



IOR ISTITUTO PER
LE OPERE
DI RELIGIONE

DISCLOSURE
YEAR 2024
PURSUANT TO
ARTICLE 119 OF
ASIF REGULATION
NO. 1/2015

Istituto per le Opere di Religione

Cortile Sisto V

00120 Città del Vaticano

Stato della Città del Vaticano

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Introduction

This Disclosure meets the transparency obligations to the public set forth in ASIF Regulation no. 1/2015, specifically Article 119 and Annex XXVII.

The document is divided into sections, each marked with a capital letter corresponding to the information required by the Annex above.

Figures are stated in units of Euro, unless specified otherwise.

SECTION 1 - RISK MANAGEMENT OBJECTIVES AND POLICIES (F)

The Institute's internal control structure is defined in its Statute, the General Regulations, and the related regulations and procedures adopted by the competent bodies of the Institute. It takes into account ASIF Regulation no. 1/2015 on the prudential supervision of entities carrying out financial activities on a professional basis (Regulation no. 1), issued by the Financial Supervision and Information Authority (ASIF), implementing Title III of Law no. XVIII of 8 October 2013, on "Transparency, supervision, and financial information" (Law no. XVIII).

The following paragraphs describe the role of the governance bodies and departments, with particular reference to risk management and control.

1. Governance bodies in risk management

The governance bodies and organisational departments primarily involved in risk management and control are as follows:

- 1.1 Board of Superintendence
- 1.2 Director General
- 1.3 Control Functions Committee
- 1.4 Crisis Committee
- 1.5 Security and Continuity Department
- 1.6 Risk Management Department
- 1.7 Compliance Department
- 1.8 Internal Audit Department

1.1 Board of Superintendence

Pursuant to Article 10 of the Statute, the Board of Superintendence is responsible for defining strategic guidelines, approving the Institute's strategic guidelines and policies, and supervising compliance with them. In particular, Article 17§1(c), (d) and (h) assigns the Board of Superintendence the task of: (i) approving the annual budget objectives, consistent with the risks to which the Institute is exposed; (ii) defining and approving the Institute's risk profile; and (iii) defining and approving the general guidelines for the internal control system and appointing, evaluating and dismissing the heads of control departments.

Article 12 of the General Regulations sets out in detail the tasks of the Board of Superintendence, which include defining risk management policies.

In performing these tasks, the Board of Superintendence relies on the information produced by the Risk Management Department and the Control Functions Committee.

Furthermore, two permanent advisory committees have been established within the Board of Superintendence (Article 17, § 2 of the Statute), namely the “Audit & Risk Committee” and the “Human Resources, Ethics and Remuneration Committee”. Both committees are composed of three directors and are chaired by the director appointed by them. The members of the standing committees are selected on the basis of their respective skills and the area of activity of the committees themselves.

Each director participates in only one standing committee, while the President of the Board of Superintendence and the Director General are invited to participate in both.

The composition of the committees in 2024 was as follows:

- **Audit & Risk Committee**

(i) Javier Marin Romano (President), Michael Hintze and Georg Von Boeselager until the July 2024 committee meeting. Since the October meeting, the composition has been as follows: (i) Javier Marin Romano (President), Michael Hintze and François Pauly.

- **Human Resources, Ethics and Remuneration Committee**

(i) Mauricio Larrain (President), Georg von Boeselager and Scott Malpass, until the July 2024 committee meeting. Since the October meeting, the composition has been as follows: Georg von Boeselager (President), Bernard Brenninkmeijer and, as of the February 2025 meeting, Sheila Marie L. Uriarte-Tan.

During 2024, the Committees met four times, and the President of each Committee prepared a summary report on the activities carried out during the year, describing the support provided to the Board.

In the area of risk management and monitoring, the Audit & Risk Committee provided opinions on, among other things:

- drafting of the Institute’s Annual Report, as well as additional documents and information concerning the economic, equity and financial situation of the Institute, including its operating results and financial statements;
- the effectiveness of the IOR’s internal systems and controls, including reporting processes, risk management systems, the risk management strategy and the Institute’s risk appetite framework;
- the competence, independence and work of the external auditor;
- effectiveness of audit processes;
- the competence, independence and performance of the internal control functions;
- significant unanticipated losses, fraud and the overall efficiency and effectiveness of the IOR’s activities;
- the efficiency and security of the Institute’s IT systems and the potential risk associated with them;
- asset management results and risk appetite.

The Board of Superintendence in office on the date of approval of the 2024 financial statements is composed of the following members:

Jean-Baptiste de Franssu (President), Javier Marin Romano (Vice-President), Michael Hintze, Georg von Boeselager, Bernard Brenninkmeijer, François Pauly and Sheila Marie L. Uriarte-Tan.

The members of the Board of Superintendence were selected on the basis of merit from among persons who: (i) have acquired, in the State or in a foreign State considered equivalent to the State, specific expertise in areas related to the financial or investment sector and (ii) have adequate knowledge and understanding of the specific institutional, legal, economic, commercial and professional framework of Holy See and the State.

For information on the expertise of the members of the Board, please refer to the information provided on the Institute's website at <https://www.ior.va/consiglio-di-sovrintendenza/>.

1.2 Director General

Pursuant to Article 23 of the Statute: "The Director General is responsible for the management and control, in line with the strategic guidelines and policies defined and approved by the Superintendence Board, of all activities concerning: a) the administration, management, and organisation of the Institute, and b) the recruitment and management of staff."

The Director General proposes the business model according to which the Institute must manage its financial activities, including their classification and valuation, and directs and coordinates the activities to be undertaken by the CFO for the implementation of the programs and objectives established with reference to investments and other activities.

Based on the guidelines set forth by the Board of Superintendence, the Director General establishes the risk management and monitoring methodologies, and their implementation and integration as proposed by the Control Functions Committee, and decides on any changes and additions.

The Director General monitors risk exposure on a daily basis through reports produced by the Risk Management Department and is informed promptly by the department when financial management limits are exceeded, and can request an emergency meeting of the Control Functions Committee.

In the event of limits being exceeded, the Institute has defined an escalation process to ensure timely recovery, involving different levels of governance - including the Board of Superintendence - depending on the significance of the event. The Director General defines, where necessary, additional and specific procedures for managing the breach: i) he may authorise the exceeding of the limits, indicating the period for which the authorisation is granted; ii) he may request the preparation of a recovery plan from the head of the operational area involved.

1.3 Control Functions Committee

The Control Functions Committee, chaired by the Director General and composed of the heads of the Internal Audit, AML/CFT Compliance and Risk Management Departments, deals with control and risk management issues, in particular by assessing the risks relevant to the Institute, the deficiencies identified in the internal control system and the progress made in implementing corrective actions to mitigate risks.

The tasks of the Control Functions Committee are:

- monitor and assess the risks relevant to the Institute, including the main risks arising from non-compliance with rules and regulations that may lead to sanctions or damage the Institute's reputation, highlighting the corrective actions agreed to mitigate such risks;

- enable coordination among the control functions in planning and carrying out control activities;
- examine the results of the monitoring activities carried out by the first, second and third level units, by the Supervisory Authority and by the independent auditors;
- examine the results of the monitoring activities carried out in the area of IT risks and by the delegated persons as per Law no. LIV, analysing any incidents in order to understand their causes and plan corrective actions;
- analyse the progress of corrective actions, highlighting any delays in their implementation;
- deliberate on risk acceptance proposals, submitted by the person responsible for the corrective action, if the corrective actions are not deemed feasible from a cost/benefit perspective, providing the reasons supporting the proposal;
- make proposals to the Board of Superintendence for the definition of the Risk Appetite Framework, defining a limits structure for the Institute's operational areas;
- analyse RAF metrics;
- review the reports produced by the Control Functions;
- examine the ICAAP report on the Institute's capital adequacy;
- examine the business continuity plan presented by the Business Continuity Manager (BCM);
- decide, on the proposal of the CFO, in the event of stress situations, on the disposal of financial assets held in the Held to Collect portfolio.

The organisational aspects of the Control Functions Committee are governed by a specific regulation.

1.4 Crisis Committee

The Crisis Committee is chaired by the Director General and is composed of the Business Continuity Manager, the heads of the Finance and Customer Areas, the Risk Management, Human Resources and Organisation Departments, and the IT Department; its operation is governed by a specific regulation.

The Crisis Committee supports the Director General in managing crisis situations and making the necessary decisions to ensure the safety of staff and the prompt restoration of the Institute's critical processes, while limiting the economic and operational impact. It meets not only in the event of a crisis, but also under normal circumstances, for example to manage the Institute's business continuity plan.

In the event of a crisis, the Committee:

- assesses the impact of the event, with the support of the BCM and the support team;
- defines the crisis event management plan and the recovery plan;
- proposes the most appropriate external communication strategy;
- monitors the evolution of the crisis;
- evaluates the information to be provided to the Board of Superintendence;
- defines the communication to be made to ASIF/EPC;
- assesses the medium- and long-term threats and opportunities arising from the crisis, as well as any improvements to be implemented after the crisis has been resolved.

In addition, the Committee meets periodically in order to:

- approve the measures necessary for the development of the business continuity plan;
- approve formal updates to the Plan;
- define the communications to be sent following updates to the Plan.

1.5 Security and Continuity Office

The Security and Continuity Office reports hierarchically to the Director General. The Office proposes and implements the Institute's logical and physical security policies. It is also responsible for the following tasks:

- governing the response to physical and IT security incidents;
- assessing the degree of vulnerability to threats to the information system;
- overseeing the Disaster Recovery Plan and proposing the Business Continuity Policy;
- proposing innovative technological solutions in the field of IT security;
- assessing the security requirements of new products and processes;
- assess the Institute's exposure to IT risk;
- define and monitor the implementation of logical security measures;
- manage the Security Operation Centre;
- overseeing the management of risks related to physical security;
- contribute to the dissemination of a culture of risk prevention.

