVTPL are also included in the same line.

The accounting policies affecting any dividend or interest earned on the FVTPL financial assets are disclosed in notes 2.2.16 and 2.2.18.

The accounting policies affecting derivatives held for trading are disclosed in the current section, in note 2.2.7.

For the measurement of fair value, the IOR adopted the amendments to IFRS 7 and subsequent changes introduced in IFRS 13 which defines a fair value hierarchy based on certain criteria. The financial assets are classified according to the following hierarchy.

Level 1: Quoted prices (unadjusted) in active markets for financial assets or liabilities, i.e. those that are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

For further information about how the IOR classifies the financial assets measured at fair value, refer to Section IV note 28.

2.2.5.2 Loans and receivables

“Loans and Receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

In IOR context they include:

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 the credit deterioration of the counterparty.

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

Loans and Receivables securities are initially recognised 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. Loans and Receivables securities are subsequently measured at amortised cost using the effective interest rate method, and may also be impaired under the circumstances disclosed in note 2.2.19.

A gain or loss on "Loans and Receivables" is recognised in the Income Statement through the financial amortisation process (item "Interest income/expense").

When the assets are derecognised, any gains and losses are recognised in "Other net income (expense)", under:

- "Losses on advances" for financing agreements;
- "Gain/loss on disposal of Loans and Receivables securities" for securities.

When impairment losses are recognised, they are recognized in "Impairment losses", under:

- "Impairment losses on loans and advances" for financing agreements;
- "Impairment losses on Loans and Receivables" for securities.

The accounting policies affecting any interest earned on "Loans and receivables" financial assets are set out in note 2.2.16.

For the accounting policy adopted regarding the impairment of financial assets classified as "Loans and receivables", refer to note 2.2.19.

2.2.5.3 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 its "Held to maturity" assets, the entire category would be reclassified as available for sale and for the following two years no financial asset can be classified in this category.

"Held to maturity" securities are initially recognised on the trade date, which is the date on which the IOR commits to purchasing the asset, and are initially recognised at fair value plus any direct transaction costs. "Held to maturity" securities are subsequently measured at amortised cost using the effective interest rate method, and may also be impaired under the circumstances disclosed in note 2.2.19.

Gains and losses on "Held to maturity" financial assets are recognised in the Income Statement through the financial amortisation process (item "Interest income") or when the assets are derecognised (item "Other net income (expense)" line "Gain/loss on held to maturity securities") or when impairment losses are recognised (item "Impairment losses" line "Impairment losses on held to maturity securities").

The accounting policies for any interest earned on Held to Maturity financial assets "Held to maturity" are disclosed in note 2.2.16.

For the accounting policy adopted regarding the impairment of financial assets classified as "Held to maturity", refer to note 2.2.19.

2.2.5.4 Available for sale financial assets

"Available for sale" investments are those intended to be held for an indefinite period of time, and those that are subject to agreements that limit disposal for a certain time.

In addition, "Available for sale" financial assets are those non-derivative financial assets that are not classified as held for trading or loans and receivables or held to maturity investments or financial assets at fair value through profit or loss. This category contains financial assets held for investment, which are reported under "Investment Securities, equities Available for Sale".

Like other securities financial instruments, "Available for sale" securities are also initially recognised on the trade date, which is the date on which the IOR commits to purchasing the asset and initially recognised at fair value plus any direct transaction costs.

"Available for sale" financial assets are subsequently carried at fair value, and any changes in the fair value are recognised in Other Comprehensive Income and therefore directly in an equity reserve.

At the time that the financial assets are derecognized or impaired, cumulative gain or loss from changes in the fair value of "Available for sale" Financial assets previously recognised in Other Comprehensive Income are reclassified and recognised in the Income Statement.

When the "Available for sale" assets are sold, any unrealised gains or losses previously recognised in Other Comprehensive Income, are reclassified into the Income Statement under "Other net income (expense)" line "Gains / losses on disposal of investment securities, equities available for sale". In case of impairment losses, gains or losses previously recognised in Other Comprehensive Income, are transferred to the Income Statement item "Impairment losses" within the line "Impairment losses on investment securities, equities available for sale".

The accounting policies for any dividend or interest earned on the "Available for sale" financial assets are disclosed in notes 2.2.16 and 2.2.18.

For fair value measurements, refer to the discussion in 2.2.5.1 Financial assets valued at fair value through profit or loss (FVTPL).

For the accounting policy adopted regarding rules on the impairment of "Available for sale" financial assets, refer to note 2.2.19.

2.2.6 Offsetting financial instruments

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

2.2.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. The initial fair value generally corresponds to the initial cash consideration, and subsequently remeasured at fair value 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 by market makers or establishes fair value by using valuation techniques, as well as considering prices utilised in recent transactions and prices of similar financial instruments.

All derivatives are recognised 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 entire instrument is not measured at fair value with changes in fair value recognised in the 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 2015 and 2014, the Institute did not hold derivatives.

2.2.8 Gold, medals and precious coins

Gold, medals and precious coins are classified as current assets and stated at fair value, since they are held with the purpose of generating gains from price increases. Unrealised gains and losses are included in the Income Statement as Net trading income.

Gold is stated at the PM fixing price on the London market on the last quoted day of the year.

Coins and medals are appraised on the basis of their weight and the quality of the gold and silver they contain.

2.2.9 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.

2.2.10 Investment properties

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

Investment properties are initially measured at cost (which is zero in case of inheritances) and subsequently at fair value with any change recognised in the Income Statement item "Other net income (expense)".

Improvements to buildings increase the carrying amounts.

2.2.11 Equipment and furnishings

All equipment is 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 recognised as a separate asset, as appropriate, only when it is probable that the IOR will recognized future economic benefits associated with the item.

All repairs and maintenance costs are charged to the Income Statement during the financial period in which they are incurred.

Equipment, furnishings and motor 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.

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

2.2.12 Intangible assets

Intangible assets correspond to computer software licenses and to expenses related to their implementation. Acquired computer software licenses are recognised at acquisition costs, including costs incurred to bring the specific software into. 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.

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

2.2.13 Other Liabilities

Funds for Charitable Contributions

These funds are comprised of the Fund at the disposal of the Commission of Cardinals, the Fund for Holy Masses and the Fund for Missionary Activities and they are included in the Balance sheet as "Other liabilities".

The Fund at the disposal of the Board of Superintendence, included in the prior year Financial Statements, was closed at the beginning of 2015 since the decisions concerning charitable contributions are not among the tasks of the Board of Superintendence. The Fund had a zero balance since 2010.

Fund at the disposal of the Commission of Cardinals

The Fund at the disposal of the Commission of Cardinals is used to distribute charitable contributions approved by the Commission to members of the Catholic Church.

The Fund is financed by the distribution of IOR's Net profit of the year in accordance with the Commission's decision.

The Fund was completely utilised in 2015 and closed.

Fund for Missionary Activities

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

The Fund is funded mainly 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 President, the Director General and the Client Relationship Manager.

Fund for Holy Masses

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

The Fund is financed from 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 President, the Director General and the Client Relationship Manager.

2.2.14 Post-employment benefit plans

For the pensions of its employees, the IOR operates an unfunded 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 recognises them immediately in Other Comprehensive Income and all other expenses related to the defined benefit plan in "Staff Expenses" in the Income Statement.

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

On 1 January 2005, all IOR personnel also joined the general Vatican City State pension plan. This system is financed by contributions made by the Institute and employees. Contributions to the Vatican plan made by the IOR are recognised as “Staff Expense” in the Income Statement 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, only that portion not covered by the Vatican City State pension is the liability of the Institute taking into account the difference in the retirement age of the two pension systems.

Other post-employment benefits 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. The IOR recognises them immediately in Other Comprehensive Income and all other expenses related to the defined benefit plan in “Staff Expenses” within the Income Statement.

2.2.15 Equity

The Capital, clearly identified within the Equity category, represents a permanent endowment that cannot be reduced or distributed, except in case of cessation or liquidation of the entity.

The Unavailable Reserves are profit reserves designed to further strengthen the Institute’s Equity and long-term stability.

The Available or “distributable” Reserves are earnings available for distribution, subject to a resolution of the Commission of Cardinals.

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

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

2.2.16 Interest income and expense

Interest income and expense are recognised in the Income Statement on an accruals basis.

Interest income and expense for financial instruments classified as held for trading or designated at fair value through profit or loss are recognised “pro rata” based on the contractual interest rate.

Interest Income and Expense for all remaining interest-bearing financial instruments, those classified as “Held to maturity” or classified as “Loans and receivables”, or classified as “Available for sale,” are recognised within “Interest Income” and “Interest Expense” in the Income Statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or where appropriate a shorter period) to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes all transaction costs and all other premiums or discounts paid or received between parties to the contract that are an integral part of the effective interest rate.

2.2.17 Fee and commission income and expense

Fees and commissions are generally recognised when the service has been provided.

Commissions arising from securities activities or other commissions (i.e. commissions for check issuance or remittance or for payment orders) are recognised according to the relevant service contract, generally in period in which the service is provided.

Commissions from Asset management services are recognised on an accrual basis over the period that the service is provided.

2.2.18 Dividends

Dividends on trading securities and available for sale equity instruments are recognised in the Dividend income when the entity's right to receive payment is established.

2.2.19 Impairment of financial assets

2.2.19.1 Financial assets carried at amortised cost - Loans and advances to customers and securities loans and receivables

As of each balance sheet date, the IOR assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised 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.

If these are assets valued at amortised cost, 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 recognised in the Income Statement item “Impairment losses”.

Advances which are not individually impaired are impaired on a portfolio basis based on the loss suffered.

If, in a subsequent period, the extent of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement as “Other net income (expense)”.

When an exposure is uncollectible, it is written off against the related provision for loan impairment. Such exposures are written off after all the necessary procedures have been completed and the extent of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Income Statement as “Other net income (expense)”.

2.2.19.2 Financial assets carried at amortised cost – Held to maturity financial assets

As of each balance sheet date, the IOR assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised 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.

For Held to maturity financial assets, 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 and it is recognised in the Income Statement, item “Impairment losses”.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed. However, the reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had no impairment been recognised. The amount of the reversal is recognised in the Income Statement.

2.2.19.3 Financial assets classified as available for sale

As of each balance sheet date, the IOR assesses whether there is objective evidence that a financial asset is impaired.

A significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired. If there is such evidence for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement - is removed from equity and recognised in the Income Statement item “Impairment losses.”

If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognised 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, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised 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.

2.2.20 Assets held under custody agreements

These off-balance sheet assets mainly include customer-owned securities held at the IOR for custodial purposes.

The customers make all investment decisions and the IOR has no discretionary power to manage these assets.

For the purpose of note 25, Section IV, securities, gold and precious metals under custody agreements are stated at market values.

2.2.21 Assets held under portfolio management agreements

These off balance sheet assets mainly include mainly customer-owned securities held at the IOR for management purposes.

Investment decisions are made by the IOR on the basis of a portfolio management agreements signed with the customers.

For the purpose of note 25, Section IV, securities under custody agreements are stated at market values.

Section III. Critical accounting estimates and judgements

3.1 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 recognised 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 also based on critical judgements because estimates are made about the likelihood of future events and the actual results could differ from those estimates.

3.2 Key sources of estimation 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 on the balance sheet date, which carry a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year.

Key assumptions and judgments made in the 2015 Financial Statements relate to the assessment of illiquid debt securities in the trading portfolio and of some of external investment funds included within the portfolio of trading securities, as disclosed in Section IV note 28 "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 35.9m as of 31 December 2015 (2014: EUR 35.9m). These were composed exclusively of externally managed investment funds.

