

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

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ANNO 2021







# **Summary report**

## **on the activities performed and on the performance of the financial system**

**Year 2021**



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**A Publicly and privately owned entity**  
**Economic Operator Code SM04262 - Endowment fund EUR 12,911,425.00 fully paid up**

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May 2022**

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## COMPOSITION OF THE STATUTORY BODIES\*

### **Governing Council**

Catia Tomasetti - Chairperson  
Francesco Mancini – Vice Chairperson  
Walter Guidi  
Francesco Ielpo  
Antonella Mularoni  
Giacomo Volpinari

### **Board of Statutory Auditors**

Pier Angela Gasperoni - Chairperson  
Valentina Di Francesco  
Monica Zafferani

### **Directorate General**

Giuseppe Ucci - Acting Deputy Director  
Daniele Bernardi - Deputy Director

### **Supervision Committee**

Giuseppe Ucci – Chairperson  
Giuliano Battistini  
Marco Giulianelli  
Maurizio Pappalardo  
Andrea Vivoli

The Central Bank Statutes (Law No. 96 dated 29 June 2005 and subsequent amendments) provides that the Bank is responsible for reporting the achievement of its own objectives to the Great and General Council, which appoints the Chairman, the members of the Governing Council and the Chairperson of the Board of Statutory Auditors. Consistent with the duties assigned to it under the Statutes, the Bank prepared the Annual Summary 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 31 May 2022



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## LIST OF ABBREVIATIONS

FIA	Financial Intelligence Agency
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
CENTRAL BANK/CBSM	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
DGF	Depositors' Guarantee Fund
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 otherwise stated, data processing is carried out 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 RECOMMENDATIONS POLICY 2022

Following the recent visit in April 2022, the International Monetary Fund (IMF) published a summary regarding the main outcomes of the mission and the challenges that the Republic of San Marino has to face, in a framework made even more complex by the general instability brought about by the Ukrainian crisis, which also determines potential impacts for the financial debt strategy recently launched by the Republic of San Marino with the 2021 bond issue, maturing in 2024.

With regard to the challenges facing the San Marino economy, these have “distant roots” - as highlighted in the past also by the IMF - and to a large extent pertaining to the financial system, which has undergone all the difficulties of the profound transformation that has taken place over the last 15 years.

In this regard, it should be noted that, in 2019, CBSM took a formal position, in agreement with the IMF and the Government, with the development of strategic lines (or Strategy for the Financial System - SSF) for overcoming the existing criticalities<sup>1</sup>, with an analysis of the guidelines necessary for the economy as a whole, preparing appropriate strategic recommendations (or policy recommendations).

Three years after that strategic analysis, its implementation has produced important results for the financial system, now boasting better levels of capitalisation and governance of banking intermediaries, thanks to regulatory and supervisory initiatives, aimed at resolving certain structural criticalities in the system.

However, there are still some critical issues in the financial system to be overcome, in particular with regard to the management of the stock of Non-Performing Loans (NPLs), an objective for which CBSM's action must be viewed in a broader context, in which it is essential that the various stakeholders, first and foremost the Government and the banks, operate in synergy, to fully implement the “securitisation of banking assets” defined by Law no. 157 of 30 August 2021. The implementation of the law is an objective that concerns not only the banking system, but the entire country, since a banking system able to operate in a structural way, freed or in any case relieved, to a significant extent, from the burden of NPLs, can provide real beneficial support to the local economy.

In its 2019 paper, the Central Bank had also expanded the scope of analysis, defining general recommendations, albeit on a technical front, for the San Marino economy, in line with the purposes of each central bank and on which it could provide its own qualified contribution. Also in this case, as with the financial system, there were important initiatives that followed the proposed guidelines, both for the procurement of resources outside the country through the issue of bonds placed on international markets and to overcome the capital problems of the main (public) bank of the financial system.

The initiatives implemented, the first in particular, were based on a structural reform plan, highly sought also by the IMF, which also supported the debt programme implemented with the 2021 bond issue.

In fact, in the country's financial resource management strategy, it is essential to launch the proposed reform plan, so as to guarantee, on the one hand, the procurement of internal resources

<sup>1</sup> “The Strategy for the Financial System (SSF) was developed with the contribution of the Central Bank, also benefitting from the periodic discussions with the International Monetary Fund, to highlight the individual areas for improvement of the system and identify the appropriate remedial actions that the Supervisory Authority and other stakeholders can implement in their respective areas of competence. The work to draft the SSF was carried out based on a “global approach”, to identify the best practices at international level, but with a “local-oriented implementation”, aimed at an application able to take into account the unique characteristics of the San Marino banking system, thus determining objectives and intermediate steps that can be achieved. The SSF does not represent a rewriting of the business model of the banking sector, an activity that is strictly the responsibility of banking intermediaries and the related trade association, in which the active presence of the Supervisory Authority would be inappropriate. The SSF, on the other hand, represents an overall approach to the solution of problems in the banking system, with the global-local approach described above, in order to establish the best conditions in which to develop the banking system, therefore free from the limitations determined by existing criticalities. The SSF does not even represent an autonomous and independent activity of CBSM: the Strategy requires the active contribution of the State, the political authorities and the social partners, within an overall framework aimed at stabilising and developing the banking system. Even the activities strictly within the competence of the Central Bank require the active contribution of the remaining parties, with a “system approach” (comprehensive). Project series no. 5 (<https://www.bcsn.sm/site/home/pubblicazioni-e-statistiche/collana-interventi.html>)

for sustaining the cost of borrowing and on the other, no less important, to allow the Republic of San Marino to continue to obtain the support of the financial markets. The strategy for the management of bond issues on the markets represents a trend that the Republic of San Marino, like all developed countries, must pursue in order to improve the structure of the total debt of the State, in particular by pursuing a better structuring of maturities (hopefully lengthening them) while continuing to maintain a high level of liquidity.

With regard to the operating methods with which to implement the various structural reforms, already identified by the Government and shared with the IMF, it is up to the Policy to define technical methods for the “finalisation”, which will always receive the active and collaborative support of the Central Bank. However, CBSM recommends that special attention be focused on the coordination of these reforms and their timing, which must be aimed at ensuring the inclusion of the various interventions in an overall framework, in which the final objective is clear, to the benefit of a system approach with a coordinated and fair contribution from all parties involved and all its components.





## 2 THE FINANCIAL SYSTEM

As at 31 December 2021, 12 companies were listed in the Register of Authorised Entities, one of which in the section of foreign financial companies. In detail, the San Marino financial system was composed of 4 banks, one finance company, 3 management companies, one payment institution and 2 insurance companies (authorised to exercise the activities under letter G of Annex 1 of the LISF) and a foreign financial company authorised to exercise reserved activities under the regime for the provision of services without a permanent establishment (PSSS). Since 2016, no investment companies have been registered in the aforementioned Register. Compared to 2020, the total number of authorised parties remained unchanged at 12 units, taking into account that, due to the decrease in the number of banks by one unit<sup>2</sup>, the first foreign financial company was recorded.

The financial system framework is completed by the insurance and reinsurance intermediaries registered in the relative public Register; in relation to their dynamics, in terms of numbers, please refer to the specifically dedicated section, similarly for the foreign companies authorised to carry out insurance activities in the Republic of San Marino under the regime for the provision of services without a permanent establishment through intermediaries similarly authorised by CBSM.

**Table 1 - Authorised entities and insurance intermediaries, from 2019**

Authorised entities	2019	2020	2021	31/03/2022
Banks	5	5*	4	4
Financial/fiduciary companies	2	1	1	1
Investment companies	0	0	0	0
Management companies	3	3	3	3
Insurance companies	2	2	2	2
Payment institutions	1	1	1	1
Foreign financial companies			1**	1**
<b>Total</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>12</b>
Insurance and reinsurance intermediaries	37	32	34	35***

Notes:

\* a bank is subject to a resolution procedure launched on 22 July 2019, pursuant to art. 4 of Law 102/2019, which ended in 2021 with its transformation into a non-financial company

\*\* on 30/11/2021, the first foreign financial company authorised to carry out activities reserved under the PSSS regime was recorded (see the section dedicated to Payment Service Providers - PSP).

\*\*\* for the breakdown of the segment and the related trends in 2021 and in the first quarter of 2022, please refer to the specifically dedicated section.

In the first quarter of 2022, the structure of the San Marino financial system did not undergo any changes, confirming the same structure of the authorised parties, but in the aforementioned time period an insurance company was subject to an extraordinary measure of suspension of the administrative bodies and, subsequently, of the extraordinary administration bodies (see paragraph on Insurance Companies).

During 2021, the number and type of parties registered in the Parent Company Register remained unchanged with 3 banks and one insurance company.