1.6 Risk Management Department

The Risk Management Department is responsible for implementing, validating and maintaining the system for measuring and controlling risk exposure and performance; it also has the following tasks:

- submit to the Control Functions Committee issues related to the Institute's exposure to market, credit, liquidity, operational and reputational risks, proposing methodologies, instruments and processes for the management of those risks;
- observe the market, credit and liquidity risks and trading activity performance of IOR securities on a daily basis, preparing specific reports for the Board, the Director General and the Finance&Treasury Department;
- monitor compliance with the risk indicators outlined in the Risk Appetite Framework approved by the Board of Superintendence, preparing specific reports;
- monitor compliance with the Risk Appetite Framework and with the business model defined on the basis of international accounting standards in the management of financial assets;
- monitor adherence to operational limits in the Institute's trading activity, promptly informing the Director General, the CFO and the departments concerned of any overruns. When limits are exceeded, it can request an emergency meeting of the Control Functions Committee;

- calculate capital requirements in compliance with regulatory requirements;
- support the Finance&Treasury Department, together with the Accounting Office, in carrying out analyses for the classification and valuation of financial instruments according to the requirements of the chosen business model Held to Collect, Held to Collect and Sell, Other/Trading (FVTPL);
- monitor, within the scope of controls for which it is responsible, the execution of the SPPI test provided by the Finance&Treasury Department;
- monitor the respect of the risk and maturity limits and the defined frequency and significance thresholds in case of sale of securities of the Held to Collect portfolio,
- support the business functions in identifying and managing operational risks and consolidate the related information for reporting to the Director General, the Control Functions Committee and the Board of Superintendence;
- periodically monitor the risk mitigation actions taken by the business functions on the main operational risks identified.

The Risk Management Department reports the results of its monitoring activities to: the Board of Superintendence, the Director General, the Asset Management Committee, the Finance Investment Committee, and the Control Departments Committee.

1.7 Compliance, AML and CFT Department

The Compliance Department oversees the management of non-compliance risk according to a risk-based approach. In particular, it is responsible for managing the risk of non-compliance with the most important regulations, such as those relating to financial activity and intermediaries, anti-money laundering, anti-terrorism financing and management of conflicts of interest.

Pursuant to Article 29 of ASIF Regulation no. 1/2015, the Compliance Department performs the following tasks:

- identifies the rules applicable to the Institute, the activities it carries out and the services it provides, and assesses their impact on internal processes;
- verifies compliance with external regulatory and self-regulatory requirements;
- proposes organisational and procedural changes aimed at ensuring adequate monitoring of non-compliance risks;
- monitors the effectiveness of the organisational adjustments suggested for the prevention of non-compliance risk;
- prepares information flows to the relevant bodies and Departments/structures of the Institute;
- provides advice and assistance in all matters where the risk of non-compliance is significant;
- collaborates in staff training regarding the application of regulations on the activities carried out by the Institute.

1.8 Internal Audit Department

As indicated in Article 29 of the General Regulations of the IOR and in line with the provisions of Article 31 of ASIF Regulation no. 1/2015, the Internal Audit Department verifies the evolution of risks, completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, submitting proposals for improvements to the Institute's governing bodies.

The Internal Audit Department:

- evaluates the completeness, adequacy, functionality and reliability of the system of internal controls, including its ability to detect errors and irregularities;
- assesses the effectiveness and efficiency of operational processes;
- assesses the effectiveness of the RAF definition process, the internal consistency of the overall framework and the compliance of operations with the RAF;
- verifies the regularity of operations of the Offices;
- assesses the organisation, powers and responsibilities of the Risk Management Department and the Compliance Department.

As indicated in Article 29 of the IOR General Regulations and in line with the provisions of Article 27 par. 3 ii) of ASIF Regulation no. 1/2015, Internal Audit reports to the Board of Superintendence.

2. Risk control system

Risk governance and control activities are part of the Institute's broader internal control system, which is governed by internal regulations, aimed at ensuring sound and prudent management based on the principles of effectiveness, efficiency, transparency and fairness.

The internal control structure is based on current legislation and the regulations established by the Financial Supervision and Information Authority (ASIF), pursuant to ASIF Regulation no. 1/2015 on the prudential supervision of entities professionally engaged in financial activities in implementation of Title III of Law no. XVIII of 8 October 2013 on 'Transparency, supervision and financial information'.

The risk management and control processes aim to ensure that the value generated by the Institute is characterised by reliability and sustainability, safeguarding the financial soundness and reputation of the Institute and providing a transparent representation of the risks assumed. In particular, the risk control system aims to:

- identify methods for measuring/assessing and managing all types of risk to which the Institute is exposed in light of the activities it carries out, with a view to pursuing informed governance;
- verify compliance with the limits set on risk-taking, ensuring that operations are consistent with the assigned risk objectives;
- monitor the adequacy of capital in relation to the risks assumed.

The internal control system, in implementation of the guidelines provided by current legislation and bearing in mind best practices in the sector, is based on the following guiding principles:

- clear allocation of tasks and responsibilities;
- separation and independence of control Departments from operational Departments;

- identification of control activities at each operational level (so-called line, second-level and third-level controls); organisational procedures formalise these controls;
- dissemination of a culture of control and sharing of a risk/control language at all levels of the organisation;
- awareness of the risks assumed, through the identification, measurement and monitoring of all types of risk, assumed or assumable, deemed relevant; the risk assessment conducted periodically for AML and ICT security is a sound example of this;
- consistency in the definition and adoption of assessment methods and tools, pursuing the consistent use of taxonomies, metrics and qualitative-quantitative methodologies;
- communication between control Departments and corporate bodies that is as direct as possible and without restrictions or intermediaries, to ensure that any anomalies found, if significant, are promptly brought to the attention of the appropriate hierarchical levels and dealt with swiftly;
- adoption of reliable information systems providing the data and information necessary for recipients to perform their duties in a timely manner and with an appropriate level of detail.

Primary responsibility for the governance of the internal control system and its proper functioning lies with the Institute's bodies and departments; specific control tasks are assigned to the internal departments responsible for monitoring specific risk areas and/or operational areas.

In particular, each organisational unit is required, within its area of competence, to ensure the proper conduct of operations by carrying out line controls.

The internal control system is periodically reviewed and adjusted in relation to developments in operations and the reference context. The assessment of the adequacy and effectiveness of the internal control system, both as a whole and in its main components, is the responsibility of the Internal Audit Department.

Within the internal control system, risk and compliance controls ("second-level controls") are designed, among other things, to ensure the effective implementation of the risk management process, define criteria and methodologies for measuring risk exposure, verify compliance with the operational limits assigned to the various Departments, and ascertain the compliance of business processes with legal and supervisory requirements. These control activities are carried out by Departments that are separate and independent, from an organisational point of view, from the units responsible for risk-taking.

3. Consistency between the overall risk profile and the Institute's strategies

The IOR's Risk Appetite Framework (RAF) defines risk appetite, tolerance thresholds, risk limits and risk governance policies in line with the maximum risk that can be assumed, the business model and the Institute's strategic plan.

The steps for identifying risk objectives and related tolerance levels are governed by the Risk Appetite Framework Management Procedure, as follows:

- Formulation of the IOR's risk philosophy through the definition of guiding principles for risk management aligned with the Institute's mission; this activity is reserved for the Board of Superintendence;
- Determination of risk appetite (risk appetite statement) for each type of risk underlying the guiding principles of risk management. This activity is reserved for the Institute's top management, in particular the Board of Superintendence, which evaluates and approves the proposals made by the Director General;

- Definition of metrics for quantifying risk in order to monitor the risk assumed (risk profile). This activity is reserved for the Board of Superintendence, which evaluates and approves the proposals put forward by the Director General and Risk Management; the metrics are formalised in the RAF document;
- Identification for each metric of the desired limit value (risk appetite), the permitted deviation from the limit value (risk tolerance) and the maximum risk exposure that can be assumed (risk capacity) before incurring operational discontinuity or violating regulations. This activity is reserved for the Board of Superintendence, which evaluates and approves the proposals put forward by the Director General and Risk Management; the metrics are formalised in the RAF document;
- Definition of mechanisms to keep the Institute within the desired risk profile. This activity is reserved for the Director General on the proposal of the Risk Management Department.

In accordance with supervisory provisions, the IOR has defined the methods for linking the Risk Appetite Framework (RAF) with the business model pursued. Below are some key examples of the connection between the Institute's overall risk profile and the strategies pursued.

Management decisions and annual and multi-year strategic guidelines are defined in compliance with the capital adequacy, liquidity and risk-taking constraints established by the RAF for the forward-looking horizon.

The Board of Superintendence monitors compliance with risk appetite by comparing risk objectives and permitted tolerance with the values assumed by the RAF metrics. Based on the monitoring activity carried out in 2024, the IOR's risk profile was consistent with the company's objectives and strategy.

The risk governance guidelines and their qualitative and quantitative interpretation through risk appetite parameters – both expressed by the Board of Superintendence – form the basis for identifying the objectives and priorities to be implemented within the planning horizon.

On an annual basis, a process of interaction is activated between the definition of guidelines – annual budget or multi-year plan – and the desired (risk appetite) and tolerated (risk tolerance) risk profiles in the various areas monitored by the RAF. Taking into account the results of these analyses, the Institute's risk appetite is calibrated where necessary to maintain consistency between risk appetite and objectives.

The assumptions made for the planning of activities are subject to sustainability analysis with regard to the maintenance of financial and capital balance, in order to ensure consistency with the constraints of capital adequacy and financial structure of liabilities, financial leverage, asset quality, liquidity, profitability and risk-taking specified in the Risk Appetite Framework.

The degree to which the objectives defined during planning have been achieved is verified when monitoring compliance with risk objectives. If the risk metrics show significant deviations, corrective measures are identified and implemented to bring them back within the defined thresholds.

With regard to transactions and activities of particular economic, financial and equity significance carried out during 2024, there were no transactions that could significantly affect the financial position or results for the year; the same considerations apply to transactions with related parties.

For a comprehensive overview of the most significant economic, financial and equity activities that characterised the 2024 financial year, please refer to the IOR financial statements for the year 2024 (<https://www.ior.va/content/ior/it.html>).

SECTION 2 - SCOPE (G)

This disclosure refers to the Institute for Religious Works (hereinafter, the “Institute” or “IOR”), registered under no. 1 in the Register of Legal Entities held by the Governorate of Vatican City State, authorised to carry out professional financial activities in Vatican City State pursuant to authorisation no. 1 of 10/07/2015 issued by the Financial Supervision and Information Authority.