The IOR has also been working to review and confirm its tax position and that of its customers in countries with investment relationships. 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 2015, on the basis of the reviews made so far supported by external legal advisors, the Institute has estimated a provision of EUR 16.5m, included in the item "Other net income (expenses)" of the Income Statement, and in the item "Other liabilities" on the Balance Sheet. As this represents an estimate based on critical assumptions, when the future event will take place, the result may differ from what is expected.

Section IV. Explanatory notes to the financial statements

ASSETS

1. CASH AND BANK DEPOSITS

	2015 EUR 000	2014 EUR 000
Cash	16,213	16,351
Free deposits towards Holy See and Vatican City State Public Authorities	98,505	-
Due from banks on demand	265,426	283,281
Term deposits due from banks(<90days)	169,457	181,000
Cash and cash equivalents	549,601	480,632
Term deposits towards Holy See and Vatican City State Public Authorities > 90 days	60,000	35,000
Term deposits due from banks > 90 days	122,881	50,000
Accruals	915	1,726
Total	**733,397**	**567,358**

“Cash and cash equivalents” is comprised of cash and deposits with the Holy See and Vatican City State Public Authorities, the statutory purpose of which is to administer the Holy See’s proprietary assets (that is APSA).

The item also includes balances due from banks on demand and other bank deposits with residual maturity of 90 days or less.

2. TRADING SECURITIES

	2015 EUR 000	2014 EUR 000
Debt securities and bonds:		
- Government	546,426	660,285
- Other government entities, agencies, banks and other	1,006,514	957,237
	1,552,940	1,617,522
Accruals	10,588	10,348
	1,563,528	1,627,870
Listed equity securities	63,109	13,005
Externally managed investment funds	41,329	77,261
Total	**1,667,966**	**1,718,136**

As of 31 December 2015, Trading securities balance remained consistent from the prior year (-2.9%).

As shown in the table above, the IOR’s strategy related to the portfolio composition was mainly unchanged from 2014. In order to reduce the risks on the proprietary portfolio (de-risking), a decision was made to invest predominantly in government bonds or bonds issued by companies with high credit rating, both with short-medium term maturities.

3. GOLD, MEDALS AND PRECIOUS COINS

	2015 EUR 000	2014 EUR 000
Gold	22,765	22,762
Medals and precious coins	10,437	10,446
Total	**33,202**	**33,208**

During 2015, the value of gold carried on the balance sheet remained unchanged. This was mainly due to the reduction of the price of gold (around EUR 2.6m), offset by the foreign currency impact of the appreciation of USD, which is the base currency for the gold owned by the IOR (around EUR 2.5m). The remaining difference is due to new purchases made in the year (around EUR 0.1m).

The main depository for gold is the US Federal Reserve, while medals and precious coins are kept in the IOR vaults.

Gold is carried at market value, while coins and medals are appraised on the basis of their weight and the quality of the gold and silver they contain.

4. DERIVATIVE FINANCIAL INSTRUMENTS

As of the balance sheet date, similar to the prior year, the IOR did not hold any derivative financial instruments.

5. LOANS AND ADVANCES TO CUSTOMERS

	2015 EUR 000	2014 EUR 000
Advances	36,448	34,798
Long term advances to subsidiary	3,510	3,893
Provision for specific impairment losses	(10,566)	(10,237)
Provision for impairment losses for interest-free loans	(4,782)	(5,324)
Allowance for portfolio impairment losses	(680)	(722)
Total	**23,930**	**22,408**

Movement in the specific impairment losses is as follows:

	2015 EUR 000	2014 EUR 000
Balance at 1 January	10,237	8,762
Loans written off during the year as uncollectible	(145)	-
Specific impairment losses on loans and advances	867	2,183
Reversal of impairment losses for amounts recovered	(393)	(708)
Balance at 31 December	**10,566**	**10,237**

"Loans and advances to customers" represents advances granted to customers by the Institute. The line item is named for reasons of comparability with the financial statements prepared by entities that carry out activities similar to those of the IOR.

"Loans and advances to customers" increased 6.8% from the prior year. Gross loans increased due to new advances granted during the year, while impairment losses recognised during the year were consistent with that of the prior year, with new provisions for specific impairment losses, and fewer provisions for portfolio impairment losses.

The provision for specific impairment losses increased 3.2% due to new provisions concerning credit positions deemed uncollectible.

Additionally, the impairment loss amounting to EUR 4.8m is related to a zero-interest loan granted in 2013 in accordance with the mission of the Institute.

6. LOANS AND RECEIVABLES SECURITIES

	2015	2014
	EUR 000	*EUR 000*
Debt securities and bonds	86,000	183,169
Accruals	1,733	4,508
Total	**87,733**	**187,677**

Movement in the item may be summarised as follows:

	2015	2014
	EUR 000	*EUR 000*
Balance at 1 January	187,677	250,870
Additions	-	-
Redemption at maturity	(100,124)	(66,288)
Amortisation	2	3
Reversal accruals previous year	(4,508)	(6,098)
Accruals	1,733	4,508
FX effects	2,953	4,682
Balance at 31 December	**87,733**	**187,677**

As of the balance sheet date, the securities included in this line item are comprised of private placement bonds.

The fair value of this category of securities, net of accruals, was EUR 85.7m, with a negative difference of of EUR 300,000 compared to the carrying value.

For most of the bonds classified as Loans and Receivables, the fair value is lower than the carrying value, but the IOR Directorate considers these investments fully recoverable considering the high standing of the issuers.

7. INVESTMENT SECURITIES, EQUITIES AVAILABLE FOR SALE

	2015	*2014*
	EUR 000	*EUR 000*
Listed equity securities	13,348	10,382
Unlisted equity securities	1,819	8
Total	**15,167**	**10,390**

Movement in the item may be summarised as follows:	*2015*	*2014*
	EUR 000	*EUR 000*
Balance at 1 January	10,390	13,930
Additions	-	6,321
Disposals	-	(2,432)
Impairment	-	(1,985)
Reclassification adjustments relating to investment securities available for sale disposed in the year (note 22)	-	(76)
Net loss on impairment, decrease of fair value gain (loss) on available for sale investment securities recorded in the prior years	-	(5,368)
Gains (losses) from changes in fair value	4,777	-
Balance at 31 December	**15,167**	**10,390**

At 31 December 2015, a net fair value gain amounting to EUR 4.8m, on two of these investment securities was recognised in Other Comprehensive Income.

In particular, the Visa Europe shares have been revalued through shareholders' equity, by an amount of EUR 1.8m, to take into account the terms of the acquisition agreement by Visa Inc. The revaluation of the investment was calculated by applying a discount to the estimated selling price comprised of a cash and preferred share components.

8. HELD TO MATURITY SECURITIES

	2015	*2014*
	EUR 000	*EUR 000*
Debt securities and bonds	607,726	637,865
Accruals	7,092	7,189
Total	**614,818**	**645,054**

Movement in the item may be summarised as follows:	*2015*	*2014*
	EUR 000	*EUR 000*
Balance at 1 January	645,054	574,816
Additions	33,412	174,061
Early mandatory redemption	-	(36,796)
Redemption at maturity	(64,987)	(70,000)
Amortisation	(3,095)	(2,366)
Reversal accruals previous year	(7,189)	(6,599)
Accruals	7,092	7,189
FX Effect	4,531	4,749
Balance at 31 December	**614,818**	**645,054**

The fair value of this securities category, net of accruals, was EUR 642.9m and is mainly comprised of government bonds issued by European countries and bonds issued by supranational financial entities.

9. INVESTMENT IN SUBSIDIARIES

	2015 EUR 000	2014 EUR 000
Stake in real estate companies	15,835	15,835
Total	**15,835**	**15,835**

In this item the Institute recognised a financial investment in a real estate company named SGIR that has its registered office in Italy and is 100% owned by the IOR.

The value of the investment in the real estate company SGIR was unchanged in 2015.

As of 31 December 2015, its equity amounted to EUR 22.1m (2014: EUR 21.8m), including EUR 12.4m (2014: EUR 12.4m) for SGIR's Fiscal Revaluation Reserve.

10. INVESTMENT PROPERTIES

	2015 EUR 000	2014 EUR 000
Directly owned properties	2,897	2,181
Total	**2,897**	**2,181**

Movement in the item may be summarised as follows:

	2015 EUR 000	2014 EUR 000
Balance at 1 January	2,181	2,126
Additions	-	-
Sale of real estate investment properties	-	-
Improvement to buildings	216	73
Gain (loss) from changes in fair value of Investment properties	500	(18)
Balance at 31 December	**2,897**	**2,181**

The item is comprised of 5 investment properties, received in the past through donations, totalling EUR 2.9m. The increase from 31 December 2014 was due to the renovation of two properties, for a total amount of expenses incurred in 2015 of EUR 216,000, that also led to an increase in the fair value in the asset by EUR 516,000 (fair value gain), after a survey conducted by a qualified independent expert.

For the other properties, the Institute has surveys performed by a qualified independent expert. For the survey performed in 2015, the value of one property remained unchanged from 2014, while the fair value of another property decreased, and a loss amounting to EUR 16,000 is recorded.

As of 31 December 2015, the properties did not generate any rental income. In October 2015, the Institute signed a free loan contract with the subsidiary SGIR for four properties, while no leasing agreements were in place in previous periods. The fifth property is subject to a life-long grant of use.

11a. EQUIPMENT AND FURNISHINGS

	Furniture & fittings	Office equipment	Motor vehicles	Total
	EUR 000	*EUR 000*	*EUR 000*	*EUR 000*
Balance at 31 December 2014				
Original cost	2,628	4,310	32	6,970
Accumulated depreciation	(2,601)	(4,232)	(14)	(6,847)
Closing net book amount	**27**	**78**	**18**	**123**
Year ended 31 December 2015				
Opening net book amount	27	78	18	123
Additions	-	25	-	25
Disposals	-	-	-	-
Depreciations	(14)	(44)	(6)	(64)
Closing net book amount	**13**	**59**	**12**	**84**
Disposal of assets completely depreciated	-	-	-	-
Disposal of assets under depreciation	-	-	-	-
Balance at 31 December 2015				
Original cost	2,628	4,335	32	6,995
Accumulated depreciation	(2,615)	(4,276)	(20)	(6,911)
Closing net book amount	**13**	**59**	**12**	**84**

11b. INTANGIBLE ASSETS

	Computer software & licenses EUR 000
Balance at 31 December 2014	
Original cost	5,675
Accumulated depreciation	(4,842)
Closing net book amount	**833**
Year ended 31 Dec 2015	
Opening net book amount	833
Additions	554
Disposals	-
Depreciations	(512)
Closing net book amount	**875**
Disposal of intangible assets completely depreciated	-
Balance at 31 December 2015	
Original cost	6,229
Accumulated depreciation	(5,354)
Closing net book amount	**875**

The IOR does not have internally generated intangible assets.

12. OTHER ASSETS

	2015 EUR 000	2014 EUR 000
Sundry debtors	7,553	7,072
Prepayments	801	500
Securities sold not settled	-	-
Total	**8,354**	**7,572**

Other Assets includes EUR 6.6m for Commission from Asset Management services not yet received at the closing date of the financial statements. These commissions, pertaining to the second half of 2015, were collected in the first days of 2016.

Furthermore, the item included EUR 771,000 deposited as guarantees for credit cards transactions and EUR 180,000 in advances for credit cards transactions.