In the year under review, the Register of Professional Trustees of the Republic of San Marino also recorded no change in the number of members with a total of 15 entities, of which 3 INACTIVE<sup>3</sup>- belonging to the category of freelance professionals - and one with "SUSPENDED" authorisation - relating to the category of financial companies. Compared to 2020, however, there was a change in the type of operators following the decrease in the number of banks from 4 to 3 and the increase in that of non-financial companies from 5 to 6, following the transformation, pursuant to Law no. 102/2019, of a financial company in a non-financial company.

<sup>2</sup> The number of banks decreased from 5 to 4 units given that to one bank, already subject to the termination procedure pursuant to Law no. 102 of 14 June 2019, the authorisation to exercise reserved activities was revoked, in implementation of the provisions of art. 4 of Delegated Decree no. 126 of 27 July 2020, subsequently becoming a non-financial company.

<sup>3</sup> Regulation no. 2020-02, amending Regulation no. 2010-01, envisaged the registration, with the indication of the word "inactive", of professional trustees if they meet the requirements set forth in art. 11, paragraph 4 of the aforementioned Regulation no. 2020-02, with the possibility of exercising this "Office" in the future.

As at 31 December 2021, the Register of financial advisors of the Republic of San Marino consisted entirely of subjects belonging to the section of Employees of authorised parties engaged in cold-calling, as was also the case in 2020; with respect to the latter, however, the number increased by one unit from 32 to 33.

On the same date, the Register of payment service providers (PSP), activated in the first quarter of 2021 in implementation of the entry into force of Regulation no. 2020-04, transposing the PSD2 Directive, reported 8 registered entities.

**Table 2 - Operators registered in CBSM Registers as at 31 December 2021**

Authorised entities	2021
Register of authorised entities	12
Register of parent companies	4
Register of insurance and reinsurance intermediaries	34
Register of Financial Promoters*	33
Register of professional trustees in the Republic of San Marino**	15
Register of Payment service providers (PSP)	8
Register of Independent financial advisors	0
<b>Total</b>	<b>106</b>

Notes:

\* as at 31 December 2021, the number of members was related entirely to the section "Employees of authorised entities engaged in cold-calling"

\*\* as at 31 December 2021 the Register of Authorised Trustees of the Republic of San Marino included 3 banks of which 1 with activities suspended, 6 freelance professionals, of which 3 "inactive", and 6 non-financial companies

## 1.1 The Banking System

### 1.1.1 Ownership structure and actual beneficiaries

As at 31 December 2021, the shareholding structure of the banks registered in the Register of Authorised Entities consisted mainly of residents. More specifically, of the 4 banks present in the aforementioned Register, one bank had the State as its sole shareholder, 3 banks had a shareholding structure composed of resident individuals and legal entities, while the fourth had a shareholding structure consisting mainly of non-resident entities, predominantly trust companies or holding companies, albeit attributable, in terms of "beneficial owners",<sup>4</sup> to residents.

### 1.1.2 Size and structure of the system

The credit market was affected, in 2021, by significant events which impacted the structure of the banking sector, the related technical profiles and the dynamics of brokered volumes, including:

- with respect to Banca Nazionale Sammarinese:
  - the conclusion of the procedure for the resolution of Banca Nazionale Sammarinese S.p.A. (BNS) with its transformation into an asset management company, former BNS S.p.A. (SGA), which took place on 15 July 2021, pursuant to the combined provisions of art. 14 of Law no. 102 of 14 June 2019 and art. 4 of the Delegated Decree no. 126 of 27 July 2020 with the consequent striking off from the Register of Authorised Entities. Therefore, the data and indicators referring to the banking system at the end of 2021 were affected by the cessation of banking activities by BNS and the related reduction in the volumes of deposits and loans referring to the same bank, instead present in the previous year. In order to correctly understand the trends that affected the main aggregates of the banking sector during the year, it is therefore necessary to take into account that the figures of the aforementioned intermediary were no longer present, whose amounts in millions of Euro as at 31 December 2020 are reported below.

<sup>4</sup> Since 1 March 2017, pursuant to Article 43 of Law no. 144/2016, which introduced the obligation to publish, in the Register of Authorised Entities, the names of the beneficial owners who "own" or "control" an authorised entity "by owing or controlling, directly or indirectly, a percentage of no less than 2%", the corresponding beneficial owners have been included, as defined by the aforementioned Law.

Banca Nazionale Sammarinese			
Data as at 31 December 2020			
The figures at the end of 2020 reflect the transfer of receivables to the Pension Fund Segregation Public Vehicle to the extent of EUR 27.4 million gross and EUR 1.3 million net, although this has not yet occurred.			
Amounts in EUR millions			
Balance Sheet Asset Items		Balance Sheet Liability items	
<b>Net loans to customers (including leases)</b>	<b>71.9</b>	<b>Direct funding</b>	<b>221.8</b>
<i>of which</i> Performing loans	1.2	Collection of savings	210.5
<i>of which</i> Non-performing loans	70.8	<i>of which</i> Debts represented by financial instrument	201.6
<b>Net loans to credit institutions</b>	<b>14.2</b>	Interbank funding	11.3
<b>Bonds and other debt financial instruments</b>	<b>5.4</b>	<b>Capital and reserves</b>	<b>1</b>
<b>Shares, quotas and other capital financial instruments</b>	<b>18.2</b>	<i>of which</i> Capital and reserves	20.8
<b>Equity investments</b>	<b>18.4</b>	<i>of which</i> Profits (losses) carried forward (+/-)	-5.8
<b>Fixed assets</b>	<b>18</b>	<i>of which</i> Profit (loss) for the period (+/-)	-14
<b>Other assets (including tax credits)</b>	<b>89.9</b>	<b>Other liabilities</b>	<b>13.3</b>
<b>Total assets</b>	<b>236.1</b>	<b>Total liabilities</b>	<b>236.1</b>

Quality of customer loans	
<b>Gross loans to customers (including leases)</b>	<b>197.2</b>
<i>of which</i> Performing loans	1.2
<i>of which</i> Non-performing loans	196
<i>of which</i> Bad loans	177.4
<i>of which</i> Problem loans	18.3
<i>of which</i> Restructured loans	0
<i>of which</i> Overdue/past due loans	0.2
<b>Net loans to customers (including leases)</b>	<b>71.9</b>
<i>of which</i> Performing loans	1.2
<i>of which</i> Non-performing loans	70.8
<i>of which</i> Bad loans	57.3
<i>of which</i> Problem loans	13.3
<i>of which</i> Restructured loans	0
<i>of which</i> Overdue/past due loans	0.1

Further information	
Indirect funding	9
Fiduciary activity volume	0.5
Assets held in Trusts	0.1

RECLASSIFIED PROFIT AND LOSS ACCOUNT	
Interest margin (A)	0.7
Service revenues (B)	0.5
Mediation margin (C)	0.2
Operating costs (D)	6.1
Gross operating margin (E)	-5.9
Net operating income (F)	-14.3
Gross operating margin of extraordinary operations	0.3
Gross margin	-14
Net result	-14
Operating profit (loss)	-14

- the capital strengthening actions carried out by the State on Cassa di Risparmio della Repubblica di San Marino through:

- the exercise of the option of early redemption of the security "Republic of San Marino, Zero Coupon, 29 December 2023", included in the bank's portfolio, for approximately EUR 94 million in April 2021;
- the coverage of the loss for 2020 of the bank of EUR 26.9 million by the State, occurred in December 2021;
- the reduction in the rate of the Minimum Reserve Requirements established by the banks at the Central Bank from 5% to 3.5%, with effects for the banking intermediaries starting from mid-June 2021; The remodulation of the rate was possible thanks to the increase in the liquidity buffers available at the banks during the year;
- the reallocation to the banks of part of the deposits of an institutional entity held with the Central Bank;
- the calculation in indirect funding, starting from the third quarter of 2021, of the bonds originally issued by Banca Nazionale Sammarinese S.p.A. present in the securities portfolios of bank customers (for EUR 134 million at the end of 2021). Until the date of striking off from the Register of Authorised Entities (15 July 2021), the securities issued by BNS were, in fact, included in savings deposits and excluded from the calculation of indirect funding, in order to avoid duplication in the calculation of total funding; subsequently, following the transformation into a non-banking entity, the securities issued by BNS were reallocated to the portfolios administered or managed, as they no longer constitute bank liabilities.

At the end of 2021, total system assets stood at EUR 4,139 million, down from EUR 4,165 million in the previous year, the latter figure incorporating BNS assets of EUR 236 million (Table 3).

Total gross loans, amounting to EUR 2,175 million, decreased by EUR 297 million compared to EUR 2,472 million in 2020, which also included the data referring to BNS for EUR 197 million. Total deposits amounted to EUR 5,514 million, up from EUR 5,309 million in 2020. In particular, direct deposits (consisting of savings deposits and interbank deposits) amounted to EUR 3,614 million, down from EUR 3,643 million in the previous year, when they also included EUR 222 million referring to BNS. Indirect funding, amounting to EUR 1,899 million compared to EUR 1,666 million recorded in 2020, was affected, among other things, as already mentioned, by the inclusion of the bonds issued by BNS previously excluded from the aforementioned aggregate as they are considered as part of savings deposits. Interbank funding amounts to EUR 1 million. Net equity went from EUR 243 million to EUR 280 million (EUR +37 million). The number of employees in the banking sector, equal to 381 at the end of 2021, was down by 59 compared to the previous year. The impact on the total number of employees in the country was 1.8%.

