

Summary Report
on the activities performed and on the performance of
the financial system

ANNO 2019



Summary report

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Year 2019



© BANCA CENTRALE DELLA REPUBBLICA DI SAN MARINO, 2019

A Publicly and privately owned entity

Economic Operator Code SM04262 - Endowment fund EUR 12,911,425.00 fully paid up

Registered office - Via del Voltone, 120 - 47890 San Marino - Republic of San Marino

Tel. +378 0549 882325 - Fax +378 0549 882328

country code (+) 378 swift code: icsmsmsm

www.bcsm.sm

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September 2020.



COMPOSITION OF THE STATUTORY BODIES*

Governing Council

Catia Tomasetti - Chairman
Francesco Mancini - Vice Chairman
Gian Luca Amici
Martina Mazza
Antonella Mularoni
Giacomo Volpinari

Board of Statutory Auditors

Pier Angela Gasperoni - Chairman
Valentina Di Francesco
Monica Zafferani

Directorate General

Giuseppe Ucci - Acting Deputy Director
Daniele Bernardi - Deputy Director

Supervision Committee

Giuseppe Ucci - Chairman
Giuliano Battistini
Marco Giulianelli
Maurizio Pappalardo
Andrea Vivoli

The Central Bank Statutes (Law No. 96 dated 29 June 2005, as amended from time to time) require the Bank to report to the Great and General Council regarding the attainment of its objectives. The Chairman, the members of the Governing Council and the Chairman of the Board of Statutory Auditors are appointed by the Great and General Council. Consistent with the duties assigned to it under the Statutes, the Bank prepared the Annual Report containing a report on the operations carried out during the previous year and information about the performance of the financial system. Pursuant to the Law, the Annual Report must be approved by the General Meeting of the Shareholders and then submitted to the Great and General Council through the Finance and Budgetary State Secretariat.

* As at 18 September 2020

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LIST OF ABBREVIATIONS

FIA	Financial Intelligence Agency
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
CENTRAL BANK	Central Bank of the Republic of San Marino
ECB	European Central Bank
COFER	Currency Composition of Foreign Exchange Reserves
CATE	Court Appointed Technical Expert
FATCA	Foreign Account Tax Compliance Act
IMF	International Monetary Fund
GFD	Guarantee Fund for Depositors
FONDISS	Fondo di Previdenza Complementare dell'Istituto di Sicurezza Sociale (Supplementary Welfare Fund of the Social Security Institution)
LISF	Law No. 165/2005 "Law on Companies and Banking, Financial and Insurance Services"
NRA	National Risk Assessment
OECD	Organisation for Economic Cooperation and Development
RIS	Rete Interbancaria Sammarinese (Sammarinese Interbank Network)
ROA	Return on Assets - ratio between net operating income and total assets
ROE	Return on Equity - ratio between operating results and net equity
SEPA	Single Euro Payments Area
SMAC	San Marino Card
SRD	Scambio Recapiti Domestici (Exchange of Domestic Contact Details)
SWIFT	Society for Worldwide Interbank Financial Telecommunication

NOTICE

Unless specified otherwise, data was processed by the Central Bank. Changes are calculated on the original values (not rounded up/down); similarly, the sum of the figures rounded up/down may not be the same as the aggregate figures provided. Unless specified otherwise, figures are shown in Euro (EUR).

Data referring to previous years may have changed from when they were published in the previous reports due to subsequent disclosures made by the intermediaries.

The source is not specified in the case of Central Bank data.

1 THE FINANCIAL SYSTEM

As at 31 December 2019, following cancellations during the year the financial system of San Marino consisted of 13 companies (**Table 1**). Notably, one bank subject to resolution proceedings was listed in the Register of Authorised Entities, such proceedings having started on 22 July 2019 pursuant to Article 4 of Law No. 102 dated 14 June 2019. With regard to investment companies, no company was registered as at 31 December 2019. Five of the aforesaid Authorised Entities were also authorised to act as Professional Trustees.

More specifically, three entities were deleted from the Register of Authorised Entities, notably two banks and one financial company. In particular, one bank, which was no longer operational, was subject to administrative compulsory winding-up proceedings, while the other bank and the financial company were removed from the Register of Companies and, as a result, were deleted from the Register of Authorised Entities following the extraordinary operations of merger by incorporation into the Parent Bank, pursuant to Article 52 of the LISF.

As regards the Register of Parent Companies, no changes occurred in 2019 compared to the previous period. As a result, three banks and one insurance company were listed in the Register as at 31 December 2019. In Q1 2020, no changes in the number of operators listed in the Register of Authorised Entities were reflected in the financial system.

Table 1- Authorised entities and insurance intermediaries

Authorised entities	2017	2018	2019	31/3/2020
Banks	7*	7*	5	5
Financial/fiduciary companies	5	3	2	2
Investment companies	0	0	0	0
Management companies	2	3	3	3
Insurance companies	2	2	2	2
Payment institutions	1	1	1	1
Total	17	16	13	13
Insurance and reinsurance intermediaries	44	37	37	31**

Notes:

* One bank, although still listed in the Register of Authorised Entities, was not operational.

** This number includes entities listed in the Register of insurance and reinsurance intermediaries that conduct business and, in particular, 6 natural persons, 22 legal persons in the form of non-financial companies, 3 financial undertakings also engaging in insurance mediation. Of the 31 intermediaries, 1 entity had been suspended from operations. It should also be noted that as at 31 December 2019, a further 47 natural persons were registered in Section A as Heads of insurance mediation activities who do not conduct business.

Completing the picture of the financial system are insurance and reinsurance intermediaries registered in the relative Public Register. At the end of 2019, 37 intermediaries engaged in business, 4 of whom were suspended/not operational. In 2019, 4 new intermediaries were registered and as many were cancelled. It should also be noted that 47 Heads of insurance mediation activities were registered in Section A of such Register. The list of foreign insurance companies authorised to conduct insurance activities in the Republic of San Marino in a regime for the provision of services without any establishment through intermediaries included 42 insurance companies, of which 23 were Italian and 19 belonging to other States.

During the first three months of 2020, with reference to insurance intermediaries that engaged in business, no new registrations were recorded, while 6 cancellations were ordered. Furthermore, it should be noted that 4 heads of operations were deleted from Section A of the aforesaid Register and 1 head of operations was flagged as non-operational in Section A. As at 31 March 2020, at the request of one party, 2 insurance companies had been deleted from the list of

foreign insurance companies authorised to operate in San Marino through intermediaries. The table below shows the number of operators listed in the Registers and Records kept at the Central Bank of the Republic of San Marino as at 31 December 2019.

Table 2 - Operators Entered in the Register of Authorised Entities as a 31 December 2019

Authorised entities	2019
Register of authorised entities	13
Register of parent companies	4
Register of insurance and reinsurance intermediaries	37
Register of Financial Promoters*	36
Register of professional trustees in the Republic of San Marino**	12
Total	102

Notes: * As at 31 December 2019, the number of members was related entirely to the section "Employees of authorised entities engaging in cold-calling";

**As at 31 December 2019, 4 banks, 1 fiduciary company, 3 self-employed professionals and 4 non-financial companies were listed in the Register of Authorised Trustees of the Republic of San Marino.

1.1 The Banking System

1.1.1 Ownership structure and actual beneficiaries

As at 31 December 2019, taking into account the banks listed in the Register of Authorised Entities, only 1 had a shareholding structure consisting largely of non-resident entities (more specifically, holding companies), while the remaining 4 had a shareholding structure consisting of resident entities (natural and legal persons), thus confirming the same situation as in 2018. In this regard, it should be noted that since 1 March 2017, pursuant to Article 43 of Law No. 144/2016, the relevant actual beneficiaries, as defined under the aforementioned Law, have been entered in the Register of Authorised Entities.

1.1.2 Size and structure of the system

The data shown and commented upon in this chapter referring to the year ended 31 December 2019 include the outcome pertaining to the (i) extraordinary administration involving Banca CIS - Credito Industriale Sammarinese S.p.A. under receivership (hereinafter also referred to as Banca Cis u.r.) and (ii) bank resulting from the resolution of such bank (Banca Nazionale Sammarinese S.p.A.) that took place on 22 July 2019 pursuant to Article 4 of Law No. 102/2019. The data also reflect the effects of the transactions connected with the aforementioned resolution, including those that were not completed as at 31 December 2019¹.

At the reporting date, total system-wide assets decreased by EUR 362 million over the previous period (-7.9%), standing at EUR 4,214 million (**Table 3**), against a backdrop of decreasing total funding and loans and increasing system losses, taking into account extraordinary events that had occurred during the year under review, including the aforementioned resolution of a bank.

¹As at 31 December 2019, the financial statements of Banca Nazionale Sammarinese, an institution resulting from the resolution of Banca CIS u.r., still reflected a portion of the capital deficit of the latter yet to be removed under the resolution programme and in accordance with the provisions of Laws No. 102/2019 and No. 115/2019. This portion of capital deficit, totalling EUR 27.2 million, consisted of EUR 15.8 million related to the reduction of the face value of liabilities under Article 10 of Law No. 102/2019 (a.k.a. "abatement") and EUR 11.4 million related to the capital deficit to be transferred to the public vehicle after the benefit of such abatement. The data contained in this report reflect the effects of the aforementioned portion of capital deficit, even though it was not accounted for at the reporting date.

Total gross loans, totalling EUR 2,609 million, showed a drop of 7,8% (EUR 220 million) over 2018. Total funding dropped by EUR 309 million, standing at EUR 5,248 million (-5.6%), following a decrease in direct funding (consisting of collection of savings and interbank funding) and indirect funding, totalling EUR 3,631 million and EUR 1,617 million, respectively. Interbank funding stood at EUR 20 million, down EUR 69 million over 2018. Net equity decreased from EUR 309 million to EUR 248 million (down EUR 61 million). The headcount in the banking sector, standing at 488 employees at the end of 2019, decreased by 35 employees over the previous period. The impact on the total number of employees in the country was 2.4%.

Table 3 - Main size indicators of the banking system

Indicators	2017	2018	2019
Size indicators			
Total assets	4,764	4,576	4,214
Loans to credit institutions*	331	344	388
Gross loans to customers**	3,143	2,829	2,609
Total funding	5,883	5,557	5,248
Direct funding	4,079	3,929	3,631
Collection of savings***	3,975	3,861	3,611
Interbank funding	104	69	20
Indirect funding****	1,804	1,627	1,617
Net equity	336	309	248
Structural indicators			
Number of operators	6	6	5
Number of branches	47	45	36
Number of employees	535	523	488
% employees over total employees	2.9	2.7	2.4
Other statistical data			
GDP (nominal)	1,353	1,402	1,430
Resident population	33,328	33,419	33,574
Total number of employees	18,689	19,292	19,962
Population / Branches	709	743	933
Total assets / GDP	3.5	3.3	2.9
Total funding / GDP	4.3	4.0	3.7

Source: IT, Technology, Data and Statistics Office (Resident population and total number of employees); International Monetary Fund (GDP).

Notes: Figures regarding monetary amounts are shown in millions. Size and structural indicators as at 31 December 2017 and 31 December 2018 did not include a non-operating bank.

* This item includes amounts relating to the financial leasing transactions and is shown net of the value adjustments made on loans.

** This item includes amounts relating to the financial leasing transactions and is shown gross of the value adjustments made on loans.

*** The collection of savings also includes the aggregate of subordinated debt and is shown net of own bonds repurchased by the reporting entity.

**** Indirect Funding includes asset management, financial instruments held and administered as well as financial instruments and liquidity connected to activities as custodian bank net of the debt securities issued by the reporting intermediaries, cash and cash equivalents deposited with the intermediary, and debt securities issued by other San Marino credit institutions. The same aggregate is represented gross of the capital securities of own issue.

1.1.3 Assets and Liabilities

Assets - In 2019, asset dynamics (**Table 4 and Figure 1**) mainly involved, on the asset side, loans to customers, the net values of which, including financial leasing transactions², fell by EUR 319 million, coming in at 1,591 million (-16.7%).

² Rentals past due and principal residual credits.

Transfers of assets and liabilities made by Banca Nazionale Sammarinese S.p.A. to the “Veicolo Pubblico di Segregazione dei Fondi Pensione S.p.A.”, specifically set up in accordance with Law No. 115/2019, also had an impact on such a significant decrease. The purpose of these transfers was to remove the capital deficit of Banca Cis u.r. by transferring liabilities related to public pension fund deposits (totalling EUR 101.8 million) and assets, consisting of non-performing loans, having a similar face value but with an estimated salvage value capable of achieving the above-mentioned goal of removing the capital deficit of the aforesaid bank³, net of the reduction of the face value of the liabilities under Article 10 of Law No. 102/2019 (a.k.a. “abatement”). In addition, the reduction in net loans to customers was also affected by further adjustments to credits made by banks following disclosure of the AQR results. In this regard, according to current legislation (Article 40 of Law No. 173/2018), intermediaries are allowed to postpone part of these adjustments to the next four financial years, except for any changes to such time limit as may be authorised by the Central Bank and allowed under paragraph 2 of the aforesaid Law. Overall, the amount of adjustments not recognised in the profit and loss account and deferred to the following years stood at EUR 53 million at the end of 2019. Credits, on the other hand, dropped by EUR 35 million, with the remainder being allocated to the Fund for credit risks.

With regard to loans to customers, financial leasing transactions (pertaining to principal residual credits) showed an increase of EUR 16 million due, among other things, to the acquisition of new leasing contracts that exceeded the ordinary trend in repayments and amortisation. Financial instruments held in portfolio, totalling EUR 767 million, decreased by EUR 61 million. Loans to credit institutions increased by EUR 44 million, standing at EUR 388 million. Shareholdings booked decreased from EUR 122 million in 2018 to EUR 78 million at the reporting date (down EUR 43 million). This change was chiefly due to the completion of the merger by incorporation of Banca Impresa di San Marino S.p.A. and Leasing Sammarinese S.p.A. (both removed from the Register of Authorised Entities in December 2019) into Banca di San Marino S.p.A., as well as value adjustments made to shareholdings as part of the extraordinary administration proceedings involving Banca Cis.

Capital instruments included about EUR 83 million of units of closed-end mutual investment funds — held only by banks of San Marino and consisted chiefly of bank-initiated non-performing loans — established pursuant to specific legislative measures in connection with system transactions and interventions for savings-protection purposes⁴.

“Fixed assets and other assets items” increased by EUR 15 million, from EUR 1,343 to EUR 1,358 million (+1.1%). Essentially, the aforesaid aggregate includes (i) tangible and intangible fixed assets (net of principal residual credits relating to financial leasing transactions) totalling EUR 293 million, up by approximately EUR 29 million chiefly as a result of the EUR 28 million increase in assets available from debt recovery and (ii) “Other assets”, which decreased by EUR 10 million, standing at EUR 1,051 million compared to EUR 1,061 million in 2018. This latter item includes, among other things, the recognition of the loan write-down made by the Cassa di Risparmio della Repubblica di San Marino pursuant to Article 5 ter of Decree-Law No. 93/2017, as amended by Decree-Law No. 101/2017 and No. 122/2017 (EUR 455 million at the close of 2019)⁵, the portfolio of notes subject to collection (EUR 201 million), amounts due from inland revenue for deferred tax assets (EUR 112 million) and tax credits connected to transactions for the acquisition of assets and liabilities of bank intermediaries in distress as of 2011 (EUR 213 million). Accrued revenues and deferred expenses totalled EUR 13 million.

³ The capital deficit recorded by Banca Cis u.r., net of “abatement”, totalled EUR 81.3 million.

⁴ Credit-contributed closed-end mutual funds were established in 2012, 2013 and 2018 during four banking crises. In order to allow the resolution of these banks to be implemented and the depositors to be protected, decrees were issued whereby institutions that acquired the assets and liabilities of banks in distress, undergoing winding-up proceedings, were allowed to benefit from tax credits to the extent of imbalance between assets and liabilities acquired and to segregate the NPLs acquired in the aforementioned credit funds. The value of the tax credit is therefore essentially adjusted according to the value of the NPLs reflected in the funds.

⁵ The above provisions allowed loan write-downs to be distributed on an accrual basis. In particular, loans were adjusted and their value was written down to reflect the recognition of an asset in the balance sheet which was expected to be amortised over 25 years. At 31 December 2019, EUR 455 million remained to be amortised (EUR 10 million in 2020 and EUR 22.3 million annually until 2040).

Liabilities and Net Equity – As regards liabilities, debts with customers decreased by EUR 129 million, standing at EUR 2,124 million (-5.7%), the most significant liabilities being EUR 115 million accounting for financial instruments, which came in at EUR 1,455 million (-7.3%), and EUR 6 million relating to subordinated debts, standing at EUR 33 million. Debts with credit institutions showed a EUR 48 million drop, decreasing from EUR 70 million in 2018 to EUR 22 million at the reporting date. "Other liabilities" showed a decrease of EUR 3 million, mainly due to a reduction in other liabilities by EUR 30 million (standing at EUR 272 million), which were offset by an EUR 18 million increase in the Fund for credit risks and EUR 8 million increase in the Risk and cost fund, totalling EUR 19 million and EUR 39 million, respectively. The system-wide operating results for 2019 showed a net loss of EUR 200 million, compared to a loss of EUR 79 million posted in 2018. During the year under review, one bank posted an operating profit, whereas the remaining four institutions ended the year with a loss.

Table4 - Aggregate balance sheet of the banking sector

Assets	2018	2019	% Change	Liabilities	2018	2019	% Change
Cash and available funds	29	32	8.4%				
Loans to credit institutions* (including leases)	344	388	12.9%	Debts with credit institutions	70	22	-69.0%
Loans to customers*	1,910	1,591	-16.7%	Debts with customers	2,253	2,124	-5.7%
<i>of which Financial leasing</i>	221	213					
<i>of which assets pending financial leasing</i>	20	45		Debts represented by financial instruments	1,570	1,455	-7.3%
Financial instruments	828	767	-7.4%	Subordinated debt	39	33	-15.4%
<i>of which debt securities</i>	681	637		Other liabilities	336	333	-0.8%
Shareholdings	122	78	-35.6%	Capital and reserves**	372	432	16.3%
Subscribed capital not paid in	0	0	-	Revaluation reserves	16	15	-6.7%
Own shares	1	0	-24.2%	Operating results	-79	-200	-153.3%
Fixed assets and other assets	1,343	1,358	1.1%				
Total assets	4,576	4,214	-7.9%	Total liabilities	4,576	4,214	-7.9%

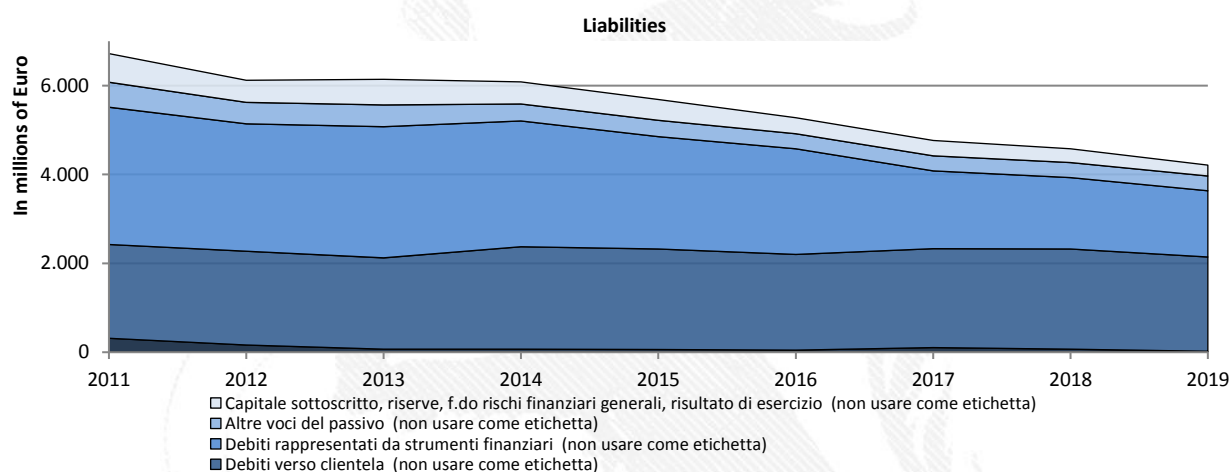
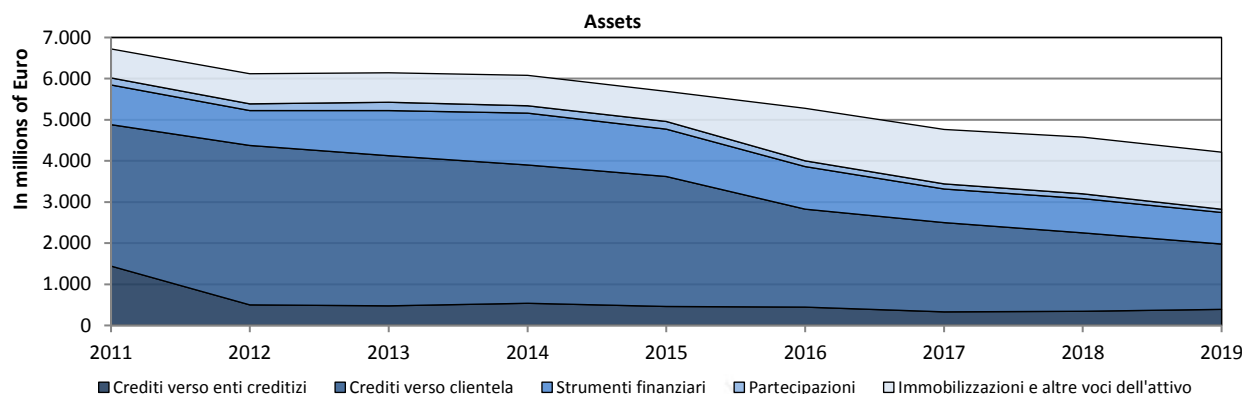
Notes: figures shown in millions of Euro.

The balance sheet figures of the banking sector do not include a bank that was not operational in 2018.

* Amounts net of value adjustments. This item includes the amounts related to the financial leasing transactions held under "Financial Leasing" and "Assets pending financial leasing for termination of leasing agreement". These latter two items do not include overdue instalment payments held under "Loans to customers" or under "Loans to credit institutions".

** It also includes the Fund for General Banking Risks, profits/losses carried forward and share premiums.

Figure 1 - Assets and liabilities

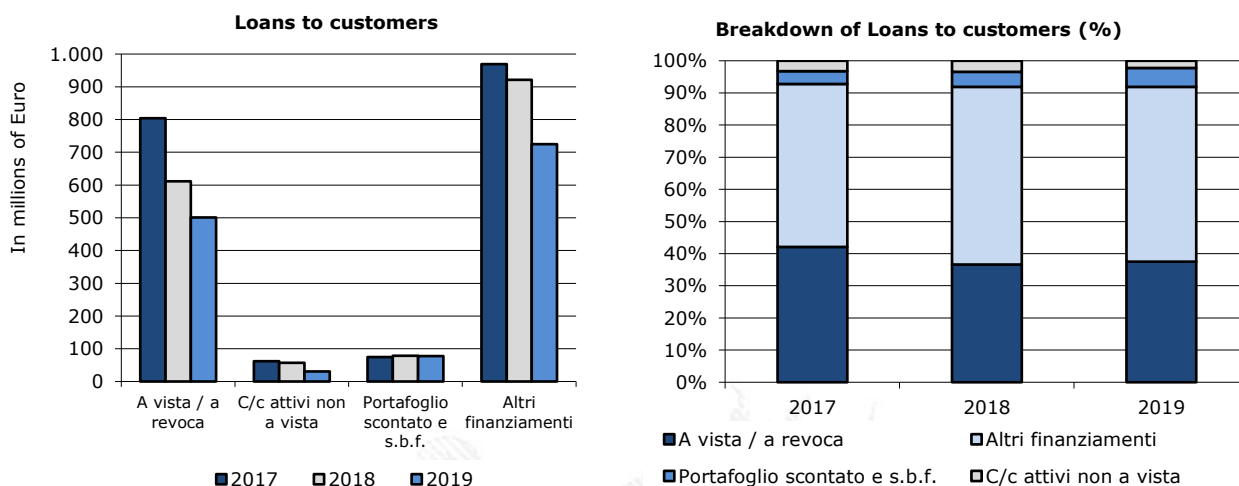


1.1.4 Review of Loans to Customers

Loans – As previously noted, net loans granted to customers decreased in 2019 as compared to 2018, both in absolute terms (down EUR 319 million, standing at EUR 1,591 million) and in relation to assets (decreasing from 41.7% in 2018 to 37.8% in 2019) and accounted for 44.1% of collection of savings (49.5% at the end of 2018). The amount of net loans reflects adjustments not yet recognised in the profit and loss account pursuant to Article 5 *ter* of Decree-Law No. 93/2017, as amended, and Article 40 of Law No. 173/2018 mentioned above. Credit exposures by technical form (**Figure 2**)⁶ showed the following trends: “On demand/until revoked” loans fell by EUR 110 million, standing at EUR 501 million, while “Other loans” decreased by EUR 197 million, standing at EUR 725 million. The remaining categories, consisting of “Current accounts with a credit balance other than on demand” and “Portfolio discounted and subject to collection”, dropped by EUR 27 million and EUR 1 million, standing at EUR 30 million and EUR 78 million, respectively. As regards the breakdown of the technical forms mentioned above, it should be noted that loans “On demand/until revoked” account for 37.6% of the total, “Current accounts with a credit balance other than on demand” account for 2.3%, “Portfolio discounted and subject to collection” accounts for 5.8% of the aggregate in question, while “Other loans” account for the remaining 54.3%.

Figure 2 - Breakdown of net loans to customers by technical form (excluding residual leasing credit)

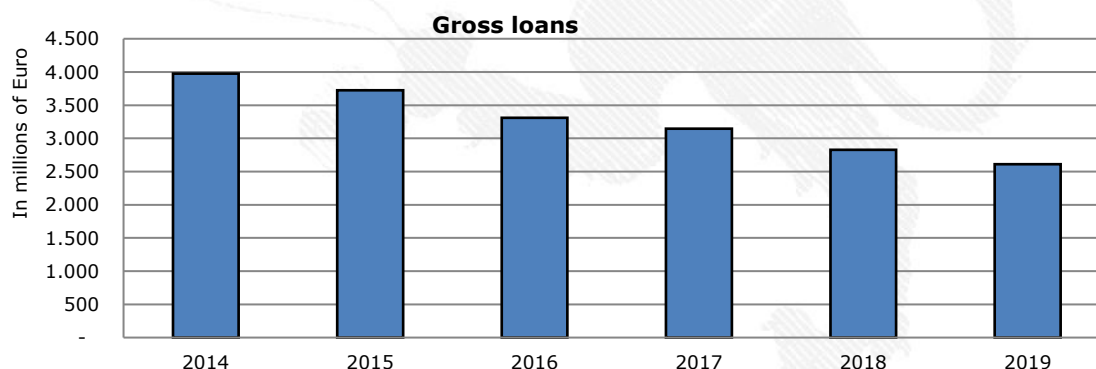
⁶These values do not include the amounts related to the residual credit on financial leasing transactions with customers, which amounted to EUR 257 million, consisting of two items: leased fixed assets (EUR 213 million) and fixed assets pending leasing (EUR 45 million).



A review of the breakdown of net loans to customer by business sector, including financial leases, shows a reduction in exposures to all borrower categories. In particular, the foregoing decrease pertained to: non-financial companies (down EUR 170 million, or -14.3%), financial companies other than credit institutions and central banking authorities (down EUR 88 million, or -71.1%), households and not-for-profit institutions servicing households (down EUR 60 million, or -10.5%), and Public Administrations (down EUR 0.6 million, or -1.9%).