LIABILITIES

13. DUE TO BANKS

Due to banks include amounts due to the Holy See and the Vatican City State Public Authorities, the statutory purpose of which is to administer the Holy See's proprietary assets (that is APSA). Amounts due as of 31 December 2015 was EUR 10.6m is comprised solely of a debt to APSA (2014: EUR 16,000).

The Institute does not have any subordinated liabilities.

14. DUE TO DEPOSITORS

	2015	*2014*
	EUR 000	*EUR 000*
Deposits on demand	2,368,243	2,200,638
Term deposits	3,340	158,476
Accruals	86	2,749
Total	**2,371,669**	**2,361,863**

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:

	2015	*2014*
	EUR 000	*EUR 000*
Deposits on demand and term deposits related to Asset management accounts		
Deposits on demand	424,815	296,354
Term deposits	-	-
Total	**424,815**	**296,354**

Due to depositors amounts were in line with the balance at 2014. This was the combination of an increase in Deposits on demand due to the increase of Deposits on demand related to Asset Management accounts for which the IOR is the depository institution, offset by a reduction of Term deposits. The main reason was the IOR asset manager's decision to maintain a greater amount in cash rather than investing directly in securities compared to 31 December 2014.

The item Due to depositors also includes a deposit at the disposal of the Commission of Cardinals to support works of religion. At the balance sheet date, this amounted to EUR 11.3m (2014: EUR 10.8m).

The item also includes the deposits of the "Legates" amounting to EUR 48.3m (2014: 45.7m) as of 31 December 2015, comprised of 295 positions (2014: 297) of funds 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.

The Institute does not have any subordinated liabilities.

15. OTHER LIABILITIES

	2015 EUR 000	2014 EUR 000
Sundry creditors	15,223	24,965
Tax remediation towards foreign countries	16,500	-
Funds for charitable contributions	3,303	3,585
Liabilities for guarantees issued and commitments towards third parties	1,561	1,405
Securities purchased not settled		
Total	**36,587**	**29,955**

Sundry Creditors comprise:

Inheritances to be settled	7,587	16,932
Invoices to be received	5,161	5,227
Outstanding cheques	1,105	1,564
Remunerations to be paid	966	898
Unsettled amounts	-	146
Other	404	198
Total	**15,223**	**24,965**

The item "Tax remediation towards foreign countries" is explained in Section 3 “Critical accounting estimates and judgements”.

The amount of EUR 1.6m (2014: EUR 1.4m) reported under "Other liabilities" is due to guarantees in addition to commitments to third parties amounting to EUR 4.0m (see note 24).

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

The breakdown of Funds for charitable contributions is as follows:

FUNDS FOR CHARITABLE:

	2015 EUR 000	2014 EUR 000
The disposal of the Commission of Cardinals	-	425
The disposal of Board of Superintendence	-	-
Fund for Missionary Activities	239	189
Fund for Holy Masses	3,064	2,971
Total	**3,303**	**3,585**

The movement of the Funds for charitable contributions is summarised as follows:

	2015	2014
Fund at the disposal of the Commission of Cardinals		
Balance at 1 January	425	425
Appropriations:		
Donations received	-	-
Transfer from earnings available for distribution	-	-
Distributions:		
Charitable distributions	(425)	-
Balance at 31 December	**-**	**425**
Fund for Missionary Activities		
Balance at 1 January	**189**	139
Donations received	145	67
Distributions for Missionary Activities	(95)	(17)
Balance at 31 December	**239**	**189**
Fund for Holy Masses		
Balance at 1 January	2,971	2,729
Donations received	154	277
Distributions for Holy Masses	(61)	(35)
Balance at 31 December	**3,064**	**2,971**

Distributions of funds to beneficiaries are subject to strict internal policies as outlined in the Institute's governance rules.

The Fund at the disposal of the Board of Superintendence, included in the previous Financial Statements, was closed at the beginning of 2015 as decisions concerning charitable contributions are not included among the tasks of Board of Superintendence. The Fund had a zero balance since 2010.

The Fund at the disposal of the Commission of Cardinals, during 2015, was completely utilised, with the aim of concentrating all charitable activities of the Commission of Cardinals in the deposit disclosed under Note 14.

16. POST-EMPLOYMENT BENEFIT PLANS

Amounts recognised in the Balance Sheet:

	2015 EUR 000	2014 EUR 000
Benefit plan for pensions	108,339	117,396
Other post employment benefit plan	6,788	6,551
Total	**115,127**	**123,947**

Movement in the defined benefit plan liability for pensions recognised in the Balance Sheet is summarised as follows:

	2015 EUR 000	2014 EUR 000
Balance at 1 January	117,396	84,681
Current costs (note 21bis)	2,591	3,003
Contribution by individuals	96	81
Tranfers from other post employment benefit	-	-
Pensions paid during the year	(3,074)	(3,051)
Tranfers out	-	(37)
Actuarial (gain) loss of the year	(8,670)	32,719
Balance at 31 December	**108,339**	**117,396**
Amounts recognised in the Income Statement:		
Current service cost	780	367
Interest cost	1,811	2,636
New employments cost	-	-
Total, included in staff expenses (note 21bis)	**2,591**	**3,003**

The actuarial valuation of the defined benefit plan liability for pensions was performed taking into account the following assumptions:

	2015	2014
Annual inflation rate	2.00%	2.00%
Annual discount rate	1.93%	1.58%
Annual rate for revaluation of pension	2.00%	2.00%
Annual rate of real increase salary	2.35%	2.50%

The Current Service Cost is the actuarial present value of benefits attributed by the pension formula to employee service rendered during the period.

The Interest Cost is the increase in the present value of the obligation as a result of moving one period closer to settlement and it is proportional to the actuarial 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 effects of differences between the previous actuarial assumptions and what has actually occurred;
- the effects of changes in actuarial assumptions.

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

A total of 109 employees are active and contribute to the Pension plan. A total of 70 former employees are in retirement and benefit from the plan (2014: 110, 72 respectively).

Other post employment benefit plan liability is the post-employment benefit plan for the indemnities paid to personnel when they leave the IOR.

Movement in the other post employment benefit recognised in the Balance Sheet is summarised as follows:

	2015 EUR 000	2014 EUR 000
Balance at 1 January	6,551	5,490
Current costs (note 21bis)	457	429
Contribution by individuals	73	72
Tranfers to benefit plan for pensions	-	-
Advances	(84)	(155)
Advances restitution	-	49
Consideration paid during the year	-	(634)
Actuarial (gain) loss of the year	(209)	1,300
Balance at 31 December	**6,788**	**6,551**

The actuarial assumptions used for the valuation of the other post-employment benefits are the same as those used for the Benefit Plan Liability for pensions.

For both post-employment benefits, in 2015, the Institute recognised an actuarial gain of EUR 8.9m (2014: loss of EUR 34.0m) in Other Comprehensive Income. Consequently, change in the post-employment actuarial gain (loss) reserve showed a negative result of EUR 32.7m (2014: EUR -41.6m); the gain compared to the previous year is due to the increase in the discount rate, which went to 1.93% in 2015 from 1.58% in 2014.

INCOME STATEMENT

17. NET INTEREST RESULT

	2015 EUR 000	2014 EUR 000
Interest income		
Bank deposits	2,959	4,179
Trading securities	26,202	30,049
Loans and receivables securities	9,263	9,263
Held to maturity securities	9,787	16,853
Loans and advances to customers	683	744
Total	**48,894**	**61,088**
Interest expense		
Customers deposits	4,987	10,414
Other	16	14
Total	**5,003**	**10,428**

Interest income earned on Loans and Receivables securities and investment securities Held to Maturity also include the amortisation of the premium or discount.

In 2015, the Institute recorded a general decrease in all items related to Interest margin, both income and expense, due to the impact of lower interest rates determined by the European Central Bank already in 2014, and the expiration of many positions with high interest rates. However, the main change was the decrease in interest expense on interest payable on customer deposits (-52%).

18. NET FEE AND COMMISSION RESULT

	2015 EUR 000	2014 EUR 000
Fee and commission income		
Commission from Asset management services	13,666	12,962
Commission from Custody services	1,548	1,369
Other fees received	2,496	2,335
Total	**17,710**	**16,666**
Fee and commission expense		
Fees paid for brokerage	648	588
Fees paid for securities custody	913	902
Fees paid to banks	752	662
Other fees paid	169	152
Total	**2,482**	**2,304**

The increase in Fee and Commission income is mainly due to Commissions from Asset management services (+5.4%), while the other items are generally in line with 2014.

The increase in Fee and Commission expense is due mainly to the increase in Fees paid for brokerage (+10.2%), which in turn was due to more equity transactions. Meanwhile, Fees paid to banks also increased by 13.6% due to an increased number of transactions in IOR's external banking relationships.

19. DIVIDEND INCOME

	2015 EUR 000	2014 EUR 000
Trading securities	1,486	2,527
Investment securities available for sale	468	254
Total	**1,954**	**2,781**

In 2015, dividend income from trading securities was EUR 1.5m (2014: EUR 2.5m), a decline of 41.2%.

In 2015, the Institute received dividends of EUR 468,000 from an investment security (2014: EUR 254,000).

20. NET TRADING RESULT

	2015 EUR 000	2014 EUR 000
Foreign exchange	1,899	1,581
Debt securities and bonds	(17,136)	25,450
Equity securities	(307)	1,314
External investment funds	148	7,764
Gold, medals and precious coins	(2,835)	608
Derivative financial instruments	-	-
Total	**(18,231)**	**36.717**

The two tables below show the breakdown of the item "Net trading result" distinguishing between realised and unrealised gains and losses:

	2015 EUR 000	2014 EUR 000
	Realised gain/loss	Realised gain/loss
Foreign exchange	2,110	1,551
Debt securities and bonds	(7,972)	14,767
Equity securities	(764)	742
External investment funds	86	10,294
Gold, medals and precious coins	18	27
Derivative financial instruments	-	-
Total	**(6,522)**	**27.381**
	Unrealised gain/loss	Unrealised gain/loss
Foreign exchange	(212)	30
Debt securities and bonds	(9,164)	10,683
Equity securities	457	572
External investment funds	63	(2,530)
Gold, medals and precious coins	(2,853)	581
Derivative financial instruments	-	-
Total	**(11,709)**	**9.336**
Total Net Trading result	**(18,231)**	**36.717**

Below is a summary of the net trading results recorded in 2015 compared to 2014.

The decrease is due mainly to the change in:

- realised loss of EUR 8.0 m from debt securities and bonds in 2015 compared to a gain of EUR 14.8m in 2014;
- a decrease in realised gains from external investment fund to a gain of EUR 86,000 in 2015 from a gain of EUR 10.3m in 2014;
- unrealised loss from debt securities and bonds of EUR 9.2m in 2015 compared to a gain of EUR 10.7m in 2014;
- the price of gold, gross of forex effect, that lead to a loss of EUR 2.9m from a gain of EUR 581,000 from the prior year.

21. OPERATING EXPENSES

	2015	*2014*
	EUR 000	*EUR 000*
Staff expenses (note 21bis)	10,193	10,793
Depreciation of equipment and furnishings (note 11a)	64	94
Depreciation of intangible assets (note 11b)	512	501
Professional Services expenses	7,606	11,508
Board of Superintendence and Board of Statutory Auditors compensation	498	563
Other operating expenses	5,131	5,421
Total	**24,004**	**28,880**

In 2015, operating expenses decreased by 16.9%, mainly due to a 33.9% decrease in “Professional Services expenses” to EUR 7.6m in 2015 compared to EUR 11.5m in 2014, and a 5.6% decrease in “Staff expenses” to EUR 10.2m in 2015, compared to EUR 10.8m in 2014.