100% of S.G.I.R. S.r.l. and 29.5% of Ste Immobiliere Bourbonnaise are 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 subsidiaries are negligible compared to those of the Institute; therefore, the consolidated financial statements would not differ significantly from the Institute’s financial statements.

Therefore, given the negligible value of the investee companies, the Institute does not prepare consolidated financial statements for the 2024 financial year, in accordance with the provisions of the IAS/IFRS Conceptual Framework (QC6-QC11).

SECTION 3 - OWN FUNDS (H)

1. Equity

The Institute’s equity represents the total resources contributed by the owners or generated by management with the aim of creating value.

In managing its own capital (a much broader concept than the net assets shown in the financial statements and consistent with the regulatory aggregate, characterised not only by own funds in the strict sense), the Institute pursues the following objectives:

- to safeguard its ability to continue its activities so that it can provide benefits to all stakeholders;
- to support the development of its business.

The Institute pursues its objectives of safeguarding its assets both in its planning processes, through the analysis of the risks associated with planned activities, and in its monitoring processes, through the analysis and control of limits.

Asset management takes into account the capital requirements of the current prudential regulatory regime.

Asset composition	2024	2023
1. Capital	300,000	300,000
2. Reserves		
Earning reserves		
(i) Unavailable	100,000	100,000
(ii) Available	348,200	331,202
(b) Other	1,629	1,498
3. Equity instruments		
4. Valuation reserves		
(a) Financial asset at fair value through other comprehensive income	(36,877)	(71,416)
(b) Tangible assets		
(c) Intangible assets		
(d) Hedging of foreign investments		
(e) Cash flows hedging		
(f) Hedging instruments (non-designated items)		
(g) Exchange differences		
(h) Non-current assets held for sale		
(i) Financial liabilities at fair value through profit or loss (change in credit rating)		
(j) Actuarial gains (losses) on defined benefit plans	(18,779)	(23,432)
(j.1) Return on Assets related to defined-benefit plans	4,983	(889)
(k) Share of valuation reserves connected with investments carried at equity		
5. Profit (loss) for the year	32,760	30,598
Total	731,916	667,561

The Capital, clearly identified within the Net Equity, represents a permanent endowment that cannot be reduced or distributed except in the event of the liquidation of the Institute.

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

Available Reserves are the first line of protection for Capital. Available Reserves increased during 2024, as a result of the allocation of a portion of the 2023 net result. Specifically, when distributing the 2023 net profit, EUR 17.0 million was allocated to the Institute's reserves.

Other Reserves consist of the First-Time Adoption Reserve created on 1 January 2018 in order to achieve the equity impacts arising from the first-time adoption of accounting standard IFRS 9-*Financial instruments*.

Other Reserves also include realised profit of equity securities not held for trading, for which the entity applies the option allowed by the standard to measure the assets at fair value through other comprehensive income (“FVOCI option”).

Valuation Reserves for financial assets at fair value through other comprehensive income represent the net fair value gain/loss recognised on debt securities managed according to the Held to Collect and Sell business model that pass the SPPI test and on equity securities designated at fair value through other comprehensive income.

Valuation Reserves for actuarial gains (losses) on defined benefit plans represent the actuarial unrealised gain or loss related to the two post-employment benefit plans. These Reserves also include the Return on the Assets related to the defined benefit Pension Fund.

2. Own equity and prudential supervisory ratios

Capital is defined by Article 3(8) of ASIF Regulation no.1 as the funding capital initially provided or subsequently integrated by the Holy See or Vatican City State, and:

- it is paid in pursuant to the legislation of the Holy See and Vatican City State;
- it is clearly and distinctly identified in the financial statements;
- it cannot be reduced or distributed, except in the case of cessation or liquidation of the entity, ensuring that it is distributed proportionally to legitimate creditors, in accordance with the legislation of the Holy See and Vatican City State, and it is acquired by the Apostolic See.

For regulatory purposes, the term “Capital” shall be considered equivalent to “core capital”.

Supplemental Capital is defined by Article 3(68) of ASIF Regulation no. 1 as the sum of retained earnings, accumulated as other comprehensive income and other reserves.

Common Equity is defined by Article 3(12) of ASIF Regulation no. 1 as:

- the sum of the following positive components:
 - a. the Capital;
 - b. the Supplemental Capital;
- deducting the following components:
 - a. goodwill;
 - b. intangible assets;
 - c. adjustments to the value of receivables;
 - d. losses recognised in previous financial periods and in the current period;
 - e. adjustments to the regulatory value of assets measured at fair value.

For regulatory purposes, “common equity” is considered equivalent to “common equity tier 1”.

Regulatory capital consists of common equity and is calculated by the Institute on a monthly basis.

Common Equity at the end of 2024 amounted to EUR 694 million (2023: EUR 632.9 million).

Considering the items comprising the Institute's equity, the sole prudential filter in common equity is applied to the positive fair value reserve relating to debt securities at fair value through other comprehensive income that are managed according to the Held to Collect and Sell business model and positive fair value reserve relating to equity securities designated at fair value through other comprehensive income having utilised the "FVOCI option". These reserves are computed using a negative prudential filter, for an amount of 50%. As at 31 December 2024, the prudential filter relates to FVOCI equity securities and Pension Plan Assets equity and bond securities.

Prudentially, in the calculation of the Regulatory Capital 2024, the Net Profit for the year was not included.

Own equity	2024	2023
A. Positive components		
1. Capital	300,000	300,000
2. Supplemental Capital		
(a) Retained earnings		
(i) Unavailable	100,000	100,000
(ii) Available	348,200	331,202
(iii) Others	1,629	1,498
(b) Provisions		
(c) Reserves	(50,673)	(95,737)
3. Positive prudential filter IAS/IFRS		
B. Negative components		
1. Goodwill		
2. Intangible assets	(1,560)	(2,154)
3. Impairments on loans		
4. Losses recognised in previous years and in the current year		
5. Regulatory downs of assets carried at fair value		
6. Negative prudential filter IAS/IFRS	(3,641)	(1,860)
Common Equity	693,955	632,949

SECTION 4 - OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURES (I)

The Risk Management Department verifies the prudential supervisory ratios in order to ensure compliance with regulatory requirements.

The table below shows the data on capital requirements at the end of 2024 compared with the corresponding figures for the previous year.

Category/Amount	Unweighted amounts		Weighted amounts/ Capital requirements	
	2024	2023	2024	2023
A. Risk assets				
A.1 Credit and counterparty risk				
1. Standardised approach	2,411,404	2,337,088	862,225	934,590
2. Internal ratings-based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. Regulatory capital requirements				
B.1 Credit and counterparty risk			68,978	74,767
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach			3,992	4,072
2. Internal model				
3. Concentration risk				
B.5 Operational risk				
1. Basic indicator approach			6,992	5,861
2. Standardised approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			79,962	84,700
C. Risk-weighted assets and capital ratios				
C.1 Risk-weighted assets			999,524	1,058,750
C.2 Capital/ Risk-weighted assets			30.01%	28.34%
C.3 Common equity/Risk-weighted assets (Tier 1)			69.43%	59.78%

The increase in the Tier 1 ratio compared to the end of the previous year is mainly due to the increase in Common Equity for the improvement of the reserves of securities at Fair Value Through OCI and for the allocation of a portion of the 2023 net result. There was also a decrease in credit, counterparty and market risk.

Accordingly, securities subject to credit and counterparty risk increased from EUR 2.3 billion at the end of 2023 to EUR 2.4 billion at the end of 2024 with a Capital Requirement at around EUR 69 million compared to EUR 75 million in previous year; the improvement in this requirement is also linked to the improved credit quality of the issuers in the portfolio, mainly investment grade Euro area government bonds. Conversely, the Capital Requirement related to market risk decreased slightly from EUR 4.1 million in 2023 to EUR 4.0 million in 2024.

In line with this, Capital/Risk-weighted assets reached 30.01% and Common equity/Risk-weighted assets reached 69.43%.

The prospective capital adequacy analysis is carried out during the ICAAP; the assessments are made according to two main perspectives:

- Regulatory perspective: this involves a multi-year assessment of the Institute's ability to meet regulatory requirements and supervisory requirements relating to available capital. This perspective considers the impact of all risks relevant to the Institute's capital, not limited to those covered by Pillar I requirements.
- Economic perspective: this complements the regulatory perspective and focuses on the Institute's ability to address, with adequate capital resources, all material risks that could generate economic losses and reduce total available capital (Pillars I and II). In this view, the Institute ensures that it adequately covers risks with capital commensurate with its internal concept of capital adequacy.

Pillar I establishes the minimum capital requirements for the following risks:

- Credit risk: The Institute calculates the capital requirement for credit risk, including counterparty risk, using the standardised approach, which involves applying risk weights to exposures according to their classification (counterparty risk, default risk, etc.), based on credit quality (ratings or risk classes).
- Market risk: Market risk is calculated separately for general risk and specific risk for both bonds and equities, in accordance with the regulations. This approach is adopted to determine capital requirements relating to fluctuations in financial market prices.
- Operational risk: Capital adequacy for operational risk is calculated using the Basic Indicator Approach (BIA), which involves applying a fixed percentage (15%) to the Institute's net interest margin over the last three years. This method provides an estimate of the capital needed to cover potential losses arising from unexpected operational events.

Pillar II concerns the analysis and management of risks not considered in Pillar I, but which are essential for a complete assessment of the Institute's capital adequacy.

The main risks analysed under Pillar II are:

- Interest rate risk: the Institute identifies the capital required to cope with any interest rate fluctuations that adversely affect the value and profitability of the assets and liabilities held by the Institute.
- Concentration risk: the Institute analyses the concentration of credit risk (e.g. whether a large segment of customers or a specific sector presents a high risk) and determines the capital required to cover any losses due to this risk.

- Reputational/strategic risk and other non-quantifiable risks: in determining risk capital, the Institute also takes into account intangible risks, such as reputational or strategic risk, which may not be directly measurable but which have a significant impact on operations and capital.

The Institute uses basic methods (known as standard methods or basic methods) to manage relevant risks, both Pillar I (basic risks) and Pillar II (additional risks).