The distribution of net loans to customers by residual life (amounts including financial leasing transactions) shows that the on demand category stood at EUR 294 million (18.5% of total loans), the category between 1 day and 18 months came in at EUR 362 million (22.7%), while medium to long-term loans (which include exposures with residual maturity exceeding 18 months) amounted to EUR 646 million and accounted for 40.6% of total loans. The residual portion (EUR 290 million, or 18.2%) pertains to exposures without maturity (including bad loans).

Figure 3 - Gross loans of the banking system



Loan quality – In 2019, bank loans to customers (gross figures) dropped by EUR 220 million (-7.8%). The impact of non-performing loans (see below) on total gross loans to customers increased to 61.3% in the year under review (53% in 2018). As a result, the weight of gross performing loans on total gross loans to customers decreased to 38.7% in 2019 (47% in 2018).

Gross non-performing loans stood at EUR 1,599 million, up by EUR 99 million (+6.6%) over the previous period. The above change was mainly due to an increase in bad loans partially offset by a decrease in problem loans.

Non-performing loans net of value adjustments stood at EUR 589 million, down by EUR 12 million over the previous period. These aggregates were affected by transfer to bad loans and significant adjustments accounted for under the extraordinary administration proceedings involving

Banca Cis as well as adjustments made by a parent company intermediary on bad loans acquired by its financial subsidiary as a result of merger by incorporation operations.

Figure 4 - Loan quality: performing loans and non-performing loans (gross figures)

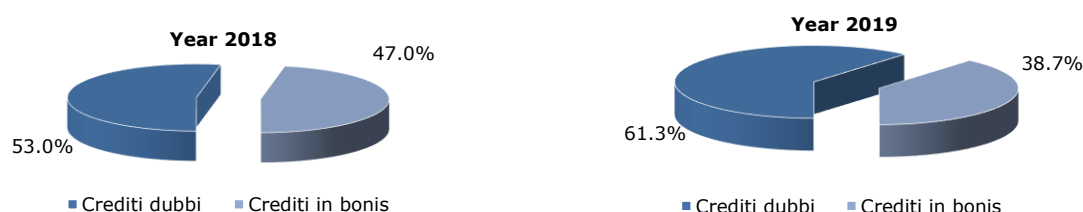


Figure 5 - Loan quality: performing loans and non-performing loans (net figures)



Gross performing loans (EUR 1,010 million) decreased by EUR 319 million, while net performing loans (EUR 1,002 million) decreased by EUR 307 million. Outflows to categories of non-performing loans and the repayment of loans by customers had an impact on these changes.

Gross bad loans stood at EUR 756 million, showing a EUR 180 million increase. This increase was largely due to new entries from other categories of loans recognised under the extraordinary administration proceedings involving Banca Cis as well as the recognition of bad loans of a financial company merged into the parent bank. Net bad loans increased by EUR 53 million, from EUR 218 million in 2018 to EUR 271 million at the reporting date.

Gross problem loans stood at EUR 141 million (EUR 209 million in 2018), down by EUR 68 million, while in net terms they fell by EUR 54 million to EUR 105 million. These changes were mainly due to the aforesaid loans being transferred to other categories of non-performing loans.

Gross past due and/or overdue loans, totalling EUR 3 million, were down by EUR 17 million (EUR 2 million at net values) mainly due to the collection and transfer to performing loans and to other categories of non-performing loans.

Among the remaining non-performing loans, reference is made to an increase of EUR 3 million in gross restructured loans (this item consisted mainly of positions arising from the Restructuring Agreement concerning debts of the Delta group) which stood at EUR 699 million (EUR 210 million at net values, up EUR 4 million). Unsecured loans to countries at risk were virtually written off, as was the case in 2018.

Net of value adjustments, non-performing loans accounted for 37% of the total amount of net loans to customer, compared to 31.5% at the end of 2018.

The impact of bad loans on regulatory capital came in at 169.5% (90.6% in 2018).

The hedging rate for non-performing loans, measured by the ratio between value adjustments and the gross amount of non-performing exposures, increased from 59,9% at the close

of 2018 to 63.2% (**Table 5**), mainly due to the adjustments made, as pointed out in the previous paragraphs.

Table 5 – Loan quality

	Loans gross of value adjustments				Hedging rate*		Portion over total loans net of value adjustments	
	2018	%	2019	%	2018	2019	2018	2019
Loans to customers**	2,829	100.0%	2,609	100.0%	32.5%	39.0%	100.0%	100.0%
Performing loans	1,329	47.0%	1,010	38.7%	1.5%	0.8%	68.5%	63.0%
Non-performing loans	1,500	53.0%	1,599	61.3%	59.9%	63.2%	31.5%	37.0%
<i>Bad loans</i>	576	20.4%	756	29.0%	62.2%	64.2%	11.4%	17.0%
<i>Problem loans</i>	209	7.4%	141	5.4%	23.8%	25.5%	8.3%	6.6%
<i>Restructured loans</i>	695	24.6%	699	26.8%	70.3%	69.9%	10.8%	13.2%
<i>Past due and overdue loans</i>	19	0.7%	3	0.1%	8.0%	8.4%	0.9%	0.2%
<i>Unsecured loans to countries at risk</i>	0	0.0%	0	0.0%	0.4%	29.7%	0.0%	0.0%

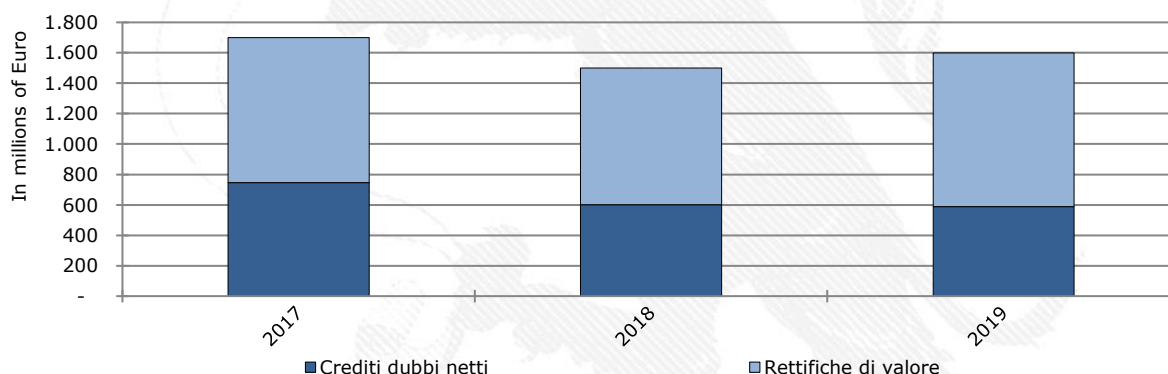
Notes: Figures relating to "Loans gross of value adjustments" relating to 2018 and 2019 are shown in millions.

* The hedging rate results from the amount of value adjustments in relation to the corresponding gross exposure.

** It includes the amounts relating to the financial leasing transactions.

Figure 6 shows the trend in non-performing loans to customers in the 2017-2019 three-year period, highlighting the components of net non-performing loans and value adjustments.

Figure 6 - Non-performing loans



Within the above non-performing loans category, the hedging rate referring to bad loans rose to 62.2% in 2018 to 64.2%, while the hedging rate for problem loans grew from 23.8% to 25.5%. The hedging rate for restructured loans came in at 69.9% (down from 70.3%).

Figure 7 - Breakdown of non-performing loans (gross figures)

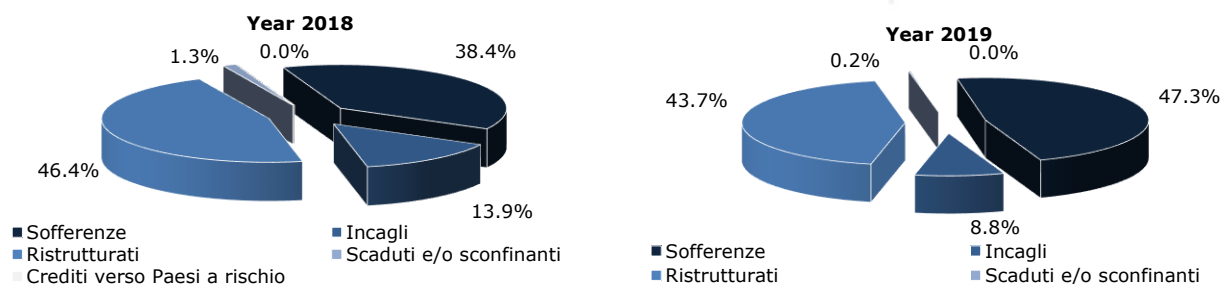
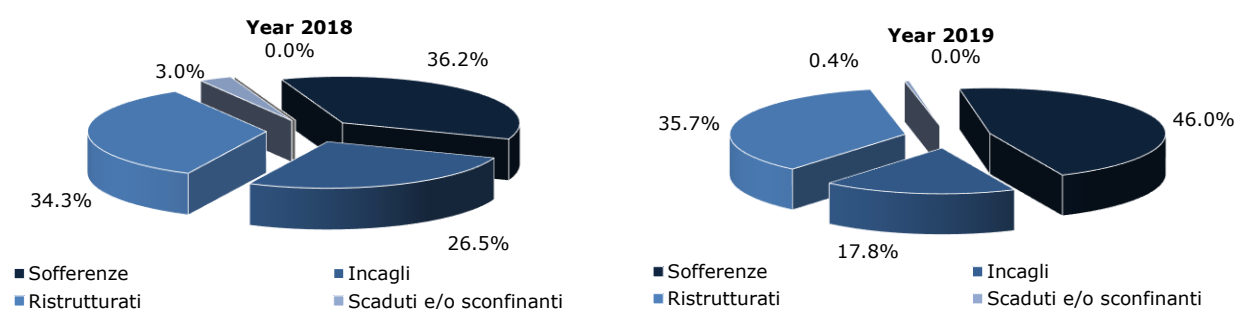


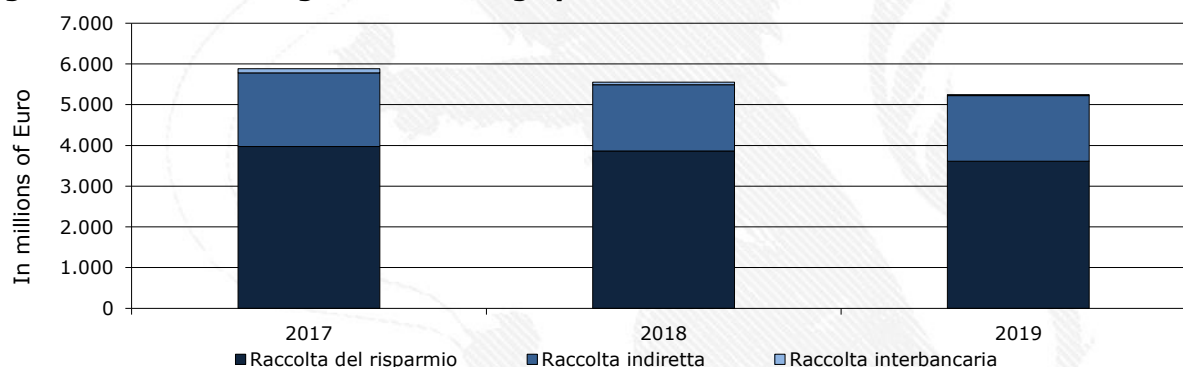
Figure 8 - Breakdown of non-performing loans (net figures)



1.1.5 Funding

Total funding - In 2019, total funding⁷ in the banking system decreased by EUR 309 million, standing at EUR 5,248 million (down 5.6% over 2018). In this regard, direct funding decreased by EUR 298 million (-7.6%), coming in at EUR 3,631 million, chiefly due to a EUR 250 million (-6.5%) drop in the collection of savings, standing at EUR 3,611 million, and a 70.2% drop in interbank funding⁸, standing at EUR 20 million. Indirect funding, standing at EUR 1,617 million, also fell by 0.7% compared to 2018 (**Figure 9**).

Figure - 9 Total funding of the banking system



Collection of savings - Except for bonds, other collection of savings components showed a decrease.

More specifically, debts with customers decreased by EUR 129 million in 2019, standing at EUR 2,124 million, while debts represented by financial instruments dropped by EUR 115 million (-7.3%), standing at EUR 1,451 million. This aforesaid item consisted essentially of EUR 1,081 million in certificates of deposit, down by 239 million (-18.1%) and bonds (net of any bonds held by credit institutions), totalling EUR 369 million, up EUR 124 million (+50.2%) over 2018.

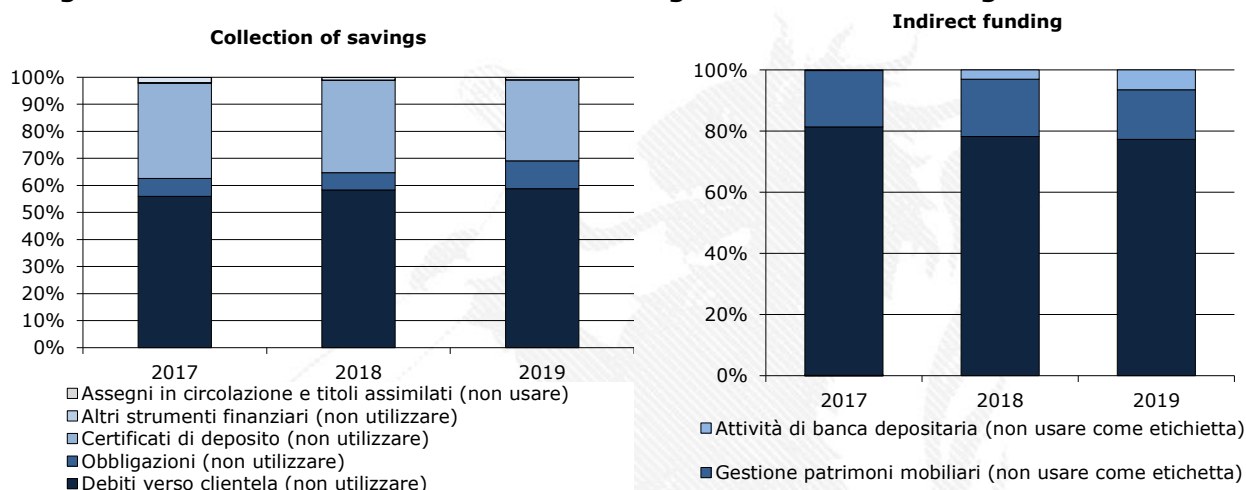
The conversion of Banca Nazionale San Marino's unprotected deposits into bonds pursuant to the resolution scheme involving Banca CIS u.r. had a key impact on the above trends. The most significant item among the remaining components of the collection of savings is to be found in subordinated debt (net of any securities held by credit institutions), totalling EUR 33 million, down EUR 6 million over 2018.

⁷ Total funding is the sum of direct and indirect funding. Direct funding is composed of the collection of savings with the general public and interbank funding. Indirect funding consists of the sum of financial instruments and cash and cash equivalents of customers administered and/or managed on behalf of such customers, net of the amounts already included in direct funding (see Article I.I.2 of Regulation No. 2007-07).

⁸ Interbank funding no longer includes the debt balances on the mutual accounts maintained for services rendered, in compliance with the definition of the aforementioned funding set out in Regulation No.2007-07. This item included bonds (including subordinated debt) and certificates of deposit held by credit institutions.

The decrease in the collection of savings was, among other things, due to the (i) transfer of the bank's pension fund deposits to the public vehicle pursuant to Law No. 115/2019, (ii) transfer of a significant portion of the pension fund deposits to the Central Bank and (iii) conversion of customer deposits into indirect funding following, among other things, the placement of a new domestic issue of the State to cover the loss posted in financial year 2018 by Cassa di Risparmio della Repubblica di San Marino. A breakdown of the collection of savings (**Figure 10**) shows that debts with customers accounted for 58.8%, certificates of deposit 29.9%, bonds 10.2% and, finally, subordinated debt 0.9%.

Figure 10 – Breakdown of collection of savings and indirect funding



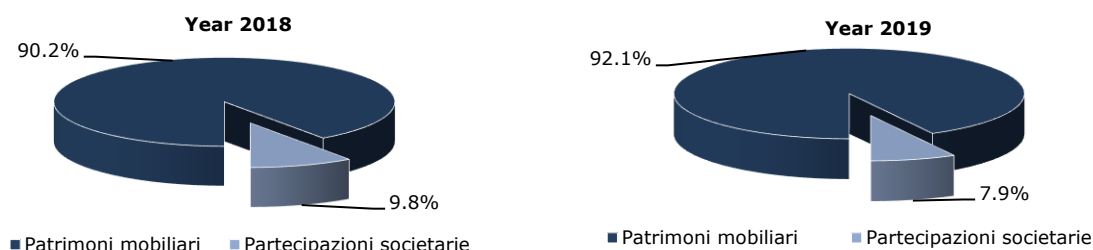
Indirect Funding – In 2019, indirect funding showed a year-on-year decrease of 0.7% over 2018, standing at EUR 1,617 million. This decrease was due to a EUR 43 million drop in asset management, standing at EUR 263 million (-13.9%), and, to a lesser extent, a decrease in financial instruments custody and management (down EUR 24 million). By converse, financial instruments related to activities as custodian bank grew by EUR 55 million, coming in at EUR 105 million. This growth was mainly driven by the activities as custodian bank carried out by an intermediary on behalf of an asset management company.

1.1.6 Fiduciary activities in the banking sector

As at 31 December 2019, 5 banks were authorised to conduct fiduciary activities, but only 4 intermediaries were carrying out such activities, managing EUR 93.9 million as fiduciaries, resulting in a year-over-year decrease of EUR 4.5 million. The amount of EUR 93.9 million shown above accounts for 61.4% (56.9% in the previous period) of total fiduciary activities in the financial system, taking into account that the remainder (38.6%) is managed by financial/fiduciary companies (see paragraph 1.2).

A review of fiduciary activities broken down by technical form shows that the fiduciary administration of movable assets (type 1) decreased by approximately EUR 2.2 million compared to the previous period, standing at EUR 86.6 million (with an impact of 92.1% on the total), while the fiduciary administration of equity investments (type 2), standing at EUR 7.4 million, dropped by EUR 2.3 million (7.9%).

Figure 11 - Breakdown of fiduciary activities by technical form



1.1.7 Equity

Net equity - At the end of 2019, the banking system's equity (**Table 6**) stood at EUR 248 million, down EUR 61 million over the previous period (-19.8%). Among the aspects that had an impact on this item was the aforementioned merger by incorporation of a banking entity into its own subsidiary, which resulted in a total write-down of the equity of the merged bank as well as losses recorded in 2019 offset by the transactions for the removal of the capital deficit of Banca Cis u.r. (see below).

System-wide net equity consisted of positive components totalling EUR 447 million (up EUR 29 million), including subscribed capital (EUR 215 million), reserves (EUR 66 million), revaluation reserve (EUR 15 million), fund for general banking risks (EUR 7 million) and a result carried forward totalling EUR 145 million (net of losses carried forward in the region of EUR 4 million). The latter item was affected by (i) amounts booked as a result of the capital deficit of Banca Cis u.r. being transferred to "Veicolo Pubblico di Segregazione Fondi Pensioni S.p.A.", as set out in the resolution scheme and in accordance with the provisions of Law No. 102/2019 and Law No. 115/2019, (ii) a reduction in the face value of liabilities under Article 10 of Law No. 102/2019 (a.k.a. "abatement") and (iii) the write-off of net equity of Banca Cis u.r. System-wide net losses for the year, totalling EUR 200 million, contributed to determining the aforementioned aggregate.

The net equity to total assets ratio decreased to 5.9% in 2019 (6.7% at 2018 year end).

Regulatory capital⁹ - At the end of 2019, system-wide regulatory capital (RC) stood at EUR 160 million, showing a EUR 81 million drop over the previous period (-33.5%).

Tier 1 capital totalled EUR 175 million, down EUR 111 million compared to the end of 2018 (-38.8%). In particular, this change was mainly due to a reduction in share capital (down EUR 115 million) and reserves (down EUR 1 million) as well as the deduction, as requested by the Supervisory Authority, of the components referred to AQR adjustments deferred to subsequent years in accordance with Article 40 of Law No. 173 dated 24 December 2018, which adjustments were held under the banks' assets at the end of 2019 (EUR 53 million). These changes were offset by a decrease in (i) losses for the year from EUR 80 million to EUR 56 million¹⁰ (down EUR 24 million), (ii) losses carried forward from EUR 31 million to EUR 4 million (down EUR 27 million) and (iii) deductions from intangible fixed assets (down EUR 2 million), as well as a higher contribution to the Fund for general banking risks (up EUR 2 million) and profits for the year to be allocated to equity (up EUR 4 million).

Tier 2 capital decreased by EUR 9 million, standing at EUR 21 million (down 30.3%), mainly due to a reduction in the computation of subordinated debt as a result of amortisation and repayments thereof (down EUR 11 million) and revaluation reserves (down EUR 1 million), which came in at EUR 7 million and EUR 15 million, respectively, partially offset by a decrease in net capital losses on securities (down EUR 3 million), standing at EUR 1 million.

⁹Regulatory capital represents the benchmark capital aggregate in the area of prudential supervision provisions. It is a financial resource capable of absorbing any losses caused by the bank's exposure to the risks typical of its activities, acting as a guarantee for depositors and creditors. Regulatory capital is obtained adding the Tier 1 capital (which represents the primary quality component) to the Tier 2 capital and then subtracting the deductions envisaged by supervisory regulations (for example, for disbursements granted by intermediaries to their shareholders).

¹⁰ With regard to the bank resulting from the resolution of Banca Cis u.r. (Banca Nazionale Sammarinese S.p.A.), the operating result recorded pertains to the period from 22 July 2019 to 31 December 2019, i.e. the time span following extraordinary administration proceedings.

Deductions from total capital (i.e., Tier 1+Tier 2 capital) came in at EUR 36 million, decreasing by approximately EUR 40 million due to a drop in deductions related to equity investments in financial companies (down EUR 36 million) resulting mainly from the merger by incorporation of a bank and a financial company into the parent bank and from lower risk positions with shareholders (down EUR 3 million).

Risk-weighted assets - In 2019, system-wide credit risk weighted assets (shown net of value adjustments) stood at EUR 1,718 million, down by EUR 241 million over the previous period (-12.3%), mainly due to lower risk positions related to loans (including finance leases) and the own securities portfolio, with account being taken, however, of the increase in the relative risk position of non-performing loans. The weighted average of cash assets (excluding off-balance-sheet assets), measured by the ratio between credit-risk-weighted assets and non-weighted assets (calculated at book value) stood at 45.1% (47.2% in the previous period).

Solvency ratio and other capital ratios — The system-wide solvency ratio, consisting of the ratio of regulatory capital to total risk-weighted assets pertaining to the risk of loss due to default of debtors, was 9.3% at the end of 2019 (12.3% at the end of 2018). At the end of 2019, the impact of Tier 1 capital on the total credit risk-weighted assets stood at 10.2 % (14.6% at 2018 year end).

The Aggregate Minimum Capital Requirement (AMCR), i.e. the sum of the individual requirements for credit and operational risks, was not adequately covered by regulatory capital at the end of 2019, with capital requirement standing at EUR 37 million compared to the available capital margin of EUR 16 million at the end of 2018. The change in available capital margin, therefore, showed a decrease of EUR 53 million. Such capital requirement was mainly due to the above-mentioned decrease in regulatory capital, which was reduced to a greater extent than weighted assets.

In this respect, it should be noted that banks were required to have appropriate strategic plans to improve, among other things, the level of capital requirements¹¹.

Finally, the system-wide financial leverage, calculated as the ratio between total assets, net of intangible assets, and Tier 1 capital, rose to 24 (16 at the end of 2018).

Table 6 - Capital adequacy of the banking system

Capital adequacy (end-of-period data)*	2017	2018	2019
Net equity (in millions of Euro)**	336	309	248
Regulatory capital (in millions of Euro)	299	240	160
Solvency ratio (percentage values)	13.7	12.3	9.3
Tier 1 capital/risk-weighted assets (percentage values)	14.2	14.6	10.2
Available capital margin (in millions of Euro)	48	16	-37
Financial leverage	15.3	16.0	24.0

Notes:

* In 2019, the figures shown pertain to 5 banks in respect of all items, while in 2017 and 2018 they pertain to 6 banks, excluding 1 intermediary that was not operational in 2017.

** Subscribed capital not paid in is not included in net equity.

1.1.8 Profitability and efficiency

Net operating results for the year showed a loss of EUR 200 million due to a total loss of EUR 204 million, which was mainly driven by the loss (EUR 148 million) resulting from the extraordinary administration proceedings involving Banca Cis following adjustments made to asset values, which were only partly offset by the profits earned by an institution in the region of EUR 5 million.

¹¹ Further details are provided in paragraph 2.1.1.

Interest margin decreased from EUR 44 million to EUR 37 million at the end of 2019 (-14.4%). More specifically, interest received and other proceeds decreased by 15.8%, standing at EUR 68 million, while interest paid and other costs, totalling EUR 31 million, showed a 17.6% decrease.

Table 7 shows the trend in the average interest rate on loans to customers gross of adjustments and of the average interest rate on collection of savings. Between 2018 and 2019, both indicators showed a decline, with the average interest rate on gross loans dropping from 2.16% to 2.04% and the average interest rate on collection of savings dropping from 0.91% to 0.80%¹². The differential between the two average rates was therefore 1.24% (previously 1.25%).

The ratio of interest-bearing assets to interest-paying liabilities¹³ at the end of 2019 was down compared to the previous year and stood at 71.9% (74.5% at the end of 2018). The average return on interest-bearing assets stood at 2.46%, (2.66 in the previous year). The average cost of interest-paying liabilities also dropped by 12 basis points, coming in at 0.81%¹⁴.

Service revenues increased by EUR 7 million over the previous period, standing at EUR 64 million, mainly due to the recognition of higher principal portions of finance lease instalments held under "other operating proceeds".

Mediation margin stood at EUR 105 million, showing a EUR 18 million increase over the previous period (+20.8%), mainly due to the significant improvement in "Net profit (loss) from financial transactions" (up EUR 3 million), as opposed to net losses totalling EUR 15 million in 2018. Operating costs came in at EUR 113 million, increasing by about EUR 4 million compared to the previous period. This change was essentially due to an increase in "Value adjustments on intangible and tangible fixed assets" related, with regard to the recognition of the principal portions of lease instalments, to the above-mentioned item "other operating proceeds", partly offset by a reduction in administrative costs to the extent of EUR 4 million. Gross operating margin, i.e. gross mediation margin net of operating costs, showed an improvement compared to the previous period (up EUR 14 million), although it was still down by EUR 8 million. The system-wide cost to income ratio (operating costs/mediation margin ratio) decreased from 125.4% at 2018 year end to 107.8%.

Net operating income fell from -EUR 81 million to -EUR 186 million. The system-wide result was mainly due to the sum of "value adjustments on credits and provisions for guarantees and commitments", "value adjustments on financial fixed assets", "provisions for risks and charges" and "provisions for loan losses", which, net of "value recoveries on credits and provisions for guarantees and commitments", totalled EUR 178 million, showing a EUR 119 million increase over the amount reflected in the previous financial year. This increase was mainly due to adjustments to credits made following the extraordinary administration proceedings involving Banca Cis.

The extraordinary operating balance stood at -EUR 11 million, while income tax expense for the year totalled -EUR 1 million.

¹² The average interest rate on loans at time t is calculated considering, in the numerator, the interest received on loans to customers as resulting from the financial statements submitted by the banks at time t and, in the denominator, the arithmetic average of loans, calculated net of adjustments at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts), referring to the same banks reporting for the numerator. The average interest rate on collection of savings at time t is calculated considering, in the numerator, interest paid on debts with customers and on debts represented by financial instruments (including subordinated debt) as resulting from the financial statements submitted by the banks at time t , and, in the denominator, the arithmetic average of collection of savings at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts), referring to the same banks reporting for the numerator.