The details of “Staff expenses” are provided in the next note (note 21bis), while details relating to depreciation of tangible and intangible assets are provided in notes 11a and 11b.

The 33.9% decrease in Professional Services expenses compared to 31 December 2014 was due to the termination of some projects during 2014, and the Institute’s strategy to reduction the use of external consulting in favor of an upgrading the qualifications of the Institute’s Internal personnel. Continuing the trend of an overall reduction in the compensation of the Board of Superintendence, further reductions were introduced in 2016, leading to a total annual cost of EUR 280,000 (2015: EUR 393,000; 2014: EUR 471,000).

“Other operating expenses” includes the rental expense of EUR 1m paid to the owner of the building in which the IOR conducts business.

21 BIS. STAFF EXPENSES

	2015 EUR 000	2014 EUR 000
Wages and other indemnities	6,487	6,684
Pension costs: contributions to the vatican pension plan	658	677
Pension costs: defined benefit plan (note 16)	2,591	3,003
Other post employment benefits (note 16)	457	429
Total	**10,193**	**10,793**

Staff expenses decreased 5.6% from the previous year, as a result of certain indemnities in curred during 2014 related to the termination of the employment contracts with some managers.

The IOR contributed a total of EUR 3.2m (2014: EUR 3.7m) to the Vatican City State pension fund, as well as IOR's own pension fund (note 16). The IOR joined the Vatican City State pension plan in 2005.

In 2015, the average number of employees in IOR was 113.

22. OTHER NET INCOME (EXPENSE)

	2015 EUR 000	2014 EUR 000
Recovery of amounts for doubtful loans previously impaired (note 5)	393	708
Reversal exceeding allowance for portfolio impairment losses (note 5)	584	449
Gain (loss) on disposal investment securities, equities available for sale(note 7)	-	(76)
Gain (loss) from changes in fair value of investment properties (note 10)	500	(18)
Tax remediation towards foreign countries	(16,500)	-
Closure of past years issue	13,600	-
Other	(422)	(213)
Total	**(1,845)**	**850**

In 2015, the item recorded a negative result of EUR 1.8m (2014: gain of EUR 0.9m) mainly due, to extraordinary income related to the conclusion of a past legacy issue and to a provision for tax remediation towards foreign countries.

23. IMPAIRMENT LOSSES

	2015 EUR 000	2014 EUR 000
Specific impairment losses on loans and advances (note 5)	866	2,184
Impairment for free loans interest (note 5)	-	1,583
Allowance for portfolio losses on loans and advances (note 5)	-	-
Impairment losses on investment securities, equities available for sale (note 7)	-	1,985
Impairment for guarantees issued and for commitments towards third parties (note 15)	-	1,405
Total	**866**	**7.157**

In 2015, the only impairment recognised was related to specific impairment on loans and advances to customers, which decreased compared to 2014 (EUR 866,000 in 2015, compared to EUR 2.2m in 2014).

24. CONTINGENT LIABILITIES AND COMMITMENTS

	2015 EUR 000	2014 EUR 000
Guarantees issued in favour of third parties	68	53
Commitments towards third parties	4,000	4,000
Total	**4,068**	**4,053**

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

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

A new guarantee was issued in 2015.

The guarantees were initially recognised 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".

25. THIRD PARTIES' VALUES

	2015 EUR 000		
	ON BALANCE SHEET	OFF BALANCE SHEET	TOTAL
Customers Deposits (on demand and time deposits)	1,946,854	-	1,946,854
Assets under Management agreements	424,815	2,760,870	3,185,685
Assets under Custody agreements	-	646,161	646,161
Total	**2,371,669**	**3,407,031**	**5,778,70**

	2014 EUR 000		
	ON BALANCE SHEET	OFF BALANCE SHEET	TOTAL
Customers Deposits (on demand and time deposits)	2,065,509	-	2,065,509
Assets under Management agreements	296,354	2,927,022	3,223,376
Assets under Custody agreements	-	673,209	673,209
Total	**2,544,278**	**3,600,231**	**5,962,094**

Assets under Management agreements are valued using the mark-to-market method. They include the total value of portfolios, and the liquidity for settlements and term deposits. Accruals are also included, both on securities and on liquidity and term deposits. The IOR is the depository of the liquidity for settlements and for term deposits, amounting to EUR 424.8m (2014: EUR 296.4m), as disclosed in note 14.

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

26. RELATED PARTY TRANSACTIONS

IAS 24 "Related party Disclosures" requires the disclosure of the nature and amounts of related party transactions and outstanding balances in the financial statements of the reporting entity.

In the IOR's case, related parties comprise key management personnel (Directorate and Board of Superintendence), the Commission of Cardinals and the Board of Auditors.

The transactions with these related parties relate to salaries and remuneration.

Details of key management compensation

Compensation due to related parties were EUR 719,300 in 2015, of which EUR 268,000 was not yet paid as of 31 December 2015. Specifically, these expenses refer to:

- EUR 392,500 for the Board of Superintendence of which EUR 200,000 has not yet been paid;
- EUR 241,300 for the Directorate;
- EUR 85,500 for the Board of Auditors, of which EUR 68,000 has not been paid yet.

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

Related-party transactions

During 2015, no transactions with key management were carried out, except for the management of the deposit that they have opened with the Institute and related to 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 3.2m.

Key management personnel and members of Board of Auditors had deposits for EUR 480,000.

The Institute has a long-term zero-interest loan to its subsidiary SGIR, amounting to EUR 3.5m. The IOR has also signed an agreement for administrative services related to real estate properties, and during 2015, it paid EUR 12,200 to SGIR.

In October 2015, the Institute signed a loan for use contract with the subsidiary SGIR relating to four properties.

27. DISCLOSURES CONCERNING THE FEES OF THE INDEPENDENT AUDITORS AND SERVICES OTHER THAN AUDITING

The information concerning payments made to the independent auditors Deloitte & Touche S.p.A. and companies belonging to the same network for the following services is given in the table below:

- suditing services which include auditing of the annual accounts for the purposes of expressing a professional opinion;
- tax consultancy services;
- other services.

The fees presented in the table relating to the financial year 2015, are those contractually agreed, inclusive of any indexation but exclusive of out-of-pocket expenses or taxes.

Type of services	*Firm that provided the service*	*Recipient*	*Fees (in thousand Euro)*
Audit services	Deloitte & Touche S.p.A.	IOR	170
Tax consultancy services	Studio Tributario e Societario	IOR	8
Other services	Deloitte Consulting S.r.l.	IOR	30
Total			**208**

28. FAIR VALUE INFORMATION

On 1 January 2013, the Institute adopted IFRS 13 “Fair Value Measurement”, which consolidates within a single accounting standard all the rules relating to the determination of the fair value previously included in different accounting standards.

The standard keeps the concept of fair value essentially unchanged, and clarifies how it is to be determined by providing a set of practical, complete and shared instructions for its use. It also expands the scope of information within the financial statements.

Fair Value Hierarchy

The fair value hierarchy provides three levels according to the degree of observability of the inputs, the valuation techniques adopted and parameters used for measurement.

Level 1

In Level 1, the fair value is measured using the quotations 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:

- promptly 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 unadjusted. It should not be adjusted through a valuation adjustment. If it is adjusted, the relevant level is Level 2 or Level 3.

Level 2

A financial instrument is included in Level 2 when inputs, other than quoted prices included within Level 1, utilised to measure fair value are market observables, directly or indirectly.

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 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 utilised;
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 iputs that require a significant adjustment based on unobservable inputs, the valuation has to be considered in Level 3.

Level 3

Included in Level 3 are financial instruments valued using inputs not based on observable market data (unobservable inputs). To be included in Level 3, at least one of the inputs must be unobservable on the market.

Specifically, Level 3 financial instrements are valued using inputs are not taken 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 utilisation of inputs observable on the market and should rely as little as possible on the reporting entity's own data, internal valuations or unobservable inputs.

IOR fair value policy and fair value hierarchy

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 quoted in active markets if the prices are promptly and regularly available in an official list or from an authority and these prices represent effective market transactions that are regularly traded.

If the market for a financial asset is not active or if the market at valuation time is not considered active, for instance in case of illiquid markets, the valuation techniques adopted by IOR are based on the use of recent arm's length transactions, even on a non-active market, or in reference to the current fair value of a similar instrument. These valuation techniques also include the discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

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

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

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

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

Under Level 2, the IOR has classified all illiquid financial instruments, 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 financial instruments:

- 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 on the market;
- for which the IOR has received independent expert valuations (i.e. for investment properties).

The table below sets out of requirements of IFRS 13 in terms of levels of fair value, distinguishing between assets and liabilities measured at fair value on a recurring basis and on a non-recurring basis:

		2015 *(EUR 000)*			
Recurring items	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*	
Trading securities	1,667,966	1,499,512	132,512	35,942	
Bonds and Debt securities	1,563,528	*1,436,403*	*127,125*		
Equities	*63,109*	*63,109*			
External Investment Funds	*41,329*	-	*5,387*	*35,942*	
Investment securities, equities Available for sale securities	*15,167*	*13,348*	1,811	8	
Gold, medals and precious coins	*33,202*	*33,202*			
Securities sold to be settled	-	-			
Investment properties	2,897			2,897	
TOTAL RECURRING ITEMS	**1,719,232**	**1,546,062**	**134,323**	**38,847**	
The Institute does not held liabilities measured at fair value on a recurring basis					
Non-Recurring items (Assets)	*CARRYING VALUE*	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*
Cash	16,213	16,213	16,213		
Bank Deposits	717,184	717,184	717,184		
Loans and advances to customers	23,930	25,671			25,671
Loans and receivables securities	87,733	87,445		87,445	
Held to maturity securities	614,818	650,020	650,020		
TOTAL NON RECURRING ASSETS	**1,459,878**	**1,496,534**	**1,383,417**	**87,445**	**25,671**
Non-Recurring items (Liabilities)	*CARRYING VALUE*	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*
Due to depositors	2,371,669	2,371,669			2,371,669
Due to banks	10,597	10.597	10.597		-
TOTAL NON RECURRING LIABILITIES	**2,382,266**	**2,382,266**	**10,597**	**-**	**2,371,669**

		2014 *(EUR 000)*			
Recurring items	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*	
Trading securities	1,718,136	1,676,950	5,246	35,940	
Bonds and Debt securities	1,627,870	*1,627,869*	*1*		
Equities	*13,005*	*13,005*			
External Investment Funds	*77,261*	*36.076*	*5,245*	*35,940*	
Investment securities, equities Available for sale securities	*10,390*	*10,382*		8	
Gold, medals and precious coins	*33,208*	*33,208*			
Securities sold to be settled	-	-			
Investment properties	2,181			2,181	
TOTAL RECURRING ITEMS	**1,763,915**	**1,720,540**	**5,246**	**38,129**	
The Institute does not held liabilities measured at fair value on a recurring basis					
Non-Recurring items (Assets)	*CARRYING VALUE*	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*
Cash	*16,351*	*16,351*	*16,351*		
Bank Deposits	551,007	551,007	551,007		
Loans and advances to customers	*22,408*	*24,039*			*24,039*
Loans and receivables securities	187,677	186,669		186,669	
Held to maturity securities	645,054	688,050	688,050	-	
TOTAL NON RECURRING ASSETS	**1,422,497**	**1,466,116**	**1,255,408**	**186,669**	**24,039**
Non-Recurring items (Liabilities)	*CARRYING VALUE*	*FAIR VALUE*	*Level 1*	*Level 2*	*Level 3*
Due to depositors	2,361,863	2,361,863			2,361,863
Due to banks	16	16	16		-
TOTAL NON RECURRING LIABILITIES	**2,361,879**	**2,361,879**	**16**	**-**	**2,361,863**

Annual variations of assets measured at fair value on a recurring basis assigned into Level 3

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

	2015 EUR 000			*2014 EUR 000*		
	Investment Funds	*Available for sale securities*	*Investment Property*	*Investment Funds*	*Available for sale securities*	*Investment Property*
Balance at 1 January	**35,940**	**8**	**2,181**	**42,373**	**8**	**2,126**
Additions	-	-	216	-	-	73
Unrealised Plus (Minus) recognised through profit or loss	2	-	500	(1,888)	-	(18)
Unrealised Plus (Minus) recognised through Other Comprehensive Income	-	-	-	-	-	-
Transfers from other levels	-	-	-	-	-	-
Sales	-	-	-	(4,276)	-	-
Realised Plus (Minus) recognised through profit or loss	-	-	-	(269)	-	-
Realised Plus (Minus) recognised through Other Comprehensive Income	-	-	-	-	-	-
Transfers to other levels	-	-	-	-	-	-
Balance as of 31 December	**35,942**	**8**	**2,897**	**35,940**	**8**	**2,181**

Disclosures about assets measured at fair value on a recurring basis

In this paragraph we provide 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.