Off-balance sheet exposures are not included in loans.

**Table 3 - Main size indicators of the banking system**

Indicators	2019	2020	2021
<b><i>Size indicators</i></b>			
Total assets	4,219	4,165	4,139
Loans to credit institutions*	388	518	621
Gross loans to customers**	2,609	2,472	2,175
Total funding	5,248	5,309	5,514
Direct funding	3,631	3,643	3,614
Collection of savings***	3,611	3,628	3,614
Interbank funding	20	14	1
Indirect funding****	1,617	1,666	1,899
Net equity	253	243	280
<b><i>Structural indicators</i></b>			
Number of operators	5	5	4



Indicators	2019	2020	2021
Number of branches	36	34	32
Number of employees	488	440	381
% employees over total employees	2.4%	2.2%	1.8%
<b>Other statistical data</b>			
GDP (nominal)	1,444	1,352	1,447
Resident population	33,574	33,627	33,698
Total number of employees	19,962	19,631	20,603
Population / Branches	933	989	1,053
Total assets / GDP	2.9	3.1	2.9
Total funding / GDP	3.6	3.9	3.8

Sources: "Financial statements data" supervisory reporting, IT, Technology, Data and Statistics Office, International Monetary Fund (Resident population, total number of employees, GDP). Projections: IMF, World Economic Outlook, Oct. 2021 (in italics)

Notes: Figures regarding monetary amounts are shown in millions.

As at 31 December 2019, the annual report of Banca Nazionale Sammarinese, an institution resulting from the resolution of Banca CIS under extraordinary administration, still included a portion of the latter's capital deficit 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 the capital deficit, amounting to EUR 27.2 million, was composed of EUR 15.8 million referring to the reduction of the nominal value of the liabilities provided for under Article 10 of Law No. 102/2019 (a.k.a. "abatement") and EUR 11.4 million relating to the capital deficit to be transferred to the public vehicle after the benefit of such abatement. The data referred to 2019 contained in this report reflect the effects of the aforementioned removal of capital deficit portion, which occurred in the second half of 2020. The figures at the end of 2020, as well as those at the end of 2019, reflect the transfer of receivables to the Pension Fund Segregation Public Vehicle to the extent of EUR 27.4 million gross and EUR 1.3 million net, although this has not yet taken place at said dates.

\* 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 bank-issued capital securities.

### 1.1.3 Assets and Liabilities

**Assets** - In 2021, the banking system's assets stood at EUR 4,139 million, marking a decrease of EUR 26 million compared to the previous year, which was affected by the absence of the figure referring to BNS, amounting to EUR 236 million in 2020 (Table 4 and Figure 1).

In particular, net loans to customers<sup>5</sup> amounted to EUR 1,314 million, down by EUR 144 million compared to the previous year. The aforementioned decline was affected by the absence of data referring to BNS (EUR 72 million), the trends in loans, the write-off of receivables considered no longer collectable, the settlement of receivables through the stipulation of settlement agreements with acquisition of the asset pledged as guarantee as well as adjustments made.

The aggregate "Fixed assets and other assets", amounting to EUR 781 million, decreased by EUR 101 million. The aforementioned trend is influenced by the absence of BNS data and, in particular, of the related tax credits. The aforementioned aggregate essentially includes tangible and intangible fixed assets (net of residual principal receivables relating to financial leasing transactions) amounting to EUR 285 million (EUR -6 million, with BNS recording EUR 18 million in 2020), as well as the item "Other assets", which decreased by EUR 94 million, totalling EUR 486 million compared to EUR 580 million in 2020. The latter aggregate includes, among others, the portfolio of bills subject to collection (EUR 183 million), amounts due from the Revenue Agency for deferred tax assets of EUR 98 million (as at 31.12.2020 BNS recorded EUR 9 million) and tax credits connected to transactions for the acquisition of assets and liabilities of bank intermediaries in distress as of 2011 for EUR 144 million ((as at 31.12.2020 BNS recorded EUR 79 million). The aggregate "Fixed assets and other assets" also includes accrued income and prepaid expenses and the amount of AQR adjustments which, pursuant to art. 40 of Law 173/2018 were postponed to the following four financial years, except for any changes in the deadline authorised by the Central Bank and envisaged in paragraph 2 of the aforementioned Law. In total, the amount of the adjustments not recognised in the profit and loss account and deferred to the following years is EUR 41 million (EUR 47 million at the end of 2020).

<sup>5</sup> This item includes financial leasing transactions: rent payments past due and residual principal receivables.



Financial instruments in the portfolio owned by banks (EUR +124 million and equal to EUR 1,330 million) and net loans to credit institutions (EUR +103 million and equal to EUR 621 million) increased compared to 2020. Taking into account the continuation of the exceptional circumstances caused by the health emergency, the Central Bank allowed, on an extraordinary basis, within the first half of 2021, the transfer of financial instruments from the investment portfolio to the portfolio held for trading, i.e. the sale of securities held for investment on the market, providing that the net capital gains resulting from the aforementioned transfer or early sale must be assigned to a non-distributable reserve, which can be used exclusively to increase share capital.

The equity investments recognised in the financial statements went from EUR 80 to EUR 61 million EUR (-18 million, an amount substantially corresponding to the value of the equity investments recognised in the BNS financial statements in 2020). Cash and cash equivalents, amounting to EUR 33 million, increased by EUR 11 million.

Capital instruments, equal to EUR 190 million, included EUR 59 million of units of closed-end mutual investment funds - consisting primarily of financial instruments, non-performing loans and assets resulting from terminated agreements due to breach of the lessee - established pursuant to specific legislative measures in connection with system transactions and interventions for savings protection purposes.<sup>6</sup>

*Liabilities and Equity* - On the liabilities side, payables due to customers increased by EUR 268 million to EUR 2,575 million, and payables represented by financial instruments decreased by EUR 292 million to EUR 1,006 million. The positive change in amounts due to customers was affected, inter alia, by the contributions of liquidity from private customers, the repayment of bonds and certificates of deposit issued by certain banks, as well as the transfer of deposits of an institutional entity from the Central Bank to the banking system.

With regard to the decrease in payables represented by financial instruments, note that the amount is significantly affected by the absence of BNS data, whose bonds amounted to EUR 213 million as at 31 December 2020, taking into account those issued and assigned in execution of the resolution provision.

Subordinated liabilities amounted to EUR 30 million, down by EUR 1 million (-3.5%).

The aggregate "Other liabilities" recorded a decrease of EUR 34 million. In this regard, the provision for risks and charges decreased by EUR 31 million (amounting to EUR 19 million) and other liabilities by EUR 3 million (EUR 221 million).

The year 2021 closed with a net profit for the industry of EUR 8 million, compared to a net loss of EUR 44 million in 2020 (the losses attributable to BNS came to EUR 14 million). In the year under review, three banks posted an operating profit, while one institution ended the year with a loss.

**Table 4 - Aggregate balance sheet of the banking sector**

Assets	2020	2021	% Change	Liabilities	2020	2021	% Change
Cash and cash equivalents	22	33	-48.9%				
Loans to credit institutions* (including leases)	518	621	19.8%	Due to credit institutions	8	4	-52.2%
Loans to customers*	1,458	1,314	-9.8%	Due to customers	2,306	2,575	11.6%

<sup>6</sup> 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 bank crises 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 contained in the funds. Article 7 of Law No. 223/2020 set forth that the maximum amount of the benefits referred to in Decree-Laws No. 174/2011, No. 72/2013, 88/2017 and Delegated Decree 61/2012 is definitively established on the basis of the statements of operations of the mutual funds as at 31 December 2020 ascertained by the Supervisory Committee on the same date, the amount of which is definitively acquired by the Tax Office by 31 March 2021. Article 12, paragraph 5-sexies of Delegated Decree No. 60/2021 extended the deadline for the assessment and acquisition of tax credits to 30 June 2021.