In both perspectives, regulatory and economic, the assessment time horizon is three years. The metrics used to analyse the Institute's capital adequacy refer to:

- Internal capital: the capital required to cover losses relating to a specific risk that the Institute considers significant.
- Total Internal Capital: this represents the amount of capital needed to cover all the risks assumed by the Institute, both current and prospective, including any capital requirements due to strategic considerations.
- Regulatory capital: this is the total capital resources that can be used to cover capital absorption resulting from the quantification of risks.

Measurements of the degree of exposure to risks, carried out both currently and prospectively, as well as under stress conditions, make it possible to determine the internal capital requirements necessary to adequately address the above-mentioned risks.

The Total Internal Capital is then compared with the Regulatory Capital to ensure that all risks are fully covered. In order to safeguard the stability of the Institute, at the RAF operational metrics level, a minimum level of Regulatory Capital not allocated to cover risks (Free Capital) is required to ensure adequate capitalisation, even in the event of unexpected shocks.

At the end of the ICAAP process, the Board of Superintendence verifies that the Institute has adequate regulatory capital to cover the capital requirements associated with the material risks to which the Institute is exposed, both in the final balance sheet and in the baseline and stress scenarios, taking into account the expected developments in the Institute's activities.

The maintenance of capital adequacy is verified periodically by monitoring the Institute's operating performance and risk exposure.

The capital adequacy targets and thresholds identified in the Risk Appetite Framework (RAF) are used as a reference to assess the adequacy of the Institute's capital requirements determined in the ICAAP, both in current and prospective terms, as well as in adverse scenarios, in line with the minimum regulatory requirements and additional supervisory constraints applicable.

The Institute reports the results of the ICAAP process to the Supervisory Authority on an annual basis.

SECTION 5 - CREDIT AND COUNTERPARTY RISK EXPOSURES (J+L+N)

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

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

It should be mentioned that the Institute's lending activity is residual and strictly subject to the constraints of ASIF authorisation and the limits established by the Board of Superintendence.

In general, the main sources of credit risk derive from investments in bonds, mainly issued by governments, financial institutions, and corporations classified as "Investment Grade", as well as deposits with banks.

At the end of 2024, the bond securities portfolio amounted to EUR 2.1 billion, with an average duration of 1.98 years, including liquidity, and had a high credit standing (96% investment-grade). The portfolio is composed of government bonds issued by major European countries (core and peripheral), the United States and, residually, by non-OECD countries, as well as financial and corporate bonds.

To measure credit risk, the IOR adopts the standard methodology defined in Articles 63-89 of ASIF Regulation no. 1/2015. However, internal models are not used at either the individual or portfolio level.

1. Credit risk management policies

1.1 Organisational aspects

The credit risks related to proprietary investment activity, as already disclosed, concern almost all of the credit risk of the Institute and are managed by the Finance&Treasury Department, which is responsible for operational risk-taking.

In particular, the risk assumption process involves the following corporate bodies:

- the Board of Superintendence, which approves the Budget, the RAF and investment portfolio risk profile;
- the Director General, who, through the CFO, delegates the operational management of market and credit risks to the Finance&Treasury Department, within the limits defined by the Risk Appetite Framework and the predetermined operational limits;
- the Finance&Treasury Department, which assumes credit risk in its operations in compliance with defined limits; the assumption of credit risk for amounts greater than the predetermined limit assigned to the Department requires the authorisation of the CFO, the Director General or the Board of Superintendence;

- the Control Functions Committee, which supports the Director General in establishing a system of credit risk management and monitoring, defining operational limits, analysing any overruns and evaluating authorisations of exceeded limits;
- the Risk Management Department, which monitors compliance with operational limits, promptly reporting any unauthorised overruns to the Director General.

1.2 Management, measurement and control systems

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

This methodology provides for the definition of:

- a list of counterparties with whom the Finance&Treasury Department is allowed to engage. For each counterparty, the type of risk that the Institute can assume and the maximum amount of exposure are defined;
- credit risk quantification criteria for each financial instrument, distinguishing between counterparty risk, issuer risk and cash risk.

To quantify the maximum amount of exposure to each counterparty, the method utilises an internal rating, defined on the basis of the credit ratings assigned by the main international rating agencies.

1.3 Expected loss measurement models

The Institute has developed a methodology for measuring the expected loss in line with accounting standard IFRS 9 - Financial Instruments, differentiating between the main types of debtors and financial assets to which credit exposures relate. In particular, with regard to advances, credit lines and overdrafts, two categories of customers have been identified: "Consumers" and "Non Profit". For other exposures (debt securities and deposits), the categories "Corporates", "Financials" and "Sovereigns" have been identified.

For each category, the Institute has defined the methodological criteria and has estimated accordingly the credit parameters relating to the "Probability of Default" (PD), "Loss Given Default" (LGD) and "Exposure at Default" (EAD) using a combination of internally observed historical data (in particular for the Consumer and Non Profit categories) and external data taken from official and public databases.

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

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

The use of expected annual or multi-period losses depends on the stage of each credit exposure, i.e. the existence of signs of significant deterioration in creditworthiness. In order to determine the stage of exposure, the Institute considers both historical and, as far as possible, prospective data and information. In practice, for the categories “Consumers” and “Non Profit”, the main indicator considered is the number of past-due days.

1.4 Credit risk mitigation techniques

The Institute uses permitted credit risk mitigation techniques to calculate the capital requirement, as defined by Article 81 et seq. of ASIF Regulation no. 1/2015, in continuity with the previous year.

The mitigation was applied to loans granted and secured by pledges on clients’ financial assets deposited with the IOR, resulting in a lower incidence of credit risk expressed in RWA (Risk-Weighted Assets).

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

2. Non-performing financial assets

2.1 Strategies and policies for managing non-performing financial assets

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

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

The same happens for guarantees issued by IOR and covered by assets held in custody.

2.2 Write-off

When a loan becomes uncollectible, it is written off.

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

Regarding loans to customers, the Client Area periodically analyses all exposures and submits to the Director General a proposal on how to manage aged loans at risk of becoming uncollectible. In particular, if the balance is deemed to be collectible within a short period, no analytic impairment loss is recognised, but the trend is monitored; if the balance is deemed to be collectible over the mid/long term, an analytic impairment loss is recognised; if the positions are past due and uncollectible, even after appropriate action by the legal department, the Client Area proposes to the Director General to write off the amount as a loss on loans.

2.3 Purchased or originated credit-impaired financial assets

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

The Institute qualifies as a POCI:

- the purchase of non-performing loans;
- new loans to customers that are already classified as non-performing;
- material contractual changes that lead to the derecognition of the existing credit and the recognition of a new credit to a customer in a non-performing condition;
- acquisition of non-performing loans in the context of a business combination transaction under IFRS 3.

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

POCI impairment is always based on the ECL lifetime methodology.

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

During 2024, as in 2023, the Institute did not hold any POCI assets.

2.4 Credit quality

Financial assets included in this section do not include equity securities and UCI units.

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

Breakdown of credit exposures by portfolio classification and credit quality (carrying values)

	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at fair value through other comprehensive income					1,380,346	1,380,346
2. Financial assets at amortised cost	-	2,401	-	-	876,167	878,568
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets being disposed						
Total 2024	-	2,401	-	-	2,256,513	2,258,914
Total 2023	-	5,877	-	-	2,208,868	2,214,745

Bad loans are shown at zero value as they have been fully impaired.

Unlikely to pay loans comprise two partially impaired positions relating to loans granted prior to 2014. For one of these positions, in 2023, the Institute concluded a restructuring agreement, which is covered by the rules on non-performing forborne exposure (more details in Part 1, Accounting Policies).

No non-performing past due exposures are present at the closing date of these financial statements.

Performing past due exposures are loans classified as stage 2.

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

	Non-performing assets			Performing assets			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at fair value through other comprehensive income				1,380,936	(590)	1,380,346	1,380,346
2. Financial assets at amortised cost	12,753	(10,352)	2,401	877,018	(851)	876,167	878,568
3. Financial assets designated at fair value							
4. Other financial assets mandatorily at fair value							
5. Financial assets being disposed							
Total 2024	12,753	(10,352)	2,401	2,257,954	(1,441)	2,256,513	2,258,914
Total 2023	14,307	(8,430)	5,877	2,210,637	(1,769)	2,208,868	2,214,745

	Assets with markedly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading			34,676
2. Hedging derivatives			
Total 2024			34,676
Total 2023			36,322

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

	Stage I			Stage II			Stage III		
	From 1 to 30 days	Over 30 and up to 90 days	Over 90 Days	From 1 to 30 days	Over 30 and up to 90 days	Over 90 Days	From 1 to 30 days	Over 30 and up to 90 days	Over 90 Days
Financial assets at amortised cost	-		-	-			-		102
Financial assets at fair value through other comprehensive income									
Total 2024	-	-	-	-	-	-	-	-	102
Total 2023	-	-	-	-	-	-	-	-	110

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

	Overall write-downs								Total provisions on loans commitments and financial guarantees granted	Total		
	Stage I Financial assets		Stage II Financial assets		Stage III Financial assets		Of which: acquired or originated impaired financial assets	Stage I			Stage II	Stage III
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income Of which: individual impairment	Of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income Of which: individual impairment	Of which: collective impairment						
Opening balance (gross amount)	926	844	1,769			8,430	8,430			1,699	11,899	
Increases in acquired or originated financial assets						534	534				534	
Reversals different from write-offs												
Net losses/ (recoveries) on credit impairment	(73)	(264)	(335)			1,388	1,388				1,051	
Contractual changes without cancellation												
Changes in estimation methodology												
Write-off												
Other changes	(2)	10	8								8	
Closing balance (gross amount)	850	590	1,442			10,352	10,352			1,699	13,491	
Recoveries from financial assets previously written off												
Write-off recognised directly through profit or loss												

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

	Gross exposure		Individual adjustments	Net exposure	Write-off
	Non-performing assets	Performing assets			
A. On balance sheet exposures					
a) Bad loans					
- of which: forborne exposures					
b) Unlikely to pay					
- of which: forborne exposures					
c) Non-performing past due exposures					
- of which: forborne exposures					
d) Performing past due exposures					
- of which: forborne exposures					
e) Other performing exposures		648,685	600	648,085	
- of which: forborne exposures					
Total A		648,685	600	648,085	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing					
Total B					
Total A+B		648,685	600	648,085	