¹³ Interest-bearing assets consist of net loans to customers, net loans to credit institutions and debt securities (excluding accruals derived from regulatory report on the statement of accounts), while interest-paying liabilities include debts with customers, debts with credit institutions and debts represented by financial instruments (including subordinated debt and excluding accruals derived from regulatory report on the statement of accounts).

¹⁴ The average yield of interest-bearing assets at time t is calculated by comparing the sum of interest received on loans to customers, loans to credit institutions and debt financial instruments, referring to time t , with the arithmetic average of interest-paying assets at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) and considering, in the denominator, the same banks reporting for the numerator. The average cost of interest-paying liabilities is calculated by comparing the sum of interest paid on debts with customers, debts with credit institutions and debts represented by financial instruments (including subordinated debt), referring to time t , with the arithmetic average of interest-paying liabilities at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) and considering, in the denominator, the same banks reporting for the numerator.

Finally, the Fund for general banking risks showed a EUR 2 million change relating to prudential provisions made by an institution from a portion of the net result achieved.

Table 7 - Reclassified profit and loss account of the banking system

Reclassified profit and loss account	2017	2018	2019	Absolute change (2019-2018)	% change (2019-2018)*
1 - Interest received and other proceeds	85	81	68	-13	-15.8%
2 - Interest paid and other costs	-44	-37	-31	6	17.6%
A - Interest margin	41	44	37	-6	-14.4%
3 - Commissions earned	21	22	24	2	9.4%
4 - Commissions paid	-4	-5	-6	-1	-20.5%
5 - Other operating proceeds	35	42	47	5	11.9%
6 - Other operating costs	-1	-1	-1	1	48.1%
B - Service revenues	51	58	64	7	11.4%
7 - Dividends and other proceeds	1	1	1	0	-34.0%
8 - Profits (losses) on financial transactions	4	-15	3	18	119.5%
C - Mediation margin	96	87	105	18	20.8%
9 - Administrative costs	-65	-65	-61	4	6.6%
10 - Value adjustments on intangible and tangible fixed assets	-39	-44	-53	-8	-19.1%
D - Operating costs	-104	-109	-113	-4	-3.8%
E - Gross operating margin	-8	-22	-8	14	62.8%
11 - Provisions for risks and charges	0	-8	-11	-4	-49.8%
12 - Provisions for loan losses	0	0	-1	-1	
13 - Value adjustments on credits and provisions for guarantees and commitments	-31	-49	-163	-113	-230.6%
14 - Value recoveries on credits and provisions for guarantees and commitments	10	14	13	-1	-6.7%
15 - Value adjustments on financial fixed assets	-17	-15	-16	0	-3.2%
16 - Value recoveries on financial fixed assets	0	0	0	0	
F - Net operating income	-46	-81	-186	-105	-130.6%
17 - Extraordinary proceeds	9	8	7	-1	-17.9%
18 - Extraordinary costs	-9	-14	-17	-4	-26.0%
G - Gross operating margin of extraordinary operations	0	-6	-11	-5	-92.0%
H - Gross margin	-46	-86	-196	-110	-128.2%
19 - Income taxes for the financial year	-1	5	-1	-7	-123.5%
I - Net result**	-48	-81	-198	-117	-144.6%
20 - Change in the Fund for general banking risks	-1	2	-2	-4	-200.0%
Operating results	-48	-79	-200	-121	-153.3%

Notes: figures in millions.

* Percentage changes take into consideration the algebraic sign of the amounts to which they refer.

** Gross of changes to the fund for general banking risks.

Table 8 - Average interest rates on loans and funding

	2018	2019
Average interest rate on loans*	2.16%	2.04%
Average interest rate on collection of savings	0.91%	0.80%
Spread	1.25%	1.24%

Notes:

* Interest is calculated by considering loans gross of value adjustments.

To calculate average interest rates, the amount of interest derived from the financial statements submitted by the banks in the reporting period will be considered in the numerator, while in the denominator account will be taken of the average value of the stocks of the past two financial years (excluding accruals derived from regulatory report on the statement of accounts) relating to the same banks reporting for the numerator.

Figure 12 - Contribution of the main profit and loss account items to the change in the operating results between 2018 and 2019

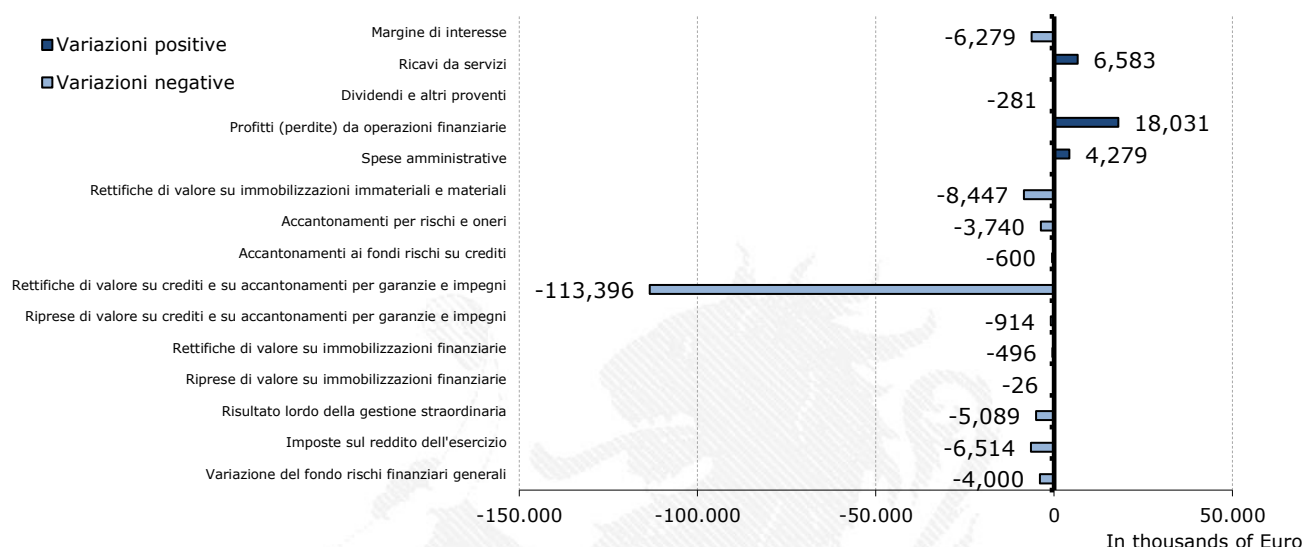


Figure 13 highlights the trend in system-wide operating results over the past 5 years.

Figure 13 – Operating losses

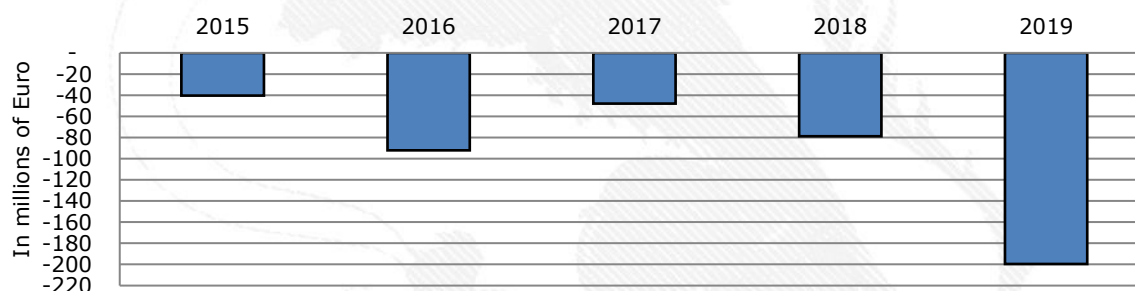


Table 9 shows the key profitability, cost and efficiency indicators of the banking system, calculated for the 2017-2019 three-year period. In this regard, ROA and ROE indicators showed extremely negative values and declined compared to the previous period. This was due to the significant system-wide loss for the year, mainly due to the result of the extraordinary administration proceedings involving Banca Cis.

As regards the cost and efficiency indicators, the average labour costs and administrative costs per employee decreased compared to the previous period and stood at approximately EUR 69,000¹⁵ (EUR 72,000 in 2018) and EUR 120,000 (EUR 122,000 in 2018), respectively.

Table 9 - Main profitability, cost and efficiency indicators

	2017	2018	2019
Profitability indicators			

¹⁵ Labour costs do not include directors' and auditors' fees.

	2017	2018	2019
Return on Average Assets (ROA)*	-1.0%	-1.7%	-4.2%
Return on Average Equity (ROE)**	-14.4%	-24.5%	-71.8%
Interest received/Interest-bearing assets	2.55%	2.66%	2.46%
Interest paid/Interest-paying liabilities	1.06%	0.93%	0.81%
Interest margin/Mediation margin***	42.4%	50.2%	35.6%
Interest margin/Total assets	0.8%	0.9%	0.9%
Mediation margin/Total assets	2.0%	1.9%	2.4%
Gross operating margin/Total assets	-0.2%	0.5%	-0.2%
Cost and efficiency indicators			
Labour costs/number of employees (<i>in thousands of Euro</i>)	68.8	71.7	68.8
Administrative costs per employee (<i>in thousands of Euro</i>)	121.4	122.4	119.7
Mediation margin per employee (<i>in thousands of Euro</i>)	180.3	164.4	207.7
Gross operating margin per employee (<i>in thousands of Euro</i>)	-15.2	-41.8	-16.3
Total funding per employee (<i>in thousands of Euro</i>) ****	11,239	10,811	10,686
Net loans to customers per employee (<i>in thousands of Euro</i>) ****	4,129	3,854	3,462
Cost-Income Ratio (operating costs on mediation margin) ***	108.4%	125.4%	107.8%
Value adjustments on credits/Gross loans to customers ***	1.0%	1.7%	6.2%

Notes:

* Calculated as the ratio between net operating income and average total assets at time t and time t-1.

** Calculated as the ratio between operating results and average net equity at time t and time t-1.

*** Calculated considering, in the numerator and denominator, the information gathered from the banks' financial statements at the end of the year.

**** Calculated considering average values at time t and time t-1 in the numerator and denominator.

The remaining indices are calculated based on average denominator values for the period at time t and time t-1.

1.1.9 Liquidity

The key indicator used to review the liquidity profile consists of the liquidity position at 7 days, which at the banking system level is calculated as the sum of assets that can be liquidated within 7 days (cash and free financial instruments) and loans, net of debts, with foreign banks and Central Bank¹⁶, again due and payable within 7 days.

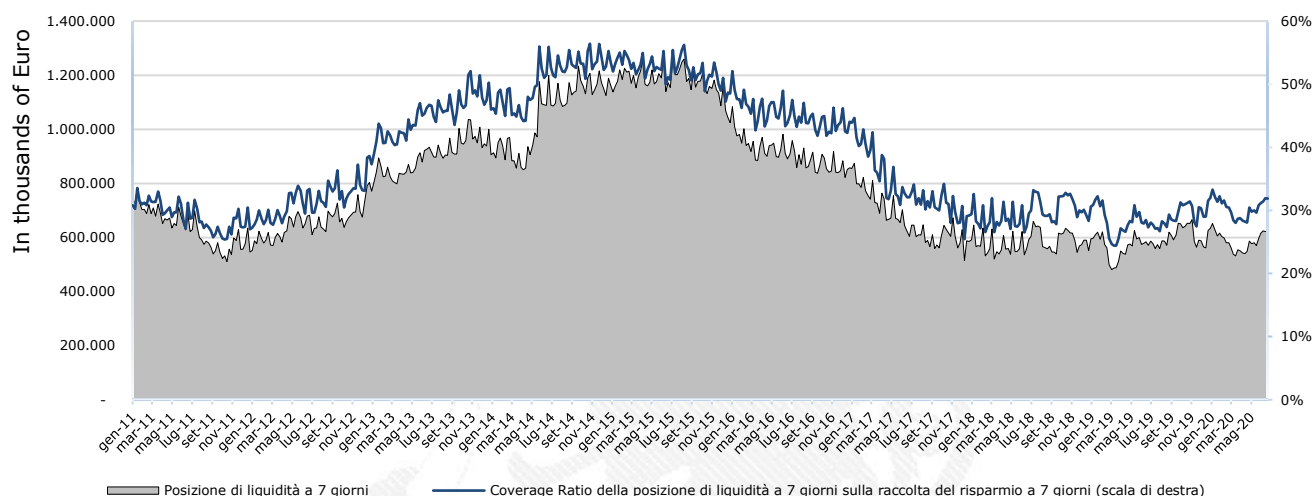
The 7-day liquidity position at the end of 2019 stood at EUR 626 million, showing a EUR 76 million (+13.7%) increase over 2018. At the end of June 2020, the 7-day liquidity position stood at the same levels as seen at 2019 year end (EUR 623 million).

Looking at average quarterly values, in 2019 the aggregate showed an upward trend, increasing from EUR 557 million in the first quarter to EUR 614 million in the fourth quarter. The second and third quarters of 2019 showed average quarterly figures, standing at EUR 575 million and EUR 591 million, respectively. The 1-month liquidity position, which includes assets that can be liquidated within one month and 1-month net loans to the Central Bank, stood at EUR 648 million and EUR 630 million at the end of 2019 and at the end of the first half of 2020, respectively.

The ratio between the 7-day liquidity position and the 7-day collection of savings (a.k.a. coverage ratio) at the end of 2019 and the end June 2020, stood at 31.5% and 31.9%, respectively.

¹⁶ As at 22 June 2018, the 7-day liquidity position included net loans to San Marino banks, together with loans to the Central Bank and foreign banks. As of 29 June 2018, net loans to San Marino banks were excluded from the 7-day liquidity position, with the exception of loans to the Central Bank. In addition, effective from that date, the deposit made by banks with the Central Bank for the purposes of the reserve requirement of Article 142 of Law No. 165/2005 was reflected in the "after 3 months" duration bracket, regardless of the number of days remaining for the monthly calculation of the legal reserve amount.

Figure 14 - Trend in system-wide liquidity available at 14 days



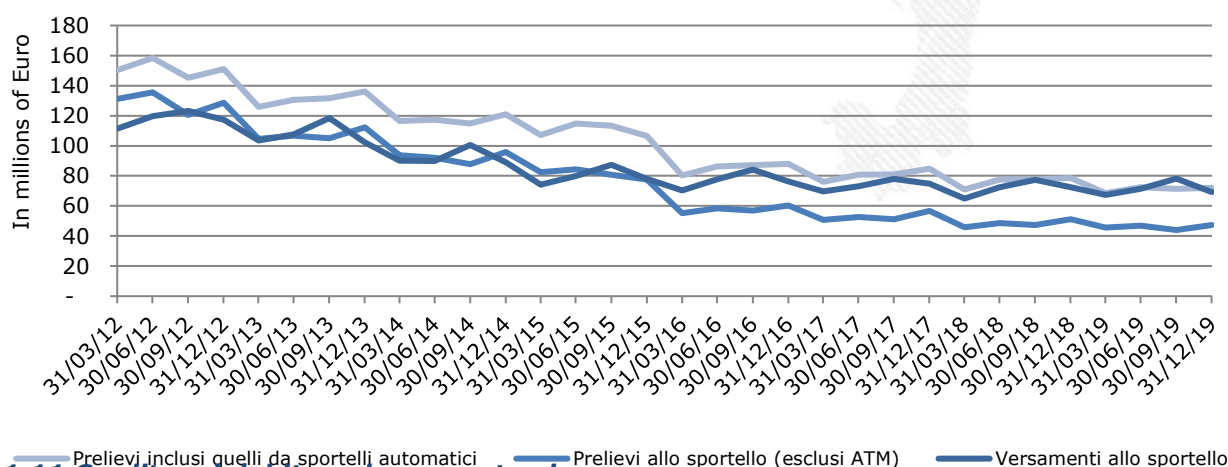
1.1.10 Detection of the use of cash in the banking system

As was the case in previous years, the use of cash by customers within the San Marino banking system decreased, albeit to a lesser extent.

The cash turnover indicator (obtained by benchmarking the quarterly average of withdrawals at the counter, withdrawals from automatic tellers and deposits at the counter against the quarterly average of debts with customers, a figure providing an approximate estimate of the portion of collection that can be used with a monetary function) dropped from 6.7% in 2018 to 6.3% in 2019.

Figure 15 shows the trends in withdrawals at the counter, including withdrawals from ATMs and deposits at the counter recorded quarterly during the 2012-2019 period. The chart shows a decrease in withdrawals at the counter (excluding from ATMs), which dropped from EUR 131 million in Q1 2012 to EUR 47 million in Q4 2019 (down 64%). Cash deposits dropped from EUR 111 million in Q1 2012 to EUR 69 million in Q4 2019 (down 38%).

Figure 15 - Quarterly trend in withdrawals and deposits



1.1.11 Credit and debit card payment volumes

Table 10 below shows the number of cards in circulation, the number and amount of transactions relating respectively to the use of credit cards and debit cards issued by banks in San

Marino and by payment institutions. In particular, the use of credit cards increased between 2018 and 2019, as shown by the number of transactions and related amount, although the number of credit cards in circulation and the number of debit cards decreased.

Table 10 - Credit and debit cards of the San Marino financial system as at 31 December 2019

	2018			2019		
	number of cards in circulation	number of transactions	amount of transactions	number of cards in circulation	number of transactions	amount of transactions
Credit cards	13,306	1,144,787	93,445,504	13,153	1,251,831	99,373,976
Debit cards	35,481	2,933,278	234,144,784	37,751	3,070,219	247,636,612

Notes: Amounts shown in EUR.

With regard to POS¹⁷ acquiring payment transactions, summarised in the following **Table 11**, in 2019 the amount of transactions showed a significant EUR 116 million increase (the amount of transactions increased from EUR 32 million at the end of 2018 to EUR 148 million), with the number of transactions increasing accordingly from 355,000 in 2018 to 1.8 million in 2019. Contributing to the aforementioned increase in 2019 was one operator launching the acquiring activity as early as September 2018.

Table 11 - Payment transactions with (acquiring) merchants

	2018		2019	
	number of transactions	amount of transactions	number of transactions	amount of transactions
Points of Sale (P.O.S.)				
Payment transactions with operators under agreement	355,382	31,704,308	1,837,962	148,175,436
of which with credit cards	165,677	18,189,551	847,343	84,610,572
of which with debit cards	189,705	13,514,757	990,619	63,564,863

Notes: Amounts shown in EUR

1.2 The financial/fiduciary company segment

1.2.1 Size and structure of the system

As at 31 December 2019, the financial/fiduciary company segment consisted of two operators, one of whom engaged solely in fiduciary activities.

The decrease of one unit compared to 2018 was due to the completion in 2019 of the merger by incorporation of a financial company into its parent company. During Q1 2020, the segment did not show any changes in the number of operators.

In the light of the aforementioned merger, a review of the aggregate data shows a significant drop in operating volumes as well as equity. More specifically, at the end of 2019 total assets stood at EUR 11 million, down by EUR 122 million (-91.8%) over 2018, the amount of gross loans in the same period decreased from EUR 103 million to EUR 5 million (i.e., EUR 98 million change, -95.4%), the volume of fiduciary activities showed a EUR 16 million (-21%) drop over the previous year, standing at EUR 59 million.

Table 12 below shows the main size indicators of the segment, including the management of movable assets, the total volume of which stood at EUR 81 million at the end of 2019, up by EUR 3 million compared to the end of 2018.

¹⁷ The data refer to intermediaries qualified to use acquiring licences operating on international circuits.

Table 12 - Key size indicators of the financial sector

Indicators	2017	2018	2019
Number of operators	5	3	2
Total assets (millions)	166	133	11
Gross loans to customers* (millions)	131	103	5
Fiduciary activities (millions)	102	75	59
Movable asset management (millions)	85	78	81
Number of employees	27	9	8
% employees over total employees	0.1	0.0	0.0
Total assets / GDP**	0.1	0.1	0.0

Source: IT, Technology, Data and Statistics Office for the total number of employees.

* This item includes amounts relating to the financial leasing transactions and is shown gross of the value adjustments made on loans.

** Please see note in Table 3 on the updating of the GDP data.

1.2.2 Assets and Liabilities

The sum of assets of the financial and fiduciary company segment as at 31 December 2019 totalled EUR 11 million, showing a EUR 122 decrease (-91.8%) compared to 2018. This decrease was mainly due to the aforementioned merger operation, completed by a banking group, which involved the incorporation of the assets of the subsidiary financial company — which had the highest incidence on total system-wide assets — into the parent bank.

As can be seen from **Table 13** below, all the main asset items changed considerably.

Table 13 - Aggregate balance sheet for the financial/fiduciary company and investment company segment

Assets	2018	2019	% Change	Liabilities	2018	2019	% Change
Loans to credit institutions and loans to customers*	76.1	5.6	-92.6%	Debts with credit institutions	97.9	0.0	-100.0%
<i>of which: financial leasing</i>	24.5	0.9	-96.4%	<i>of which: on demand</i>	6.3	0.0	-100.0%
<i>of which: assets pending financial leasing</i>	27.9	0.3	-99%	<i>of which: term</i>	91.6	0.0	-100.0%
Financial instruments	6.7	5.0	-25.3%	Other debts	4.5	4.0	-10.9%
				<i>of which: debts represented by financial instruments</i>	4.5	4.0	-10.9%
Shareholdings	0.0	0.0		Other liabilities	2.6	0.6	-75.6%
Fixed assets	44.3	0.0	-99.9%				
Other assets	5.7	0.3	-95.4%	Net equity**	27.8	6.3	-77.3%
Total assets	-132.8	10.9	-91.8%	Total liabilities	-132.8	10.9	-91.8%

Notes: figures shown in millions.

* Amounts net of value adjustments. This item includes amounts related to financial leasing transactions held under "Financial Leasing" and "Assets pending financial leasing". These latter two items do not include overdue instalment payments, which are held under "Loans to credit institutions and customers". The assets deriving from the termination of leasing agreements through settlement agreement are included in the "Fixed Assets" item.

** It also includes the profit/loss for the period and the fund for general banking risks.

Total loans to customers and banks, net of value adjustments, stood at EUR 5.6 million, showing a EUR 70.4 million drop (-92.6%); financial instruments held in portfolio (including shares, quotas and other capital financial instruments) decreased by 25.3% to EUR 5 million from EUR 6.7 million posted at the end of 2018. Tangible and intangible fixed assets were nil at the end of 2019 (EUR 44.3 million in 2018). Finally, other assets (including cash and cash equivalents, accrued revenues and deferred expenses and other assets) decreased by 95.4% and stood at EUR 0.3 million compared to EUR 5.7 million at the end of 2018.

Within net loans to customers and banks, loans for lease transactions decreased from EUR 24.5 million at the end of 2018 to EUR 0.9 million (-96.4%); the component related to assets pending financial leasing decreased to EUR 0.3 million from EUR 27.9 million at the end of 2018 (**Figure 18**).

Consistent with the reduction in assets, balance sheet liabilities also showed significant changes in all items with the exception of "Other debts", mainly consisting of "debts represented by financial instruments", which decreased by EUR 0.5 million, standing at EUR 4 million (-10.9%). This item remains the only form of indebtedness of the segment under review and consisted of bonds issued (**Figure 19**).

More specifically, following the aforementioned merger by incorporation of a financial institution into its parent bank, debts with credit institutions were written off (EUR 97.9 million at the end of 2018). The total amount of other liabilities items (including, among other things, "Other liabilities", prudential provisions for future charges and for staff retirement allowances) stood at EUR 0.6 million, showing an overall decrease of EUR 2 million (-75.6%). The total amount of provisions to cover possible future charges decreased from EUR 0,9 million to EUR 0.3 million. Net equity decreased by EUR 21.5 million (-77.3%).

Figure 18 - Breakdown of net loans

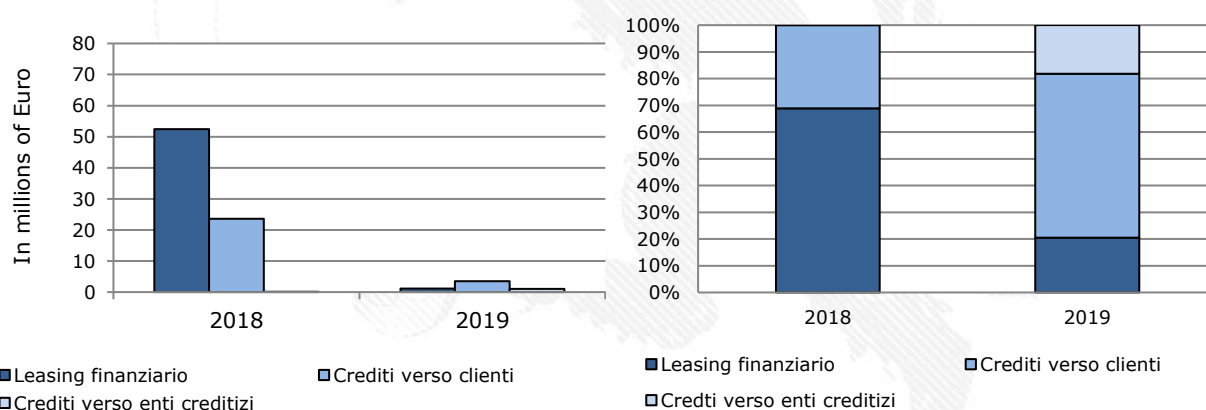
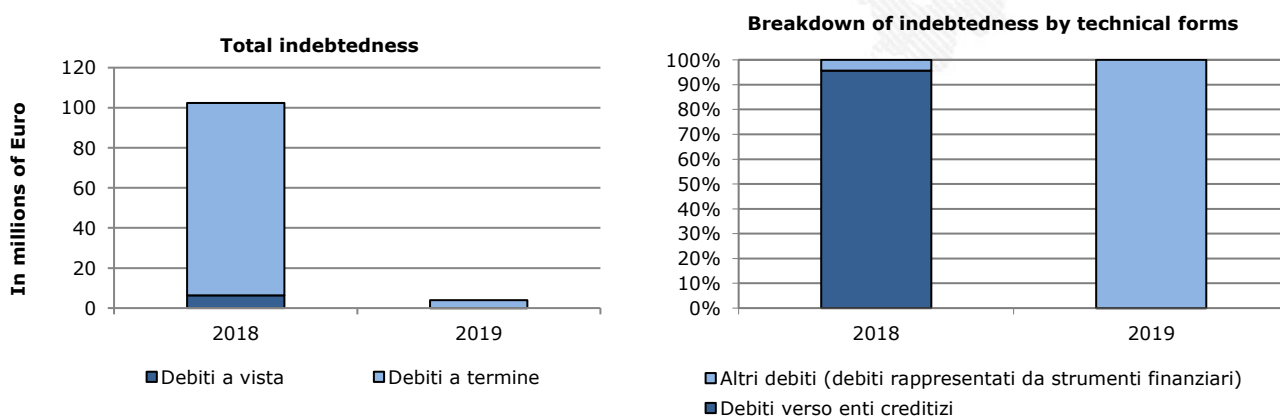


Figure 19 - Indebtedness and breakdown by technical form



1.2.3 Loans to Customers

Gross loans to customers, including financial leasing transactions, totalled EUR 4.8 million at the end of 2019, showing a EUR 98 million drop compared to the previous period (-95.4%) mainly due to the aforementioned effects of the merger by incorporation. This item, at net values, stood at EUR 4.6 million (down EUR 70 million over the previous period).

In particular, gross non-performing loans to customers, which represented the main component of loans at the end of 2018 (91.9%), totalled EUR 0.3 million at the end of 2019, down by EUR 94 million (-99.7%), while impact on total loans stood at 6.7% (91.9% at the end of 2018) (**Table 14**).

Table 14 - Loan quality indicators.