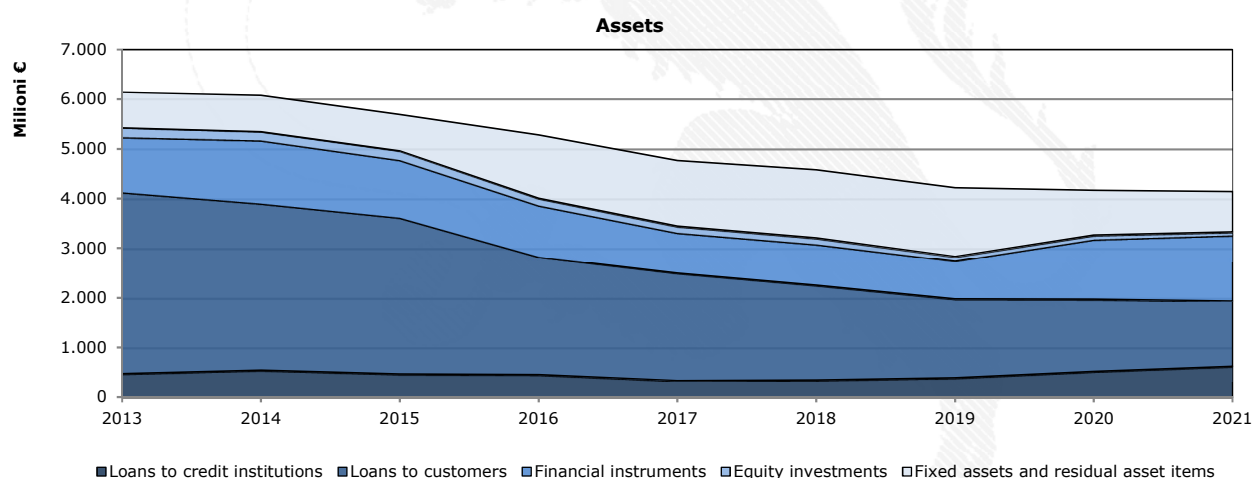
Assets	2020	2021	% Change	Liabilities	2020	2021	% Change
<i>of which Financial leasing</i>	198	183					
<i>of which assets pending financial leasing</i>	43	33					
Financial instruments	1,206	1,330	10.3%	Debts represented by financial instruments	1,298	1,006	-22.5%
<i>of which debt securities</i>	1,090	1,140		Subordinated debt	31	30	-3.5%
				Other liabilities	279	244	-12.4%
Equity investments	80	61	-23.2%	Capital and reserves**	266	253	-4.9%
Subscribed capital not paid in	0	0	-	Revaluation reserves	21	19	-8.8%
Own shares	0	0	-	Operating results	-44	8	119%
Fixed assets and other assets	882	781	-11.5%				
<b>Total assets</b>	<b>4,165</b>	<b>4,139</b>	<b>-0.6%</b>	<b>Total liabilities</b>	<b>4,165</b>	<b>4,139</b>	<b>-0.6%</b>

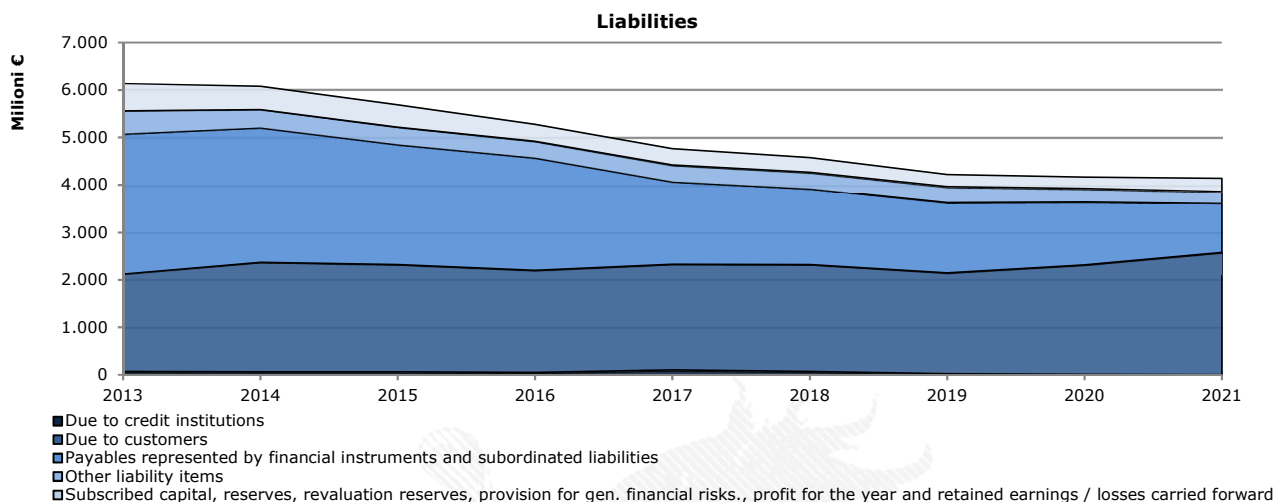
Notes: figures shown in millions of Euro.

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

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

**Figure 1 - Assets and liabilities**



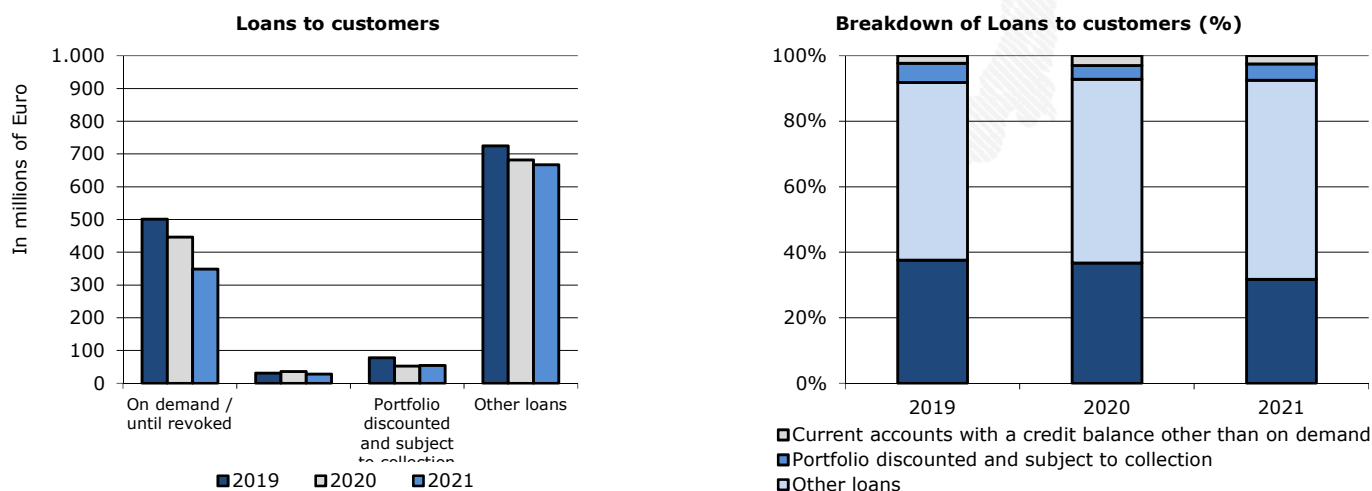


#### 1.1.4 Review of Loans to Customers

**Loans** - In 2021, as already reported (Table 4), the value of net loans granted to customers, also affected by the absence of data referring to BNS, decreased compared to 2020 in absolute terms by EUR 144 million, amounting to EUR 1,314 million. The percentage of the aforementioned loans to assets also decreased from 35% in 2020 to 31.7% in 2021 and represents 36.4% of savings deposits (40.2% at the end of 2020). The amount of net loans takes into account the already mentioned adjustments not yet registered in the profit and loss account pursuant to Article 40 of Law no. 173/2018.

Credit exposures by technical form (Figure 2)<sup>7</sup> show the following trends: "On demand/until revoked" loans decreased by EUR 98 million (EUR 62 million relating to BNS in 2020), amounting to EUR 349 million, while "Other loans" decreased by EUR 15 million to EUR 667 million. The remaining categories, consisting of "Current accounts with a credit balance other than on demand" and "Portfolio discounted and subject to collection", recorded a decrease of EUR 8 million to EUR 28 million and an increase of EUR 3 million to EUR 55 million respectively. With regard to the composition of these technical forms, the "On demand/until revoked" category accounts for 31.7% of the total, the "Current accounts with a credit balance other than on demand" category for 2.5%, the "Portfolio discounted and subject to collection" represents 5% of the aggregate in question, while "Other loans" make up the remaining 60.8%.

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



<sup>7</sup> These values do not include the amounts related to the residual credit on financial lease transactions with customers, which amounted to EUR 216 million, consisting of two items: leased fixed assets (EUR 183 million) and fixed assets pending leasing (EUR 33 million).