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

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

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

	Gross exposure		Individual adjustments	Net exposure	Write-off
	Non-performing assets	Performing assets			
A. On balance sheet exposures					
a) Bad loans	3,389		3,389	-	
- of which: forbore exposures					
b) Unlikely to pay	9,364		6,963	2,401	
- of which: forbore exposures					
c) Non-performing past due exposures					
- of which: forbore exposures					
d) Performing past due exposures					
- of which: forbore exposures					
e) Other performing exposures		1,643,947	843	1,643,104	
- of which: forbore exposures					
Total A	12,753	1,643,947	11,195	1,645,505	
B. Off-balance sheet exposure					
a) Non-performing					
b) Performing		980		980	
Total B		980		980	
Total A + B	12,753	1,644,927	11,195	1,646,485	

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

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

	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross non-performing exposures	3,736	10,571	-
- of which: exposures sold not derecognised			
B. Increases			
B.1 Transfers from performing loans	1		
B.2 transfers from other non-performing exposure categories			
B.3 other increases	170	2	
C. Decreases			
C.1 recoveries on impairment losses	(2)		
C.2 write-offs	(2)		
C.3 recoveries on repayments	(514)	(1,209)	
C.4 profits on disposal			
C.5 loss on disposal			
C.6 transfers to other non-performing exposure categories	-		
C.7 other decreases			
D. Final gross non-performing exposures	3,389	9,364	-
- of which: exposures sold not derecognised			

On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposures	10,397	
- of which: exposures sold not derecognised		
B. Increases		
B.1 Transfers from non-forborne performing exposures		
B.2 transfers from forborne performing exposures		
B.3 transfers from forborne non-performing exposures	-	
B.4 other increases		
C. Decreases		
C.1 recoveries on non-forborne performing exposures		
C.2 recoveries on forborne performing exposures		
C.3 recoveries on forborne non-performing exposures		
C.4 write-offs		
C.5 recoveries on repayments	(1,200)	
C.6 profits on disposal		
C.7 loss on disposal		
C.8 other decreases		
D. Final gross exposures	9,197	
- of which: exposures sold not derecognised		

In 2023 the Institute made a restructuring agreement subject to the rules of non-performing forborne exposures.

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

	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Initial total adjustments	3,736		4,694		-	
- of which: exposures sold not derecognised						
B. Increases						
B.1 impairment losses	-		2,806		-	
B.2 losses on disposal	1					
B.3 transfers from other non-performing exposure categories						
B.4 other increases	170					
C. Decreases						
C.1 recoveries on impairment losses	(2)					
C.2 recoveries on repayments	(514)		(537)			
C.3 profits on disposal						
C.4 write-offs	(2)					
C.5 transfers to other non-performing exposure categories						
C.6 other decreases						
D. Final total adjustments	3,389		6,963		-	
- of which: exposures sold not derecognised						

Classification of exposures based on external and internal ratings

Breakdown off and on-balance sheet credit exposures by external rating class (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
1. Financial assets at amortised cost								
- Stage I	102,929	81,173	609,052	43,150	-	-	40,714	877,018
- Stage II								
- Stage III							12,753	12,753
2. Financial assets at fair value through other comprehensive income								
- Stage I	591,123	298,446	471,061	17,362	-	-	4,715	1,382,707
- Stage II								
- Stage III								
Total on-balance sheet financial assets	694,052	379,619	1,080,113	60,512	-	-	58,182	2,272,478
of which: acquired or originated impaired financial assets								
3. Loan commitments and financial guarantees granted								
- Stage I							4,980	4,980
- Stage II								
- Stage III								
Total commitments and financial guarantees							4,980	4,980
Total	694,052	379,619	1,080,113	60,512	-	-	63,162	2,277,458

S&P ratings were used in the preparation of the above table.

The following is a reconciliation between risk classes and ratings:

Class 1 – from AAA to AA-

Class 2 – from A+ to A-

Class 3 – from BBB+ to BBB-

Class 4 – from BB+ to BB-

Class 5 – from B+ to B-

Class 6 – Others

For the analysis of the credit ratings of debtors, if only one credit rating is available from an external agency among those selected, this is assigned directly. If there are two credit ratings for the same exposure, the worst of the two is used. If there are more, the two best ratings are selected, and the worst of the two is used.

Breakdown of guaranteed credit exposures by type of guarantee

Guaranteed credit exposures to customers

	Gross exposure Net exposure		Real collateral (1)				Guarantees (2)							Total (1)+(2)	
			Real estate assets - mortgages	Real estate	Securities	Other real guarantees	Credit derivatives			Credit commitments					
							Credit Linked Notes	Other derivatives	Other Public	Banks	Other entities	Governments and Central Banks	Other Public Entities		Banks
1. Guaranteed on balance sheet credit exposures															
1.1 totally guaranteed	38,798	37,271	3,300		55,343								859		59,502
- of which non-performing	1,360	-	3,300												3,300
1.2 Partly guaranteed	1,060	991			671										671
- of which non-performing	167	102			28										28
2. Guaranteed off-balance sheet credit exposures															
2.1 Totally guaranteed															
- of which non-performing															
2.2 Partly guaranteed															
- of which non-performing															

2.5 Distribution and concentration of credit exposures

Breakdown by sector of on-balance and off-balance sheet credit exposures to customers (carrying value)

Exposures / Counterparties	Holy See/ VCS			Foreign Public Sector						Foreign Private Sector										
	Public Authorities			Foreign Public Authorities		Regional - Local Public Authorities		International Public Authorities		Other Public Entities		Financial companies		Insurance companies		Non-financial companies		Other		
	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments		
A. On-balance sheet exposures																				
A.1 Bad loans																			(3,389)	
- of which forbore exposures																				
A.2 Unlikely to pay																		2,401	(6,963)	
- of which forbore exposures																				
A.3 Non-performing past due exposures																				
- of which forbore exposures																				
A.4 Performing exposures	29,863	(137)		1,256,141	(339)							33,844	(31)	54,209	(101)	257,964	(190)	11,083	(45)	
- of which forbore exposures																				
TOTAL A	29,863	(137)		1,256,141	(339)							33,844	(31)	54,209	(101)	257,964	(190)	13,484	(10,352)	(45)
B. Off-balance sheet exposures																				
B.1 Bad loans																				
B.2 Unlikely to pay																				
B.3 Other non-performing assets																				
B.4 Other exposures																			980	
TOTAL B																			980	
TOTAL (A+B) 2024	29,863	(137)		1,256,141	(339)							33,844	(31)	54,209	(101)	257,964	(190)	14,464	(10,352)	(45)
TOTAL (A+B) 2023	29,966	(34)		1,057,066	(461)							35,917	(38)	54,268	(113)	314,368	(283)	31,317	(8,430)	(50)

Breakdown by geographical area of on- and off-balance sheet credit exposures to customers (carrying value)

Exposures / Geographical areas	HOLY SEE/VCS		EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Bad loans			-	(3,389)						
A.2 Unlikely to pay			2,401	(6,963)						
A.3 Non-performing past due exposures										
A.4 Performing exposures	29,863	(137)	1,218,923	(609)	288,855	(80)	20,429	(14)	85,034	(3)
Total A	29,863	(137)	1,221,324	(10,961)	288,855	(80)	20,429	(14)	85,034	(3)
B. Off balance sheet exposures										
A.1 Bad loans										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures										
A.4 Performing exposures			980							
Total B			980							
Total A+B 2024	29,863	(137)	1,222,304	(10,961)	288,855	(80)	20,429	(14)	85,034	(3)
Total A+B 2023	29,966	(34)	1,172,664	(9,252)	278,221	(107)	18,766	(12)	23,285	(4)

Breakdown by geographical area of on- and off-balance sheet credit exposures to banks (carrying value)

Exposures / Geographical areas	HOLY SEE/VCS		EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Bad loans										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures										
A.4 Performing exposures			569,078	(572)	60,322	(16)	8,528	(6)	10,157	(6)
Total A			569,078	(572)	60,322	(16)	8,528	(6)	10,157	(6)
B. Off balance sheet exposures										
A.1 Bad loans										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures										
A.4 Performing exposures										
Total B										
Total A+B 2024			569,078	(572)	60,322	(16)	8,528	(6)	10,157	(6)
Total A+B 2023			641,417	(748)	94,583	(26)	13,458	(8)	9,813	(8)

B.4 Large exposures

With regard to the concentration risk coming from exposures towards a counterparty, a customer or a group of connected customers, the Institute presents exposures - as defined in Article 108 of ASIF Regulation no. 1/2015 - mainly towards the Italian Republic and the Federal Republic of Germany. These exposures do not determine additional own funds requirements since a zero-weighting coefficient for credit risk is applied to them, as provided by Article 108 c. 2-ter of the ASIF Regulation no.1/2015.

2.6 Securitisation

No securitisation transactions are made by IOR.

2.7 Unconsolidated structured entities

For unconsolidated structured entities, the Institute considers externally managed investment funds when it holds a significant number of units. Indeed, the Institute does not control these funds because it does not participate in their investment decisions, either directly or indirectly, and it does not have the ability to affect their returns.

The information on the unconsolidated structured entities required by IFRS 12 - Disclosure of Interests in Other Entities is given below.

At the balance sheet date, the Institute holds external funds acquired before 2014, which were prudentially impaired during the year (2023: EUR 5.85 million). During 2024, the Fund Manager redeemed 2,409,937 units. The funds are closed-ended, i.e. they can be subscribed to by specific parties and only at certain times. The Institute does not have control over these closed-end funds.

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

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

No dividends were collected from these funds in 2024 or in 2023.