Indicators	2018	2019
Gross non-performing loans / Gross loans	91.9%	6.7%

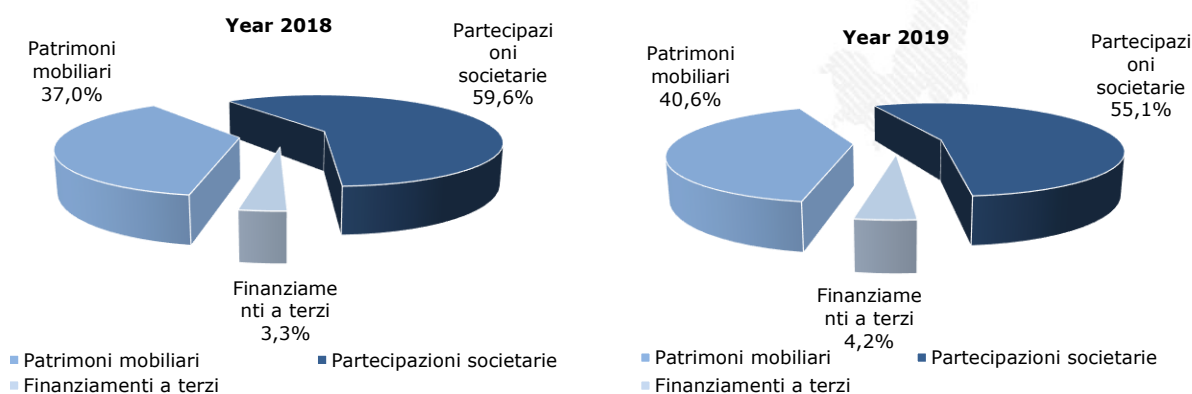
1.2.4 Fiduciary activities

As at 31 December 2019, the volumes shown by companies authorised to engage in fiduciary activities totalled EUR 59 million, down by EUR 15.7 million (-21%) over 2018. This change was chiefly attributable to one intermediary of the segment.

The amount pertaining to the financial/fiduciary company segment accounted for 38.6% of total fiduciary activities, considering that the remainder (61.4%) was managed by credit institutions.

As regards the breakdown of fiduciary activities by technical form, the most significant component regards the fiduciary administration of equity investments (type 2), which stood at EUR 32.5 million, having an impact 55.1% over the total, down by EUR 12 million over the previous period. The management of movable assets (type 1), standing at EUR 24 million and accounting for 40.6% of the total, was on the other hand down by EUR 3.7 million over the previous period. The remaining type (fiduciary loans to third parties) came in at EUR 2.5 million (same value as 2018). As in the previous financial year, at the end of 2019 no mandates pertaining to the fiduciary administration of other movable or intangible assets (type 4) were recognised either.

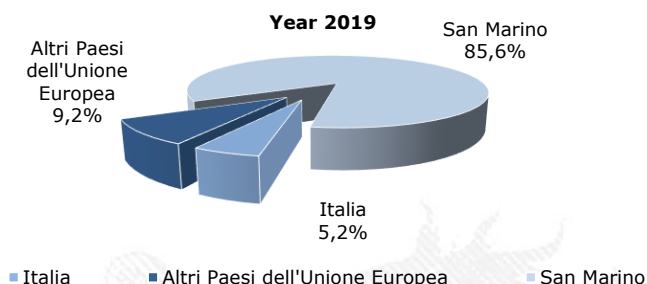
Figure 20 - Breakdown of fiduciary activities by technical form



The reclassification of the figures concerning the type-2 mandates known as "Fiduciary administration of equity investments" by country of residence of the investors showed a prevalence of San Marino companies (85.6% of the total amount). Other Countries of the European Union (9.2%)

and Italy (5.2%) follow as countries of establishment of the companies held on a fiduciary basis (**Figure 19**).

Figure 21 - Fiduciary administration of equity investments - breakdown of the value of units by country



1.2.5 Equity

The net equity of the system of financial and fiduciary companies at the end of 2019 stood at EUR 6.3 million, showing a EUR 21.5 million decrease compared to the previous year (-77.3%). As already noted, this decrease was mainly due to the aforementioned merger by incorporation. The segment's equity consisted mainly of positive components in their full amount: subscribed capital (EUR 4.5 million), reserves (EUR 0.4 million), fund for general banking risks (EUR 0.9 million), and operating profit for the year (EUR 0.5 million). The equity to total assets ratio increased from 20.9% in the previous period to 57.6%.

1.2.6 Profitability and efficiency

The net system operating results of the financial-fiduciary company segment for 2019 stood at EUR 0.5 million as opposed to a loss of EUR 1.7 million posted in 2018. Profit and loss account data were affected by the considerable reduction in all the items that make up such account as a result of the aforementioned merger by incorporation of a financial company into its parent bank. However, some interim results improved, such as gross operating margin, which returned to show a positive trend.

A review of the reclassified profit and loss account (**Table 15**) shows a reduction in mediation margin, from EUR 5.1 million to EUR 1.9 million (-63%), mainly due to a EUR 0.4 million (82.1%) drop in interest received and other proceeds and lower service revenues (most notably in "Other operating proceeds"), which stood at EUR 0.9 million (-76.2%). Operating costs decreased by EUR 3.3 million (-73.6%) and stood at EUR 1.2 million as a result of a decrease in value adjustments on intangible and tangible fixed assets, including depreciation on leased assets, which decreased from EUR 2.7 million to EUR 0.4 million (-86.7%) as well as administrative costs, which decreased from EUR 1.8 million to EUR 0.8 million (-53.7%). The weight of operating costs on mediation margin (Cost-Income Ratio) decreased from 87.7% in 2018 to 62.5%. Gross operating margin stood at EUR 0.7 million (+12.8%). Provisions and value adjustments, net of value recoveries, dropped from EUR 2 million to EUR 0.1 million. In this regard, value adjustments and recoveries on credits and provisions for guarantees and commitments dropped by EUR 2.5 million and EUR 0.7 million, respectively, with provisions for risks and charges also dropping by EUR 0.3 million.

Gross operating margin, totalling EUR 0.7 million, net of provisions for general banking risks to the extent of EUR 0.3 million, resulted in operating results of EUR 0.5 million.

Table 15 - Reclassified profit and loss account for the financial/fiduciary company segment

Reclassified profit and loss account	2018	2019	Absolute change	% change *
1 - Interest received and other proceeds	2,038	365	-1,673	-82.1%
2 - Interest paid and other costs	-18	-55	-37	-203.6%
A - Interest margin	2,020	310	-1,710	-84.6%
3 - Commissions earned	1,472	668	-804	-54.6%
4 - Commissions paid	-46	-41	6	12.1%
5 - Other operating proceeds	2,846	308	-2,539	-89.2%
6 - Other operating costs	-463	-28	434	93.8%
B - Service revenues	3,809	907	-2,903	-76.2%
7 - Dividends and other proceeds	1	17	16	1876.2%
8 - Profits (losses) on financial transactions	-693	668	1,361	196.5%
C - Mediation margin (A+B+7+8)	5,137	1,901	-3,236	-63.0%
9 - Administrative costs	-1,790	-828	962	53.7%
10 - Value adjustments on intangible and tangible fixed assets	-2,715	-361	2,354	86.7%
D - Operating costs	-4,506	-1,189	3,316	73.6%
E - Gross operating margin (C-D)	632	712	81	12.8%
11 - Provisions for risks and charges	-275	-47	229	83.1%
12 - Provisions for loan losses	-24	-20	4	17.7%
13 - Value adjustments on credits and provisions for guarantees and commitments	-2,483	-16	2,467	99.3%
14 - Value recoveries on credits and provisions for guarantees and commitments	748	17	-732	-97.8%
15 - Value adjustments on financial fixed assets	0	0	0	
16 - Value recoveries on financial fixed assets	0	0	0	
F - Net operating income	-1,402	646	2,049	146.1%
17 - Extraordinary proceeds	533	104	-429	-80.5%
18 - Extraordinary costs	-324	-30	295	90.9%
G - Gross operating margin of extraordinary operations	209	74	-135	-64.5%
H - Gross margin	-1,193	721	1,914	160.4%
19 - Income taxes for the financial year	-458	-4	454	99.2%
I - Net result	-1,652	717	2,368	143.4%
20 - Change in the Fund for general banking risks	0	-255	-255	
Operating results	-1,652	462	2,114	128.0%

Notes: Figures shown in thousands of Euro.

* Percentage changes take into consideration the algebraic sign of the amounts to which they refer.

The main profitability indicators and efficiency profiles changed on the upside. More specifically, ROA rose from -1% to 0.9%, ROE stood at 2.7% as compared to -5.8% posted in the previous period and administrative costs per employee dropped from EUR 112,000 to EUR 98,000 (Table 16).

Table 16 - Main profitability and efficiency indicators

Indicators	2018	2019
Return on Average Assets (ROA)*	-1.0%	0.9%
Return on Average Equity (ROE)**	-5.8%	2.7%
Cost-Income Ratio***	87.7%	62.5%
Administrative costs per employee****	112.3	98.0

Notes:

* Calculated as the ratio between net operating income and average total assets at time t and time t-1.

** Calculated as the ratio between operating results and average net equity at time t and time t-1.

*** Calculated as the ratio between operating costs and mediation margin.

**** Figures shown in thousands of Euro. Calculated as the ratio between administrative costs and average number of employees, both referring to the operators working during the year under review.

1.3 Rest of the System

1.3.1 Asset Management Companies (AMCs)

The structure of this segment remained stable in 2019, with 3 asset management companies being authorised to provide collective investment services.

Overall, at the end of 2019, the number of mutual funds established under San Marino law, active and managed by the three AMCs, was 12. In particular, the funds under management are broken down as follows: 7 open-ended funds reserved for the general public, 1 alternative closed-end fund intended for professional clients and 4 funds established pursuant to specific Decree-Laws as part of banking restructuring operations, being closed-end funds reserved exclusively for San Marino banks, the assets of which mainly pertain to non-performing loans.

At the reporting date, the net equity of the aforesaid 12 funds totalled EUR 200 million, showing a EUR 49 million increase over 2018 (EUR 151.2 million).

In this regard, it should be noted that although winding-up proceedings were started for 8 funds in 2019 (1 open-ended fund for the general public and 7 alternative open-ended funds for professional clients), assets under management showed an upward trend compared to the previous year.

Assets under management relating to funds intended for clients— hence excluding those established under specific Decree-Laws and reserved for banks — totalled EUR 117.4 million at the end of 2019, showing an increase of EUR 56.5 million compared to the end of 2018 and accounting, therefore, for approximately 59% of the volumes being referred to.

With reference to the 4 non-performing loan funds, on the other hand, volumes of assets showed a decline, as net equity stood at EUR 82.5 million at the end of 2019 compared to EUR 94.7 million in 2018. These funds accounted for approximately 41% of the volumes being referred to.

During 2019, two authorisations were granted to an AMC for the approval of two regulations governing UCITS III open-ended mutual fund intended for the general public. However, the funds in question were not yet operational at 31 December 2019.

With regard to the funds established under specific Decree-Laws as part of banking restructuring operations, it should be noted that a Supervisory Committee was set up under Article 41 of Law 144 dated 21 December 2016. This Committee was tasked, among other things, with discharging duties previously assigned to the Central Bank pursuant to Law No. 189 dated 22 December 2015, to support the Financial Administration in ensuring appropriate assessment of any tax credits referred to in Decree-Law No. 174 dated 27 October 2011 — as amended in its scope of application by Article 8 of Decree-Law No. 61 dated 28 March 2012 — and Decree-Law No. 72 dated 27 June 2013.

During the first quarter of 2020, the legislation relating to the collective investment service segment as set forth in Regulation No. 2006-03 was amended by Regulation No. 2020-01, "Collection of measures designed to revise supervisory provisions currently in force". The amendments involved, among other things, updating the regulatory framework following the issuing of the delegated decrees implementing EU Directives on financial instrument markets.

1.3.2 Insurance Undertakings

In 2019, the two domestic insurance undertakings completed their eleventh year of operation as they continued to engage in risk-taking activities in class of life insurance, primarily by relying on the San Marino banking channel and, secondarily, on the other insurance intermediaries operating in the Republic.

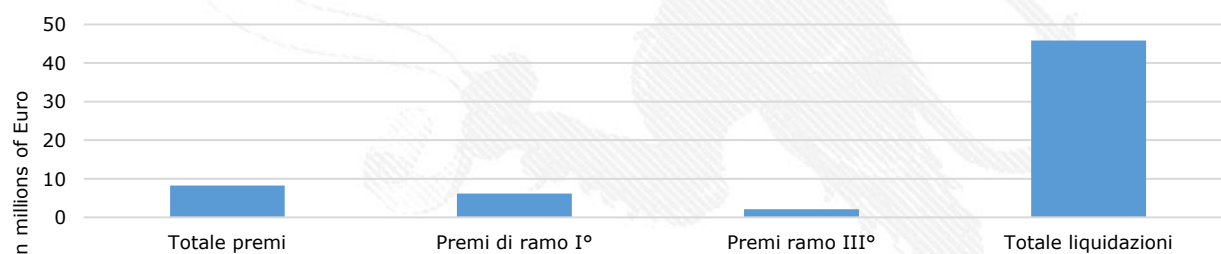
The aggregate of gross premiums recorded¹⁸ in 2019 stood at approximately EUR 8 million, down by approximately 33% compared to the amount collected in 2018. Premiums written in 2019 mainly consisted of traditional products (class I), accounting approximately for 75% of total gross premiums recorded in 2019, which, however, showed an increase in both the amount booked and as a percentage of the total compared to 2018.

As regards settlements, in 2019 the related amount stood approximately at EUR 46 million, showing an increase in the region of 13% compared to the amount liquidated in 2018. In particular, it should be noted that approximately 75% of total settlements related to requests for early redemption, pertaining mainly to financial insurance policies with dedicated assets.

Net collection (the difference between premiums and settlements) therefore showed a negative balance of approximately EUR 38 million, down approximately 34% over 2018.

The breakdown and performance of domestic business written at 31 December 2019 are provided below.

Figure 22 - Breakdown of domestic business written as at 31 December 2019



Source: supervisory report (figures shown in in millions of Euro)

Table 17 - Performance of domestic business written as at 31 December 2019

	Class I	Class III	Total 2019	Total 2018	Annual change (%)
Gross premiums recorded	6,151	2,071	8,222	12,292	-33%
Number of new policies	234	82	316	363	-15%

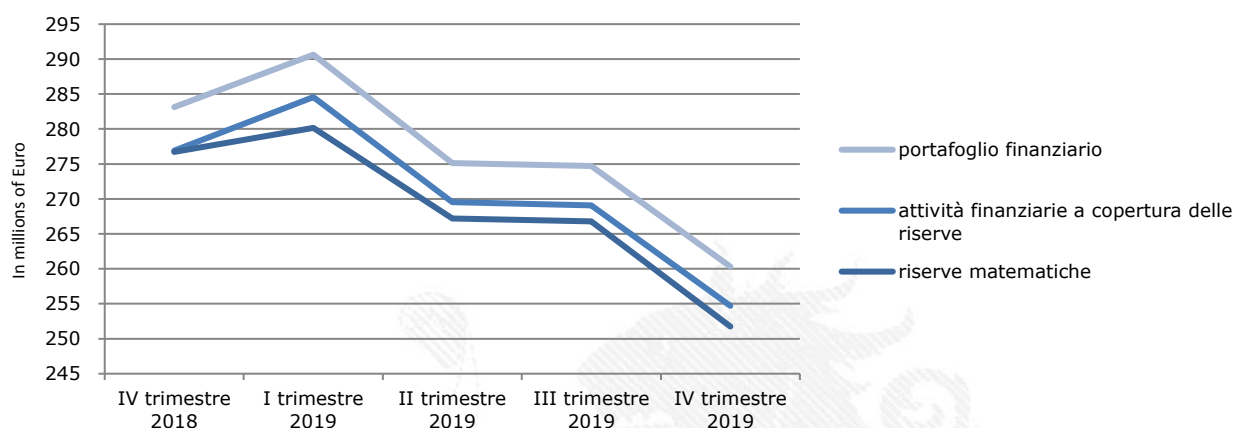
Source: supervisory report (amounts of premiums shown in thousands of Euro)

As at 31 December 2019, the overall book value of the investments of domestic insurance companies stood at approximately EUR 260 million, showing a decrease of around 8% compared to the amount posted as at 31 December 2018. Below is the volume of financial investments as

¹⁸ The relevant definition is provided in Annex F to Regulation No. 2009-01.

benchmarked against the trend in total assets covering technical reserves and the volume of mathematical reserves.

Figure 23 - Volume of financial assets and mathematical reserves (financial portfolio)



Source: supervisory report (figures shown in in millions of Euro)

Table 18 - Volume of financial assets and reserves

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Annual change (%)
Financial portfolio	283,130	290,632	275,141	274,700	260,313	-8%
Financial assets used to cover technical reserves	276,922	284,565	269,531	269,087	254,708	-8%
Mathematical reserves	276,716	280,158	267,202	266,790	251,750	-9%

Source: supervisory report (figures shown in thousands of Euro)

As regards the performance of the investment portfolio (reflected at book value, including accrued revenues) and the mathematical reserves, a positive difference is observed between the overall financial assets held and the mathematical insurance reserves. It should also be noted that the financial assets allocated directly to cover technical reserves (at book value, including accrued revenues) remained adequate, albeit showing a constant decrease.

In addition, it should be noted that the downward trend in assets under management and mathematical reserves resulted primarily from the negative amount of net collection and pertained chiefly to financial insurance policies (Class III), the mathematical reserves of which accounted for approximately 73% of the total at the end of 2019. In this connection, it should be noted that the amount of financial assets included in the separate internal management of products that are subject to revaluation (at book value, including accrued revenues) stood at approximately EUR 67 million, virtually unchanged compared to 2018.

A review of the breakdown of the held financial portfolio (market value as at 31 December 2019) shows a predominance of investment in bonds, liquid assets and units of mutual investment funds. The latter are basically used for structuring and hedging unit-linked type financial insurance products. It should likewise be noted that the equity sub-fund and "other" assets, which mainly comprised of certificates of deposit, did not have a significant impact on the portfolio make-up.

1.3.3 Insurance and reinsurance intermediaries

At the end of 2019, the Public Register of Insurance and Reinsurance Intermediaries consisted of 37 entities who conduct business, including natural persons and sole proprietorships (6 entities), legal persons in the form of non-financial companies (25 entities) and financial companies (6 entities). In 2019, cancellations from and enrolment in the aforesaid Register totalled 4 and 4, respectively.

Table 19 - Number of entities registered with the Register of insurance and reinsurance intermediaries who conduct business

	Section A Natural persons and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Active	5	24	4	33
Suspended/not operating	1	1	2	4
Total	6	25	6	37

Source: Register of insurance and reinsurance intermediaries

It should also be noted that at 31 December 2019, an additional 47 natural persons registered with Section A as Heads of insurance mediation activities not conducting business.

As regards the volume of the activities carried out by the registered intermediaries, the amount of premiums collected in aggregate in 2019 for foreign insurance companies totalled approximately EUR 55.1 million, of which approximately EUR 36.7 million related to the class of non-life insurance, and EUR 18.4 million related to the class of life insurance.

An overview of the breakdown of the amount of premiums collected by type of intermediary and insurance class in 2019 is provided in the table below.

Table 20- Amount of premiums collected by type of insurance intermediary and insurance class

	Section A Natural persons and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Class of Life Insurance	8.3	10.1	-	18.4
Class of Non-life Insurance	8.4	28.2	0.1	36.7
Total	16.7	38.3	0.1	55.1

Source: Central Bank – Report on the activities performed by insurance and reinsurance intermediaries (figures shown in in millions of Euro)

It should be noted that mediation activities performed by financial companies for foreign insurance companies was most negligible, given that these intermediaries are mostly active in mediation on behalf of San Marino insurance companies.

A breakdown of the amount of premiums collected by policyholder-type and insurance class in 2019 is outlined below.

Table 21 - Amount of premiums collected by policyholder type and insurance class

	Policyholder Resident in San Marino	Policyholder Resident abroad	Total
--	--	-------------------------------------	--------------

Class of Life Insurance	17.8	0.6	18.4
Class of Non-life Insurance	34.9	1.8	36.7
Total	52.7	2.4	55.1

Source: Central Bank – Report on the activities performed by insurance and reinsurance intermediaries (figures shown in in millions of Euro)

1.3.4 Cold-Calling Parties

The activities of cold-calling parties in the Republic of San Marino are governed by “Regulation No. 2014-01 on financial promotion and cold-calling”, as amended from time to time, such Regulation establishing the regulatory framework and the Public register dedicated to financial promoters and cold-calling parties.

Regulation 2014-01 established the public Register of Financial Promoters, including a specific section dedicated to the employees of cold-calling authorised entities.

In 2019 and during the first quarter of 2020, no new applications for registration with the Register of Financial Promoters were received and the 2 applications submitted in 2018 and still under evaluation in 2019 were not finalised. As a result, as at 31 December 2019 and 31 March 2020, the Register of Financial Promoters had zero members.

In addition, during 2019 no applications were received for registration with the employee section of authorised entities acting as cold-calling parties, while two applications for cancellation submitted by as many employees were upheld.

As at 31 December 19 and 31 March 2020, therefore, 36 employees of authorised entities engaging in cold-calling were registered with the Register section.

2 INSTITUTIONAL FUNCTIONS

2.1 Supervision and Protection of Investors

2.1.1 Supervisory policy

During 2019, the process of prudential review of the AQR results continued through exchanges and discussions with banks in order to determine capital requirements and identify the necessary ensuing actions to achieve capital and organisational strengthening as required by the Supervisory Authority. The evaluation cycle was completed in early 2020. It required a considerable effort on the part of corporate bodies to fine-tune the 2020-2022 business plans with the aim of achieving, over the medium term, income balance conditions.

In this regard, special attention was paid to the following profiles:

- Reduction of operating costs, the level of which must be consistent with current operations and the market context. The results achieved in this respect were still insufficient and, if lasting, may cause the objective of safeguarding current employment levels to be frustrated;
- Progressive removal of distortions affecting the calculation of regulatory capital as a result of regulatory interventions that allowed net losses and/or value adjustments on credits to be diluted between 2017 and 2018. Without prejudice to the value of the aforementioned accounting provisions, assets must — from a prudential perspective — indeed consist of readily available resources in order to deal with unexpected losses;
- Focus of banking business on the core business as opposed to management and recovery of non-performing loans, both being largely fruitless. Non-performing loans inherited take up a significant share of the professional and financial resources of banks, requiring time and effort on the part of corporate bodies. From this perspective, the banking system will be able to benefit from the introduction of provisions on securitisation and streamlined procedures for the recovery, including through legal proceedings, of assets pledged as collateral for loans. The establishment of a system servicer, with the involvement of banks and specialised partners, is a goal to be pursued with determination;
- Adequacy and effectiveness of internal control systems, considering the operational background and the ensuing importance of strategic risk.

The Supervisory Authority provided support to the operators in understanding the rules and ensuring gradual compliance with the European Union's regulations, ultimately seizing the opportunity to strengthen the governance structures (see 2.1.4 below) and the banks' ability to compete, with the aim of enabling the domestic financial system to seamlessly integrate with the international capital market. To this end, bilateral agreements with supranational institutions and foreign central banks (in the short term) and the EU Association Agreement (in the medium term) also played a role.

Supervision activities gained momentum during 2019 thanks to the collaboration with the Financial Intelligence Agency targeted at identifying any conduct deviating from the principles of sound and prudent management, especially when granting loans, thereby bearing out the effectiveness of an integrated approach to the controls carried out by several Authorities.

Unfortunately, the first months of 2020 were marked by the dramatic evolution of the COVID-19 pandemic, with inevitable repercussions on the country's economy and on the banking sector.

In response to the independent initiatives taken by the Bankers' Association of San Marino (see press release of 18 March 2020) and by the Government (with Legislative Decree No. 55/2020 and Legislative Decree No. 63/2020), the Supervisory Authority supported the banks in their effort to help households and businesses by granting suspensions of payments and soft loans, exemptions from capital requirements for new emergency loans (partly backed by the State) and allowing losses

on securities held for trading to be sterilised, such losses being caused by the excessive volatility on the financial markets seen between February and April 2020.

2.1.2 The Supervision Committee

During 2019, the Supervision Committee held 68 meetings, during which 240 decisions were made. The resolutions adopted concerned various aspects, including the technical situation of supervised entities, authorisations, documentary interventions, on-site inspections, and the imposition of administrative sanctions. Decisions were also made regarding supervisory regulations and relations with other Supervisory authorities. A number of decisions were also made regarding the bank that was first subject to extraordinary administration proceedings and then to resolution proceedings under Law No. 102/2019, as well as regarding entities that had been subject to administrative compulsory winding-up in previous years.

Box 1: Status of disputes resulting from supervisory activity

During 2019, new administrative disputes were brought against the Central Bank concerning (i) disciplinary measures adopted against a supervised entity, (ii) the removal from office of a corporate official, (iii) two appeals whereby, following the adoption of an order of resolution, measures were adopted in accordance with Articles 9 and 10 of Law No. 102/2019, (iv) an appeal lodged against a communication from the Central Bank relating to a request submitted pursuant to Article 99 of the LISF.

2.1.3 The Activities of the Supervision Department

The activities of the Organisational Units that make up the Supervision Department were strongly focused on the crisis of a banking intermediary and on the ensuing extraordinary administration proceedings, which were followed by resolution proceedings started under Law 102/2019 (see below).

During 2019, the Department also relied on the technical support of the Finance and Budgetary State Secretariat for the drafting of the Law on bank resolution, the actual application of which to the intermediary in distress required a strong effort on the part of the Department units in the second part of 2019.

For other activities conducted during the period, reference should be made to the individual paragraphs relating to supervisory regulations, on-site inspections and documentary controls as well as a review of system data.

Box 2: Disciplinary procedures and developments in the current business crises

Extraordinary administration proceedings and resolution procedures

In 2019, the Central Bank started administration proceedings against a banking intermediary in accordance with Article 78 of the LISF. In this connection, given the company's lack of liquidity it was also necessary, following a request by the Official Receiver, to suspend payments in accordance with the provisions of Article 82 of the LISF. The extraordinary administration proceedings, therefore, ended on 21 July 2019 with the start, effective 22 July 2019, of the resolution of the bank in question pursuant to Article 4 of Law 102/2019.

Prior to starting the intermediary's resolution process, an in-depth assessment was conducted in respect of possible market initiatives that could allow the bank to be acquired and ensure its restructuring. Such assessments ended with the only request submitted being rejected due to failure to meet the requirements of CBSM regulations, implementing the principles of Law 165/2005.

Following the resolution, all the instruments laid down by Law 102/2019 were implemented and the adoption of a holistic approach allowed several results to be achieved, especially in terms of

depositors' protection, with pension fund deposits being segregated and protected deposits up to EUR 100,000 being transferred to three transferee banks.

Following the activities described above, analyses started to be conducted to define the bank's new mission, together with the projects underway for the management of non-performing loans (NPLs) within the financial system, fully in line with the Financial Sector Strategy (FSS) outlined by CBSM and published on its website⁽¹⁹⁾.

During all phases of the resolution procedure, precautions were taken to allow all stakeholders to gain access to updates about work progress. To this end, a special section of the CBSM website dedicated to the resolution of the intermediary was made available⁽²⁰⁾. Finally, detailed information was provided on the occasion of the publication of CBSM Quarterly Bulletins⁽²¹⁾.

Administrative compulsory winding-ups

During 2019, the Central Bank started administrative compulsory winding-up proceedings against one non-operational bank. As a result, the winding-up of the banking institution had no impact on public savings. Therefore, at the reporting date, 17 administrative compulsory winding-up proceedings were underway, of which 4 related to banks and 13 to financial/fiduciary companies.