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

Trading securities

These consist of:

- **Debt securities**: the Institute has investments in debt securities valued at mark-to-market and regularly traded in active, liquid markets. As a consequence, 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 which are classified as Level 2; these amounted to EUR 127m.
- **Equity securities**: the Institute has investments in equity securities valued at mark-to-market and regularly traded in active, liquid markets. As a consequence, these instruments classified as Level 1 in the fair value hierarchy.

- **Investments funds**: the Institute has external investment funds amounting to EUR 41.3m. With the exception of a fund of EUR 5.4m assigned to Level 2 (liquid with monthly NAV), investment funds are classified as Level 3. As a consequence, at 31 December 2015, a total of EUR 5.4m was classified as Level 2, while the remaining amount for EUR 35.9m was Level 3.

Investment equity securities, 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.

Gold, medals and precious coins

Gold, medals and precious coins are valued at mark-to-market, and are regularly traded in active, liquid markets. As a consequence, these instruments are classified as Level 1 in the fair value hierarchy.

Investment properties

This item comprises properties directly owned by the Institute.

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

The appraisal is based on real estate market research from the main sector experts, as well as official data. 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.

Valuation techniques utilised to measure fair value (Level 2 and Level 3)

All illiquid financial instruments or unlisted financial instruments with investments in listed instruments were classified as Level 2. The basis for the valuation of investments is pricing provided by the securities issuer. These prices are internally verified and tested using internal models and observable market parameters, and, if there are discrepancies, adjusted according to the above-mentioned analysis. They are also adjusted on the basis of valuations obtained from independent sources.

Non-listed funds or other financial instruments valued using models based, at least partially, on internal valuation parameters, were classified as Level 3.

For the NAV of funds, the difference between the current value of the assets and liabilities of the fund, adjustments were made to include other risk factors.

The Fair Value Adjustment (FVA) is defined as a quantity to be added to the mid-price observed in markets, rather than the price issued to the model with the aim of obtaining the fair value of the position. The FVA includes the uncertainty during 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 expenses.

The Institute amended 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 and close-out costs.

With regard to the Credit Valuation Adjustment, the Institute considered the impact of fair value on credit risk of country and counterpart 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, the adjustment is applied on the NAV of external investment funds if close-out penalties are stipulated.

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.

The sensitivity analysis was performed by carrying out 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.

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 required by IFRS 13 for each category.

Cash

Recorded at Level 1 of the fair value hierarchy.

Due to the short-term nature and generally negligible credit risk, the carrying value of cash approximates fair value.

Deposits towards Public authorities

This item comprises deposits on demand and time deposits with APSA.

Assuming what was already explained in relation to the category "Cash" and that time deposits mainly do not exceed ninety days, the carrying value of public authorities deposits, at the balance sheet date, approximates fair value and were recorded in Level 1 of the fair value hierarchy.

Bank deposits

This item comprises deposits on demand and time deposits with banks.

Assuming what was already explained in relation to the category "Cash" and assuming also that time deposits mainly do not exceed ninety days the carrying value of bank deposits, at the balance sheet date, approximates fair value and they were recorded in Level 1 of the fair value hierarchy.

Loans and advances to customers

This item, named “Loans and advances to customers" for reasons of comparability with the financial statements prepared by entities that carry out activities similar to the IOR, comprises credits towards customers granted as advances.

For doubtful loans considered to benon-collectible, the Institute proceeded in the calculation of a specific impairment loss, the carrying value represents fair value.

Referring to other credits, the fair value was calculated as follows:

- Loans and credit lines: calculated by discounting future flows based on a representative rate for the Institute;

- Overdrafts: given their nature, the value of overdrafts approximates fair value.

Loans and receivables securities

For this item, 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” are classified in Level 2 of the fair value hierarchy.

Held to maturity securities

The fair value of 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.

Liabilities not measured at fair value on a recurring basis

Due to depositors

This item comprises customers’ deposits on demand and time deposits, but also liquid accounts and term deposits related to Asset Management positions. Their carrying value approximates fair value, considering the short maturity.

The fair value calculation is based on parameters not observable on markets, not even indirectly, so Due to depositors are classified as Level 3 on the fair value hierarchy.

Due to banks

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

Transfers between Portfolios

The amendments to IAS 39 and to IFRS 7 "Reclassification of financial assets" make it possible to reclassify 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 conduct any transfers between portfolios in 2015.

29. MEASUREMENT CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides information about the carrying amounts of individual classes of financial instruments within the financial assets and financial liabilities as defined in IAS 39 "Financial Instruments: recognition and measurement". Only those assets and liabilities which are financial instruments as defined in IAS 32 "Financial Instruments: presentation" are included in the table below, which causes certain balances to differ from those presented on the Balance Sheet.

	2015	*2014*
	EUR 000	*EUR 000*
Financial assets		
Financial assets at fair value through profit or loss		
Trading securities	1,667,966	1,718,136
Derivative financial instruments	-	-
Total	**1,667,966**	**1,718,136**
Financial assets at amortised cost		
Cash and Bank Deposits	733,397	567,358
Loans and advances to customers	23,930	22,408
Loans and receivables securities	87,733	187,677
Held to maturity securities	614,818	645,054
Other assets	7,553	7,072
Total	**1,467,431**	**1,429,569**
Financial assets available for sale		
Investment securities, equities available for sale	15,167	10,390
Total	**15,167**	**10,390**
Total Financial assets	**3,150,564**	**3,158,095**
Financial liabilities		
Financial liabilities at amortised cost		
Due to banks	10,597	16
Due to depositors	2,371,669	2,361,863
Altre passività / Other liabilities	33,284	26,369
Total	**2,415,550**	**2,388,248**
Totale Passività finanziarie / Total Financial liabilities	**2,415,550**	**2,388,248**

30. EXCHANGE RATES AS OF THE BALANCE SHEET DATE

The balances existing at year-end, denominated in foreign currencies, are valued at the exchange rates observed by the European Central Bank on the last working day of the year (in 2015: 30 December).

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

For these statements the rates were determined as follows:

Currency		2015	2014
U.S. Dollars	USD	1.0926	1,2160
Swiss Francs	CHF	1.0814	1.2028
Canadian Dollars	CAD	1.5171	1.4132
English Pounds	GBP	0.7380	0.7823
Australian Dollars	AUD	1.4990	1.4878
Japanese Yen	JPY	131.66	145.41
Czech Crowns	CZK	27.029	27.728
Danish Crowns	DKK	7.4625	7.4436
Hungarian Forints	HUF	313.15	314.98
Norwegian Crowns	NOK	9.6160	9.042
Polish Zloty	PLZ	4.2400	4.3103
Swedish Crowns	SEK	9.1878	9.4746
Brazilian Reais	BRE	4.2590	3.2394
Mexican Pesos	MXP	15.9586	17.9293
South African Rand	ZAR	16.8847	14.1487
Hong Kong Dollars	HKD	8.4685	9.4340
South Korean Won	KRW	1,284.79	1,334.19
Singapore Dollars	SGD	1.5449	1.6085
New Zealand Dollars	NZD	1.5959	1.5536

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were presented and authorised for issuance by the Directorate on 15 March 2016 and approved by the Board of Superintendence on 27 April 2016.

32. EVENTS AFTER 31 DECEMBER 2015

According the provisions of IAS 10, all events that took place subsequent to December 31, 2015 have been evaluated in the preparation of the 2015 Financial Statements.

Section V. Risk and hedging policies

5.1 Introduction

The Institute's policies and processes for the management and control of risks arising from proprietary investments, are summarized in the following paragraphs, with a focus on the parties involved and their responsibilities. The Institute considers it appropriate:

a) to concentrate risk measurement functions and risk integrated control in a specific structure, headed by the Risk Management department;

b) to concentrate functions dedicated to the definition of operational limits, the authorization of possible overruns or repayment requests within assigned limits, in an informal (non statutory) Audit and Risk Committee.

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

This organization is based on the laws in place and the requirements provided by the Financial Information Authority (AIF) for a compliant internal audit system. Specifically, the AIF issued on 13 January 2015 Regulation No. 1 "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").

5.1.1 Duties and responsibilities of bodies involved

The Institute bodies involved in the process of risk management and control relating to proprietary investments are the following:

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

5.1.1.1 Board of Superintendence

The Board of Superintendence is responsible for definition of the strategic guidelines and general policies of risk management, following a proposal from the Directorate. The Board of Superintendence can request an update from the Directorate protections provided through measurement and assessment of risks.

5.1.1.2 Directorate

The Directorate establishes, within the strategies, general policies and guidelines set forth by the Board of Superintendence, the risk management and control methodologies, and the general structure of market and credit operational limits (counterparty risk and issuer risk). The Directorate also carries out the implementation and integration of any subsequent amendments made to existing policies and guidelines.

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

The Directorate monitors daily risk exposure, 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 Audit and Risk Committee

An informal (non statutory) Audit and Risk Committee has been set with the aim to help the Board in the following:

- to propose risk management and control methodologies and all subsequent amendments thereof, on a proposal from the Risk Management department and/or the Head of Treasury department;
- 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 the credit limit granted to the new trading partners;
- to periodically review the Institute’s risk trend, with specific focus on the most relevant events or those with greatest impact;
- to periodically present to the Board of Superintendence a report on the structure and on the effectiveness of risk management and control activities;
- when convened in emergency, in cases where operational limits are 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:

- submits to the Risk Committee problems related to the Institute’s exposure to market, credit, liquidity and operational risks, proposing solutions for the management of those risks;

- is responsible for the implementation, validation and maintenance of an adequate risk exposure control system and of its performance;
- observes daily the market, credit and liquidity risks and the performance related to trading activity, preparing specific reports for the Directorate and for the head of Treasury Department;
- controls the observance of operational limits related to 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.

5.1.1.5 Compliance Department

The IOR Compliance Department, in accordance with the the latest procedures of the 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 risk of non-compliance with the most important regulations, such as those regarding financial activity and brokerage, anti-money laundering, management of conflicts of interest, ensuring that the internal procedures are suitable to prevent this risk.

As regulated under 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 an 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 observance of 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 proprietary investment.