Fund Type	2024		2023	
	Balance sheet exposure		Balance sheet exposure	
	Nominal Value (quantity)	Carrying amount	Nominal Value (quantity)	Carrying amount
Open-end fund				
Closed-end fund	17,360,063	-	19,770,000	5,852
Hedge fund				
Exchange-traded fund				
Unit Investment Trust				
Fund of funds				
Seed fund				
Total		-		5,852
Underlying asset class	Balance sheet exposure		Balance sheet exposure	
	Nominal Value (quantity)	Carrying amount	Nominal Value (quantity)	Carrying amount
Equity	-	-	-	-
Debt				
Asset Allocation				
Money Market				
Real Estate	17,360,063	-	19,770,000	5,852
Commodity				
Alternative Investments	-	-	-	-
Total		-		5,852

Geographical Area	2024		2023	
	Balance sheet exposure		Balance sheet exposure	
	Nominal Value (quantity)	Carrying amount	Nominal Value (quantity)	Carrying amount
UE	17,360,063	-	19,770,000	5,852
USA				
Total		-		5,852

In 2024, the IOR provided no guidance to unconsolidated structured entities on their investment policies. The Institute has not sponsored any unconsolidated structured entities.

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

Lastly, 100% of S.G.I.R. S.r.l. and 29.5% of Ste Immobiliere Bourbonnaise are 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 subsidiaries are insignificant when compared with those of the Institute and, accordingly, the consolidated financial statements would not differ significantly from IOR's financial statements.

SECTION 6 - COUNTERCYCLICAL CAPITAL RESERVES (K)

The objective of imposing additional capital reserves above the minimum requirements established by law is to provide banks with high-quality capital resources to be used in times of market instability, so as to prevent systemic failures in the banking sector and ensure the continuity of credit. In addition, these reserves serve to address the risks arising from the systemic importance, both globally and nationally, of certain intermediaries.

In this context, the countercyclical capital buffer (CCyB) aims to protect the banking sector during periods of strong credit growth. The imposition of this buffer allows Tier 1 capital to be accumulated during periods of credit expansion, to cover losses during periods of credit contraction.

As provided for in Annex XIX to ASIF Regulation no. 1/2015 140, supervised entities must maintain a countercyclical capital buffer equal to their total risk exposure (calculated in terms of risk-weighted assets) multiplied by the specific countercyclical coefficient.

The specific countercyclical buffer for each supervised entity corresponds to the weighted average of the buffers in force in the countries where the relevant credit exposures are located. For 31 December 2024, the Financial Supervisory and Information Authority has set a countercyclical buffer rate for Vatican City State of 0% for exposures held by intermediaries to Vatican counterparties.

Specific countercyclical coefficient for the Institute at 31/12/2024	0.56%
Specific countercyclical capital buffer requirement for the Institute (Euro)	5,559,023

The following table shows the geographical distribution of credit exposures relevant for the calculation of the Institute's specific countercyclical capital buffer, as well as the main elements used to determine the amount of the buffer at the reference date.

Country	RWA (€/million)	Countercyclical coefficient (%)
Australia	3.56	1.00%
Belgium	2.77	1.00%
Canada	9.04	0.00%
South Korea	1.82	1.00%
Denmark	2.35	2.50%
Finland	4.34	0.00%
France	113.82	1.00%
Germany	59.49	0.75%
Japan	15.23	0.00%
Ireland	15.09	1.50%
Italy	274.62	0.00%
Jersey	7.44	2.50%
Luxembourg	24.71	0.50%
Mexico	2.88	0.00%
Norway	2.40	2.50%
New Zealand	2.83	2.50%
Netherlands	65.59	2.00%
Poland	2.07	0.00%
Portugal	3.54	0.00%
United Kingdom	43.15	2.00%
Czech Republic	2.78	1.25%
Spain	47.65	0.00%
Vatican City	0.00	0.00%
Sweden	3.65	2.00%
Switzerland	13.55	0.00%
Hungary	6.75	0.50%
United States	5.50	0.00%
Weighted average		0.56%

SECTION 7 - ENCUMBERED AND UNENCUMBERED ASSETS (M)

As at 31 December 2024, the transactions for which the Institute restricts part of its financial assets are:

- Securities held for access to the VISA circuit;
- Securities held for access to the SWIFT circuit.

The IOR does not carry out transactions that require the pledging of assets as collateral, such as: lending operations with a central bank, repurchase agreements, the issue of covered bonds, etc.

	Carrying amount of encumbered assets		Fair value of encumbered assets	
	010	of which notionally eligible EHQLA and HQLA 030	040	of which notionally eligible EHQLA and HQLA 050
10 ASSETS OF THE REPORTING ENTITY	2,361	-	2,361	-
030 Equity instruments	2,361	-	2,361	-
040 Debt securities				
050 <i>of which covered bonds</i>				
060 <i>of which securitisations</i>				
070 <i>of which: issued by general governments</i>				
080 <i>of which issued by financial corporations</i>				
090 <i>of which issued by non-financial corporations</i>				
120 Other assets				

	Carrying amount of encumbered assets		Fair value of encumbered assets	
	010	of which notionally eligible EHQLA and HQLA 030	040	of which notionally eligible EHQLA and HQLA 050
10 ASSETS OF THE REPORTING ENTITY	2,435,062	1,473,396	2,385,759	1,437,871
030 Equity instruments	94,139	-	94,139	-
040 Debt securities	2,144,137	1,460,257	2,094,834	1,424,732
050 <i>of which covered bonds</i>				
060 <i>of which securitisations</i>				
070 <i>of which: issued by general governments</i>	1,268,718	1,268,718	1,233,193	1,233,193
080 <i>of which issued by financial corporations</i>	552,920	-	542,868	-
090 <i>of which issued by non-financial corporations</i>	322,499	191,539	318,773	191,539
120 Other assets	199,147	13,139	199,147	13,139

Debt securities mainly comprise EHQLA and HQLA, in terms of both encumbered and unencumbered assets.

The items included under Other assets (encumbered and unencumbered) mainly consist of cash and cash equivalents, gold and coins, equity investments, tangible and intangible assets, etc. Other assets considered EHQLA relate to cash and cash equivalents.

Assets of extremely high liquidity and credit quality (EHQLA) are the “level 1 assets” referred to in Article 416 (Reporting on liquid assets), paragraph 1(b), of Regulation (EU) No 575/2013 (“CRR”); the “level 2 assets” are further divided into “level 2A assets” and “level 2B assets” in accordance with Title II, Chapter 2 of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014.

SECTION 8 - MARKET RISK EXPOSURES (O)

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

The Institute's trading portfolio has limited exposure, since the Institute prefers the Held to Collect and the Held to Collect and Sell business models. The main associated risks are interest rate risk and issuer creditworthiness risk.

Interest rate risk related to the trading portfolio arises from the Institute's trading in financial instruments, mainly on regulated markets, carried out by the Finance&Treasury Department. This risk pertains to positions in bonds, particularly fixed-rate bonds, whose value is closely linked to the trend in interest rates. In line with the budget objectives for liquidity and capital management, and with the Institute's risk threshold, the level of risk in the trading portfolio is quite low, as indicated by the short holding period.

Price risk comes from exposure to equity securities, ETFs and funds. The Institute has a low risk appetite, and its exposures derive mainly from the need to diversify the sources of return on its investments.

1. Operating procedures and methods for measuring interest rate risk and price risk

Interest rate risk and price risk are measured and managed as part of the overall system of powers and responsibilities for managing and monitoring risk.

The power to assume market risk rests with the Director General, who plays an active role in risk management and monitoring, in accordance with the guidelines issued by the Board of Superintendence. Specifically, the Director General delegates the assumption of market risk and management to the Finance&Treasury Department, through the CFO, which operates autonomously in accordance with the assigned limits and the approved budget.

The department responsible for the assumption and management of market risk is separate from the department that handles confirmation, settlement and risk monitoring.

During 2024, as well as during 2023, the Institute did not hold derivatives.

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

- Value at Risk (VaR) is defined as the maximum loss that the Institute could withstand, over a period of time, with probability equal to predetermined confidence levels, in the case of market trends adverse to the position taken;
- Expected Shortfall is defined as the average loss that the Institute could withstand in case of a VaR overrun;
- Stress Tests are defined as the loss that the Institute could withstand in case of negative events affecting the main risk indicators (equity prices and indexes, interest rates, currency rates, credit spread), analysed independently and as established by the Risk Appetite Framework.

The VaR is calculated using the historical method (one year of data), with a 1-day timeline and 95% confidence level.

The Stress Tests are calculated by simulating adverse and extreme scenarios of the main risk factors (interest rate, spread equity price), starting from the worst movements recorded in the history of global financial markets.

Compliance with limits is monitored on a daily basis by the Risk Management Department, which reports to the Director General on the level of risk assumed and compliance with operational limits.

When operational limits are exceeded, a process is launched for their reporting and possible authorisation. The Risk Management Department promptly informs the Director General, the CFO and the Finance & Treasury Department of the overrun for the appropriate action, and the Director General deliberates on the matter.

In establishing a system for measuring market risk, defining operational limits, and monitoring compliance with these limits, the Director General is supported by the Control Functions Committee, which plays an advisory role.

In 2024, 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 107,000, a daily maximum VaR of EUR 149,000 and a daily minimum VaR of EUR 1,500; the operational limit was never exceeded. At the end of 2024, the VaR amounted to EUR 5,000.

To verify the adequacy of the VaR calculation, the Risk Management Department periodically conducts retrospective reviews (back testing), comparing the actual trading results achieved with the previously calculated VaR measures. During 2024, there were 4 daily VaR value overruns, against the 6 statistically expected. This result is explained by the particularly short duration of the securities held in the trading portfolio.

At the end of 2024, IOR does not hold equity securities in the trading portfolio.

With reference to the price risk of other financial instruments classified as held for trading, at the end of 2024, the Institute's portfolio had the following exposure:

- Closed-end investment funds with a book value of zero (against EUR 5.85 million in 2023).

2. Currency risk

Currency risk is the risk that the Institute might incur losses due to adverse variations in currency rates. As mentioned above, currency risk is managed with the same system of delegations in place for financial risks.

For the currency rate, as for interest rates, custom stress scenarios were used for each currency, providing a higher shock for minor currencies and for those not pegged to the Euro. The potential impact of these shocks, only for Assets at year-end 2024, on the trading component would not have generated losses, as there were no currency positions.