Many activities were carried out with regard to disciplinary measures with a view to completing existing procedures within a short timeframe, provided that no ongoing legal proceedings prevented such completion. In this regard, as part of the activities for the management of winding-up proceedings, in 2019 the Central Bank authorised procedures for distribution to assigns, in accordance with the provisions of Article 95(4) of the LISF, and authorised procedures for block transfer of assets, in accordance with the provisions of Article 92(2) of the LISF. Moreover, upon request of the liquidators, in some cases the Central Bank also sought the opinion required under Article 98(4) of the LISF for submitting the declaration of the state of insolvency to the Law Commissioner as well as providing guidance to the liquidators on technical and legal matters.

In the first quarter of 2020, CBSM also authorised the filing of the final documentation for a Procedure, pursuant to Article 96(1) of the LISF:

In general, CBSM's guidelines and policies regarding Procedures are designed to ensure a timely settlement thereof, where possible, in the interest of creditors and with a view to curbing costs for the entire banking and financial system, as well as seeking greater efficiency. For this purpose, as of the end of 2019, all Procedures were required to provide a quarterly periodic report to the Supervisory Authority on the activities carried out during the quarter and to provide an updated status of Procedures underway. Extensive efforts were also made to curb filing costs, which have a significant impact on the costs involved in Procedures, making it possible to achieve important cost savings, together with the support of the FIA, to the extent as lying within its province.

Box 3: Sanctioning proceedings

Proceedings started and sanctions inflicted

In 2019, 46 sanctioning proceedings were started and completed. Virtually all of them concerned corporate officials of authorised entities (Directors, Auditors and Chief Executive Officers), while sanctions inflicted in the same period totalled EUR 84,700. All the entities on whom sanctions were inflicted exercised the right to settlement as laid down by current legislation, paying the sanction in a reduced amount totalling EUR 42,350. The disputed irregularities mainly concerned violations in

⁽¹⁹⁾ Document named "Dinamiche evolutive del sistema bancario sammarinese", Interventi series, No. 5 (<https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/collana-interventi.html>)

⁽²⁰⁾ <https://www.bcsm.sm/site/home/funzioni/funzioni-statutarie/vigilanza/attivita-di-risoluzione/risoluzione-banca-cis--credito-industriale-sammarinese-s.p.a.-in-a.s..html>

⁽²¹⁾ <https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>

prudential matters, with particular regard to the provisions on credit processes and organisational and internal control structures.

During 2019, the new regulations set forth in Article 141(1-bis) of the LISF were also applied for the first time in four cases. According to these regulations, the Supervisory Authority is allowed to inflict a sanction consisting of the order to remedy infringements if the established violations qualify as minor offences and pose little danger. Failure to comply with this "order" within the set time limit will, therefore, result in the infliction of administrative sanctions.

From 1 January 2020 to 31 March 2020, 27 sanctioning proceedings were initiated, and are still underway, against company officials and Heads of organisational units of authorised entities and auditors tasked with account auditing.

2.1.4 Regulatory interventions

With reference to the year 2019 and the first quarter of 2020, it should be noted that the Central Bank issued 2 Regulations addressing supervisory matters, both named "Collection of measures designed to revise supervisory provisions currently in force", the first in Q1 2019 and the second in Q1 2020, notably CBSM Regulation No. 2019-01 and CBSM Regulation No. 2020-01.

In the period under review, emphasis is also placed on the technical support provided to the Finance and Budgetary State Secretariat in the area of banking and financial legislation for the drafting of primary regulatory acts, a description of which is provided in section 2.6.1.

With regard to Regulation 2019-01, in respect of which disclosure was already provided in the previous Annual Report, it should be noted that the aforesaid Regulation amended current supervisory provisions, the most significant of which include:

- The ability for banks and financial companies to lease the property acquired for debt recovery purposes, without prejudice to the objective of selling such property;
- A clarification about banks being prevented from applying penalties or account-closing charges in the event of withdrawal by the customer;
- The requirement for banks to produce a self-assessment document to be submitted to the Central Bank with regard to compliance of its governance with the latest international standards on "fit&proper requirements", which led up to the ensuing adoption of such standards in the Republic of San Marino through the issuance of the aforementioned CBSM Regulation No. 2020-01 in Q1 2020, following completion of the public consultation process started at the end of 2019.

With specific regard to the latter CBSM Regulation No. 2020-01, issued on 18 March 2020, it should be noted that main provisions contained therein include:

- As mentioned earlier, the introduction of a new regulation on the requirements bank corporate officials are required to meet under the amended Article 15 of Law No. 165/2005 (LISF), as implemented by Delegated Decree No. 50/2019, whereby, among other things, Directive 2013/36/EU (known as CRD-IV) was transposed into primary legislation. Following this new legislation, the following measures were introduced:
 - o Fairness criteria, in addition to requirements of good repute;
 - o Competence criteria, in addition to requirements of good repute;
 - o Criteria for the overall suitability of corporate bodies;
 - o Limits on the number of offices that can be held and related term as well as stricter independence requirements by introducing, for example, a nine-year term of office limit for directors and statutory auditors and acknowledging ineligibility in respect of political and/or institutional offices held in the previous two years;
 - o Provisions on the new power of removal of the Central Bank.

- Compliance of the provisions contained in the various sector-specific regulations of the Central Bank with the self-executing provisions contained in Delegated Decrees No. 50 and 61 of 2019 implementing primary legislation, including, among other things, Directives 2013/36/EU (known as CRD-IV) and 2014/65/EU (known as MiFID II);
- The ability, within certain limits, for San Marino insurance companies to offer coverage for loss of employment in addition to life products;
- The introduction of simplification measures, especially with regard to supervisory reporting, as well as free-of-charge supply of "initial information" services regarding the Central Credit Register.

To complete disclosure, it should also be noted that in the first quarter of 2020, among other things, review and drafting efforts were made in respect of two additional regulations. Most notably:

- Amending Regulation No. 2010-01 for the professional practice of the office of trustee in the Republic of San Marino, which was adopted in the second quarter of 2020;
- Regulation on independent financial advisors as under Article 25-bis of the LISF, the subject of which was first addressed in a notice by the Central Bank published on its website on 14 April 2020, with public consultations on the draft regulation starting in the second quarter of 2020 and then finally adopted and issued on 31 July 2020.

With regard to regulatory matters, it should also be noted that in-depth studies have also been carried out since 2019 on crypto-currencies or crypto-assets in general, with an ad-hoc working group also being set up within the Central Bank. In addition to the support provided in this area to other San Marino Offices or Institutions (as also highlighted in section 2.6.1), reference is also made to the notice published by the Central Bank on its website on 12 August 2019 regarding the use of virtual currencies.

Again with reference to supervisory regulations, it should be noted that the constant activity carried out by the Central Bank in respect of the interpretation of provisions issued by it also continued throughout 2019 and in these first months of 2020. To this end, the Central Bank provided feedback to questions raised by both intermediaries operating in San Marino as well as foreign intermediaries or other entities that were at any rate interested in gaining an understanding of San Marino banking and financial regulations.

2.1.5 Supervisory reporting and methodologies

As in previous periods, ordinary supervisory reporting and methodologies activity in 2019 involved managing, processing, and checking the information received from the supervised entities, producing financial reports and statistics as well as updating regulations for preparing supervisory reports and issuing and updating reporting forms and related guides for compilation.

During 2019, discussions were held with the intermediaries concerned for a possible revision of the methods for calculating threshold rates for anti-usury purposes.

Following the onset of the COVID-19 health emergency in March 2020, temporary extensions were granted for the filing of certain supervisory reports as well as exceptions on measurement of financial instruments. In particular, considering the wide volatility shown by financial markets in the initial period of the health emergency, banking and financial intermediaries were granted, among other things, the right to reflect debt financial instruments held at 31 January 2020 at the market value established on that date.

2.1.5.1 Participation in the enhanced General Data Dissemination System (e-GDDS) project

In October 2019, the IMF mission to implement the enhanced General Data Dissemination System (e-GDDS)²² was completed.

e-GDDS, is an advanced statistical data dissemination system, established in 2015 to provide guidance to countries regarding the dissemination of data by supporting transparency, encouraging statistical development and helping to create strong synergies between data dissemination and supervision. e-GDDS replaced GDDS, established by the IMF in December 1997, which San Marino had joined since April 2008.

The purposes of e-GDDS include:

- Encouraging member countries to improve data quality;
- Providing a framework for assessing the need for data improvement and defining priorities to that end;
- Providing guidance to member countries in the dissemination of comprehensive, timely, accessible and reliable economic, financial and socio-demographic statistics to the general public.

e-GDDS also makes it possible to define a path leading to the higher level of data dissemination, i.e. the Special Data Dissemination Standard (SDDS). For further information, please visit the e-GDDS website.

The statistics produced by each national agency are published on the National Summary Data Page (NSDP), the national portal where users can gain direct access to data in Excel and Sdmx format as well as to the documentation supporting the compilation of these statistics.

The Central Bank of the Republic of San Marino contributes to the NSDP by providing the following statistics:

Acronym	e-GDDS category	Frequency	Publication deadline
CBS	Central Bank Survey	Monthly	5 months
DCS	Depository Corporations Survey	Monthly	5 months
INT	Interest Rates	Quarterly	5 months
EXR	Exchange Rates	Daily	Daily
FSI	Financial Soundness Indicators	Quarterly	5 months
FAS	Financial Access Survey	Annual	7 months

2.1.5.2 National and international statistics

The Central Bank has exclusive responsibility for the processing and publication of statistical data relating to the entities and activities supervised by it. Some data are aggregated and processed for statistics intended for publication in the specific section of the website www.bcsm.sm, i.e. they are provided to international organisations, which will in turn include them in the statistics developed on the different world financial systems.

Effective from the second quarter of 2019, the Central Bank publishes a Quarterly Information Bulletin, where the data referring to the banking system are expanded and shown in greater detail as compared to the past, the specifications of which may be viewed in the publications available in the relevant section of the website²³.

Moreover, the return flow is prepared and forwarded to the banks on a regular basis, such flow pertaining to liquidity and the monthly accounting figures on funding and loans.

Statistics regarding the fiduciary activities carried out by banks and financial and fiduciary companies are published every quarter in the reserved area of the website. Effective from the third

²² Full disclosures are available at <https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/e-gdds.html>

²³ <https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>.

quarter of 2019, these statistics refer to the fiduciary activities carried out by the banking and financial system as a whole;

The statistics which the Central Bank forwards to the IMF continued to be produced during 2019:

- Monetary and Financial Statistics (MFS) - These are essentially related to the reclassification of the net equity data of the Central Bank (MFSCBS) and San Marino banks (MFSODC), as well to the data pertaining to the main monetary aggregates (MFSMS) with regard to monetary financial institutions (IFMs) and interest rates (MFSINT) with regard to San Marino banks;
- Financial Soundness Indicators (FSIs) - These statistics provide, among other things, net equity and profit and loss account data as well as liquidity, balance sheet, net equity and prudential indicators for the banking, financial, and insurance systems (FSI1, FSI2, FSID);
- Financial Access Survey (FAS) - It pertains to annual data concerning access to the financial services.

As provided for by the Monetary Agreement between the European Union and San Marino, the Central Bank periodically provides the monetary and financial statistics listed below to the European Central Bank based on the simplified forms agreed upon with the latter:

- Monetary Interest Rate statistics (MIR) - These statistics refer to the interest rates applied by IFMs (see Regulation EU 1072/2013);
- Balance Sheet Items statistics (BSI) - These are statistics on the financial statements of IFMs regarding their assets and liabilities. They are broken down by category, sector and residence (see Regulation EU 1071/2013);
- Quarterly Financial Accounts (QFA) - These are statistics on the quarterly financial accounts regarding total financial assets and liabilities broken down by business segment (see Regulation EU 549/2013).

2.1.5.3 Central Credit Register

As at 31 December 2019, 5 banks, 2 financial companies, 4 mutual investment funds²⁴ and the Central Bank reported to the Central Credit Register (CCR).

During 2019, the aforementioned CBSM Circular No. 2015-02 was amended with a clarification on violations punishable by inflicting administrative sanctions.

The Central Bank checks the data reported to the CCR in order to establish compliance of the disclosures with the required reporting statements, the consistency of the information within the report itself, and compliance with assigned reference parameters. In this regard, a special communication is sent to the intermediaries concerned to notify them of any (i) flows discarded insofar as they contain formally incorrect information, or (ii) established irregularities.

Intermediaries also forward to the CCR qualitative information on the customer's debt situation whenever a change of status occurs, i.e. when an entity is reported as "non-performing" or when such status is removed.

Every month, the CCR provides participating intermediaries with a customised return flow showing the personal details and overall debt with the San Marino credit system of the individual customers and their co-debtors, as reported by the intermediaries themselves. For every name reported, the return flow shows, at the system level, exposure broken down by cash loans, including bad loans, credit commitments, guarantees received, and an information section.

The relevant section of the Central Bank's website ²⁵contains instructions and forms to file a request for gaining access to the data as well as further information on the Central Credit Register (FAQs, information sheet of the CCR and a debtor prospectus reading guide). In this regard, attention

²⁴ Pursuant to Circular 2015-02, participation in the risk centralisation service as under Article 50(2)(a) of the LISF is mandatory for CBSM-authorised mutual funds having more than 50% of their assets invested in credits or assets resulting from the termination of loan agreements.

²⁵ <https://www.bcsbm.sm/site/home/servizi-per-il-pubblico/elenco-dei-servizi/accesso-ai-dati-della-centrale-dei-rischi.html>

is drawn to the possibility for the parties concerned to submit the request for access to CCR data also by registered electronic tNotice or by certified email (P.E.C.).

During 2019, 58 requests for access to data recorded in the CCR repository were processed.

At the reporting date, about 16,000 entities were reported to the Central Credit Register, including natural persons (67.1%), legal persons (18.2%) and joint accounts (14.7%). As at the same date, the following information was provided as a whole: cash loans (drawn amount totalled approximately EUR 3,150 million), credit commitments (drawn amount totalled approximately EUR 246 million) and guarantees received²⁶ (with guaranteed amount and guarantee value totalling approximately EUR 1,798 million and EUR 3,216 million, respectively).

The intermediaries registered with the CCR, through the initial information service, may access risk information relating to the last twenty-four reports. Answers to requests for initial information may include, among other things, the requested party's global risk position towards the system, personal information of co-debtors, risk positions pertaining to joint obligations, personal information and global risk position of guaranteed parties and parties transferred by the entity being enquired about.

In 2019, the Central Credit Register processed about 3,000 replies to requests for initial information sent by participating intermediaries, whereby approximately 33,000 accounting dates were investigated, of which about 13,700 contained information concerning amounts. In the first quarter of 2020, about 650 replies were processed, whereby about 7,200 accounting dates were investigated, of which about 2,800 contained information concerning amounts.

2.1.5.4 Other assets

To the extent as lying within its province, the Central Bank provided its support regarding the IMF missions that took place during 2019 and in early 2020 within the purview of Article IV.

In April and September 2019, the Central Bank had exchanges with Fitch credit rating agency for the purpose of updating the Republic of San Marino's rating.

2.1.6 Controls over the banking and financial system

2.1.6.1 Documentary controls

As part of its supervisory duties, in 2019 the Central Bank continued its documentary control activity taking into account both the total information assets available and, more generally, the data, records and documents that the Supervisory Authority periodically requests from supervised parties on the basis of specific powers granted by the LISF in banking, financial and insurance matters. Documentary control activities are, therefore, also based on the reports submitted by the aforementioned intermediaries and, as such, are subject to the limitations peculiar to "remote" control²⁷.

Within the foregoing areas, off-site supervisory activity consists of a whole range of actions depending on the different situations detected.

Overall, documentary activities conducted in 2019 in respect of authorised entities belonging to the banking, financial, insurance, asset management and payment service sectors, including other insurance intermediaries, financial promoters/cold-calling parties and professional trustees, resulted in 858 documents being produced. The same activities conducted in the first quarter of 2020 resulted in 201 documents being produced.

²⁶ Only personal guarantees and external collaterals are registered in the guarantees received data entry category. Moreover, guarantees that do not originate from independent negotiations between the parties, such as statutory sureties issued by the State, are not included.

²⁷ Documentary analysis entails essentially checking supervisory reports submitted by intermediaries on a regular basis, making it possible to pre-emptively identify any critical situations. It also provides a starting point for any actions to be taken in order to address any irregularities detected and, therefore, to exercise additional on-site supervisory and regulatory powers.

In particular, it should be noted that 121 fact-finding, pre-emptive and corrective actions were carried out in 2019, while documents concerning authorisation procedures totalled 93. The management of formalities to be fulfilled regarding the application of regulations resulted in 82 records being produced. During the first quarter of 2020, documentary activities focused on the management of extraordinary procedures (43 operations), while 17 operations concerned authorisation procedures. Finally, it should be noted that the total amount of the documents produced in the above-mentioned reporting period includes a significant portion that required off-site supervision, i.e. relating to sanctioning procedures, the management of issues related to disciplinary procedures (extraordinary administration and administrative compulsory winding-up), discussions with the bodies of such procedures, which resulted in authorisations and answers to questions of various kinds. The latter category, therefore, includes the extensive correspondence exchanged with the bodies dealing with the extraordinary administration of Banca CIS and, later on, with the bodies dealing with the resolution of Banca Nazionale Sammarinese S.p.A..

In the period from 1 January 2019 to 31 March 2020, the following notices were sent:

- 236 (of which 75 in 2020) relating to the start of sanctioning proceedings and the infliction or dismissal of sanctions;
- 236 (of which 43 in 2020) relating to extraordinary proceedings such as suspension of administrative bodies, extraordinary administration, administrative compulsory winding-up and suspension of payments.

2.1.6.2 *Inspections*

The 2019-2020 inspection plan was prepared using a risk-based approach according to information from the different supervisory services and evidence gathered during previous on-site inspections. The planning took into account (i) the most significant and recurring critical issues identified during the assessments conducted until then — with the aim of making such assessments increasingly effective and efficient — and, following the Asset Quality Review process, (ii) the need to check the implementation status of risk level definition strategies (RAS and RAF) and the control and risk management methods and procedures as part of the governance processes, organisation and internal auditing system. It should be noted that, the plan is subject to change during the year depending on the guidance provided by the Supervision Committee, such as in light of possible developments of intermediaries or the emergence of elements that require urgent inspection, or in respect of requests for audits notified by the Single Court pursuant to Article 104 of the LISF.

Activities were planned with account also being taken of a number of constraints related to available resources, their turnover and the tasks they performed as part of further assignments (e.g. Internal Inspectors of the Supervision Committee) and specific projects (e.g. National Risk Assessment).

Against such a background, 9 on-site inspections were carried out at banks in 2019, showing a slight increase over 2018. In particular, 1 broad-spectrum inspection, 4 targeted inspections and 4 specific inspections were carried out on behalf of the Judicial Authority. With specific reference to visits conducted for supervisory purposes, 2 targeted inspections were carried out as part of the scheduled planning and broad-spectrum inspection and 2 further targeted visits were carried out following the need to acquire information as a result of operational irregularities detected and reported. It should also be noted that an inspection pertaining to financial year 2018, having been started during that year, was in fact completed in the first quarter of 2019.

Finally, as part of the cooperation scheme with the Single Court of the Republic of San Marino, it should be noted that, in addition to the 4 specific inspections mentioned above, the On-site Supervision Service carried out a further 4 (documentary) inspections involving banking undertakings.

Table 22 provides an overview of on-site inspections performed during the 2017-2019 three-year period. Therefore, on-site inspections conducted in 2019 totalled 9.

Table 22 - On-site Supervision Inspections

	2017			2018			2019		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	3	0	1	3	0	3	9	0	0
of which spread-spectrum	0	0	0	0	0	0	1	0	0
of which targeted	1	0	1	3	0	3	4	0	0
of which specific	2	0	0	0	0	0	4	0	0
Total	4			6			9		

The outcome of the inspections, in most cases, led to the initiation of sanctioning proceedings, the start of extraordinary procedures, the transmission of reports to the Financial Intelligence Agency and complaints with the Judicial Authorities. With reference to the inspection procedures, it should be noted that follow-up actions were carried out on inspection reports, including those completed prior to 2019, and on the counter-claims submitted by supervised entities. These activities were conducted ahead of sanctioning procedures. Consistent with the Memorandum of Understanding entered into with the Financial Intelligence Agency, in 2019 the On-Site Supervision Service notified 4 suspicious transactions and exchanged information on 3 occasions by way of cooperation in anti-money laundering activities. The Head of Service is a member of the National Anti-Money Laundering Technical Commission pursuant to Article 15 bis of Law No. 92/2008. In this capacity, he took part in the relevant institutional activities.

2.1.6.3 *Protest Information Service*

The charts below show the number of names relative to protested cheques and the total amount, shown in millions, recorded during the 2015-2019 period.

Figure 24 - Number of names related to protested cheques

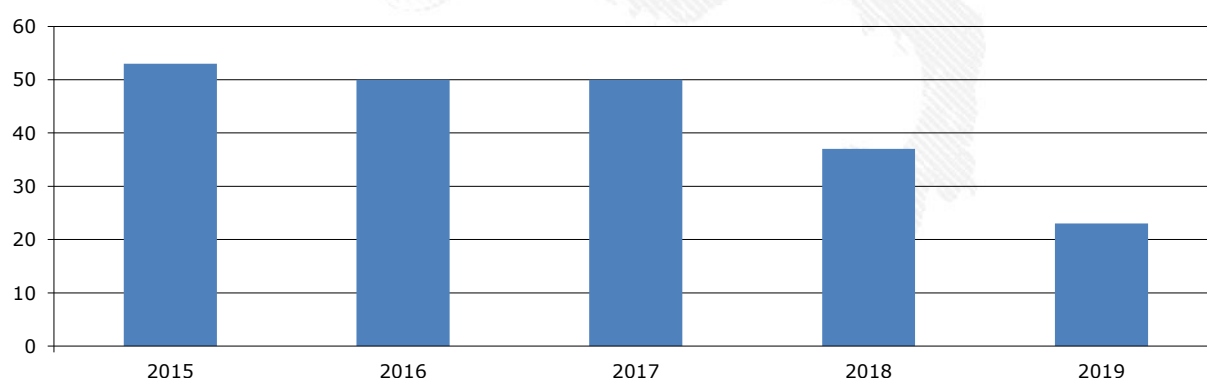
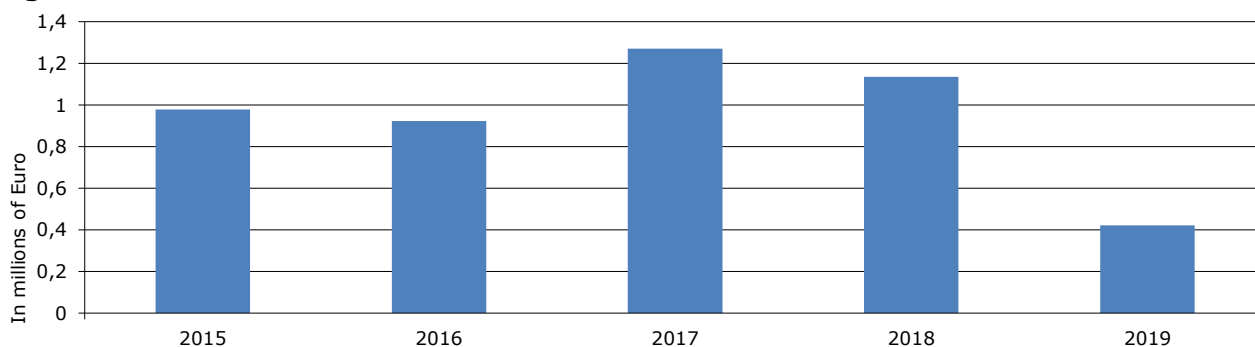


Figure 25 - Protested amounts



2.2 Liaison in dealings with International Financial Organisations, Central Banks and Supervisory Authorities

As pursuant to its Statutes in Article 40(f) and further consistent with own objectives and functions, the Central Bank acts as a liaison in dealings with International Financial Organisations, foreign Central Banks and Supervisory Authorities or similar Authorities, cooperating with the San Marino authorities in international relations relative to every aspect regarding the financial system, whether directly or indirectly.

International Monetary Fund - IMF

The data and information exchange activity with the IMF regarding the banking and financial system has been constant and has involved numerous Central Bank functions. As is customary, this activity involved the periodic submission of statistical data (Monetary and Financial Statistics, Financial Soundness Indicators, Financial Access Survey), data pertaining to equity, income, and cash flow profiles of the system, as well as data concerning the Central Bank, with special reference to its reserves, both from a current and forward-looking perspective, with a view to improving the monitoring of such reserves, including by relying on the technical support of IMF experts.

The Central Bank also participated in filling out special questionnaires requested by the IMF concerning, among other things, monetary transaction and instruments, macro-prudential policy and foreign exchange agreements and restrictions (AREAER), and conducted activities related to managing the Republic of San Marino's financial position in relation to the Fund itself.

During the year, 2 visits were conducted by IMF delegations: one in January 2019, representing the annual evaluation mission in accordance with Article IV of the Fund's Statutes, and one in September to prepare the next mission for the year 2020 in accordance with Article IV. Further discussions with the IMF's technicians were held on the occasion of the *Spring Meetings* in April and the *Annual Meetings* in October 2019 staged in Washington D.C. On the occasion of the *Annual Meetings*, a resource from the Supervision Department attended a seminar on banking supervision organised by the IMF, the *World Bank and the Federal Reserve System*.

Finally, in January 2020, the annual mission to evaluate the economy of San Marino was held in accordance with Article IV of the Statutes of the Monetary Fund. This assessment is based on both a review of the San Marino economy's key data and indicators as well as all matters of significance for the Country's economy. Therefore, it also includes a structured process of consulting with institutional authorities and key stakeholders in business sectors.

The 2020 report (*Country Staff Report*) approved by the Fund's *Executive Board* on 27 March 2020 provides an overview of San Marino's economic situation based on the data and indicators relative to 2019 and on the lines of action explained by the authorities and the Central Bank. The report was drawn up before the onset of the COVID-19 pandemic and, as a result, the analyses and

assessments shown therein do not take into account the impact of this emergency on the economy. However, a *Supplementary Note* drafted by the *European Department* of the IMF was added to the publication, providing information on the health crisis in the Republic of San Marino, as well as the first containment measures adopted.

Relations with other central banks

After being suspended for several years, contacts and relations with the Bank of Italy's top management and technical structures were resumed at the beginning of 2019. Contacts and meetings continued throughout the year, including by relying on periodic IMF events such as *constituency, spring and annual meetings*.

A first result arising from the resumption of relations between the two authorities is to be found in the cash agreement signed at the end of 2019 with the Bank of Italy.

In July 2019, an analysis and study collaboration scheme on *Non-Performing Loans* (NPLs) was started with the technical structures of the European Central Bank (ECB). The collaboration scheme was defined at the *spring meetings* in April 2019 thanks to meetings held between CBSM leaders and representatives of the ECB Supervisory Authority.

Moneyval

Activities leading up to the Moneyval evaluation mission were carried out during 2019, with special reference to three specific areas.

Firstly, CBSM took part in the efforts made to update the national analysis on laundering and terrorist financing risks (National Risk Assessment - NRA), the first edition of which dates back to 2015. The objective of the analysis was, on the one hand, assessing the level of money laundering and terrorism financing risk in the Republic of San Marino by identifying the threats and criticalities existing in the national economic and social system, and, on the other hand, assessing the effectiveness of the Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) system in its different phases (preventive, investigative and repressive) in reducing the identified risks.

The analysis, the data of which refer to the period spanning 2015-2018, was conducted by a working group composed of staff from the relevant authorities and other administrations performing specific tasks on issues of interest, under the coordination of the Financial Intelligence Agency. In this context, CBSM's role was, in particular, to analyse and assess the financial system and existing financial products in order to measure its level of vulnerability in terms of money laundering risk for each of such products and then identify appropriate remedial measures.