5.1.1.7 Head of Treasury Department

- Defines the operating investment choices 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, submitted to the review of the Risk Committee.
- Defines, within the faculties it has been granted, the necessary corrective actions with the aim of restoring the defined risk/return profile.

The Institute is involved in a complete overhaul of its current financial, credit, liquidity and operational risks management arrangements. This involves a strengthening of the Risk Management department with the acquisition of new skills, the creation of a risk management database and all relevant controls, and the establishment of a "risk culture" which, through the abovementioned departments, could increase the level of awareness of the of risk-related issues to all personnel.

5.2 Format and content of the information on credit risk and related hedging policies

5.2.1 General aspects

Credit risk is the risk asiring from the possibility that counterparties may not honour their commitments. Depending on those commitments, the Institute's credit risk may be divided in two categories:

a) credit risk arising from the Institute's trading activity for proprietary and customers' investments. 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 in the item "Loans and advances to customers"; for this risk category, the Institute considers it appropriate not to measure this risk because:

    - the item is not significant if compared to Total Assets;
    - the exposure is limited to Catholic congregations and Vatican employees, *in* both cases low risk categories by their nature;
    - credits are usually accompanied by guarantees: securities, asset management positions or, for the Institute employees, post employment benefits.

At the end of 2015, the bond securities portfolio amounted to around EUR 2.3bn with an average duration of 1.8 years and high credit standing (98.75% investment grade). The bond securities portfolio is mainly comprised of Italian and Spanish government bonds (48.5% of the total) and bank securities (30.8% of the total).

68.5% of the securities held in the portfolio are eligible to be financed by the European Central Bank and all the securities are valued using the mark-to-market method.

Further details on the bond portfolio composition are given in the next paragraphs.

5.2.2 Credit risk management policies

5.2.2.1 Organizational aspects

The Treasury Department is responsible for the process related to credit risk management and control, over trading activity and the collection of orders. 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, who delegates to the Treasury Department the assumption of credit risks, within the limits determined by amount, type and counterparty;
- the Treasury Department, which assumes credit risk within its operations in compliance with its defined limits. The assumption of credit risk for amounts greater than the determined limit assigned to the department requires the authorisation of the Director General;
- the Risk Committee, supporting the Director General in setting up the system of credit risk measurement and monitoring, in the definition of operational limits, in the analysis of any overruns and in evaluating authorisations of limits exceeded;
- the Risk Management Department, which daily controls the respect of operational limits, indicating promptly 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 depending on the counterparty features, the rating from International Rating Agencies (Moody's, S&P, Fitch) and the 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.

5.2.2.3 Credit risk mitigation techniques

Currently, the Institute has no offsetting agreements in place with financial counterparties. Implementation of a repurchase agreement is currently under analysis, involving transactions on securities guaranteed by loans and periodic margins when the guarantee valued exceeds determined limits compared to the cash movement.

5.2.2.4 Impairment of financial assets

On credits to customers, 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 in Section IV, note 24.

5.2.3 Loan quality

At the end of each month the Advances Department analyses all exposures and submits to the Directorate a suggestion on how to manage aged loans at risk for non-collection. In particular, 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 recognised; when the positions are past due and uncollectible, the department suggests to the Directorate write-off the amount as a loss on loans.

Table 5.2.3 - Loans quality

2015 EUR 000	Number	Gross amount	Impairment	Carrying amount
Non-performing loans	9	6,853	6,853	-
Doubtful loans	1	12,500	4,782	7,718
Past due impaired exposures	7	5,991	3,713	2,278
Past due not impaired exposures	5	724	43	681
Performing loans	291	13,890	637	13,254
Total	**313**	**39,958**	**16,028**	**23,930**

2014 EUR 000	Number	Gross amount	Impairment	Carrying amount
Non-performing loans	9	6,942	6,942	-
Doubtful loans	1	12,500	5,324	7,176
Past due impaired exposures	6	6,373	3,295	3,078
Past due not impaired exposures	2	80	5	75
Performing loans	379	12,796	717	12,079
	397	**38,691**	**16,283**	**22,408**

5.2.4 Distribution and concentration of credit exposures

The table below shows the concentration of term deposits and general accounts with banks by rating for the Institute as of 31 December 2015.

Table 5.2.4.a - Exposure on deposits with banks by rating S&P

	2015	*2014*
AAA	0.1%	0%
AA+	0%	0%
AA	1.7%	0%
AA-	6.4%	1.1%
A+	16.6%	2.0%
A	17.8%	41.8%
A-	0.9%	2.3%
BBB+	29.4%	19.5%
BBB	1.0%	1.9%
BBB-	8.0%	7.4%
sub inv grade	1.0%	22.3%
Not rated	17.1%	1.6%
Total	100%	100%

The increased the exposure to banks at the end of 2015 is the result of uncertainty in financial markets that has led to the investment strategy of IOR to very short term temporary investments on deposits and correspondent accounts.

Exposures to Banks "not rated" mainly consist of deposits with APSA.

In 2015, there was a higher distribution of credit exposure than in previous years, due to the introduction of new stricter limits for each counterparty/credit group that led to higher diversification of exposures.

The table below shows the distribution of ratings within the bond property portfolio, which is comprised of all interest-bearing securities, including trading securities and financial assets held to maturity, as well as Loans and Receivables.

Table 5.2.4.b- Bond portfolio by rating S&P

	2015	*2014*
AAA	9.5%	11.7%
AA+	1.9%	8.0%
AA	6.1%	5.2%
AA-	4.8%	3.2%
A+	6.1%	4.6%
A	5.4%	9.1%
A-	8.7%	4.8%
BBB+	16.5%	3.7%
BBB	32.0%	26.2%
BBB-	7.6%	19.3%
BB+	0.9%	0%
BB	0%	0.9%
BB-	0%	0%
not rated	0.4%	3.4%
	100%	100%

The table below shows the country of domicile of the counterparties for the bond securities held by the Institute.

Table 5.2.4.c - Bond portfolio by country of the issuer

	2015	*2014*
Italy	34.6%	40.2%
Spain	13.4%	20.6%
France	7.9%	6.2%
United Kingdom	6.3	1.7%
Hollande	5.1%	0.4%
Germany	4.0%	2.1%
Sweden	2.4%	0%
USA and Canada	10.9%	22.4%
Supranationals Entities	3.2%	1.7%
Other countries	12.2%	4.8%
	100%	100%

5.2.5 Unconsolidated structured entities

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

For some of the 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 follows.

At the balance sheet date, the Institute recorded EUR 41.3m investments in external funds in its trading portfolio. 57% of the funds in the portfolio are closed-end funds, and can be subscribed to only at given times by specific parties, who, as mentioned, have no control. 30% consists of funds that invest in other funds. 13% of funds are related to funds that can be subscribed to by different entities at any time and for any amount (open-end funds).

Conversely, with regard to the asset classes covered, the Institute holds shares of funds investing in Equity securities (30%), Debt securities (13%) and real estate market (56%). Regarding geographical area, the criteria used in the abovementioned table were to separate funds depending on their legally registered domicile.

According to these criteria, all the funds are located within the European Union.

2015

Investment Fund type	*Balance sheet exposure*	
	Nominal Value	*Carrying amount (EUR)*
Open-end fund	38,499	5,386,740
Closed-end fund	20,170,677	23,356,699
Hedge fund	-	-
Exchange traded fund	-	-
Unit Investment Trust	-	-
Fund of fund	2,300	12,585,456
Seed Fund	-	-
Totale	**20,211,476**	**41,328,895**

Underlying asset class focus	*Balance sheet exposure*	
	Nominal Value	*Carrying amount (EUR)*
Equity	2,300	12,585,456
Debt	38,499	5,386,740
Asset Allocation	-	-
Money Market	-	-
Real Estate	20,170,000	23,332,751
Commodity	-	-
Alternative Investments	677	23,948
Totale	**20,211,476**	**41,328,895**

Geographical Area	*Balance sheet exposure*	
	Nominal Value	*Carrying amount (EUR)*
EU	20,211,476	41,328,895
USA	-	-
Totale	**20,211,476**	**41,328,895**

2014

Investment Fund type	*Balance sheet exposure*	
	Nominal Value	*Carrying amount (EUR)*
Open-end fund	390,867	41,320,937
Closed-end fund	20,170,677	23,354,388
Hedge fund	-	-
Exchange traded fund	-	-
Unit Investment Trust	-	-
Fund of fund	2,300	12,585,456
Seed Fund	-	-
Totale	**20,563,844**	**77,260,781**

Underlying asset class focus	*Balance sheet exposure*	
	Nominal Value	*Carrying amount (EUR)*
Equity	92.212	23,097,413
Debt	292,960	30,167,668
Asset Allocation	-	-
Money Market	-	-
Real Estate	20,170,000	23,332,751
Commodity	-	-
Alternative Investments	8,672	662,949
Totale	**20,563,844**	**77,260,781**

Geographical Area	**Balance sheet exposure**	
	Nominal Value	Carrying amount (EUR)
EU	20,563,844	77,260,781
USA	-	-
Totale	**20,563,844**	**77,260,781**

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. 3 Information on market risk and related hedging policies

5.3.1 Introduction

Market risk is the risk of variation of portfolio value from adverse fluctuations of market parameters, such as interest rates 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 risks associated are interest rate risk and spread over Libor variation risk, as is better described in the next paragraphs.

Ownership of the power to assume market risk lies with the Directorate, which assumes an active role in risk management and control, according to the guidelines determined by the Board of Superintendence. Specifically, the Director General delegates the assumption of market risk and management to the Treasury department that operates in autonomy in compliance with the limits assigned to the department.

The activity of market risk assumption and management is totally different from that of confirming, settling, matching and execution (Middle Office and Back Office) and that of the Risk Management department.

At 31 December 2015, the Institute did not hold quoted derivatives.

A project concerning a future rates business is being studied, with the aim 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 is 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 suffer, with probability equal to the confidence level determined, in case of market trends adverse to the position taken;
- Expected Shortfall is defined as the average loss that the Institute could suffer in case of a VaR overrun;
- Stress Test is defined as the loss that the Institute could suffer in case of particularly negative events of the main risk indicators (equity prices and indexes, interest rates, currency rates, credit spread) analyzed in an independent manner.

In addition to the measures mentioned, the Institute utilises an indicator of realized losses, called Weekly Cumulated Loss (or WCL), defined as the sum of the negative realized results on positions already closed and latent losses on positions still open, valued at market, having as the reference 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 updating 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 is better described in the next paragraphs.

The monitoring limits on a daily basis is ensured by the Risk Management department, which updates daily the Directorate on the level of risk assumed and on compliance with operational limits.

When operational limits are exceeded, the Risk Management department promptly informs the Directorate of the overrun and the Director General decides what to do.

In setting up market risks measurement systems, defining operational limits, and the monitoring of compliance with the limits, the Director General is supported by the Risk Committee, which has advisory functions on the following matters:

- assignment and review of limits in terms of VaR, Expected Shortfall, Stress Test and WCL to the Treasury department;
- assignment of additional limits, determined in terms of nominal factor sensitivity (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 anomalous trends;
- monitoring risks assumed and of compliance with the pre-established limits;
- interruption, in a total or partial way, of the activities on financial instruments;
- analysis of the ordinary activity and extraordinary events, following particular market turbulences and macroeconomic scenarios.

During 2015 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 4.98m and a daily maximum VaR of EUR 6.02m; the operational limits, determined in EUR 8m, were never exceeded. At the end of 2015, the VaR amounted to EUR 4.07m. The portfolio only contained cash products.