Breakdown by currency of financial assets, liabilities and derivatives

	Currencies					
	USD	GBP	CAD	AUD	CHF	Other currencies
A. Financial assets						
A.1 Debt securities	388,092	-	-	-	5,233	-
A.2 Equity securities	2,264	-	-	-	-	-
A.3 Loans to banks	24,825	3,977	3,243	996	9,709	2,126
A.4 Loans to customers	1	-	-	-	-	-
A.5 Other financial assets	7,634	305	508	317	444	263
B. Other assets	-	-	-	-	-	-
C. Financial liabilities						
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	434,715	4,710	3,337	819	15,844	108
C.3 Debt securities						
C.4 Other financial liabilities	2,956	-	2	52	6	33
D. Other liabilities						
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions						
+ Short positions						
Total Assets	422,816	4,282	3,751	1,313	15,386	2,389
Total Liabilities	437,671	4,710	3,339	871	15,850	141
Difference (+/-)	(14,855)	(427)	412	442	(464)	2,247

The difference in the position in U.S. dollars (-14.9 million) does not represent a foreign exchange exposure but is due to the “Fair value reserve of financial asset at fair value through other comprehensive income” and concerns debt securities in U.S. dollars.

To calculate the capital requirement related to currency risk, the IOR uses the standard methodology under ASIF Regulation no. 1/2015.

3. Derivative instruments

In 2024, IOR did not hold derivative financial instruments.

SECTION 9 - OPERATIONAL RISK (P)

Operational risk represents the risk of loss resulting from the inadequacy or failure of processes, human resources and internal systems, or from external events.

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

Operational risk includes, among other things, the risk arising from the insufficient process setting (for example, absence or inadequacy of line controls), human resources risk (for example, a lack of professional training for staff), and IT risk (for example, inadequacy of the computer system that could cause loss of data or interruption of operations) and risk from cyber-attacks.

The Institute has adopted an operational risk policy, and has implemented a framework for identifying, assessing, managing and monitoring this risk. More specifically, the Institute has established a process for collecting data on operational losses and conducting the related accounting reconciliation. In addition, the Institute monitors risk evolution by analysing the data on the Key Risk Indicators associated with the main processes and prepares action plans to mitigate the key risks.

Within the annual Risk Self-Assessment, the operational risk inherent in each process is evaluated, identifying the Risk Map of the Institute’s operational risks. The recognition and monitoring of operational risks are supported by a dedicated IT system (SIRO, Sistema Informatico dei Rischi Operativi), which tracks potential risks and incidents, losses, Key Risk Indicators, existing and additional control measures required for risk mitigation, actions being taken, and the business/governance or support processes involved.

In 2024, 55 (2023: 46) operational risk events were recorded, with total losses of EUR 72,000 (2023: EUR 118,000). Compared to the previous year, there was a slight increase in the number of events, while losses were 39% lower, mainly due to successful recovery actions.

It should be noted that operational risk events include both accidents with loss and incidents without loss (near misses), and that the calculation of net losses does not include legal expenses for lawsuits.

The IOR’s capital adequacy for operational risk is assessed by calculating the requirements using the Basic Indicator Approach (BIA), which involves applying a fixed percentage (15%) to the Institute’s average net interest margin over the last three years. This method provides an estimate of the capital needed to cover potential losses arising from unexpected operational events.

SECTION 10 - KEY METRICS (Q)

The IOR assesses its current and future capital adequacy by considering both the normal course of risk factors and the occurrence of adverse but plausible situations. During the first part of the year, the robustness of the strategic and operational planning (set out in the multi-year plan and annual budget) is assessed from both a prudential regulatory and managerial perspective. The capital adequacy assessment (ICAAP) and liquidity adequacy assessment (ILAAP) pursue these objectives, as detailed below:

- verification of current and prospective capital adequacy with respect to the strategic plan/budget and the risks assumed by defining an informed and prudent strategy;
- pursuit of process integration between capital management, strategic planning and RAF;
- sharing and spreading a culture of risk control;
- developing tools for measuring, controlling and mitigating risks.

The Risk Management Department coordinates the ICAAP and ILAAP processes, involving the various business areas and Departments for their specific areas of expertise.

The 2025 ICAAP and ILAAP assessments show that the IOR's capital adequacy profile is fully adequate over the entire three-year time horizon, both in the base scenario and in the stress scenario. The capital base (regulatory capital) exceeds the Total Internal Capital measured against exposure to individual risks, complying with the minimum regulatory requirements established by the Supervisory Authority and the requirements defined at management level by the IOR.

Summary risk profile indicators	Dec-24	Dec-23
Common Equity Tier 1 ratio (CET1 ratio)	69.43%	59.78%
Tier 1 ratio	69.43%	59.78%
Total capital ratio	69.43%	59.78%
Regulatory capital (€ million)	693.98	632.95
Liquidity Coverage Ratio (LCR)	5,095%	3,942%
Net Stable Funding Ratio (NSFR)	292.5%	251.5%
Leverage (core capital / total exposure)	27.4%	25.0%
Combined capital buffer requirement	3.06%	2.71%
Capital conservation buffer	2.5%	2.5%
Specific countercyclical capital buffer for the Institute	0.56%	0.21%
Loans to customers / Deposits from customers (Loans / Deposits)	3.7%	4.4%
Return on equity (ROE)	4.7%	4.8%

The following table shows the breakdown by quarter of the main metrics pursuant to Annex XXVII, letter Q to ASIF Regulation no. 1/2015. For the disclosure of information pursuant to letter Q - points a, b, c, h – please refer to sections “Own funds (H)” and “Own funds requirements and risk-weighted exposures (I)”.

	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23	12-month average
Pillar I capital requirements	80	83	84	87	85	
Regulatory Capital	694	688	645	633	633	
RWA Risk-Weighted Assets	1,000	1,035	1,044	1,082	1,059	
CET1 Ratio	69.43%	66.43%	61.82%	58.52%	59.78%	
Combined capital conservation buffer (€)	30.55	29.85	29.84	29.75	28.70	
Combined capital conservation buffer (%)	3.06%	2.88%	2.86%	2.75%	2.71%	
Capital Conservation Buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%	
Anticyclical capital buffer, entity-specific (%)	0.56%	0.38%	0.36%	0.25%	0.21%	
HQLA High Quality Liquid Assets, non-weighted	1,443	1,391	1,287	1,220	1,296	
LCR Liquidity Coverage Ratio	5,095%	4,711%	4,121%	3,922%	3,942%	4,028%
Total HQLA, weighted	1,359	1,307	1,203	1,135	1,206	1,220.81
Total net outflows, weighted	27	28	29	29	31	30
NSFR Net Stable Funding Ratio	292.5%	293.4%	275.3%	261.4%	251.5%	274.3%
ASF Available Stable Funding, weighted	2,133	2,161	2,071	2,107	2,117	2,131
RSF Required Stable Funding, weighted	729	736	752	806	842	777
Financial LEVERAGE	27.4%	26.5%	25.6%	25.4%	25.0%	
Total exposure	2,534	2,596	2,522	2,523	2,533	

SECTION 11 - INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK (R)

Exposure to interest rate risk is measured with reference to the assets and liabilities included in the banking book, i.e. assets and liabilities other than those assigned to the trading book, in accordance with ASIF Regulation no. 1/2015, Annex XIV.

To calculate the capital required to cover this risk, assets and liabilities sensitive to interest rate changes were identified:

- exposures to banks and loans to customers;
- debts to customers;
- securities in the Held to Collect and Held to Collect and Sell business models;
- assets serving the pension plan for IOR employees.

After verifying the presence of positions in "relevant currencies"¹ (Euro, USD and other aggregate currencies), the assets and liabilities were classified into the fourteen time bands provided for by the regulations. Within each band and currency, active exposures are offset against passive exposures to obtain the net position. The net position for each band is multiplied by the applicable weighting factors. The weighted exposures of the different bands are added together to obtain a value that represents the change in the present value of cash flows in response to the interest rate shock provided for by the regulations (+200 bps), assumed for each currency (offsetting by band). As expressly defined by the regulations, only positive exposures were added together to obtain the total requirement; i.e., offsetting by currency is not permitted.

Below is a summary table of the capital absorbed over the last two financial years.

	Dec-24	Dec-23	Variation
Interest rate risk for the banking book	34.60	47.10	-12.50

During 2024, the IOR made effective strategic choices to minimise its exposure to this risk through active portfolio management. Reducing risk means less capital is needed to cover potential losses from rate fluctuations, which improves the IOR's overall efficiency.

The Economic Value of Equity (EVE) metric is used to assess the impact of interest rate changes on the Institute's overall economic value; this metric reflects the effect of interest rate fluctuations on the net present value (NPV) of assets and liabilities, considering the entire life of the financial instruments. Compared to 2023, in 2024 the Institute reduced its sensitivity to interest rate increases from EUR 15 million to EUR 7 million. This indicates more effective interest rate risk management, with less vulnerability to rate increases, thanks to better diversification of assets and liabilities and more careful management of cash flows and maturities.

¹ Relevant currencies: currencies with a weighting of more than 5% of the total assets or liabilities of the portfolio, as defined in ASIF Regulation no. 1/2015, Annex XIV, point 1.

Net Interest Income (NII) is used to measure the ability to generate income from loans and investments, net of interest paid on debt. It is sensitive to changes in interest rates and the structure of the IOR's balance sheet. The NII calculation shows that:

- any decrease in interest rates leads to a slight reduction in NII. Compared to the previous year (2024), the loss is lower (-2 million vs. -2.4 million). This is due to better management of interest income flows in response to market changes.
- any increase in interest rates will result in a gain of EUR 1.6 million in 2025, down from EUR 2.1 million in 2024. This implies that the Institute could be more vulnerable to a rise in rates than in the previous year, due to a change in the structure of its loans or liabilities, which generates a lower margin.

Risk indicators are calculated and compliance with the relevant system of limits and monitoring thresholds is verified on a quarterly basis. In the event of a breach of thresholds/limits, different escalation processes are in place depending on the RAF level of the metrics.

When planning its commercial strategies for raising and investing funds from customers, as well as when defining its proprietary investment policies in financial assets, the IOR focuses on seeking a balance in the interest rate risk profile across the entire balance sheet. These measures aim to limit the potential impact on economic capital and income results associated with any fluctuations in market rates, thereby pursuing direct hedging of interest rate risk between lending and borrowing transactions.

SECTION 12 - EXPOSURES IN SECURITISATION POSITIONS (S)

The IOR does not participate in securitisation transactions.