CBSM, therefore, engaged in further activities, in a second area, again in close collaboration with the Financial Intelligence Agency, in order to help establish legal and regulatory compliance (i.e., *Technical Compliance*), the underlying goal being to determine the consistency of primary and secondary standards with the FATF-GAFI Recommendations on combating money laundering and terrorist financing.

A third area entailed analysing the effectiveness of the fight against money laundering and terrorist financing, with the objective of documenting the ML-TF risk reduction procedures to be carried out by the Republic of San Marino, as well as by other States, again with reference to the above-mentioned FATF-GAFI Recommendations.

Further information regarding the activities carried out is available in the Quarterly Bulletins published on the institutional website of CBSM(28).

(28) <https://www.bcsn.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>

Relations with other international organisations and agencies

During 2019 and in the first quarter of 2020, the Republic of San Marino was subject to Fitch's rating procedures, during which CBSM was strongly committed to providing a fair view of the current performance of the financial system. The rating procedure ended with the confirmation of the previous "BBB-" "Long-term Issuer Default Rating (IDR)" awarded to San Marino until April 2020, when it was reduced by a notch to "BB+".

During 2019, CBSM was also involved in the Follow-up of the OECD Phase 3 Report (*Peer Review Report on the Exchange of Information on Request San Marino 2018 - second round*), which aims to take stock of the initiatives undertaken regarding the guidance and recommendations provided by the OECD Assessment Team.

Relations with the World Association of Guarantee Funds for Depositors (IADI) and with the corresponding European association (EFDI), of which the Central Bank is a member, also continued in 2019, with a view to exchanging experience and gaining knowledge and feed them into the best practices adopted within the Republic of San Marino system. To this end, CBSM also continued to act as observer within the Affiliation of Micro-European States (AMES), which represents a specific EFDI working group.

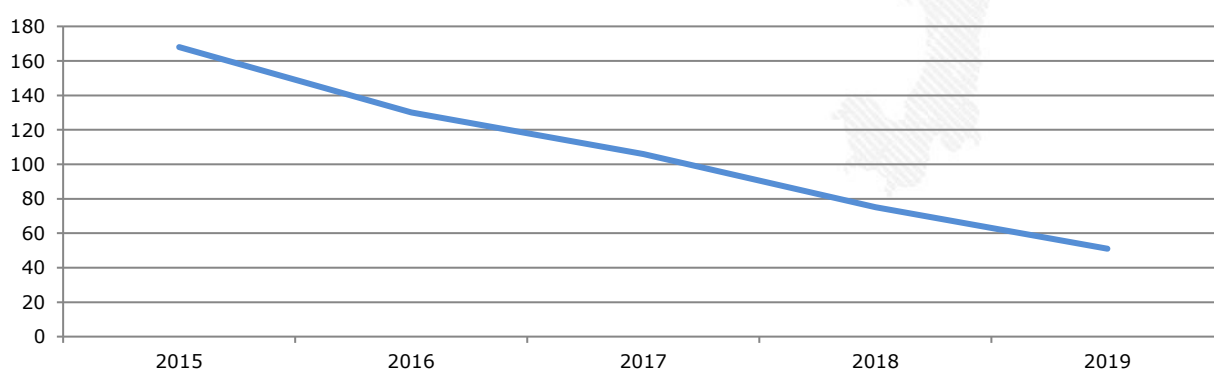
2.3 Management of Counterfeit Banknotes and Coins in Euro

The charts below show a comparison of the values relating to euro-denominated counterfeit banknotes detected from 2015 to 2019, highlighting the most significant facts of the activity carried out in 2019.

Banknotes taken out of circulation and recognised as being counterfeit in 2019 totalled 51, thus decreasing by 32% compared to the previous year (in 2018, banknotes recognised as counterfeit totalled 75).

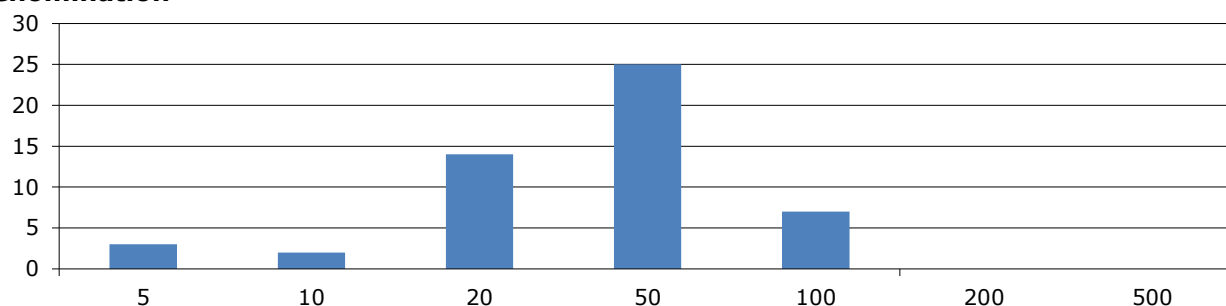
Counterfeit coins found during 2019 showed a decrease of 75% compared to the previous year (two EUR 1 coins one EUR 2 coins, totalling 3 coins withdrawn as compared to 18 in the preceding year).

Figure 26 - Number of counterfeit banknotes: 2015-2019 annual data comparison



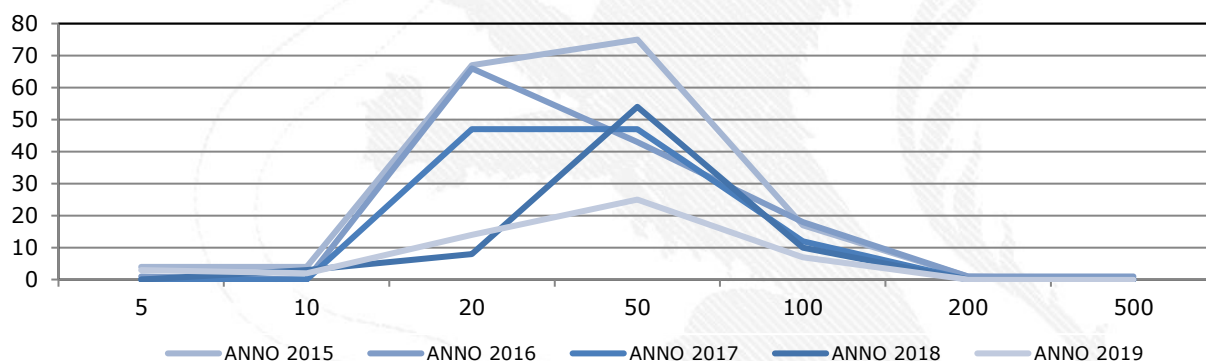
The chart below shows that 50 euro banknotes were mostly counterfeited.

Figure 27 - Counterfeit banknotes withdrawn from circulation in 2019: breakdown by denomination



Compared to the previous year, in 2019 5 euro banknotes (5.9% on total) increased (from 0 in 2018 to 3 in 2019), 10 euro banknotes (3.9% on total) decreased (from 3 in 2018 to 2 in 2019), 20 euro banknotes (27.5% on total) increased (from 8 in 2018 to 14 in 2019), 50 euro banknotes (49% on total) decreased (from 54 in 2018 to 25 in 2019), and 100 euro banknotes (13.7% on total) also decreased (from 10 in 2018 to 7 in 2019). As for 200 euro and 500 euro banknotes, no banknotes were taken out of circulation and acknowledged as counterfeit. The chart below shows a comparison of the changes that occurred from 2015 to 2019 by denomination.

Figure 28 - Denomination of counterfeit banknotes: 2015-2019 annual data comparison



The general decrease in counterfeit banknotes and the denominations mostly counterfeited identified during 2019 in San Marino was in line with the trend identified in Italy.

The European Central Bank publications reported that in 2019 euro-denominated banknotes withdrawn from circulation decreased by 0.7% compared to 2018 (559,000 compared to 563,000 pieces withdrawn in the previous period). In the second half of 2019, the denominations that recorded the highest number of falsifications included 20 euro and 50 euro banknotes which, accounting for more than 70% of counterfeits. The European Central Bank also announced that most of the counterfeit banknotes (96.4%) were reported in Eurozone countries. Approximately 3.0% of counterfeits come from EU member states not belonging to the Eurozone, while 0.6% originated in other parts of the world.

2.4 Cash Handling

In 2019, the Central Bank arranged for cash to be distributed in the San Marino banking system through 71 subsidies, thanks to cash surpluses being fed back into the system and the supply from Italy. The requests for cash received from the San Marino banking system showed a 15.3% increase in amounts distributed as compared to the previous period. It should also be noted that the Central Bank does not provide the San Marino banking system with EUR 200 and EUR 500 denominations.

In compliance with the current legislation, in 2019 cash handlers sent to the Central Bank the six-month statistical reports on the recirculation of cash, as well as the reports pertaining to banknote and coin equipment in compliance with the ECB and EC (European Commission) lists, which are provided to cash handlers, all being managed through dedicated functions available in the electronic procedure known as Cash Management.

The handling of cash in Euro is, among other things, governed under the new memorandum of understanding signed between the Central Bank and the Bank of Italy on 15 September 2019 (the previous being dated 15 September 2016). According to the aforementioned memorandum, banknotes suspected of being counterfeit must be presented to the Bank of Italy, banknotes not suitable for circulation must be deposited with the Forlì Branch of the Bank of Italy, banknotes must be withdrawn from the aforesaid Branch of the Bank of Italy, statistical reports on the recirculation of banknotes must be sent by the Central Bank of the Republic of San Marino to the Bank of Italy, by using the cash portal, for the purpose of entering this information in the Currency Information System 2 (CIS2), and statistical information on euro-denominated coins issued by the Republic of San Marino must be sent by the Central Bank of the Republic of San Marino to the Bank of Italy.

With special reference to euro-denominated coins, it should be stressed that they are governed under the memorandum of understanding signed between the Central Bank and the Treasury Department of the Ministry of Economy and Finance (MEF) on 15 November 2016. The purpose of this memorandum is governing activities pertaining to the authentication of euro-denominated coins and the handling of coins not suitable for circulation, in respect of which the Republic of San Marino relies on the Italian National Centre of Coin Analysis (*Centro nazionale di analisi delle monete italiano - CNAC*).

2.5 Advisory and cooperation activity

The Central Bank's advice was sought again in 2019 by some State Secretariats on banking and financial regulations. This regulatory advice was, as in previous years, provided in different forms, such as requests for preparation of drafts of entire legislative texts, conducting analyses and assessments on specific legal acts or regulations, drafting — from both a technical and legal perspective — regulations on the basis of strategic decisions or policies adopted by the San Marino State Secretariats or Institutions themselves.

2.5.1 Regulatory advice

Moreover, the advisory activity being referred to also pertained to areas of banking and financial legislation of a purely internal nature, i.e. areas connected to the implementation of legal acts of the European Union under the Monetary Agreement in force or, in broader terms, the ongoing negotiations on the Association Agreement between San Marino and the European Union.

With regard to the international commitments of San Marino to implementing the legal acts of the European Union regarding banking and financial matters as under the Monetary Agreement, it should be noted that in 2019, as already mentioned in the previous Final Report and further as a follow-up of the activity carried out in 2018, the Central Bank was called upon to draw up the following draft delegated decrees:

- Delegated Decree No. 50/2019 concerning provisions governing (i) access to the activity of credit institutions and (ii) prudential and supplementary supervision of the financial sector in pursuance of Directive 2002/87/EC (FICOD), Directive 2013/36/EC (CRD-IV) and the related EU Regulation 575/2013 (CRR);

- Delegated Decree No. 61/2019 concerning provisions governing financial instrument markets and market abuse in pursuance of Directives 2014/65/EU (MiFID II) and 2014/57/EU (MAD II) and the related (EU) Regulations No. 600/2014 (MiFIR) and No. 596/2014 (MAR)⁽²⁹⁾.

With reference to San Marino's adoption of the above-mentioned delegated decrees and the regulatory powers attributed to the Central Bank, the latter engaged in an extensive regulatory production and implementation effort, in respect of which information is provided regarding 2019 and the first quarter of 2020 in section 2.1.4, covering regulatory interventions.

In addition to preparing the drafts of these delegated decrees, in 2019, as in previous years, the Central Bank took part in the Joint Committee proceedings held in September 2019, such Committee (i) consisting of a delegation from San Marino and a delegation from the European Union as under the Monetary Agreement and (ii) discharging specific duties. It also supported San Marino institutions in this context, including by carrying out in-depth studies on specific EU issues or regulations which, pursuant to the aforesaid Agreement, are required to be transposed into San Marino law.

With regard to the profiles concerning relations with the European Union, in 2019 and more precisely in the first half of the year, the Central Bank continued to provide its cooperation and technical support to San Marino Institutions on issues concerning the financial sector addressed as part of the negotiations underway on the Association Agreement between San Marino and the European Union. This collaboration and advisory activity also required the Central Bank to be part of the San Marino delegations that participated in the negotiating sessions held in Brussels, as well as the drafting — to the benefit of the San Marino institutions themselves — of documents providing a review of, legal framework for or insights into issues of a chiefly legislative and regulatory nature in the area of financial services.

The Central Bank also took part in the fact-finding visit of the EFTA Group of the Council of the European Union that took place in San Marino in March 2019, delivering a report in this context. On that occasion, it signified in particular the objectives expected from the negotiations in question with regard to the financial sector, hoping that a new institutional and market structure could be achieved in the relations between the financial system of San Marino and the European Union's Single Market, thereby allowing current criticalities to be overcome³⁰. In this regard, to complete disclosure on this topic, attention is also drawn to the information on financial services contained in the broader Recommendation of the European Parliament of 13 March 2019 to the Council, the Commission and the Vice-President of the Commission/High Representative of the Union for Foreign Affairs and Security Policy concerning the Association Agreement between the European Union and Monaco, Andorra and San Marino³¹.

Moving on to illustrate the regulatory advice provided by the Central Bank in banking and financial regulation areas of a purely internal nature, it should be noted that such support — which was extended according to the specific regulation in the various forms as illustrated earlier — was provided in 2019 with regard, among other things, to the following provisions:

- Decree-Law No. 16 dated 25 January 2019 "*Urgent measures to support financial system protection operations*" ratified by Decree-Law No. 67 dated 19 April 2019;
- Law No. 102 dated 14 June 2019 "*Bank crisis resolution tools to safeguard the stability of the financial system*". This Law introduces some legal constructs and procedures into the San Marino system (powers and instruments of resolution, forms of public intervention for

⁽²⁹⁾ For further information on the contents of these 2 delegated decrees, reference should be made to the Quarterly Information Bulletin 2019-1

available on the Central Bank's website by following this link: <https://www.bcsn.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>.

³⁰ The report delivered by the Central Bank at the meeting with the EFTA Working Group of the Council of the European Union is available on the following page on the Central Bank's website: <https://www.bcsn.sm/site/home/pubblicazioni-e-statistiche/collana-interventi.html>.

³¹ The aforesaid document is available on the following page on the European Parliament's website: https://www.europarl.europa.eu/doceo/document/TA-8-2019-0188_IT.html.

financial stabilisation, diversity of protection for certain categories of creditors, etc.) typical of Directive 2014/59/EU (BRRD);

- Decree-Law No. 124 dated 5 August 2019 “*Misure urgenti a sostegno dei depositanti di banche sottoposte a risoluzione*” (Urgent measures to support depositors of banks subject to resolution), as amended by Decree-Law No. 149 dated 25 September 2019³².

Finally, again with regard to regulatory support provided by the Central Bank during 2019, attention is drawn to the assistance provided to San Marino institutions in respect of a draft law on consumer-related matters — as regards profiles relating to financial services — as well as the observations and assessments made on Delegated Decree No. 37/2019 setting forth standards on blockchain technology for businesses, with specific regard to those profiles relating to crypto-assets of interaction between technological and financial regulation aspects and the protection of savings.

2.5.2 Summary of other forms of advice and cooperation activity

In 2019, the Central Bank continued to provide its support within the ad-hoc interdepartmental working group for the processing of San Marino statistics on the balance of payments. In particular, the above processing mainly involved the Central Bank and the Statistical Office according to differentiated tasks and roles, on the basis of which activities were set up in the last year.

In the second half of 2019, the Central Bank also collaborated with the Finance and Budgetary State Secretariat for the purposes of issuing the national debt certificates under Delegated Decree No. 153 dated 30 September 2019, preparing technical documents for economic and financial analysis, including in view of the role of State Agent for the management of national debt certificates assigned to the Central Bank pursuant to Article 40(1)(d) of Law No. 96/2005.

In addition to the foregoing, it is felt appropriate to provide in the box below an overview of all forms of advice and support provided by the Central Bank in the various areas of jurisdiction, with special reference to the national and international working groups and technical committees, other Institutions in the Republic as well as the participation in projects of strategic significance to the San Marino banking and financial system.

Box 4: Summary of the advice and cooperation activities performed by the Central Bank

Participation in international and national technical committees and working groups

- San Marino-European Union Monetary Agreement and relative regulatory amendments;
- San Marino – European Union Association Agreement relative to profiles pertaining to the financial sector;
- Technical Commission for National Coordination — combating money laundering and terrorist financing;
- Working group for the evaluation of *Moneyval*;
- Cooperation with the San Marino tax authorities regarding the assessment of the transparency and exchange of information based on OECD standards;
- Working group for the preparation of San Marino statistics on the Balance of Payments.

Cooperation with and support to other institutions and bodies of the Republic

- Cooperation with the Central Liaison Office and the Supervision Office of the Department of Economics;

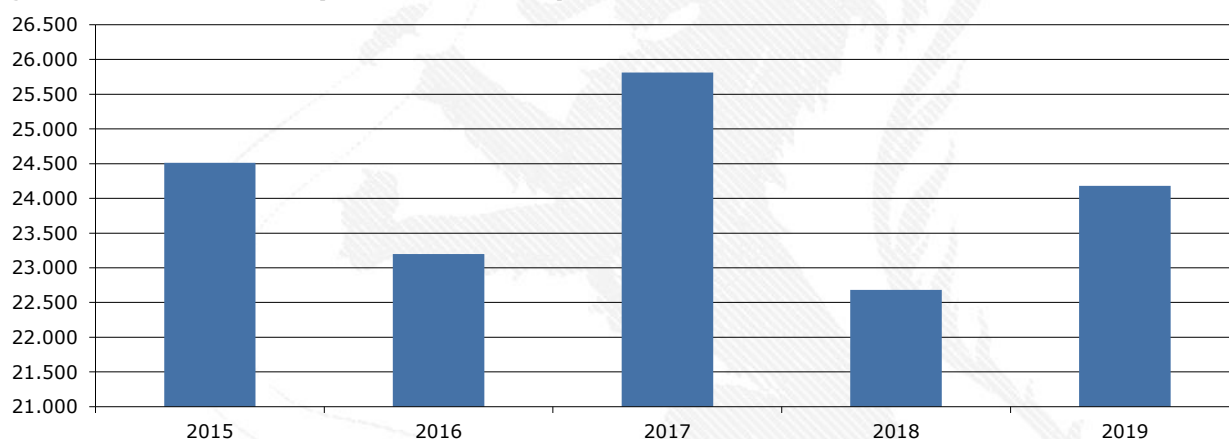
⁽³²⁾ For further information on these legislative acts, as well as on other primary provisions issued by San Marino in 2019, reference should be made to the analyses contained in the Quarterly Information Bulletins published by the Central Bank on its website at the following address: <https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>.

- Cooperation with the Office for Economic Affairs and other San Marino institutions on virtual currencies and virtual assets;
- Cooperation with the Financial Intelligence Agency;
- Support to the Broader Public Administration in the compilation of questionnaires and statistics requested by international organisations in relation to economic, tax and financial matters;
- Assistance within the purview of international or bilateral meetings with foreign delegations.

2.6 Currency Authority

On a monthly basis, in 2019 the Central Bank, through the RIS, gathered statistical information on cross-border settlements made by the banks of San Marino, whether for their own account or for the account of their resident customers, relating to transactions having a value in excess of or equal to EUR 15,500. To this end, it relied on the model set out in the relevant regulations, known as Statistical Currency Notification (SCN). The figures shown below represent the SCN flows sent to the Central Bank and the respective values across a time horizon spanning 2015-2019.

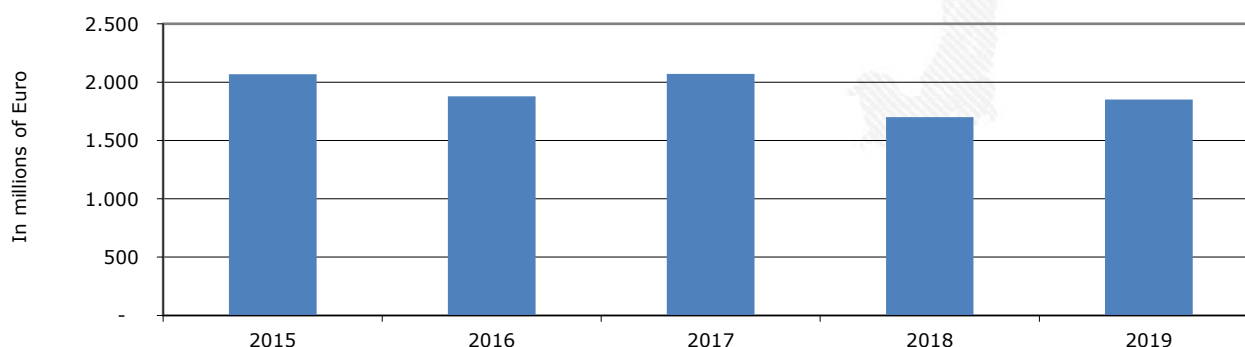
Figure 29 - Total flows (number of SCNs)



In 2019, banks received 24,182 SCNs, showing a 6.6% increase over the previous period (in 2018, 22,680 SCNs were received).

Amounts settled also increased by 8.8%, rising from EUR 1,701 million in 2018 to EUR 1,850 million in 2019.

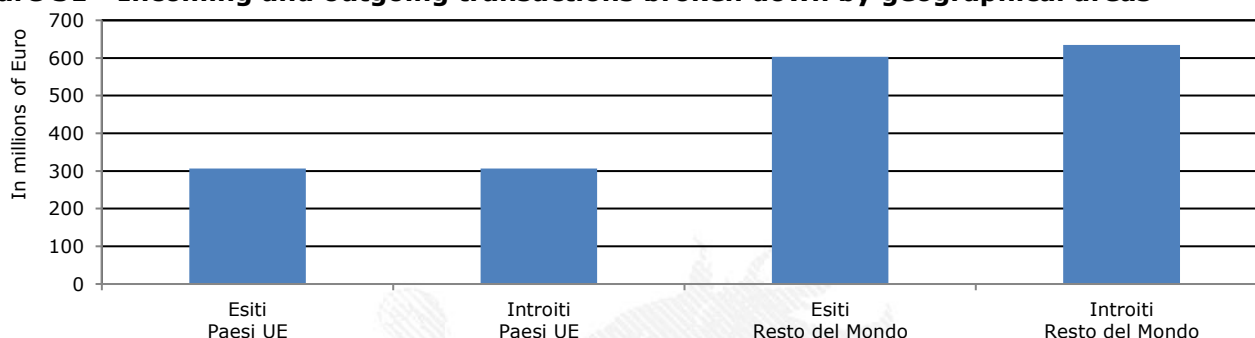
Figure 30 - Amounts settled by the San Marino banking system



"Incoming transactions" relating to SNC operations in 2019 stood at EUR 940 million, of which 32.6% related to countries belonging to the European Union (EUR 306 million) and 67.4% (EUR 634 million) related to the rest of the world.

"Outgoing transactions" related to SNC operations in 2019 totalled EUR 909 million, of which 33.7% related to countries belonging to the European Union (EUR 306 million) and 66.3% (EUR 603 million) related to the rest of the world.

Figure 31 - Incoming and outgoing transactions broken down by geographical areas



In 2019, the Central Bank also continued to file quarterly reports on the statistical data of the Currency Composition of Foreign Exchange Reserves (COFER), in compliance with the obligations resulting from the Republic of San Marino participation in the International Monetary Fund.

2.7 Payment System

With reference to national payment instruments channelled through the RIS, such as Sepa Credit Transfer (SCT), Sepa Direct Debit (SDD) of the Broader Public Administration and cheques traded and drawn on San Marino banks, both the number of transactions and the overall value of amounts settled increased in 2019 by 3.2% and 6.0%, respectively.

A breakdown of percentages and amounts settled between the Central Bank and the banks of San Marino is shown in the following charts.

The high percentage of national wire transfers transmitted by the Central Bank compared to wires sent by other San Marino banks was due to the typical nature of payment services ordered by the public sector, such as payments of salaries, pensions, Public Administration's suppliers, and transactions arising from the use of SMAC (San Marino Card), resulting in a large number of small transactions.

Figure 32 - Breakdown of the number of national wire transfers transmitted

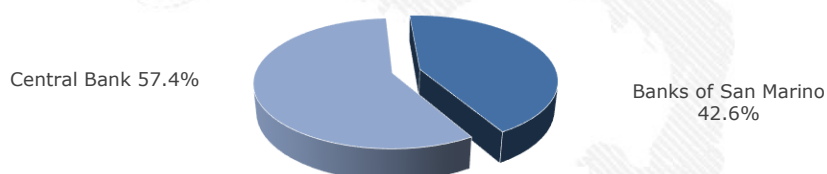
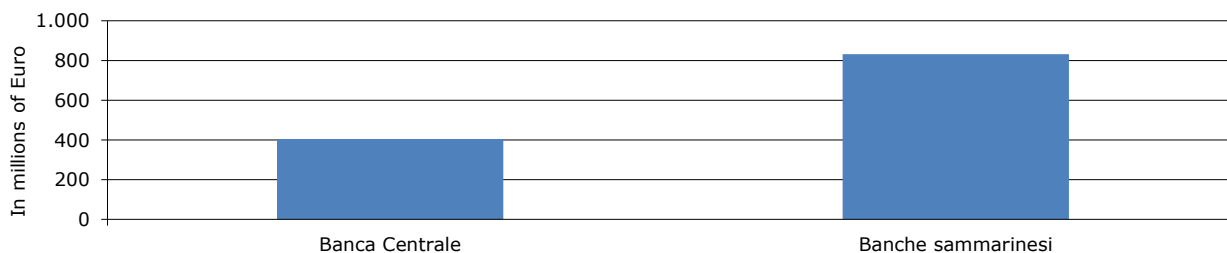


Figure 33 - Amounts settled through national wire transfers



The banking system processed approximately 503,000 national wire transfers, totalling about EUR 1,236 million. As compared to 2018, wire transfers processed over the national network increased by 2.4%, with the underlying amounts showing an increase of 8.2%.

Direct debits, i.e. the payment method whereby the creditor requests the debtor's current account to be debited, recorded approximately 349,000 orders in 2019, totalling approximately EUR 78 million. A comparison with 2018 figures shows a 9.9% increase in the number of direct debits sent by the Central Bank to the San Marino banks and a 2.1% decrease in amount settled.

The charts below provide a percentages breakdown of the types of payment methods channelled through the RIS in 2019, divided by amount and number of orders, respectively.