The Risk Management department, with the aim of verifying adequacy of the VaR calculation method, periodically conducts retrospective reviews, comparing the realized trading results ex post, with the VaR measures calculated ex ante. During 2015, the Institute did not identify events where actual daily losses exceeded the risk measures expressed in terms of VaR ex ante on a daily basis.

The risk monitoring and control activity is continuously improving and the project related to implementation of the new position keeping system in the Treasury department is under completion; when it is completed, the project will allow:

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

5.3.2 Interest rate risk and trading portfolio price risk

5.3.2.1 General aspects

Interest rate risk related to the trading portfolio is originated by the Istitute's trading activity in financial instruments, simple and complex, exchanged on organized markets and on over the counter markets, put in place by the Treasury department.

5.3.2.2 Operational processes and methods for measuring interest rate risk and price risk

Interest rate risk and price risk are measured and managed under the operational delegations system concerning market risk management and control.

As mentioned above, such risks are measured and connected, quantitatively, to the general market risk concept, with the aim of practicing risk management and control in terms of operational limits determined on different risk measures: weekly cumulated loss (WcL), VaR/ES/Stress Test.

The methodology used for the measurement and consequently for a sensitivity/risk analysis and for determination of the related operational limits, is arranged so as to consider:

- for interest rate risk, the variations in interest rates composing the market curve, the rate volatility risk and correlation risk. On a daily basis, stress test analysis are conducted on the rates curve, supposing parallel shifts of the curve of robust dimensions (-40% / +50% with a floor equal to 50 basis points);
- for spread over LIBOR risk, the stress scenarios consider increasing variations depending on the spread absolute 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 were represented in an adequate way: equities securities, equities indexes, funds and ETF. A stress test analysis is then conducted, applying the defined scenarios to the spot prices (from -30% to +30%).

Stress test data at the end of 2015 shows, for interest rate risk, an exposure equal to EUR 14.8m for a variation of +50% of interest rates, with a minimum variation of 50 bps; the corresponding limit amounted to EUR 25m. The exposure is focused on the EUR rate risk for 80% and on USD rate risk for the remaining 20%. The exposure to rate risk of other currencies is immaterial.

Stress tests on credit spreads for government securities show an exposure amounting to EUR 19.5m for a variation of +80% of the spread value as mentioned above; the corresponding limit is equal to EUR 25m. The main contribution to the stress test on government securities comes from Italian government bonds for 67% and from Spanish government bonds for 9%.

Stress tests on credit spreads of corporate securities show an exposure equal to EUR 14m for a variation of +80% of the spread value as mentioned above; the corresponding limit is equal to EUR 25m. The main contribution to the stress test on corporate securities comes from the banking sector for 53%, and the maximum exposure for a single entity is equal to 5.1%.

Stress tests on equities positions show an exposure of EUR 9.2m for a variation of -30% of the price of all equities/indexes. The corresponding limit is equal to EUR 25m.

The daily verification activity on the trading operations of the Institute allows the P&L dynamics of the managed portfolios to be determined. This activity, summarized in reports sent daily to the Directorate, enables identification of the impact of each risk factor on the revalued positions; it is therefore possible to build a “backtesting” analysis, not only on a general level, but also on each specific risk factor.

The Institute calculates the capital requirements on market risks based on the standard methodology provided by AIF Regulation No.1.

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

Regarding interest rate risk of financial instruments other than those classified in trading portfolio, the Institute’s portfolio exposure refers to the assets in the held to maturity portfolio and to interbanking deposits. The main exposures are listed in the paragraph related to credit risk.

Application of Stress tests on interest rate to the portfolio including other financial instruments shows an exposure of EUR 3.6m for a variation of +50% of interest rates, with a minimum variation of 50 bps.

With reference to price risk of financial instruments not classified in the trading portfolio, at the end of 2015, the Institute portfolio had exposure as follows:

- Investment securities, total amount of EUR 13.4m;
- Investment in subsidiaries (SGIR), total amount EUR 15.8m.

The following table shows IOR's assets and liabilities with current values, by expiration date or, by rate change date (re-pricing date). The off-balance sheet position represents the difference between the notional values of derivative financial instruments exposed to interest rate risk.

As at 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest	Total
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Assets							
Cash and Bank Deposits	472,050	62,022	183,112	-	-	16,213	733,397
Trading securities	111,746	302,704	11,966	954,488	188,010	99,051	1,667,966
Gold, medals and precious coins	-	-	-	-	-	33,202	33,202
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to customers	23,930			-	-	-	23,930
Loans and receivables securities	52,144	589	35,000	-	-	-	87,733
Investment securities, equities available for sale	-	-	-	-	-	15,167	15,167
Held to maturity securities	1,732	10,471	123,123	426,070	53,422	-	614,818
Investment in subsidiaries	-	-	-	-	-	15,835	15,835
Investment properties	-	-	-	-	-	2,897	2,897
Remaining other assets	-	-	-	-	-	9,313	9,313
Total assets	**661,602**	**375,787**	**353,201**	**1,380,558**	**241,432**	**191,678**	**3,204,258**
Liabilities							
Due to banks	10,597			-	-	-	10,597
Due to depositors	2,368,322	-	3,346	-	-		2,371,669
Other liabilities	-	-	-	-	-	36,587	36,587
Post employment benefit plans	-	-	-	-	-	115,127	115,127
Total liabilities	**2,378,919**	**-**	**3,346**	**-**	**-**	**151,714**	**2,533,980**
Off balance sheet net interest sensitivity gap	-	-	-	-	-		
Interest sensitivity gap	(1,717,317)	375,787	349,854	1,380,558	241,432	39,964	
Cumulative Interest sensitivity gap	**(1,717,317)**	**(1,341,531)**	**(991,676)**	**388,881**	**630,314**		
As at 31 December 2014							
Total assets	639,773	496,528	750,890	993,419	194,118	136,047	3,210,775
Total liabilities	2,202,533	7,322	152,199	-	-	153,727	2,515,781
Off balance sheet net interest sensitivity gap	-	-	-	-	-		
Cumulative Interest sensitivity gap	**(1,562,76)**	**(1,073,554)**	**(474,863)**	**518,556**	**712,674**		

5.3.4 Currency risk

5.3.4.1 General aspects, operational processes and methods for measuring currency risk

The currency risk is the risk that the Institute can incur losses on the trading portfolio due to the adverse variation of currency rates and to the gold price. As mentioned above, the management of currency risk in the trading book is based on the system of delegation in force for the management of financial risks.

For the currency rate, as for interest rates, the following pre-defined Stress Test scenarios were used:

- +/-4% for the GBP, HUF, NOK, PLN and SEK currency rates against the EUR;
- +/-6% for the CAD, NZD, SGD, TRY and USD currency rates against the EUR;
- +/-8% for all other currencies.

The exchange rate risk exposure deriving from application of the abovementioned Stress tests at 31 December 2015 recorded an amount equal to EUR 1m for strictly forex rates and equal to EUR 800,000 for gold positions. The corresponding limit was EUR 10m.

The following table shows the IOR assets and liabilities amounts recorded in the financial statements divided by currency.

Although the EUR currency is not liable to currency risk, the related column was maintained with the aim of matching the total amount with the Balance sheet in Section I Chapetr 7.

As at 31 December 2015	*EUR*	*USD*	*CAD*	*CHF*	*AUD*	*Other/altre*	*Total/ Totale*
Assets	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*	*EUR 000*
Cash and Bank Deposits	527,573	176,053	6,578	5,320	2,276	15,597	733,397
Trading securities	1,137,801	521,735	-	3,667	1,263	3,500	1,667,966
Gold, medals and precious coins	11,201	22,001	-	-	-	-	33,202
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to customers	23,720	210	-	-	-	-	23,930
Loans and receivables securities	87,733	-	-	-	-	-	87,733
Investment securities, equities available for sale	15,167	-	-	-	-	-	15,167
Held to maturity securities	572,582	42,236	-	-	-	-	614,818
Investment in subsidiaries	15,835	-	-	-	-	-	15,835
Investment properties	2,897	-	-	-	-	-	2,897
Remaining other assets	7,030	2,180	19	5	6	73	9,313
Total assets	**2,401,539**	**764,415**	**6,597**	**8,992**	**3,545**	**19,170**	**3,204,258**
Liabilities							
Due to banks	-	10,597	-	-	-	-	10,597
Due to depositors	1,590,966	748,027	5,420	9,424	2,793	15,039	2,371,669
Other liabilities	32,712	3,683	138	3	2	49	36,587
Post employment benefit plans	115,127	-	-	-	-	-	115,127
Total liabilities	**1,738,805**	**762,307**	**5,558**	**9,427**	**2,795**	**15,088**	**2,533,980**
Equity	670,278						670,278
Net currency position	**(7,544)**	**2,108**	**1,039**	**(435)**	**750**	**4,082**	**-**
Off balance sheet net notional position	-	-	-	-	-	-	-
Total Net currency position	(7,544)	2,108	1,039	(435)	750	4,082	-
As at 31 December 2014							
Total assets	2,400,640	764,802	12,983	6,647	9,538	16,165	3,210,775
Total liabilities	1,708,907	763,580	12,369	7,178	9,120	14,627	2,515,781
Equity	694,994						694,994
Net currency position	**(3,261)**	**1,222**	**614**	**(531)**	**418**	**1,538**	**-**
Off balance sheet net notional position	-	-	-	-	-	-	-
Total Net currency position	**(3,261)**	**1,222**	**614**	**(531)**	**418**	**1,538**	-

5.4 Information on liquidity risk and related hedging policies

5.4.1 General aspects, operational processes 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 delivery, whether expected or unexpected, compromising the daily operations or the financial situation.

As regards liquidity risk, during 2105, IOR did not record any notable problems: 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 on a period of 30 days showed a value equal to 574%, compared to a regulatory limit of 100%.

The definition of a Liquidity Policy is in progress, and the Institute is waiting for the approval of the Board of Superintendence. The Board will also define stress scenarios and a "contingency liquidity plan" in case of crisis, in line with AIF requirements.

From an organizational standpoint, the Institute's liquidity risk is managed by the Treasury Department.

Monitoring of the liquidity situation and control of the liquidity operational limits are carried out on a daily basis by the Risk Management Department.

The following table shows the Institutes' assets and liabilities with current values, divided by contractual maturities of the financial liabilities and the expected maturities of the financial assets.

As at 31 December 2015

	Up to 1 month EUR 000	*1-3 months EUR 000*	*3-12 months EUR 000*	*1-5 years EUR 000*	*Over 5 years EUR 000*	*Non defined EUR 000*	*Total EUR 000*
Assets							
Cash and Bank Deposits	488,263	62,022	183,112	-	-	-	733,397
Trading securities	116,712	65,575	388,647	864,891	133,089	99,051	1,667,966
Gold, medals and precious coins	-	-	-	-	-	33,202	33,202
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to customers	6,819	23	303	7,978	8,808	-	23,930
Loans and receivables securities	52,144	35,589	-	-	-	-	87,733
Investment securities, equities available for sale	-	-	-	-	-	15,167	15,167
Held to maturity securities	1,732	10,471	48,450	500,743	53,422	-	614,818
Investment in subsidiaries	-	-	-	-	-	15,835	15,835
Investment properties	-	-	-	-	-	2,897	2,897
Remaining other assets	9,313	-	-	-	-	-	9,313
Total assets	**674,983**	**173,680**	**620,513**	**1,373,612**	**195,318**	**166,152**	**3,204,258**
Liabilities							
Due to banks	10,597	-	-	-	-	-	10,597
Due to depositors	2,368,322	-	3,346	-	-	-	2,371,669
Other liabilities	36,587	-	-	-	-	-	36,587
Post employment benefit plans	-	-	-	-	115,127	-	115,127
Total liabilities	**2,415,506**	**-**	**3,346**	**-**	**115,127**	**-**	**2,533,980**
Net liquidity gap	**(1,740,523)**	**173,680**	**617,166**	**1,373,612**	**80,191**	**166,152**	**670,278**

As at 31 December 2014

Total assets	507,894	251,817	558,321	1,560,046	221,530	111,168	3,210,775
Total liabilities	2,232,312	7,323	152,199	-	123,947	-	2,515,781
Net liquidity gap	**(1,724,418)**	**244,494**	**406,122**	**1,560,046**	**97,583**	**111,168**	**694,994**

5.5 Information on operational risk and related hedging policies

5.5.1 General aspects, operational processes and methods for measuring operational risk

Operational risks are the risks of losses caused by the inadequacy and malfunctioning of procedures, human resources and internal system, or caused by external events.