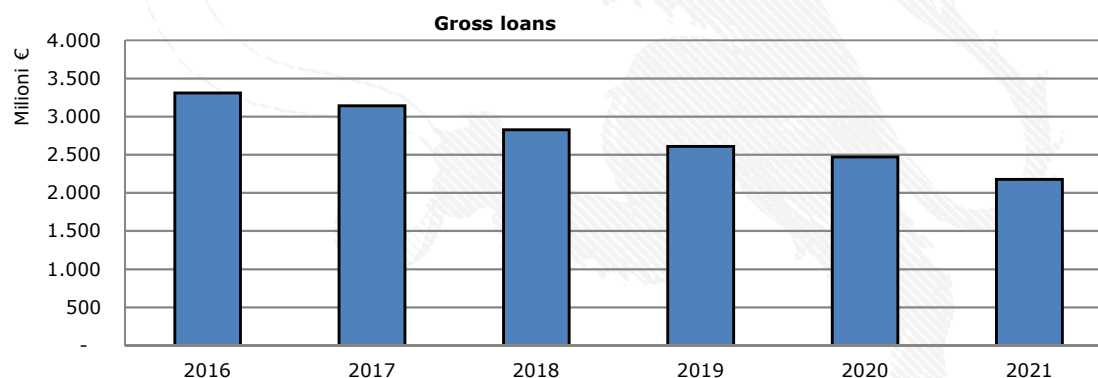
An examination of the breakdown of net loans to customers by sector of economic activity, with the inclusion of finance lease transactions, shows the following exposures: EUR 817 million to non-financial companies (62.2% of total net exposures), EUR 449 million to households and non-profit institutions serving households (34.2% of the total), EUR 29 million to financial companies other than credit institutions and central banks (2.2% of the total) and EUR 18 million to public administrations (1.4% of the total).

The distribution of net loans to customers by residual life (amounts including financial lease transactions) shows that the on demand category stood at EUR 260 million (19.8% of total loans), the category between 1 day and 18 months came in at EUR 233 million (17.8%), while medium to long-term loans (which include exposures with residual maturity exceeding 18 months) amounted to EUR 622 million and accounted for 47.3% of total loans. The residual portion (EUR 198 million, i.e. 15.1%) pertains to exposures without maturity (including bad loans).

As at 31 December 2021, the banks granted loans to households and economic operators covered by State guarantees, pursuant to Law Decree no. 63 of 21 April 2020<sup>8</sup> and subsequent amendments and additions, for an amount of approximately EUR 26 million ((against 402 approved loan applications), of which approximately EUR 550 thousand granted to households (64 applications). The amount of the exposure on the same date was approximately EUR 23 million.

Law Decree no. 62 of 17 April 2020<sup>9</sup> and subsequent amendments and additions provided for the possibility of granting the suspension of payment of the principal portion of mortgages, leases and other instalment repayment loans granted to households, businesses, self-employed workers, freelancers and professional agricultural operators. As at 31 December 2021, the banking system had granted moratoriums on loans of EUR 144 million in terms of residual debt (1,762 transactions), of which EUR 78 million (1,241 transactions) already concluded on the same date.

**Figure 3 - Gross loans of the banking system**



**Credit quality** - In 2021, bank loans to customers (at gross values) amounted to EUR 2,175 million, down by EUR 297 million compared to the 2020 figure, which included EUR 197 million in gross loans relating to the BNS (Figure 4). The weight of non-performing loans (see below) on total gross loans to customers decreased from 63.1% in 2020 to 60.7% in the year under review. Correspondingly, the weight of gross performing loans on total gross loans to customers increased from 36.9% in 2020 to 39.3% in 2021 (Figure 4).

<sup>8</sup> Law Decree no. 63/2020 allowed the granting of loans by banks and financial companies with State guarantees up to a maximum of:

- EUR 10,000 for households, with a guarantee of 90% of the amount of the loan with a duration not exceeding 3 years;
- EUR 500,000 for economic operators, with a guarantee of 70% of the amount of the loan and a duration of no more than 6 years (or 8 years for operators in the tourism sector).

To access the aforementioned benefits, specific requirements are required as defined in the aforementioned decree no. 63/2020. The deadline for the granting of guarantees by the State expired on 30 June 2021 in accordance with Law Decree no. 6/2021.

<sup>9</sup> The deadline for filing the moratorium request was extended to 30 June 2022 with Law Decree no. 28/2022.

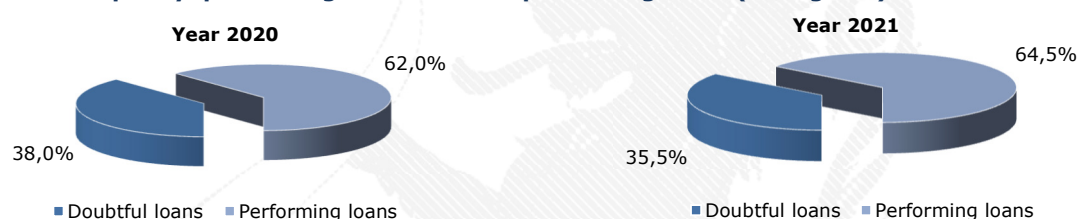
The aggregate of gross doubtful loans amounted to EUR 1,320 million, down by EUR 241 million compared to the previous year (BNS' gross doubtful loans in the figures at the end of 2020 amounted to EUR 196 million).

Doubtful loans net of value adjustments amounted to EUR 466 million compared to EUR 553 million at the end of 2020, which included EUR 71 million in net doubtful loans referring to BNS.

**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 amounted to EUR 855 million, while the net value was EUR 848 million, a decrease in both cases of around EUR 56 million compared to the previous year.

Gross non-performing loans stood at EUR 535 million, down by EUR 214 million, mainly affected by the absence of BNS data (EUR 177 million at the end of 2020), the write-off of loans considered no longer due and the extinction of receivables by entering into settlement agreements with acquisition of the asset pledged as collateral. At net values, bad loans decreased by EUR 69 million (those of the BNS came to EUR 57 million at the end of 2020), from down from EUR 249 million in 2020 to EUR 180 million at the end of 2021.

Gross problem loans amounted to EUR 134 million (EUR 148 million in 2020, which included EUR 18 million referring to BNS); at net values, they amounted to EUR 105 million.

Gross restructured loans (consisting mainly of positions arising from the Restructuring Agreement concerning debts of the Delta group), amounting to EUR 649 million, decreased by EUR 12 million (EUR 180 million at net values, down by EUR 13 million), due essentially to the repayment of certain positions and the transfer of non-performing loans to other categories.

As regards the remaining non-performing loans, gross past due and/or overdue loans totalled EUR 1 million (EUR 1 million also at net values). Unsecured loans towards countries at risk are almost zero as already noted in 2020.

Net of value adjustments, non-performing loans accounted for 35.5% of the total amount of net loans to customers, compared to 38% at the end of 2020 (Figure 5).

At the banking system level, the weight of net bad loans on regulatory capital was 83%, down compared to 2020 (150.2%) both due to the aforementioned negative change in bad loans and the increase in regulatory capital.

The hedging rate for non-performing loans, measured by the ratio between value adjustments and the gross amount of non-performing exposures, increased to 64.7% from 64.5% at the end of 2020 (Table 5).

**Table 5 - Loan quality**



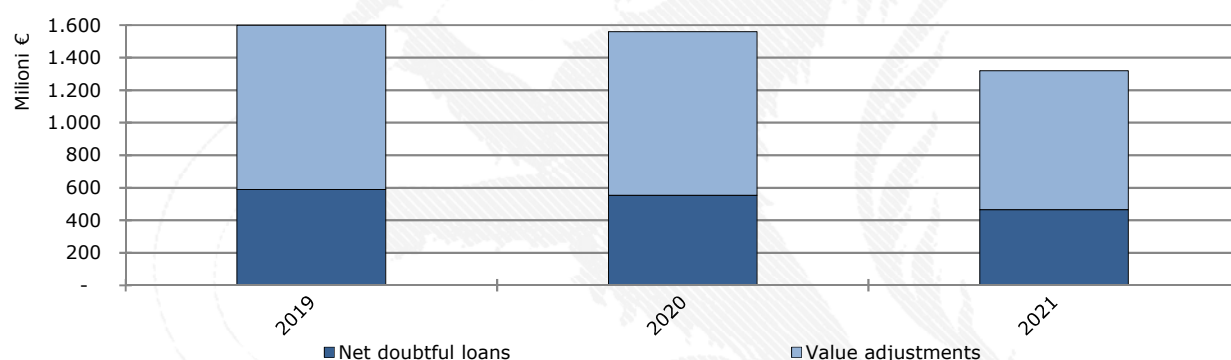
	Loans gross of value adjustments				Hedging rate*		Portion over total loans net of value adjustments	
	2020	%	2021	%	2020	2021	2020	2021
Loans to customers**	2,472	100.0%	2,175	100.0%	41.0%	39.6%	100.0%	100.0%
Performing loans	912	36.9%	855	39.3%	0.9%	0.8%	62.0%	64.5%
Non-performing loans	1,560	63.1%	1,320	60.7%	64.5%	64.7%	38.0%	35.5%
<i>Bad loans</i>	750	30.3%	535	24.6%	66.7%	66.3%	17.1%	13.7%
<i>Problem loans</i>	148	6.0%	134	6.2%	25.7%	21.9%	7.5%	8.0%
<i>Restructured loans</i>	661	26.7%	649	29.9%	70.8%	72.3%	13.2%	13.7%
<i>Past due and overdue loans</i>	2	0.1%	1	0.1%	16.2%	14.0%	0.1%	0.1%
<i>Loans to Countries at Risk</i>	0	0.0%	0	0.0%	55.0%	0.7%	0.0%	0.0%

Notes: Figures relating to "Loans gross of value adjustments" relating to 2020 and 2021 are shown in millions.