Figure 34 - Amounts settled by wire transfers, direct debits, and cheques

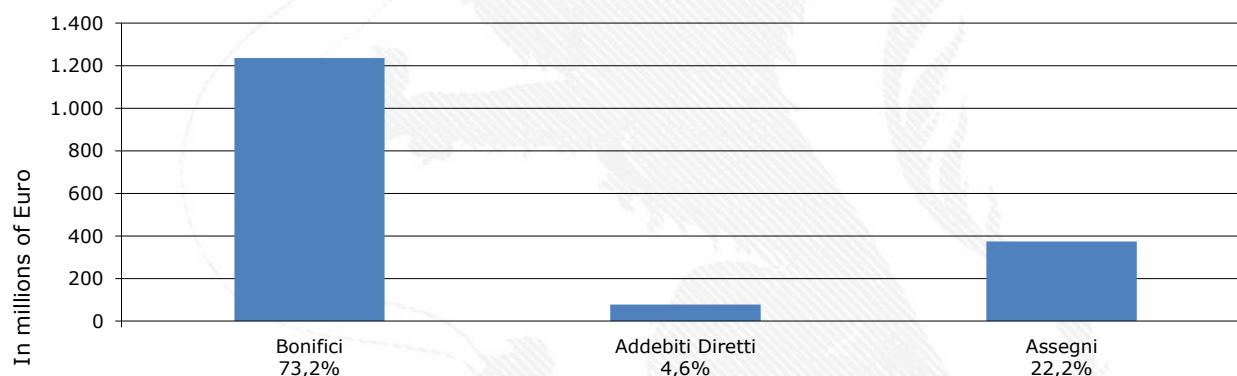
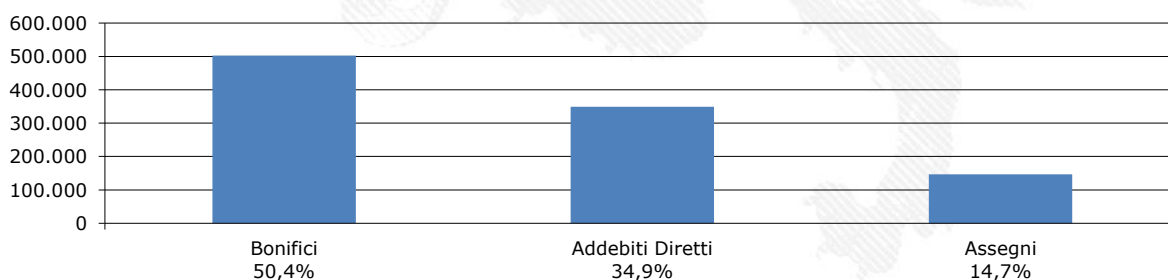


Figure 35 - Number of orders settled by wire transfers, direct debits, and cheques



By relying on the Paper Based Transaction Service (locally known as SRD), San Marino banks exchange national cheques, documents and correspondence in accordance with the duly regulated times and methods. In particular, in order to exchange national cheques, negotiated and drawn on San Marino banks, it is absolutely necessary that the materiality and relative accounting flows and images channelled through the RIS correspond perfectly.

Approximately 147,000 national cheques worth around EUR 374 million were exchanged in 2019 as part of the SRD service. Compared to 2018, the number of cheques decreased by 7.5%, while their value grew by 1.1%.

2.8 State Treasury

As summarised in **Table 23**, transactions carried out by the Treasury Department in 2019 related to financial inflows totalling approximately EUR 1,225 million, down by 0.32% compared to approximately EUR 1,229 million reached in the previous period, while they showed a 5.98% increase over 2017. As regards financial outflows, transactions totalled approximately EUR 1,615 million, up by 0.74% compared to approximately EUR 1,156 million in 2018 and by 5.27% over 2017.

Table 23 - Volumes processed expressed in relation to total orders

Entity	2017		2018		2019	
	Inflows	Outflows	Inflows	Outflows	Inflows	Outflows
C.O.N.S.	6,340,419.55	6,224,109.27	5,335,475.85	5,143,932.06	6,342,859.60	5,992,342.86
University	6,217,648.35	5,571,086.80	7,448,292.29	6,862,411.77	7,659,264.17	6,578,880.90
A.A.S.L.P.	24,383,020.38	23,148,327.50	25,900,612.09	24,515,119.97	24,661,702.82	23,151,120.62
State Board of the Games	323,004.50	223,200.75	327,304.07	226,083.91	326,118.13	273,986.42
A.A.C.N.M.	1,969,727.13	994,472.86	2,296,077.11	1,004,255.34	2,827,579.44	1,369,868.02
I.S.S.	334,358,856.71	329,702,161.14	365,659,608.49	356,364,812.35	352,572,839.87	346,022,639.61
FONDISS	18,370,921.67	16,687,457.66	23,300,414.77	20,928,768.08	25,997,009.73	23,743,924.15
The Most Excellent Chamber	607,434,587.44	584,577,099.52	656,864,166.15	614,403,773.60	644,962,687.67	612,513,065.79
A.A.S.S.	156,614,291.43	139,686,685.52	141,899,318.77	127,186,297.64	159,771,975.11	145,523,604.49
Total	1,156,012,477.16	1,106,814,601.02	1,229,031,269.59	1,156,635,454.72	1,225,122,036.54	1,165,169,432.86

Source: Central Bank (data updated as at 31 March 2020).

Table 24 provides a numerical overview of these transactions. More specifically, transactions processed on behalf of the Public Administration during financial year 2019 totalled 88,467, broken down as follows: 18,702 collection vouchers, 24,854 incoming pending items, 43,850 orders for payment and 1,061 outgoing pending items.

Table 24 - Volumes processed expressed in relation to the number of orders

Entity	2017					2018					2019				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	395	118	1,929	56	2,498	370	120	2,003	35	2,528	389	137	1,985	69	2,580
University	319	77	2,650	39	3,085	409	78	2,912	33	3,432	454	83	2,908	42	3,487
A.A.S.L.P.	570	310	4,950	102	5,932	595	316	4,818	102	5,831	590	378	4,928	88	5,984
State Board of the Games	228	117	194	51	590	183	100	258	41	582	166	91	258	51	566
A.A.C.N.M.	1,141	277	212	37	1,667	1,569	345	238	41	2,193	1,113	393	246	38	1,790
I.S.S.	3,521	5,127	16,141	244	25,033	3,849	5,011	16,042	192	25,094	4,610	5,470	17,875	212	28,167
FONDISS	6	1,701	59	24	1,790	6	1,771	58	24	1,859	5	2,167	57	24	2,253
The Most Excellent Chamber	7,907	14,177	10,515	261	32,860	8,852	15,016	10,558	333	34,759	10,297	15,129	10,462	328	36,216
A.A.S.S.	976	760	5,905	214	7,855	815	868	5,643	231	7,557	1,078	1,006	5,131	209	7,424
Total	15,063	22,664	42,555	1,028	81,310	16,648	23,625	42,530	1,032	83,835	18,702	24,854	43,850	1,061	88,467

Notes: REV = Collection vouchers PPE = Pending Incoming Items MAN = Payment Orders PPU = Pending Outgoing Items

Source: Central Bank (data updated as at 31 March 2020).

Collection transactions were carried out primarily at the counters of the commercial banks operating in San Marino — as governed by a specific Agreement entered into on 24 February 2005 between the Central Bank and commercial banks — and, to a lesser degree, through the branches of the Central Bank's Treasury Department as well as by bank transfer ordered by users for the Public Administration. Payment notices due within the time limit were, on the other hand, collected directly

at the counters of the Treasury Department or Overdue Tax Collection Department of the Central Bank. Following the aforesaid collection process, the Treasury Department arranged for the amounts collected to be credited to the main accounts of the relevant entities by creating pending incoming items on the areas of relevance of the individual offices of the Public Administration. Then, it provided such entities with the relevant receipts, hard-copy documents and reports.

Figure 36 - Percentage volumes for collection and payment transactions executed by the Treasury Department in 2019

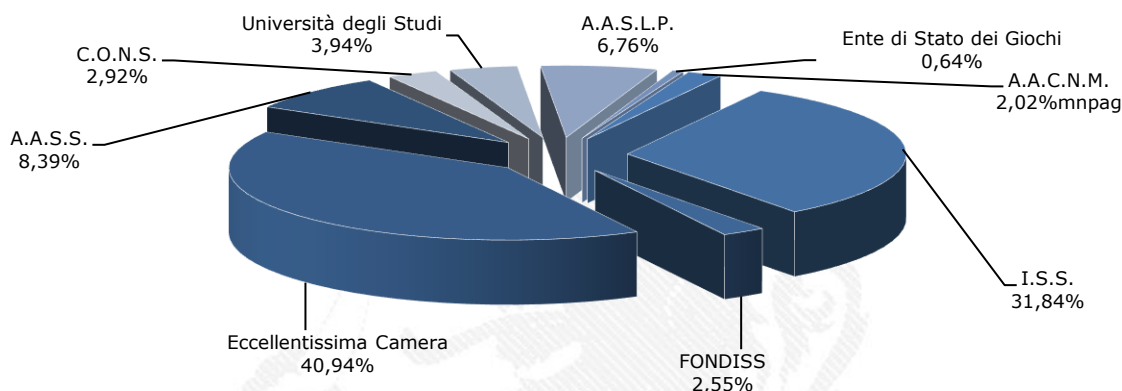


Figure 36 shows that most of the transactions, expressed in percentage terms, were carried out on behalf of the Most Excellent Chamber (40.94%) and the Social Security Institution (31.84%), followed by the State Autonomous Authority for Public Services (8.39%), the Autonomous State Authority for Public Works (6.76%), the University (3.94%), the National Olympic Committee of San Marino (2.92%), FONDISS (2.55%), the Authority for Civil Aviation and Maritime Navigation (2.02%) and the State Board of the Games (0.64%).

With a view to increasing the payment instruments available to the Public Administration, in 2019 the Treasury Department undertook again to promote the use of the “Sepa Direct Debit” instrument, a method already frequently used for utility bills of the State Autonomous Authority for Public Services, services and contributions pertaining to the Social Security Institute, school meals and, of course, the SMaC circuit.

In addition to the foregoing, in 2019 the Treasury Department managed, on behalf of the Overdue Tax Collection Department, collections related to tax bills that had fallen due within the payment time limits and collection operations performed by Tax Collection Officers. Pursuant to Law No. 44 dated 23 March 2007, 978 attachment procedures were performed in respect of payment orders concerning parties in arrears with the Public Administration.

As regards outflows, in financial year 2019 bank transfers prevailed again over drawer’s and quittance cheques. The latter, however, were still mainly adopted for the payment of pensions. It is expected that the use of such cheques will decrease significantly, also in view of Article 24(4) of Law No. 146 dated 19 September 2014, whereby taxpayers are required to report their current account for settlement of their credit positions.

As set out in the specific Agreement, in 2019 the Treasury Department continued to provide to the broader Public Administration deposit services in the technical form of a current account, as instructed by the requesting Entity/Office. It also prepared and sent to the broader Public Administration, on a regular basis, the reports required by current regulations and agreements between the parties. More specifically, on a daily basis it transmitted cash ledgers containing a summary of inflows and outflows for each Entity; on a monthly basis, it transmitted the statements of account, cash audits and the reconciliation statements required for balancing financial flows and the balances of the current accounts on which the amounts of the entities are paid. As has been the

case in previous years, the Statement of Cash Flows was prepared and sent to each entity as under Article 3 of Law No. 35 dated 3 March 1993 "Unified State Treasury Institution" (as amended by Article 51 of Law No. 96 dated 29 June 2005), and pursuant to the provisions of Law No. 30 dated 18 February 1998 "General Rules on the Accounting Legislation of the State" as amended from time to time.

Finally, as was been the case since 2018, the Treasury collaborates with certain entities, as it is involved in data retrieval and control processes pertaining to data that the International Monetary Fund has requested from the Republic of San Marino.

2.9 State Tax Department

In 2019, no significant regulatory changes occurred, except for Article 12 of Law 157/2019 and Article 23 of Law 88/2019, which amended Article 2 of Law 93/2018. The latter provision made it compulsory to disclose the first "Debtors' Register" by 31 July 2019. This activity involved the Department not so much in terms of data retrieval, but in terms of assessing debts no longer payable inasmuch as they pertained to entities who had been expelled or were dead, and debts that did not qualify as final inasmuch as they were subject to judicial appeal. In addition, preliminary information was provided to debtors resulting from the data retrieval process, so as to allow them to pay off or settle their debt in instalments or state the possible causes preventing publication. In accordance with law provisions, the foregoing pertained only to debt positions exceeding EUR 50,000.00, while those referring to "non-final" debts were excluded inasmuch as they were subject to judicial appeal.

Pending a comprehensive reform of the Single Overdue Tax Collection Service, Article 12 of Law 157/2019, on the other hand, authorised the State Congress to issue a delegated decree to strengthen debt collection action. The onset of the Covid-19 health emergency at the beginning of this year contributed to interrupting this legislation process.

2.9.1 Collection activity conducted since the service was started

From 2005 to 2019, approximately EUR 722.1 million was assigned by the Lending Institutes to the Overdue Tax Collection Department for collection. A portion of this amount (approximately EUR 191.7 million), accounting for 26.5% of these claims, was cancelled. Most of these cancellations were due to debtors being struck off or resulted from actions taken by the tax authorities following collection at their counters after tax demands had been issued, or were due to errors in processing such demands.

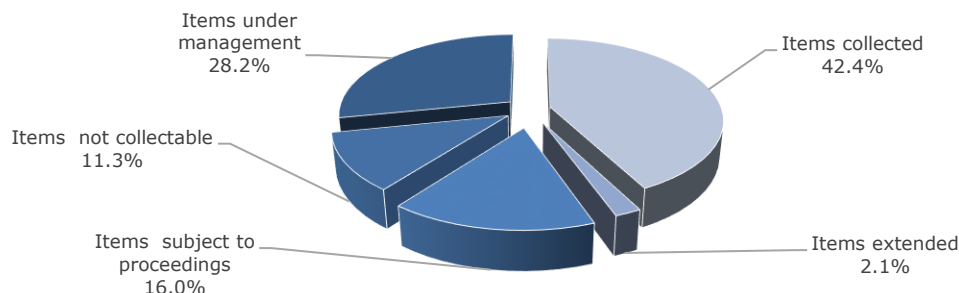
Based on tax demands issued, net of cancellations (approximately EUR 530.4 million) amounts collected from 2005 to 2019 totalled approximately EUR 224.7 million, of which EUR 15.7 million in 2019 alone. Comparing the total collections with the total overdue tax demands, net of cancellations, recovery stood at around 42.4%.

On the other hand, about EUR 149.6 million amounts overdue were still under management, i.e. approximately 28.2% of debts under collection net of cancellations. These items were subject of enforcement actions, either in progress or to be started, or pertained to debts with no possibility of being salvaged, but still accounted for.

About 2.1% of these account receivables, totalling approximately EUR 11.1 million, were being subject to extensions under Article 34 of Law 70/2004. These extensions were backed by suitable forms of guarantee provided to the Central Bank (first demand bank guarantee or lien) and, up to 31 December 2019, could have a term of 5 years.

Finally, the sum of items pertaining to entities involved in insolvency proceedings stood at EUR 84.9 million (16.0% on total) as at 31 December 2019, while items deemed as not collectable stood at EUR 60.1 million (11.3%).

Figure 37 – Statement as at 2019



Notes: Report from 2005 to 2019 of tax demands managed by the Overdue Tax Collection Department, net of cancellations

2.9.2 Precautionary and executive proceedings

When a tax collection notice issued by the Overdue Tax Collection Department is not paid within the due date, the Overdue Tax Collection Department is required to take action to collect the sums entered in the overdue tax register, initiating the proceedings laid down by legislation in force.

Proceedings may be precautionary (statutory or conventional lien) or executive (attachment orders). Precautionary actions are aimed at guaranteeing the future collection of the amount due or instalment payment thereof. During 2019, a number of conventional and legal liens were registered as a provisional measure. Enforcement actions include attachment and sale of personal and real property, attachment of claims, attachment of salary and of other income or assets of the debtor. Enforcement, however, is not always carried through inasmuch as the mere start of enforcement proceedings is an effective deterrent inducing taxpayers to settle their debt or seek a deferred payment scheme. In addition to enforcement actions in the strict sense, if collection is to prove successful, methods of recovery through instalments appropriate to the taxpayer's debt situation are identified, in line with the principles of impartiality and transparency laid down by legislation.

In principle, enforcement proceedings are started according to certain priority selection criteria which take into account a number of factors, such as the extent of debt built up, repeated indebtedness, taxpayer's reliability, protection of employees and whether business is operational or otherwise (going concern). As also clarified by Article 3 of Decree-Law No. 52/2018, among the criteria the Overdue Tax Collection Department considers as low priority for starting enforcement actions is the debtors' commitment to settle their debt within a short period of time through scheduled payments (a.k.a. "repayment plan") to be made on a regular basis.

As regards enforcement action in the strict sense, attachments of personal or real property in 2019 totalled 241, 22 of which proved unsuccessful because the debtor could not be located or property was not eligible for attachment.

During the year, moreover, the Overdue Tax Collection Department, at its own initiative and/or by order of the Creditor Entities, applied for bankruptcy proceedings to be started against taxpayers found to be in debt default.

2.9.3 Entries in the Overdue Tax Register in 2019

Entries in the Overdue Tax Register in 2019 totalled about EUR 39.4 million and pertained to 40,622 items.

In terms of value, such entries decreased by about EUR 4.6 million compared to 2018 (-10.4%), while the actual number of entries increased by 9.8% over 2018. During 2019, the number of cancellations carried out also increased (up approximately EUR 46.8 million over 2018). This was due to the first publication of the Debtors' Register, which called for (i) a general census of debtors who had been struck off and (ii) the ensuing cancellation of tax demands still listed but unrecoverable. In addition, while for entries reference is only made to the calendar year, for cancellations account is

taken of all those carried out in the calendar year 2019 but relating to any year from the beginning of the activity of the Overdue Tax Collection Department until 31 December 2019.

Table 25 – Entries in and cancellations from the Overdue Tax Listing between 2018 and 2019

Items	2018		2019	
	Amount	Number of items	Amount	Number of items
Managed	44,035,213.60	37,045	39,447,327.71	40,622
Cancelled	5,239,681.27	4,071	52,052,235.60	5,336
% cancelled	11.90%	11%	130%	13.10 %

2.9.4 Entries broken down by Entity

During 2019, as already highlighted above, entries decreased in terms of value compared to 2018, while they increased in terms of items. Exceptions to this trend are the ISS and FONDISS, which posted a 37.7% and 47.9% increase in value, respectively.

Table 26 – Comparison between entries in and cancellations from the Overdue Tax Listing between 2018 and 2019 by Entity

Entity	2018			2019		
	Amount	Overdue Tax Entries	Number of items	Amount	Overdue Tax Entries	Number of items
Most Excellent Chamber	35,873,815.76	82	29,195	28,982,884.03	74	30,451
Social Security Institution	5,725,104.11	103	3,906	7,885,596.37	91	4,999
Fondiss	683,102.64	23	2,612	1,010,605.49	25	3,264
State Autonomous Authority for Public Services	1,615,163.08	106	1,322	1,078,627.65	125	1,881
Central Bank	138,028.01	4	10	90,789.09	4	13
Financial Intelligence Agency	-	-	-	397,294.80	1	10
Autonomous State Authority for Public Works	-	-	-	1,530.28	1	4
Total	44,035,213.60		37,045	39,447,327.71		40,622

2.9.5 Entries in the Overdue Tax Register made by the Most Excellent Chamber

In terms of numbers, entries in the Most Excellent Chamber accounted for 73.5% of the overall total. Of these, 65.4% pertained to the Registry (for the CAUTA), while 26.7% and 4.8% pertained to the Tax Office indirect tax section and direct tax section, respectively.

In terms of value, the largest portion pertained to the Tax Office (81.8%), followed by the Registry (15.3%).

Table 27 - Entries in the Overdue Tax Register of the offices of the Most Excellent Chamber in 2019

Office	Entry in the Overdue Tax Register		Release from the Register	
	Amount	Number of items	Amount	Number of items
Indirect taxation section of the Tax Office	17,157,925.12	8,144	45,780,396.84	2,394
Direct taxation section of the Tax Office	6,557,470.72	1,450	3,749,231.57	344
Registry	4,440,906.92	19,927	799,964.39	765
Civil Police	268,892.76	634	95,918.82	181
Gendarmerie	13,072.16	26	1,033.16	1
Guardia di Rocca	22,556.00	18	1,277.99	4
Administrative Control Office	373,850.00	65	327,785.79	33
Vehicles Register	34,562.00	160	274.00	3
Agricultural Resources Management Office	3,944.46	4	-	-
Inspectorate for the Control of the Territory	1,000.00	1	1,241.20	1
Central Liaison Office	-	-	6,000.00	1
Elementary Schools Directorate	-	-	348.00	1
Inventories and assets of the State	66,134.79	7	-	-
Land Registry Technical Office	-	-	4,180.00	1
Office for Economic Affairs	42,569.10	15	11,285.20	3
Total	28,982,884.03	30,451	50,778,936.96	3,732

2.9.6 Entries in the Overdue Tax Register made by ISS and FONDISS

Entries in the Overdue Taxes Register made by ISS and FONDISS mainly concerned employees', self-employed workers' and directors' contributions.

In order to facilitate collection, subject to authorisation by the tax authority and in compliance with special provisions, up until 31 May 2019 penalties could be (i) reduced if a deferred payment scheme was entered into or (ii) cancelled following full settlement of debt. Effective 1 June 2019, this facility is no longer in force.

Still on the subject of contributions, it should be noted that Article 64 of Law No. 147 dated 21 December 2017 requires disclosure to the Judicial Authority, under certain conditions, of taxpayers who show a debt position in respect of taxes due for social security and welfare contributions.

Table 28 - Entries in the Overdue Tax Register by the offices of the Social Security Institution in 2019

Office	Entry in the Overdue Tax Register		Release from the Register	
	Amount	Number of items	Amount	Number of items
Contributions office	7,786,778.46	4,472	1,071,886.07	1,027
Public Healthcare Department	17,915.34	23	608.58	1
External healthcare benefits office	29,800.00	21	5,000.00	2
Accounting Office	51,102.57	483	2,505.18	29
Fondiss	1,010,605.49	3,264	52,535.75	226
Total	8,896,201.86	8,263	1,132,535.58	1,285

2.9.7 The Single Tax Bill ("Cartella Unica delle Tasse" - CAUTA)

In 2019, 19,909 single tax bills were issued for a total amount in the region of EUR 4.2 million. Of this, approximately EUR 3.3 million was collected.

With regard to these collections, 26.1% arose from pre-authorised debiting, while the remainder resulted from collections at the counter of the Overdue Tax Collection Department, bank transfers ordered by the debtor or compensation with payments made by the broader Public Administration.

Table 29 – CAUTA 2018-2019 comparison

Overdue Tax Entries	2018		2019	
	Amount	Number of items	Amount	Number of items
Entered	4,183,025.96	19,854	4,192,271.55	19,909
Cancelled	23,965.42	132	33,235.63	135
Collected by the Central Bank	3,373,359.24	17,305	3,340,346.73	17,244
To be managed	761,184.95	2,368	806,840.46	2,504
% cancelled	0.60	0.70%	0.79	0.70%
% collected by the Central Bank	80.70%	87.20%	81%	88%
% to be managed	18.20%	12.00%	19.50%	13%

With regard to CAUTA still to be collected, it should be noted that unpaid amounts largely pertained to tax bills notified to legal persons.

2.9.8 Public auctions

In 2019, no public auctions involving real property took place, as only personal property auctions were held. In particular, 3 "ordinary" auctions were held, each consisting of 3 sessions, and 2 "special" auctions. The latter were restricted to special categories of goods, such as equipment that is prone to fast obsolescence or that may be of interest to few potential buyers.

The amounts collected at the auctions held in 2019 totalled approximately EUR 288,000, or 19% of the total value of the goods on sale, the value of which was estimated at EUR 1.6 million.

From an organisational perspective, the goal is to have public auctions gradually held using electronic means, the purpose also being to broaden the audience of potential buyers and facilitate realisation, while reducing operating costs.

Table 30 - Collections resulting from the auctions of movable assets in 2019

	2019									
	I auction	II auction	III auction	I auction	II auction	III auction	I auction	II auction	III auction	OTHER AUCTIONS
Value of assets	271,597.00	165,816.70	70,528.40	355,113.00	248,439.10	130,165.20	120,368.00	83,542.20	45,044.40	85,813.00
Collected	44,304.51	49,308.00	41,602.75	387.00	24,400.00	76,810.00	1,264.30	5,114.10	22,054.30	22,450.80
% collected	16.30%	29.70%	59%	0.11%	10%	59%	1%	6%	49%	26%

2.9.9 Legal activities

Pursuant to Article 5(5) of Law No. 70/2004 "The Tax Collector is authorised to assume the defence, through his own attorney, of the Most Excellent Chamber, the Entities and the Autonomous Authorities, in the legal actions initiated due to the collection, at the Single Court. For the purposes of this point, the provisions of Decree no. 56 of 26 April 1995 apply to the employee of the Central Bank". As a result, the Overdue Tax Collection Department will file an entry of appearance before the Court to defend and represent the aforementioned individuals, both as plaintiff and defendant.

As regards non-contentious jurisdiction cases dealing with acceptance of succession, the lawyer of the Overdue Tax Collection Department will file a brief forming part of the case file reporting the deceased's debts and thereby enforcing its claims as being senior in nature.

Proceedings in 2019 include:

- A civil action in bankruptcy proceedings (action to set aside a transaction) currently pending appeal;
- Three administrative appeal where the plaintiff argued constitutional legitimacy regarding Article 36 of Law No. 70/2004;
- Three administrative actions at first instance;
- Two administrative appeals;
- Four cases of non-contentious jurisdiction regarding acceptance of succession and one case of non-contentious jurisdiction regarding an estate in abeyance and one case of non-contentious jurisdiction for mortgage fraud;
- Participation in four enforcement civil proceedings;
- Six civil proceedings concerning "instrumental procedure";
- Three civil actions regarding enforcement of overdue tax collection notices;
- Five *manu regia* procedures.

2.10 Management of liquidity and financial portfolio

The world economy is on a downward trend and in 2019 the slowdown continued, recording a 2.9% increase, compared to 3.6% in 2018 and 3.8% in 2017. In addition to structural factors, such as an ageing population and low productivity growth in the more developed countries, uncertainties related to the trade war, Brexit, natural disasters in various parts of the world and geopolitical risks linked to terrorist incidents also had an impact.

The combination of such a large number of factors of objective uncertainty and difficulty contributed to slowing down the trend in the production and exchange of goods and services, decreasing the growth rate of the economy on a global scale. Finally, all continents were affected by catastrophic natural events, probably brought about by the effects of climate change.

In detail, advanced economies grew by 1.7% compared to 2.2% in the previous year; the Eurozone as a whole grew by 1.2% compared to 1.9% in 2018, with significant differences between countries, as they continued to gain momentum in different and inconsistent ways between one another. Europe's (slow) economic growth was very uneven among the various countries, with Spain growing by 2%, France by 1.3%, Germany by 0.6% and Italy by as little as 0.3%.

Among the main economies, only Japan recorded higher economic growth than in 2018, i.e. 0.7% compared to 0.3%, mainly due to an increase in private consumption and investment.

In addition to the problems faced in previous years, i.e. the dangers of terrorism and geo-political tensions mainly in the Middle East, new challenges and concerns came to international attention during 2019. Geo-political turbulence areas extended to South America, with the Venezuelan social and political crisis that led the incumbent President Maduro and his opponent Guaidò to confront one another, causing Russia and the United States to be indirectly involved in support of their respective sides. The crisis in Venezuela somehow involved other South American countries, such as Argentina, during the election period, and Bolivia, giving rise to protests and serious incidents in the streets. Moreover, the long-standing crisis in Libya became increasingly serious and worrying, with a civil war involving the troops of the two main contenders as they vie for control over the country.

Faced with the economic problems that affected the leading economies, prompt action was taken by the Central Banks in an attempt to stem the crisis and relaunch development.

The expansionary monetary policies already widely used in recent years by monetary institutions were overhauled, reintroduced and increased in order to support the slight uptick by supplying abundant liquidity to economic and financial operators.

The Federal Reserve reversed the monetary policy tightening it had introduced at the end of 2015 and, starting in the summer of 2019 and throughout the second half of the year, decided to reduce the official Fed Funds rate three times, causing it to stand within the 1.50%-1.75% range.