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

Operational risks include, *inter alia*, 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. In greater detail, the risk assessment framework for the Institute's activities provides an assessment of the original operational risk of each process (unmitigated risk), a check of the instruments for control and mitigation of this risk and an assessment of the residual risks (mitigated risk).

Definition of a framework for the recording of operational risk events is also under analysis, which will include an Institute database into which such events and the mitigation actions taken will be fed. "Operational risk event" is a fact of any nature that "potentially" may generate a loss for the Institute, and not only events that actually determined a loss. Generally these events do not generate losses, but it is important to record them to highlight possible areas exposed 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.

In compliance with the Regulation No. 1, the business lines will be directly involved in the processes of Operational Risk Management, through the establishment of specific protections located in and focusing on the business units, responsible for collection and structured recording of the information related to events generating operating losses, and assessment of the riskiness associated with the operating context.

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 the methodologies for risk measurement and for the processing of loss data and is also responsible for arranging for the associated report mechanisms.

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

As provided by Art. 119, paragraph 3 of AIF Regulation No. 1, dated 13.01.15, the information for public disclosure (Pillar III) will be published on the Institute website www.ior.va.

Section VI. Information concerning equity

6.1 Shareholders' Equity

6.1.1 Qualitative information

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

The Institute's objectives in managing capital, which is a broader concept than the "equity" presented in the balance sheet and consistent with the regulatory capital, which comprises not only equity *stricto sensu*, 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 the development of its activities.

The Institute pursues its goals of capital management both in planning processes, through the analysis of risks associated with the planned activities, and in monitoring processes through the analysis and monitoring of limits.

In managing capital, the Institute observes regulatory capital requirements as set out by the regulatory prudential supervision.

6.1.2 Quantitive information

6.1.2.1 Composition

Table 6.1.2.1 - Equity composition

	2015
	EUR 000
1.Capital	300,000
2. Reserves	
(a) Earning reserves	
(i) Unavailable	100,000
(ii) Available	282,133
4. Valuation Reserves	
(a) Available for sale financial assets	4,777
(h) Post-employment benefit actuarial gain (loss) reserve	(32,759)
5. Result of the year	16,127
TOTAL	**670,278**

6.1.2.2 Fair value reserves on available for sale financial assets: composition

Table 6.1.2.2

Assets	2015	
	Positive Reserves	*Negative Reserves*
2. Equity securities	4,777	-
Total	**4,777**	-

6.1.2.3 Fair value reserves on financial assets available for sale: movement in the item

Table 6.1.2.3

	Securities
1. Opening balance	-
2. Positive changes	
2.1 Fair value increases	4,777
4. Closing balance	4,777

6.1.2.4 Reserves on defined benefit plans: movement in the item

Table 6.1.2.4

	Defined benefit plan
1. Opening balance	(41,639)
2. Positive changes	
2.1 Post-employment benefit actuarial gain of the year	8,880
4. Closing balance	(32,759)

6.2 Own equity and prudential supervision ratios

6.2.1 Own equity

Capital is defined under AIF Regulation No.1 art. 3 (8) as the funding capital initially provided or subsequently integrated 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 that in case of cessation or liquidation of the entity, ensuring that it is distributed with proportionality to the legitimate creditors, according to the legislation of the Holy See and the Vatican City State and that it is 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 2015 amounted to EUR 650.9m (2014: EUR 639.7m).

Considering the items comprised the Institute's equity, the sole prudential filter in common equity at 31 December 2015 is associated to the positive fair value reserve relating to the investment securities held in the Available for Sale portfolio. This reserve is computed, through a negative prudential filter, for an amount equal to 50%.

In the calculation of the Regulatory Capital, the Net profit for the year is considered fully distributed.

Table 6.2.1 Common Equity	2015 EUR 000	2014 EUR 000
A. POSITIVE COMPONENTS		
1. Capital	300,000	300,000
Supplemental capital		
a. Retained earnings		
(i) Unavailable	100,000	100,000
(ii) Available	282,133	282,133
(iii) Others	-	-
b Provisions		
c Reserves	(30,371)	(41,639)
B. NEGATIVE COMPONENTS		
2.Intangible assets	(875)	(833)
COMMON EQUITY	**650,888**	**639,661**

In order to ensure comparability, the 2014 amounts were prepared using the same methodology used in 2015.

6.2.2 Capital adequacy

The monitoring of supervision ratios is performed on a daily basis by the Risk Management Department, with the aim of continuously monitoring that the regulatory requirements are met. The table below shows the data relating to the capital requirements as at the end of 2015.

Table 6.2.2 - Capital adequacy

	2015	
A. Risk asset	Unweighted amounts	Weighted amounts
Credit and counterparty risk (Standardised approach)	1,533,600	616,181
B. Capital requirements	Weighted amounts	Capital requirements
Credit and counterparty risks	616,181	49,295
Credit valuation adjustment risk	-	-
Settlement risk	-	-
Market Risk		
Standardised approach	497,679	39,814
Concentration risk	-	-
Operational risk (Basic indicator approach)	62,700	9,405
Other calculation elements	-	-
Total capital requirements	**1,176,560**	**98,514**

C. Riskl-Weighted assets and Capital Ratios	
Capital	300,000
Common equity	650,888
Risk-weighted assets (capital requirement*12.5)	1,231,423
Capital / Risk-weighted assets	24,36%
Common equity / Risk-weighted assets	52,86%

Chapter 8. Report of the Board of Auditors

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Institute for the Works of Religion
Report by the Board of Auditors

To the *Consiglio di Sovrintendenza* (the "Board") of the Institute for the Works of Religion.

The board of auditors of the Institute for the Works of Religion (the "IOR") has drawn up this report, as per article 28 of the statute, to present its observations on the annual financial statements, report and supporting documents, as drawn up by the Directorate, and to report on its own activities in 2015.

First, in 2015 the Board appointed Mr Giovanni Barbara and Mr Luca Del Pico as new members of the board of auditors.

The board of auditors devoted the utmost care and attention to its work, mindful of the Holy Father's venerable reminder, in his address on 24 November 2015, of "*... the important functions to be performed by the board of statutory auditors, which must act with the necessary degree of impartiality and independence*".

During 2015, the auditors met 9 times and attended all Board meetings, which were held in compliance with the rules governing their proceedings, and which adopted resolutions that can reasonably be said to comply with the laws of the Vatican City State and the IOR's statute.

The board of auditors' meetings involved intense sessions and benefited from the varied expertise of its members and the generous and ready assistance of the IOR's Board, Directorate, and Administration and Control Departments.

The board of auditors noted that in 2015 the IOR, by providing dedicated service, confirmed its commitment to serve the Holy Father in fulfilling his mission as the Universal Pastor of the Church.

Work carried out in compliance with the statute

In accordance with article 27 of the statute, in 2015 the board of auditors checked cash balances, and conducted an administrative and accounting review of books and records, also by obtaining information from the internal control functions. In this regard, the board of auditors has no remarks to make.

At the request of the Board, the board of auditors also carried out internal reviews and other checks.

The Board also appointed certain members of the board of auditors to join a task force that is drawing up the Internal Regulations of the IOR, in compliance with articles 3, 17 and 24 of the statute, and also in light of the Holy Father's address of 24 November 2015.

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Supervisory activities carried out in compliance with article no. 4 of Law LXXI (the "Act on Sources of Law")

The board of auditors monitored the IOR's continuing work to align itself with AIF Regulation 1 (the "Regulation"), regarding the "Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis", adopted on 13 January 2015 in implementation of Heading III of Law no. 18 of 8 October 2013 on "Financial transparency, supervision, and information".

In relation to this work, on 12 November 2015 the board of auditors issued an opinion on the Directorate's proposal – made at the request of the Board – that the IOR's capital and reserves be calculated as requested by the *Autorità di Informazione Finanziaria* (the Financial Information Authority or "AIF") in a letter dated 10 July 2015, to ensure full compliance with the AIF Regulation.

The board of auditors also provided prompt responses to requests made by the AIF and met with its representatives on several occasions.

In addition, the board of auditors checked that the internal control system was complete, adequate, functioning and reliable, and that the rules in force in the Vatican City State – including the Regulation – had been observed. In doing so, the board of auditors was in constant touch with the control functions and received adequate and prompt information from the Board and from the Directorate. The board of auditors promptly informed the Board of all pertinent information that came to its attention in the course of its activities, detecting no violations of the laws in force in the Vatican City State or of the statute.

2015 Annual Report and Financial statements

The board of auditors of the IOR, in compliance with article 28 of the current statute, has examined the 2015 Annual Report – drawn up by the Directorate using generally accepted accounting principles (IAS-IFRS) – which includes financial statements comprising a:

- balance sheet
- profit and loss account
- statement of comprehensive income
- cash flow statement
- statement of changes in equity.

The 2015 Annual Report also includes a description of the IOR's activities and summarises its accounting policies, the risks and uncertainties attached to the estimates, the notes to the financial statements, and financial risks. The information was prepared in compliance with international

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accounting standards in this period of transition towards full compliance with Vatican rules on prudential supervision.

The 2015 financial statements may be summarised as follows:

	EUR000
BALANCE SHEET	
Total assets	3,204,258
Total liabilities	2,533,980
Equity	670,278
PROFIT AND LOSS ACCOUNT	
Net operating income	18,838
Net profit for the year	16,127
Profit available for distribution	16,127

The financial statements were audited by Deloitte & Touche S.p.A., which issued an unqualified opinion on April 26th, 2016.

On the basis of its checks, and taking into account the findings of the internal control functions and the unqualified opinion issued by the audit firm, the board of auditors agrees with the Board's proposal:

– that the 2015 financial statements included in the 2015 Annual Report, as drawn up by the Directorate, be approved;

– of devolution of the net profit for the year.

Vatican City, April 26th, 2016

The Board of Auditors

Mario Busso

Giovanni Barbara

Luca Del Pico

Chapter 9. Report of the External Auditors

Deloitte.

Deloitte & Touche S.p.A.
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Italia

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Superintendence Board of
ISTITUTO PER LE OPERE DI RELIGIONE

Report on the Financial Statements

We have audited the accompanying financial statements (Chapter 7 of 2015 Annual Report) of Istituto per le Opere di Religione, which comprise the balance sheet as at December 31, 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Palermo Parma Roma Torino Treviso Verona

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Istituto per le Opere di Religione as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE S.p.A.

Enrico Ciai
Partner

Rome, Italy
April 26, 2016

Jean-Baptiste Douville de Franssu
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