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

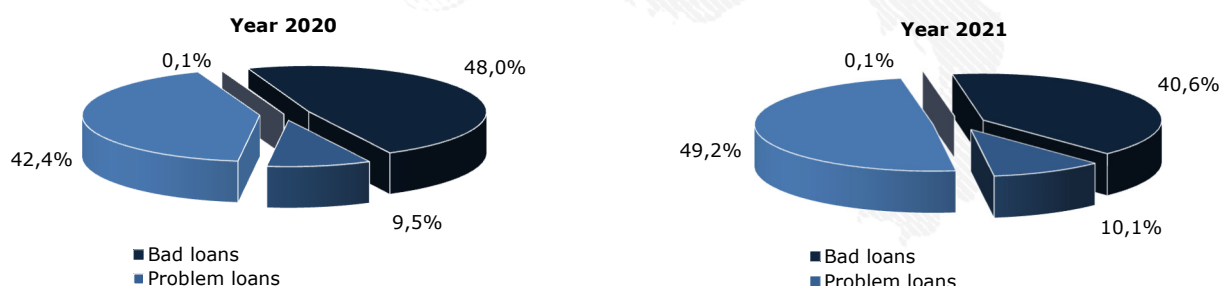
\*\* It includes the amounts relating to the financial lease transactions.

**Figure 6 - Trend in non-performing loans to customers in the 2019-2021 three-year period, highlighting the components of net non-performing loans and value adjustments**

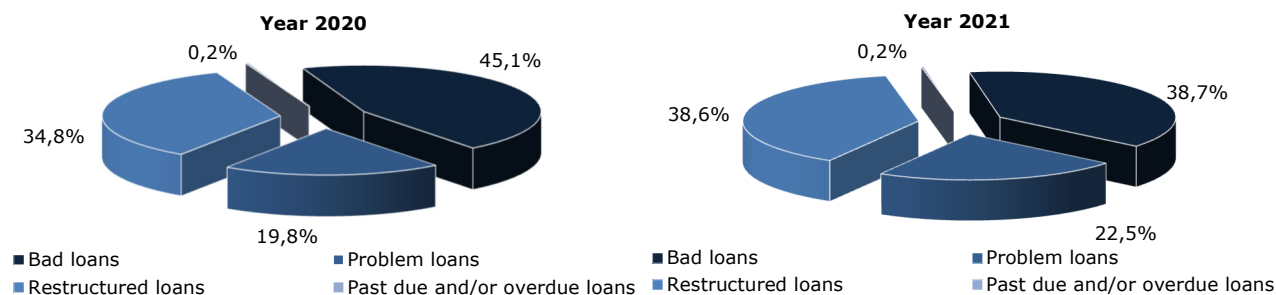


Within the above non-performing loans category, the hedging rate referring to bad loans at the end of 2021 stood at 66.3%, compared to 66.7% in the previous year, while that on problem loans stood at 21.9%, down from the previous figure of 25.7%. The hedging rate for restructured loans stands at 72.3%, increasing from the previous figure of 70.8%.

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



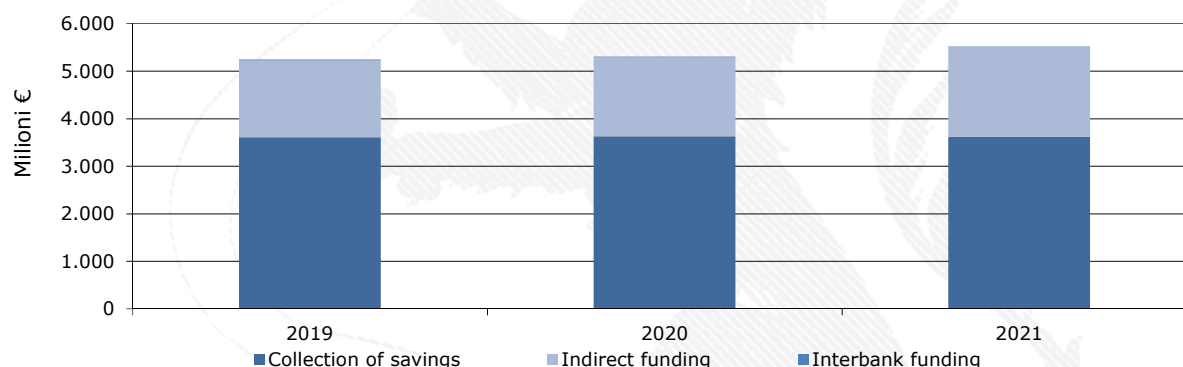
**Figure 8 - Breakdown of non-performing loans (net figures)**



### 1.1.5 Deposits

**Total deposits** - At the end of 2021, total deposits<sup>10</sup> amounted to EUR 5,514 million, up from EUR 5,309 million in 2020 (Table 3). In particular, direct funding amounted to EUR 3,614 million from EUR 3,643 million in the previous year, which however included EUR 222 million referring to BNS. Indirect funding, amounting to EUR 1,899 million compared to EUR 1,666 million recorded in 2020, was affected, among other things, by the inclusion of the bonds issued by the BNS, previously excluded from the aforementioned aggregate as they are considered as part of savings deposits. Interbank funding<sup>11</sup> amounts to EUR 1 million (Figure 9).

**Figure - 9 Total funding of the banking system**



**Collection of savings** - In 2021, debts with customers increased by EUR 268 million to EUR 2,575 million (the figure relating to BNS in 2020 amounted to EUR 8.8 million), while debts represented by financial instruments fell by EUR 281 million to EUR 1,006 million. The latter aggregate is essentially composed of EUR 972 million in certificates of deposit, down by EUR 63 million and bonds (net of any bonds held by credit institutions) for EUR 34 million, down by EUR 218 million compared to 2020 (in that year, the bond component of savings deposits referred to BNS amounted to EUR 202 million). Among the remaining components of collection of savings, the most significant one is represented by subordinated liabilities (net of any securities held by credit institutions) amounting to EUR 30 million, down by EUR 1 million compared to 2020.

The aforementioned trends were affected, inter alia, by the transfer of deposits of an institutional entity from the Central Bank to the banking system. In this regard, it should be noted that, in the first quarter of 2022, the same entity transferred further deposits from the Central Bank to the banking system.

<sup>10</sup> 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).

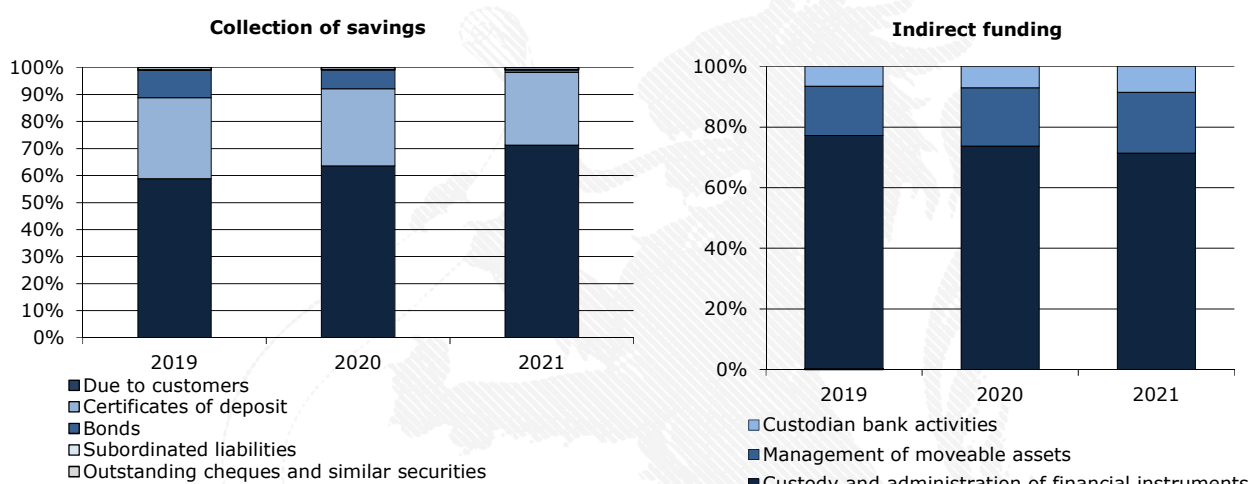
<sup>11</sup> Interbank funding no longer includes the debt balances on the mutual accounts opened for services rendered, in compliance with the definition of the aforementioned funding set in Regulation No. 2007-07. This aggregate includes any bonds (including subordinated liabilities) and certificates of deposit held by credit institutions.