SECTION 13 - ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS (T))

The Institute publishes a specific disclosure on environmental, social and governance risks - referring to the year 2024 - to which reference is made.

SECTION 14 - REMUNERATION POLICY (U)

The remuneration policy is approved by the Institute's Board of Superintendence with the support of the internal Human Resources, Ethics, and Remuneration Committee, composed of three members of the Board of Superintendence, which normally meets on a quarterly basis.

The Institute's remuneration system is defined in accordance with the principle of sound and prudent management and in light of its long-term strategies and objectives, consistent with the levels of capitalisation and liquidity necessary to support the activities undertaken and in such a way as to avoid distorted incentives that could lead to regulatory violations or encourage risk-taking beyond the level tolerated by the Institute.

The remuneration structure, consisting of a fixed and a variable component, is defined ex-ante for each category of personnel, with the aim of avoiding any excessively risk-oriented behaviour.

The remuneration and incentive policy is designed to ensure fair pay for employees performing similar tasks, guaranteeing equality in the conditions for awarding and paying remuneration.

In determining remuneration, the Institute takes into account various factors, including: (i) professional skills and level of commitment; (ii) formal education level; (iii) availability on the labour market of qualified profiles for specialist roles; (iv) type of contract; (v) previous professional experience; (vi) professional certifications, if any.

Fixed remuneration

Fixed remuneration is determined and paid on the basis of objective, predetermined, and verifiable parameters, such as the level of professional experience and the degree of responsibility associated with the position held. This component is not influenced by the employee's or the Institute's performance, to discourage risk-oriented behaviour. Fixed remuneration is therefore intended to recognise the skills and responsibilities inherent to the role.

Variable remuneration

Variable remuneration includes all forms of compensation or benefits whose allocation is dependent on performance, regardless of how it is measured, or on other observable parameters such as the length of service.

The main tool used by the Institute to determine variable remuneration is the "Short-term evaluation and incentive system" (hereinafter, the System), which closely links the awarding of incentives to employees with their professional performance. The System:

- is activated only when sufficient funds are available, in accordance with the annual budget approved by the Board of Superintendence;
- is subject to penalty and/or repayment mechanisms of up to 100% of the amount paid, in the event of conduct that has resulted in significant losses for the Institute;
- is linked to clearly-defined performance indicators (KPIs).

Incentives payable through the short-term evaluation and incentive system may never exceed 30% of fixed remuneration.

Aggregate quantitative information on remuneration paid in 2024

The following table shows total remuneration broken down by business area.

Business Area	Aggregate Remuneration Year 2024
Client Area	2,656
Finance & Investments Area	1,401
IT & Operations Areas	1,868
Staff Functions	1,167
Control Functions	1,012
Total	8,104

The following table shows remuneration broken down into fixed remuneration (with a description of the fixed components) and variable remuneration, and the number of beneficiaries:

Type of remuneration	Senior Executives		Key Personnel	
	n.	Amount	n.	Amount
A) Fixed remuneration	6	636	11	1,630
Of which indemnity	6	-	5	82
B) Variable remuneration	6	-	11	234
(A) + (B) Total	6	636	11	1,864

The variable remuneration shown in the Table is entirely based on the results of the application of the 2024 Short-Term Evaluation and Incentive System.

It should also be noted that:

- the total remuneration of members of the Senior Management and Senior Executives amounts to EUR 873,000;
- during the financial year, no severance payments were made in relation to previous financial years;
- during the financial year, new employee severance indemnities totalling EUR 1,183,000 were recognised; no employee receives remuneration equal to or greater than EUR 500,000.

Personnel expenses: Breakdown

	2024	2023
A. Staff		
1. Wages and salaries	(6,761)	(6,548)
2. Social security charges		
3. Severance pay		
4. Supplementary benefits	(792)	(853)
5. Staff severance provision	(581)	(593)
6. Provisions for post-employment benefits		
(a) defined contribution plans		
(b) defined benefit plans	(5,213)	(5,368)
7. Payments to complementary pension plans		
(a) defined contribution plans		
(b) defined benefit plans		
8. Other benefits for employees	(751)	(1,064)
B. Personnel with contracts pursuant to Article 10(1)		
1. letter (b)		
2. letter (c)		
3. letter (d)		
C. Fees and charges for Board of Superintendence and Director General	(873)	(824)
D. Early retirement cost		
E. Recovery of expenses for employees seconded to other entities		
F. Reimbursement of expenses for employees of the institutions and organisations of the Holy See and Vatican City State seconded to the Institute		
Total	(14,971)	(15,250)

SECTION 15 - LEVERAGE RATIO (V)

The leverage ratio is calculated as the measure of the supervised entity's core capital divided by the measure of the entity's total exposure and is expressed as a percentage, as indicated in ASIF Regulation no. 1/2015, Annex XX. The Institute calculates the metric on a monthly basis and reports it to the Supervisory Authority.

The trend of the indicator during 2024 is shown in the table below; it remains stable within the limits set out in the RAF (minimum 10%) and the regulatory limit (minimum 3%). The risk of excessive leverage is managed by monitoring the indicator under analysis and by maintaining the liquidity characteristics of the assets, thereby enabling their disposal without incurring excessive costs in the event of any liabilities. The increase observed at the end of the financial year compared to the beginning is mainly due to the higher amount of core capital.

Year 2024	FINANCIAL LEVERAGE (%)
January	24.6
February	24.8
March	25.4
April	25.4
May	25.2
June	25.6
July	26.5
August	26.9
September	26.5
October	26.3
November	25.5
December	27.4

SECTION 16 - LIQUIDITY REQUIREMENTS (W)

ASIF Regulation no. 1/2015 identifies two indicators for monitoring liquidity risk:

- short-term indicator (Liquidity Coverage Ratio - LCR), with the aim of ensuring compliance with ordinary commitments and enabling the Institute to overcome a liquidity stress situation, with an operating horizon of 30 days; the Institute maintains a liquidity coverage ratio of at least 100% as required by the regulations.

$$\text{LCR} = (\text{HQLA stock}) / (\Sigma \text{ Total Net Outflows}) \geq 100\%$$

- medium/long-term indicator (Net Stable Funding Ratio – NSFR), with the aim of balancing the liquidity of the main balance sheet items over a one-year horizon. The IOR maintains a stable funding ratio of at least 100%, as required by the regulations.

$$\text{NSFR} = \text{ASF} / \text{RSF} \geq 100\%$$

In accordance with the provisions of the Regulation and in order to pursue alignment with market standards, the IOR calculates the indicators by applying Delegated Regulation (EU) 2015/61, which supplements Regulation (EU) No 575/2013 for the LCR, as well as the document Basel III: the Net Stable Funding Ratio issued by the Basel Committee on Banking Supervision in October 2014 for the NSFR.

The Institute's Risk Appetite Framework identifies not only the regulatory threshold (100%), but also the desired limit and the permitted tolerance for liquidity indicators. The Risk Management Department calculates the value of the indicators and provides periodic reports with an adequate level of detail to the relevant Departments, promptly communicating any exceedances of the limits to General Management, the Treasury and the Internal Audit Department. In addition, Risk Management reports data on LCR and NSFR liquidity ratios to the supervisory authority on a monthly basis.

The IOR's liquidity conditions are adequate both in the short term ("operational liquidity") and in the long term ("structural liquidity"), with ample compliance with the minimum levels imposed by regulation.

The following table shows the quarterly trend and the 12-month average value of the indicators and the main constituent elements.

	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23	12-month average
LCR	5,095%	4,711%	4,121%	3,922%	3,942%	4,028%
Total high-quality liquid assets (weighted)	1,359.07	1,307.02	1,203.31	1,135.18	1,205.63	1,220.81
Total net cash outflows (weighted)	26.67	27.75	29.20	28.95	30.59	30.31
NSFR	292.5%	293.4%	275.3%	261.4%	251.5%	274.3%
Total stable funding available (weighted)	2,132.61	2,160.74	2,071.04	2,106.89	2,117.23	2,131.31
Total stable financing required (weighted)	729.17	736.35	752.37	806.12	841.69	776.97

SECTION 17 - USE OF THE IRB APPROACH FOR CREDIT RISK (X)

The IOR does not use the IRB approach for credit risk; please refer to the section Own funds requirements and risk-weighted exposures (I) et seq.

SECTION 18 - CREDIT RISK MITIGATION TECHNIQUES (Y)

Please refer to the section Credit and counterparty risk exposures (J+L+N).

SECTION 19 - USE OF ADVANCED METHODS FOR MEASURING OPERATIONAL RISK (Z)

The IOR does not use advanced methods for measuring operational risk. Please refer to the information provided in the section Own funds requirements and risk-weighted exposures (I).

SECTION 20 - USE OF INTERNAL MODELS FOR MARKET RISK (AA)

The Institute does not use internal models for measuring market risk. Please refer to the information provided in the section Disclosure on market risk exposures (O).

Senior Management Statement on the Disclosure pursuant to Article 119, Annex XXVII, letter A.3 to ASIF Regulation no. 1/2015

I, the undersigned, Jean-Baptiste Douville de Franssu in my capacity as President and legal representative of the Institute for Religious Works, certify, pursuant to paragraph 3 of point A of Annex XXVII to Regulation no. 1/2015, that the document "Disclosure year 2024 pursuant to Article 119 of ASIF Regulation no. 1/2015" complies with the policies, processes, and internal controls of the IOR.

VCS

Jean-Baptiste Douville de Franssu

President and legal representative

A handwritten signature in blue ink, reading "Jean-Baptiste Douville de Franssu", with a horizontal line underneath the name.

Director General's Statement pursuant to Annex XXVII, Letter F, points e) and f) to ASIF Regulation no. 1/2015

I, Director General Gian Franco Mammi declare, pursuant to letter F, points e) and f) of Annex XXVII to ASIF Regulation no. 1/2015, that:

a) the risk management systems implemented by the IOR and described in the document "Disclosure year 2024 pursuant to Article 119 of ASIF Regulation no. 1/2015" are in line with the profile and strategy of the IOR;

b) the section 'Risk management objectives and policies (F)' in the paragraph 'Consistency between the overall risk profile and the Institute's strategies' of the aforementioned document summarises the overall risk profile of the IOR in relation to the corporate strategy adopted.

VCS

Gian Franco Mammi

Director General