In March 2019, the European Central Bank announced the recalibration of targeted longer-term refinancing operations (TLTRO III) for banks. Later on in September, it raised the deposit rate to -0.50% and finally, in November, it resumed unconventional securities purchasing activity for an amount of EUR 20 billion per month.

Against a background of economic uncertainty, interest rates on bonds reached all-time lows, with the yield on 10-year Bunds falling to -0.72% in September and the US Treasury 10-year bonds dropping to 1.45%.

Gold, too, viewed as a safe haven in times of uncertainty, showed a significant rise in prices, standing at around USD 1,550 an ounce in September.

The securities portfolio was increased as early as in the first months of the year, relying on the abundant liquidity deposited in centralised accounts, in an attempt to take advantage of the trend of credit spreads that were progressively narrowing during 2019, although this trend was affected by significant volatility, especially in spring and early autumn (the generic ITRX index on the five-year European maturity stood at around 44 at the end of 2019, compared to 92 at the beginning of the year).

The positive impact of the narrowing of credit spreads on bond prices was significant and generated capital gains.

Looking at CBSM's financial data, the Balance Sheet shows that in 2019 the investment securities portfolio was disposed of by divesting securities in March and November.

The securities portfolio stood at EUR 301 million at the end of the year, showing an increase of about 86% over the figure posted in 2018 (EUR 161 million).

Loans to credit institutions came in at about EUR 81 million, showing a 30% drop over the figure posted in 2018 figure (EUR 112 million). A review of the items comprising this figure shows that on demand loans declined by about 15%, while "other credits" were virtually nil, dropping by about 99%.

Loans to customers decreased from approximately EUR 98 million at the end of 2018 to EUR 92 million in 2019 (-6%), almost entirely due to "other credits".

A review of liabilities shows an increase in debts with banks, as they rose to EUR 265 million at the end of 2019 compared to EUR 219 million in the previous period, reflecting an overall increase of 21%, chiefly due to an increase of about 36% in on demand debts.

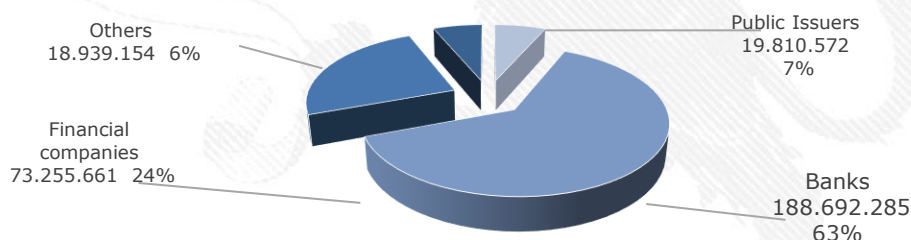
Debts with customers also increased significantly, showing a rise of approximately 61% over the previous period, standing at approximately EUR 182 million (EUR 113 million in 2018). This increase was chiefly due to a 61% increase in on demand debts, which rose from EUR 105 million to EUR 176 million, while term or notice debts dropped significantly (28%) from EUR 7 million to EUR 5 million.

Profit-and-loss-account figures show that interest received declined by 8% over the previous period, standing at EUR 2.4 million (EUR 2.6 million in the previous period).

Interest paid dropped by 83%, with an overall cost of EUR 0.2 million compared to EUR 1.1 million at the end of 2019.

At the end of 2019, financial transactions posted a loss of EUR 5.9 million compared to a EUR 4 million profit posted at the end of 2018.

Figure 38 - Breakdown of the bond portfolio



* In millions of Euro

2.11 Second Social Security Pillar (FONDISS)

In 2019, social security contributions were mainly invested in time deposits with banks in San Marino.

In the discharge of its duties as depositary bank of Fondiss, the Central Bank checked compliance with investment limits and settled the transactions instructed by the Fund, including checking the adequacy of the amounts reimbursed. In addition, it checked the monthly unit value, calculated by the administrative functions of the Fund itself, which was determined by the value of the assets and the number of outstanding units.

Table 31 - Financial instruments and other assets linked to the activities as depositary bank

Year	31 December 2018	31 December 2019
Liquidity deposited with the Central Bank	716	84,648,392
Other assets other than financial instruments and liquidity (term deposits)	76,638,564	0
Pension Fund Segregation Public Vehicle		15,907,054
Total	76,639,280	100,555,446

Notes: Figures shown in EUR, excluding accruals.

2.12 The Trust Register

The number of trusts entered in the Register as at 31 December 2019, net of cancellations, stood at 154 (of which 1 foreign trust), growing by 17.56% as compared to the corresponding number (i.e., number of active trusts) at the end of 2018 (131).

More specifically, in 2019 the Office made the following entries in the Register:

- a) 29 new trusts;
- b) 6 cancellations of trusts formerly registered;
- c) 21 changes to Register records,

with the ensuing issue and/or withdrawal of Trust Certificates.

As at 31 March 2020, the number of active trusts stood at 161. During the first quarter of 2020, 12 new trusts were registered, 5 trusts were removed and 84 changes were made to Register records.

As part of the aforementioned operational processes, in 2019 the Office started two sanctioning proceedings for breach of Article 7(1) of Law 42/2010. While one of such proceedings was dismissed, the other resulted in the infliction of a EUR 15,000 administrative penalty, i.e. the maximum amount laid down by law. In the first quarter of 2020, two EUR 3,000 administrative sanctions, totalling EUR 6,000, were inflicted for breach of the same Article 7(1) of Law 42/2010. In all three cases, the Central Bank collected, on behalf of the Most Excellent Chamber³³, half of the amount inflicted on a voluntary settlement basis.

Furthermore, in 2019 the Office issued 12 certifications pursuant to Article 5 of Delegated Decree 50/2010, of which 6 at the request of the trustees and 6 at the request of the resident agent. In the first quarter of 2020, only one certification was issued at the request of a trustee.

In 2019, 10 requests for information relating to the Trust Register were processed, one from the Single Court, one from the Financial Intelligence Agency and eight from Offices or Entities of the Broader Public Sector pursuant to Decree-Law No. 125/2015. During the first quarter of 2020, only ONE request was received from a Public Office pursuant to the aforementioned Decree-Law.

During 2019, at the request of the CBSM Designated Officer, 12 checks were conducted on entities being subject to restrictive measures pursuant to UN resolutions in the fight against terrorist financing. During the first quarter of 2020, the CBSM Designated Officer submitted 9 such requests, to which the Office replied promptly.

³³This sanction was added to those inflicted in previous years, starting in 2010 — i.e. the year when the Office was assigned to the Central Bank, with the payments made by the Most Excellent Chamber in respect of sanctions inflicted totalling EUR 30,338.97.

In 2019, the Office submitted a special case and an interpretation-related question to the Court for Trusts and Fiduciary Relations. In the first quarter of 2020, no situations worth notifying or reporting to other Authorities occurred.

In addition to the typical activities described above, in 2019 the Office continued to provide its support in endeavours relating to the annual training for professional trustee candidates and for the retention of the mandatory training requirements, such endeavours being organised by the Uniforma Consortium and by the University of the Republic of San Marino. In particular, issues regarding the Trust Register were addressed during the refresher courses.

Moreover, in 2019, effective 1 June 2019, the new Register of Trust Beneficial Owners (hereinafter also referred to as REGTBO) was established, as under Article 23 quater of Law 92/2008, introduced by Article 37 of Decree-Law No. 139 dated 11 December 2017 relating to adjusting national legislation to the IV European Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Operating instructions were published on the Central Bank's website providing guidance as to the procedures for notifying beneficial owners, criteria for their registration with the REGTBO as well as procedures whereby entities allowed by law can gain access to the information held in the Register of Beneficial Owners.

The charts below show statistical data regarding the institute of trust in San Marino as at 31 December 2019.

Figure 39 - Types of trustees

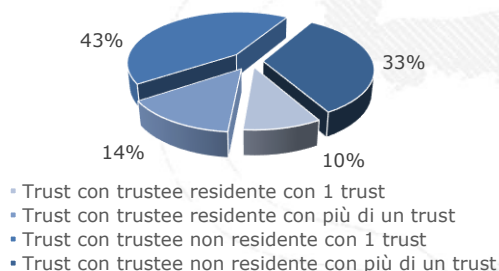


Figure 40 - Origin of settlors

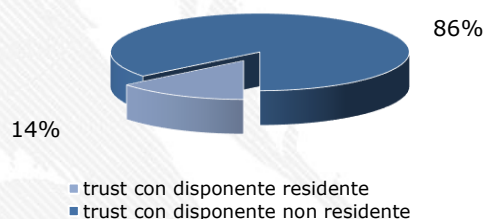


Figure 41 - Types of trusts

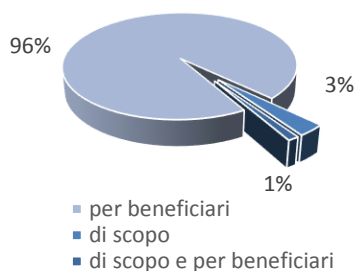


Figure 42 - Type of resident agent

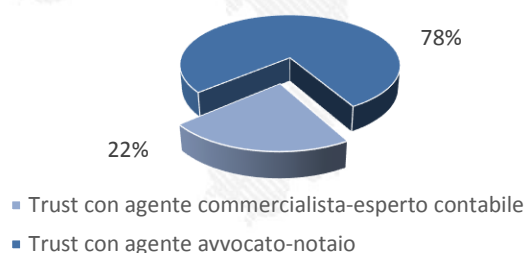
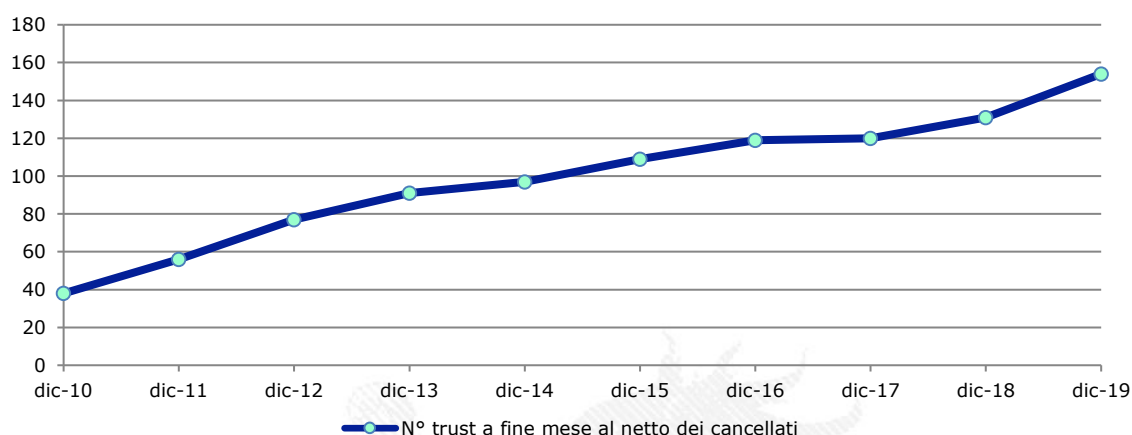


Figure 43 - Registration trend



2.13 Register of Fiduciary Shareholdings

Activities carried out in relation to the Register of Fiduciary Shareholdings pursuant to Law 98/2010 continued to focus on receiving reports from San Marino and foreign fiduciary companies, and collaborating with public administration offices and authorities responsible for the exchange of information.

The table below provides an overview of the activities carried out with reference to FY 2019 and Q1 2020:

Table 32 – Activities carried out: requests and reports received

Reports/requests	2019	Q1 2020
Number of reports received from fiduciary companies and banks*	32	10
Number of requests for information received from Public Offices and relevant Authorities	12	4

Notes: *The report management procedure often also entails requesting and returning certain reports and requesting the senders to provide clarifications regarding the information provided. In particular, 7 such requests were received from the Central Bank in the period under review.

A comparison with the previous year (2018) shows a downtrend in the number of reports submitted by San Marino and foreign fiduciary companies in 2019. This trend was due, in general, to the significant decrease seen in recent years in the number of fiduciary activities relating to equity investment registration. The number of requests for information from Public Offices and relevant Authorities increased during the same period.

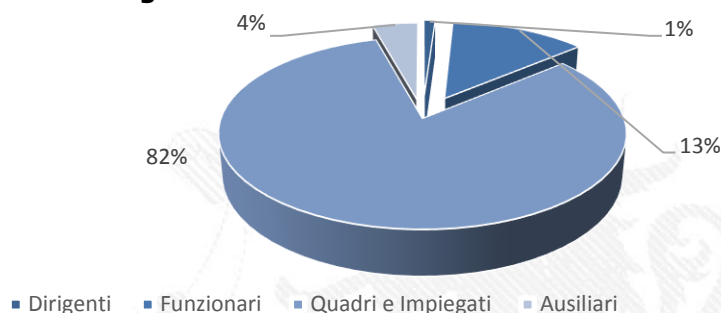
Moreover, in compliance with the requirements of Article 5 of Law 98/2010, for the purposes of application of administrative sanctions, the Office for Economic Affairs was notified of a fiduciary company's failure to report an investment held in a San Marino company.

3 INTERNAL RESOURCES

3.1 Human Resources and Corporate Staff

The Central Bank's headcount has remained virtually unchanged over the past few years. At the end of 2019, it consisted of 94 employees, one of whom was employed with a fixed-term employment agreement, terminated in early 2020, while 15 were employed with the Financial Intelligence Agency.

Figure 44 - Contractual categories



During the year, with a view to discharging its statutory duties effectively and efficiently, the Supervision Committee — , still chaired by the Deputy Director acting as Director General — was further strengthened, as it could rely on as many as five Internal Inspectors and one External Inspector.

Given CBSM's role as Single Member of Banca Nazionale Sammarinese S.p.A., between the end of 2019 and early 2020 a number of temporary secondments of staff were arranged, the purpose being to ensure a more efficient personnel management process — making up for temporary lack of professional profiles — and greater coordination between the two entities. It should be noted that Deputy Director Mr Daniele Bernardi served as Director General of BNS from 21 August 2019 to 20 February 2020.

During the year, English language training courses continued to be delivered, involving 35% of the staff with a view to fulfilling the role of liaison as best as possible, considering the relations that CBSM has with foreign central banks and supervisory authorities, international institutions (International Monetary Fund, World Bank, Bank for International Settlements), international organisations (OECD, European Commission, etc.), Associations (International Association of Deposit Insurers, European Association of Deposit Insurers, etc.).

Among the other various initiatives carried out, two are worth mentioning: 1) an in-house course, conducted by a specialised training school, on the subject of Anti-Money Laundering, which involved the Designated Officer and his staff as well as many other employees and the Bank's Executives, i.e. the Directorate General, the members of the Governing Council and the Board of Statutory Auditors; 2) participation of an employee in a Master's degree in privacy, organised by the Law Department of the Roma Tre University, so that the requirements of Law 171/2018 on "Protection of individuals with regards to the processing of personal data" could be met.

Finally, it should be noted that, pursuant to Article 52 of Law 173/2018, the Bank completed a review of administrative costs that allowed it to approve a budget at the beginning of 2019 with cost savings in excess of 20% compared to the previous year.

The execution of the Solidarity Agreement between the Bank and its employees, together with the trade unions and A.N.I.S. [San Marino Industry National Association], signed on 18 April 2019 and effective in the 2019-2021 three-year period, completed the above-mentioned cost review process, with the direct involvement of all staff members. The above Agreement, which addressed

some important contractual aspects, also included a waiver of the cost of living adjustment in the period spanning 2011-2021. These measures were also accepted by employees who had already suffered a financial reduction as a result of the “salary cap” that the Central Bank applied independently to all governance and management positions.

To the extent as lying within its province, the Governing Council endeavoured to protect (i) jobs, (ii) set out the conditions for the renewal of employment agreements and the conduct of a training plan agreed with the company's trade unions, (iii) reduce other administrative costs and (iv) cut down on the number and cost of consulting services, including by relying on the direct involvement of internal resources.

Finally, fully reflecting the spirit of solidarity underlying the Agreement, the members of the Governing Council and of the Board of Statutory Auditors also reduced their emoluments with a view to contributing to the cost savings efforts, despite the considerable responsibilities these statutory bodies are vested with.

3.2 Organisation Chart

During 2019, the Bank's organisational chart did not change significantly compared to 31 December 2018.

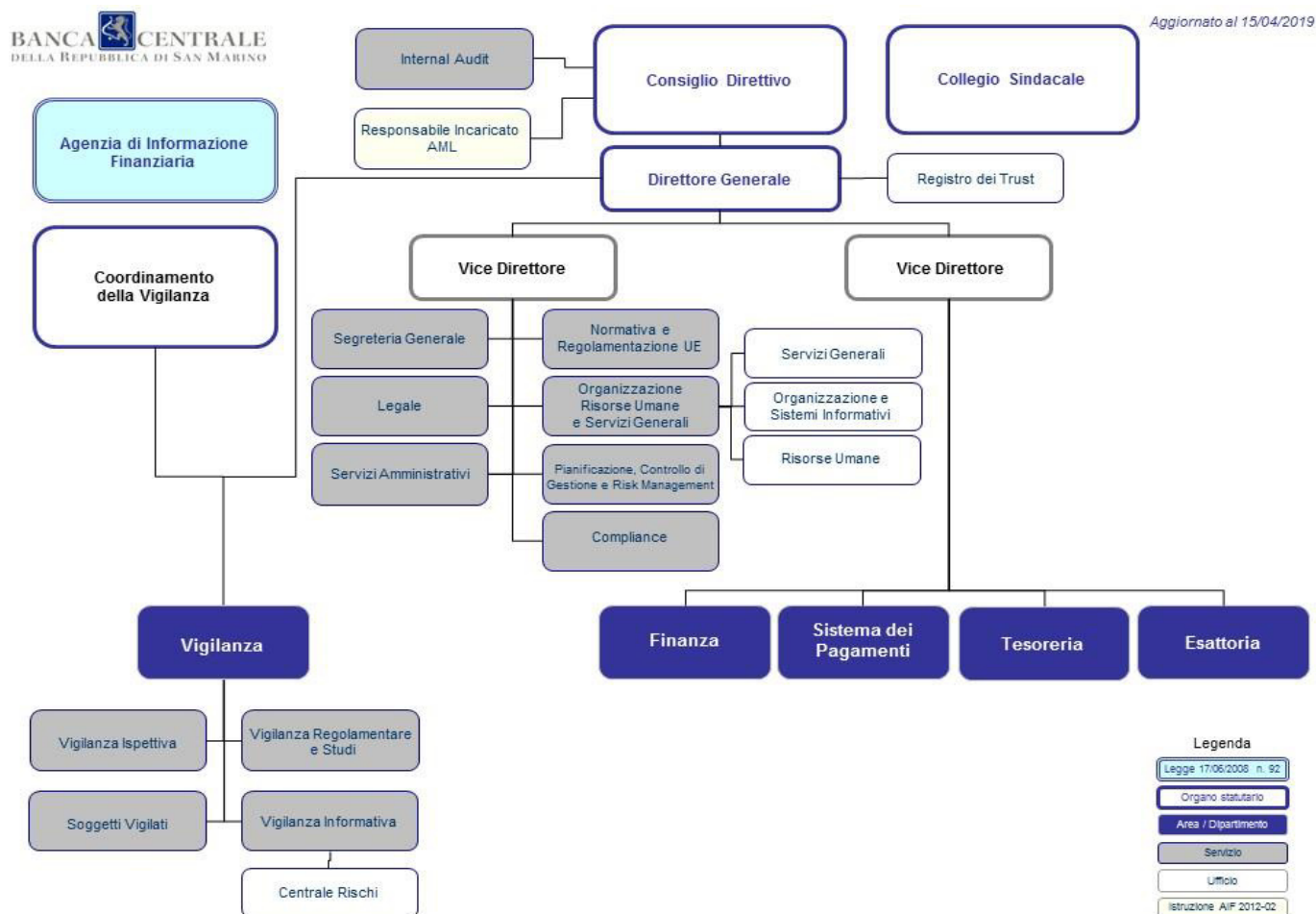
In early 2020, the Research Office was set up within the Regulatory Supervision and Research Department. Its duties include:

- Conducting research on and gaining insights into economic matters and financial legislation;
- Preparing financial system-related strategic analysis reports.

In June 2020, the Planning, Management Supervision and Risk Management Function and the Finance and Payment System Departments were reorganised, even though no changes were made to their respective duties and responsibilities.

It should also be noted that supervision divisions such as Risk, DPO and Compliance were also being strengthened.

Figure 45 - Organisation chart



4 ANNUAL REPORT ON THE GUARANTEE FUND FOR DEPOSITORS

4.1 2019 Operational Highlights

During 2019, the Guarantee Fund for Depositors (hereinafter also referred to as the “Fund” or “GFD”) continued the capital strengthening process that was started as early as its establishment, as illustrated below, the purpose being to be able to rely on the resources set forth by the regulations and that may prove necessary to deal with any situations requiring action.

In the past year, a major legislative measure was issued regarding the safety net depositor guarantee system — i.e. Law No. 102 dated 14 June 2019 on bank resolutions — which changed its general approach. More specifically, the Fund’s scope for action was extended from cases of administrative compulsory winding-up to cases of extraordinary administration of credit institutions — so as to facilitate their reorganisation — as well as any other case of hardships experienced by the banks participating in the guarantee scheme, as part of crisis situations managed in accordance with the aforementioned Law.

The Fund’s Management Body (hereinafter also referred to as the “MB”) contributed to the draft law on bank resolution instruments, notably on broadening the Fund’s scope of action beyond the cases of administrative compulsory winding-up. In view of the major changes that the aforesaid Law introduced regarding the Fund’s scope of action, the MB raised the need for a change to be made also to Regulation 2016-01, so as to ensure consistency and coordination with the law on resolution instruments.

Below is an overview of the main events that characterised operations in 2019.

In February 2019, CBSM Governing Council appointed Mr Alex Alessandrini as a new member of the Fund’s Management Body, replacing Mr Andrea Costa who resigned. In addition to the person named above, the Body therefore consisted of its Chairman, Ms Silvia Cesarini and Mr Fillippo Vella.

In February 2019, the GFD was informed by the Supervision Committee, pursuant to Article II.II.2(5) of Regulation 2016-01, of the start of extraordinary administration proceedings involving Banca CIS S.p.A. as under Article 78 of Law 165/2005 (LISF). In this communication, the GFD was informed that there would be scope for action if the start of administrative compulsory winding-up proceedings at the end of the bank’s crisis situation could not be avoided.

Following this communication, the MB started a whole range of efforts aimed at:

- Retrieving and reviewing up-to-date data on protected deposits and the Single Customer View of the Bank in distress;
- Maintaining liquid resources by avoiding renewal of investments in repurchase agreements that were reaching maturity, considering the commitments that could have arisen in terms of possible intervention, including commitments other than repayment to depositors as under the aforementioned Law No. 102/2019 issued in June 2019;
- Sharing information with the Supervision Committee, CBSM Governing Council and the Credit and Savings Committee on the Fund’s ability to intervene at a capital, organisational and legislative level;
- Raising resources by relying on possible extraordinary contributions or accessing statutory contribution systems as under Articles III.II.2 and III.II.3 of Regulation 2016-01;
- Identifying forms of participation in guarantee schemes with a greater number of participants;
- Gaining access to liquid resources, including by means of loans through CBSM.

As in previous years, in 2019 the Fund continued to cooperate with the *European Forum of Deposit Insurers* (EFDI) in its capacity as full member, a status the Fund has been enjoying for a number of years. In addition, in its capacity as observer since 2019, it participated in the activities of

the Affiliation of European Micro-States (AMES), i.e. an EFDI ad-hoc working group. This purpose of this cooperation is to share experiences and acquire knowledge with a view, among other things, to feeding international best practices into the Republic of San Marino's system.

To this end, in September 2019 CBSM attended the EFDI Annual Conference and General Assembly in Sarajevo.

Collaboration with IADI (International Association of Deposit Insurers) also continued in the period under review, contributing, among other things, to the completion of the Annual Survey.

The MB, through the International Relations Function of CBSM, also took part in the annual consultations with experts from the International Monetary Fund as part of the audits required under Article IV of the IMF Statutes, providing its contribution and information necessary for a meaningful exchange on the overall assessment of the nation's economic system.

The Management Body decided that the annual contribution share due to the Fund for 2019 by fund participants was 0.06% of protected deposits, such share totalling EUR 994,596 and distributed among the participating banks.

Following the contribution for 2019, the coverage level of 0.54% of protected deposits was reached, standing at EUR 8,372,374 (EUR 7,348,555 at the end of 2018). The increase in the Fund's value was due to ordinary contributions as well as interest (EUR 29,223) on (i) capital investments in repurchase agreements with CBSM, with underlying eligible securities and (ii) cash holdings on the current account maintained with CBSM. The above figure decreased over the previous period (EUR 37,927).

The target level — i.e. the minimum level of financial resources that the GFD is, pursuant to the regulations in force, required to reach by 3 July 2024 — was set at 0.80% of protected deposits, without prejudice to the possibility for the MB to deviate from this target level by setting a threshold no lower than 0.50% of protected deposits, after consulting with the Supervision Committee.

On 17 April 2019, the Fund's Management Body reviewed, and approved the contents of, the statement of operations for financial year 2018, which was prepared and filed with the Administrative Services in accordance with Regulation 2016-01.

As was the case in previous periods, in 2019 the Governing Council of CBSM confirmed again until the assumption of the Fund's costs relating to its management and operation, thereby supporting the depositors' guarantee scheme to protect financial stability with its own "indirect contribution". With regard to the return on the Fund's investments — with CBSM acting as counterparty in respect of all of them — at the end of 2019 the Bank revised on the downside the conditions applied to investments in repurchase agreements of the Guarantee Fund.

The MB scheduled for 2020 the three-year stress tests regarding its ability to take action. In this connection, it also relied on the *Single Customer View* information flows from participating banks, as pursuant to current legislation.

In conclusion, as a whole, in 2019 the GFD Management Body took part:

- a) As to ordinary matters, in regular meetings held for the discharge of current affairs and in investment decisions concerning capital base;
- b) As to extraordinary matters, in activities related to the crisis of a participating bank. The ensuing legislative interventions failed to provide continuity with the recent past, inasmuch as they radically changed the Fund's intervention policy and the safety-net approach, with effects that would continue to unfold in the near future.

Table 33 – Fund figures as at 31 December 2019

Figures	
5	participating banks (listed alphabetically: Banca Agricola Commerciale – Istituto Bancario Sammarinese S.p.A.; Banca Nazionale Sammarinese a socio unico in risoluzione (formerly Banca CIS S.p.A.); Banca di San Marino S.p.A.; Banca Sammarinese d'Investimento S.p.A.; Cassa di Risparmio della Repubblica di San Marino S.p.A.)
60,747	was the total number of GFD protected depositors in the 5 participating banks
1,542	million was the total value of “deposits protected” under the GFD
8.4	million was the value of the GFD’s “available financial means”
0.54%	Approximate percentage value of the GFD’s endowment at 31 December 2019
0.8%	was the minimum target level to be reached through ordinary contribution by 3 July 2024, save for exceptions under Article VII.II.1(9) of Regulation 2016-01.
15	business days was the ordinary time limit within which the GFD was required to repay depositors from the effective date of the administrative compulsory winding-up (as of 1 January 2021, a 10-day time limit will apply).
3	are the Central Bank employees who — in their capacity as members of the Management Body — are required to deal with the management of the GFD on a regular basis, albeit not exclusively.

4.2 2019 Statement of Operations

For a review of assets and liabilities as well as operating costs and revenues for 2019, reference should be made to the “Statement of Operations for financial year 2019”, which was prepared pursuant to Article III.III.2(2) of Regulation 2016-01, contained in the financial statements of the Central Bank, of which it forms an integral part. The aforesaid statement of operations includes the balance sheet, the profit and loss account and accompanying notes, complete with the reports of the Central Bank’s Board of Statutory Auditors and of the Audit Firm appointed by the Central Bank.

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