The trend in savings deposits was also positively influenced by the contributions of liquidity from private customers and, with regard to the increase in amounts due to customers, by the repayment of bonds and certificates of deposit that had reached maturity, issued by certain banks.

With regard to the decrease in payables represented by financial instruments, it should be noted, as already mentioned above, that the amount is significantly affected by the absence of BNS data, whose bonds, issued in compliance with the resolution programme, amounted to EUR 213 million as at 31 December 2020.

A breakdown of the collection of savings (Figure 10) shows that debts with customers accounted for 71.2%, certificates of deposit for 26.9%, bonds for 0.9% and, finally, subordinated debt for 0.8% and cheques in circulation and other securities account for 0.1%.

**Figure 10 – Breakdown of collection of savings and indirect funding**



**Interbank funding** - Interbank funding amounted to EUR 1 million, compared to EUR 14 million recorded in 2020 (EUR 11 million reported by BNS).

**Indirect funding** - In 2021, indirect funding increased by EUR 233 million compared to 2020, reaching EUR 1,899 million. The aggregate is composed of: management of movable assets (EUR 381 million, up by EUR 60 million), custody and administration of financial instruments (EUR 1,357 million, up by EUR 129 million) and custodian bank activities (EUR 161 million, up by EUR 45 million).

The trend in the aggregate, with particular regard to the custody and administration of financial instruments, was significantly influenced by the calculation, starting from the third quarter of 2021, of the bonds issued by Banca Nazionale Sammarinese S.p.A. present in the securities portfolios of customers of banks receivable (EUR 134 million at the end of 2021), as explained in the previous paragraphs.

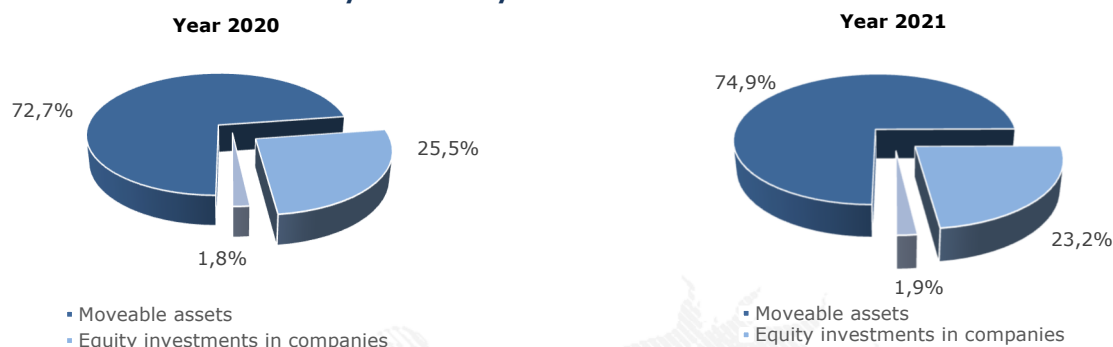
#### 1.1.6 Fiduciary activities in the banking and financial sector

As at 31 December 2021, 5 authorised entities (4 banks and a financial company) were authorised to conduct fiduciary activities, said entities oversaw the fiduciary administration of EUR 128 million, marking a decrease of EUR 18 million compared to the corresponding figure at the end of 2020.

With regard to the breakdown of fiduciary activity by technical form (Figure 11), the most significant component concerns the fiduciary administration of movable assets (type 1), amounting to EUR 96 million, accounting for 74.9% of the total, a decrease of EUR 10 million compared to the previous year. The administration of equity investments (type 2) amounted to EUR 30 million, accounting for 23.2% of the total, it also recording a decrease of EUR 8 million compared to the previous year. The remainder relates to fiduciary loans to third parties (type 3), which amounted to

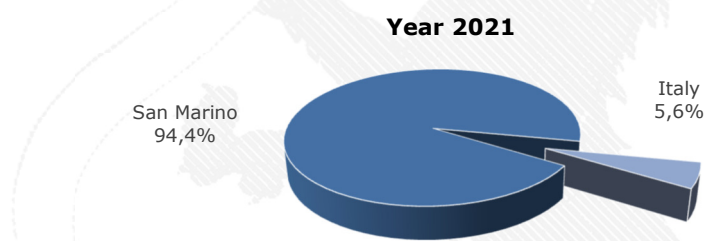
EUR 2 million, a decrease of EUR 0.1 million (accounting for 1.9%); at the end of 2021, there were no mandates relating to the fiduciary administration of other movable or intangible assets (type 4).

**Figure 11 - 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 (94.4% of the total amount), followed by Italy (5.6%) as the country of establishment of the companies held on a fiduciary basis (Figure 12).

**Figure 12 - Fiduciary administration of equity investments - breakdown of the value of units by country**



### 1.1.7 Equity

**Shareholders' equity** - At the end of 2021, the equity of the banking system (Table 6) amounted to EUR 280 million, up by EUR 37 million compared to the previous year, consisting of: share capital (EUR 178 million), reserves (EUR 63 million), provision for general financial risks (EUR 12 million), revaluation reserves (EUR 19 million) and net profit for the year (EUR 8 million).

In particular, compared to 2020, there was, on the one hand, a reduction in share capital and reserves of EUR 39 million (the figure already referred to BNS came to EUR 19 million), a decline in revaluation reserves of EUR 2 million (substantially coinciding with the figure of BNS) and, on the other hand, the elimination of losses carried forward, which amounted to EUR 21 million (of which EUR 6 million referred to BNS), the increase of EUR 5 million in the provision for general financial risks and the elimination of the net operating loss for the year of EUR 44 million (the loss relating to BNS amounted to EUR 14 million) with a net profit for the year of EUR 8 million.

The ratio of shareholders' equity to total assets rose to 6.8% compared to 5.8% in the previous year.

**Regulatory capital**<sup>12</sup> - At the end of 2021, the system's regulatory capital amounted to EUR 217 million, up from EUR 166 million compared to the previous year. Tier 1 and Tier 2 capital amounted to EUR 213 million<sup>13</sup> and EUR 42 million respectively, up from EUR 168 million and EUR 44

<sup>12</sup> Regulatory capital is the balance sheet aggregate of reference in the framework of prudential supervision provisions, since it is a financial resource capable of absorbing the possible losses produced by the bank's exposure to the risks typical of its activities, while assuming a guarantee role towards depositors and creditors. Regulatory capital is obtained by summing Tier 1 capital (the primary quality component) and Tier 2 capital and then subtracting deductions required by supervisory regulations (e.g. for disbursements made by intermediaries to their shareholders).

<sup>13</sup> The negative components of Tier 1 capital include the deductions required by the Supervisory Authority, referring to AQR adjustments deferred to subsequent years in accordance with Article 40 of Law 173/2018, recorded in the banks' assets, which amounted to EUR 41 million at the end of 2021, compared to EUR 47 million recorded at the end of 2020.

million. The deductions, totalling EUR 37 million, decreased by EUR 10 million compared to the previous year, mainly due to lower risk positions towards the investors in the capital.

*Weighted assets* - At the end of 2021, credit risk-weighted assets (shown net of value adjustments) for the system amounted to EUR 1,512 million, compared to EUR 1,550 million in the previous year. The most significant decreases concerned loans and, in particular, non-performing loans, which were affected by the deconsolidation of BNS figures, only partially offset by the increase in risk positions relating to debt and equity financial instruments. The weighted average of cash assets (excluding off-balance sheet assets), measured by the ratio of credit risk-weighted assets to their book value, was 40.4%, down from the previous 41.3% recorded at the end of 2020.

*Solvency ratio and other capitalisation indicators* - The system 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 14.4% at the end of 2021 (10.7% at the end of 2020, a figure that included BNS). In this regard, one intermediary reported a solvency ratio below the regulatory minimum, the latter equal to 11%. The ratio of Tier 1 capital to total credit risk-weighted assets rose from 10.9% at the end of 2020 to 14.1%.

At the end of 2021, the system recorded a net improvement in the available capital margin, calculated as the difference between the regulatory capital and the aggregate minimum capital requirement (algebraic sum of individual capital needs / surplus expected for credit and operational risks) of EUR 44 million against a system capital requirement (so-called shortfall calculated in the same way) recorded at the end of 2020 of EUR 13 million.

The system's financial leverage, calculated as the ratio between the total assets, net of intangible assets, and the Tier 1 capital, stood at 19.4 (24.7 at the end of 2020).

**Table 6 - Capital adequacy of the banking system**

Capital adequacy (end-of-period data)	2019	2020	2021
Net equity (in EUR millions)*	253	243	280
Net equity / total assets (percentage values)	6.0	5.8	6.8
Regulatory capital (in EUR millions)	163	166	217
Solvency ratio (percentage values)	9.5	10.7	14.4
Tier 1 capital/risk-weighted assets (percentage values)	10.4	10.9	14.1
Available capital margin (+) / capital requirement (-)	-34	-13	44
Financial leverage	23.6	24.7	19.4

Notes:

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

### 1.1.8 Profitability and efficiency

At the end of 2021, the net profit for the year for the system, after 11 years of uninterrupted losses, was positive for EUR 8 million due to total profits realised by 3 banks of EUR 11 million, partially offset by losses of EUR 2.5 million recognised by one institution. In 2020, the banking system recorded a net loss of EUR 44 million, including the loss of BNS of EUR 14 million (Table 7).

The system interest margin increased from EUR 34 million recorded at the end of 2020 to EUR 41 million, against the increase of EUR 1 million in interest and similar income, amounting to EUR 57 million, and the decrease of EUR 6 million in interest expense and similar charges, amounting to EUR 15 million.

Revenues from services at the end of 2021 amounted to EUR 57 million, up by EUR 5 million compared to the previous year, mainly due to higher commission income and other operating income, which rose from EUR 22 million to EUR 25 million and from EUR 35 million to EUR 37 million, respectively, while commissions and other operating expenses changed little compared to the previous year, standing at a total of EUR 6 million.

Net interest and other banking income, which is the sum of net interest income, revenues from services, dividends and other income and net income from financial transactions, amounted to EUR 106 million, up by EUR 22 million compared to the previous year. In addition to the above-



mentioned increases in net interest income and revenues from services, the result was affected by the positive net result of the item “profits and losses from financial transactions” amounting to EUR 5 million compared to net losses of EUR 4 million recorded at the end of 2020 (of which EUR 1.5 million referred to BNS) and EUR 2 million in dividends and other income.

Operating costs, totalling EUR 84 million, were EUR 8 million lower than the previous year (those relating to BNS came to EUR 6 million in 2020). In particular, administrative expenses stood at EUR 46 million, down from EUR 53 million in 2020, with the latter amount including EUR 5 million referring to BNS. Value adjustments on intangible and tangible fixed assets totalled EUR 38 million.

The gross operating profit for the system came to EUR 21 million, compared to a loss of EUR 8 million in the previous year.

The net operating profit amounted to EUR 5 million, up from EUR -53 million at the end of 2020. The improvement in the aggregate was mainly affected not only by the contribution of the gross operating profit (EUR +29 million compared to the previous year), but also by the decrease in adjustments to loans and provisions for guarantees and commitments, down from EUR 47 million at the end of 2020 (of which EUR 8 million referring to BNS) to EUR 26 million, higher write-backs on loans for EUR 5 million (EUR 15 million at the end of 2021, compared to EUR 9 million in the previous year) as well as lower provisions for risks and charges (EUR 2 million compared to EUR 4 million at the end of 2020).

The balance of extraordinary management was positive and amounted to EUR 8 million (EUR +11 million in the previous year), mainly due to contingent assets on loans to customers achieved by one institution as well as the result of extraordinary transactions on the owned portfolio carried out by certain institutions.

Lastly, in 2021, a prudential allocation to the provision for general financial risks of EUR 5 million was recorded, which determines the aforementioned net profit for the year of EUR 8 million.

Table 8 shows the development of the average interest rate on loans to customers before adjustments and the average interest rate on collection of savings. Between 2020 and 2021, there was a contraction of both indicators and a positive change in the spread between them: the average interest rate on gross loans went from 1.73% to 1.69%, the average interest rate on collection of savings fell from 0.57% to 0.43%<sup>14</sup> and the spread between the two average rates was therefore 1.26%, up from the previous 1.15%.

The ratio of interest-bearing assets to interest-paying liabilities<sup>15</sup> stood at 79.7%, up from 64.7% recorded at the end of 2020. The ratio between interest income and interest-bearing assets decreased by 18 basis points to 2.19%. The average cost of interest-paying liabilities decreased by 14 basis points to 0.44%<sup>16</sup> (see Table 9).

<sup>14</sup> The average interest rate on loans at time  $t$  is calculated using the interest received on loans to customers from the year-end annual reports of banks at time  $t$  as the numerator and, as the denominator, the arithmetic average of loans, calculated as year-end values before value adjustments, at time  $t$  and  $t-1$  (excluding accruals derived from regulatory reporting on the statement of accounts) for the same reporting banks in the numerator. The average interest rate on collection of savings at time  $t$  is calculated using interest paid on debts with customers and on debts represented by financial instruments (including subordinated liabilities) from banks' year-end annual reports at time  $t$  as the numerator and, as the denominator, the arithmetic average of the year-end collection of savings at time  $t$  and  $t-1$  (excluding accruals derived from regulatory reporting on the statement of accounts) for the same reporting banks as the numerator.

<sup>15</sup> Interest-bearing assets consist of net loans to customers (excluding bad loans), net loans to credit institutions (excluding bad loans) and debt securities (excluding accruals derived from the 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 liabilities and excluding accruals derived from the regulatory report on the statement of accounts). For the year 2020, the irredeemable bond issued by the State at the end of December 2020 with a nominal value of EUR 455 million, held in the portfolio of a bank, was excluded from the interest-bearing assets, as it bears interest from 1 January 2021.

<sup>16</sup> The average return on interest-bearing assets at time  $t$  is calculated by relating the sum of interest received on loans to customers, loans to credit institutions and debt financial instruments referred to year-end at time  $t$  with the arithmetic average of interest-bearing assets at year-end time  $t$  and  $t-1$  (excluding accruals derived from regulatory reporting on the statement of accounts) and considering at the denominator the same reporting banks as in the numerator. The average cost of interest-paying liabilities is calculated by relating the sum of interest paid on debts with customers, debts with credit institutions and debts represented by financial instruments (including subordinated liabilities), referred to year-end at time  $t$ , with the arithmetic average of interest-paying liabilities at year-end at time  $t$  and  $t-1$  (excluding accruals derived from regulatory reporting on the statement of accounts) and considering at the denominator the same reporting banks as in the numerator.

The system cost-income indicator (ratio between operating costs and net interest and other banking income) decreased from 109.6% in 2020 to 79.8%, confirming the improved operating efficiency of the banks.

**Table 7 - Reclassified profit and loss account for the banking system**

Reclassified profit and loss account	2019	2020	2021	Absolute change (2021-2020)
1 - Interest received and other proceeds	68	56	57	1
2 - Interest paid and other costs	-31	-21	-15	6
<b>A - Interest margin</b>	<b>37</b>	<b>34</b>	<b>41</b>	<b>7</b>
3 - Commissions earned	24	22	25	3
4 - Commissions paid	-6	-5	3	0
-5 Other operating proceeds	47	35	37	-6
6 - Other operating costs	-1	0	0	0
<b>B - Service revenues</b>	<b>64</b>	<b>51</b>	<b>57</b>	<b>5</b>
7 - Dividends and other proceeds	1	2	2	0
3 Profits (losses) on financial transactions	3	4	5	9
<b>C - Mediation margin</b>	<b>105</b>	<b>84</b>	<b>106</b>	<b>22</b>
9 - Administrative costs	-61	-53	-46	7
10 - Value adjustments on intangible and tangible fixed assets	-52	-39	-38	1
<b>D - Operating costs</b>	<b>-112</b>	<b>-92</b>	<b>-84</b>	<b>8</b>
<b>E - Gross operating margin</b>	<b>-7</b>	<b>-8</b>	<b>21</b>	<b>29</b>
11 - Provisions for risks and charges	-11	-4	-2	3
12 - Provisions for loan losses	-1	-1	-1	0
13 - Value adjustments on credits and provisions for guarantees and commitments	-163	-47	-26	21
14 - Value recoveries on credits and provisions for guarantees and commitments	13	9	15	5
15 - Value adjustments on financial fixed assets	-12	-2	-2	-1
16 - Value recoveries on financial fixed assets	0	0	0	0
<b>F - Net operating income</b>	<b>-181</b>	<b>-53</b>	<b>5</b>	<b>58</b>
17 - Extraordinary proceeds	7	13	10	-3
18 - Extraordinary costs	-17	-2	-2	1
<b>G - Gross operating margin of extraordinary operations</b>	<b>-11</b>	<b>11</b>	<b>8</b>	<b>-3</b>
<b>H - Gross margin</b>	<b>-191</b>	<b>-43</b>	<b>13</b>	<b>55</b>
19 - Income taxes for the financial year	-1	-1	0	1
<b>I - Net result**</b>	<b>-192</b>	<b>-44</b>	<b>13</b>	<b>57</b>
20 - Change in the Fund for general financial risks	-2	0	-5	-5
<b>Operating results</b>	<b>-194</b>	<b>-44</b>	<b>8</b>	<b>52</b>

Notes: figures in millions.

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

\*\* Gross of the changes to the fund for general financial risks.

**Table 8 - Average interest rates on loans and collection**

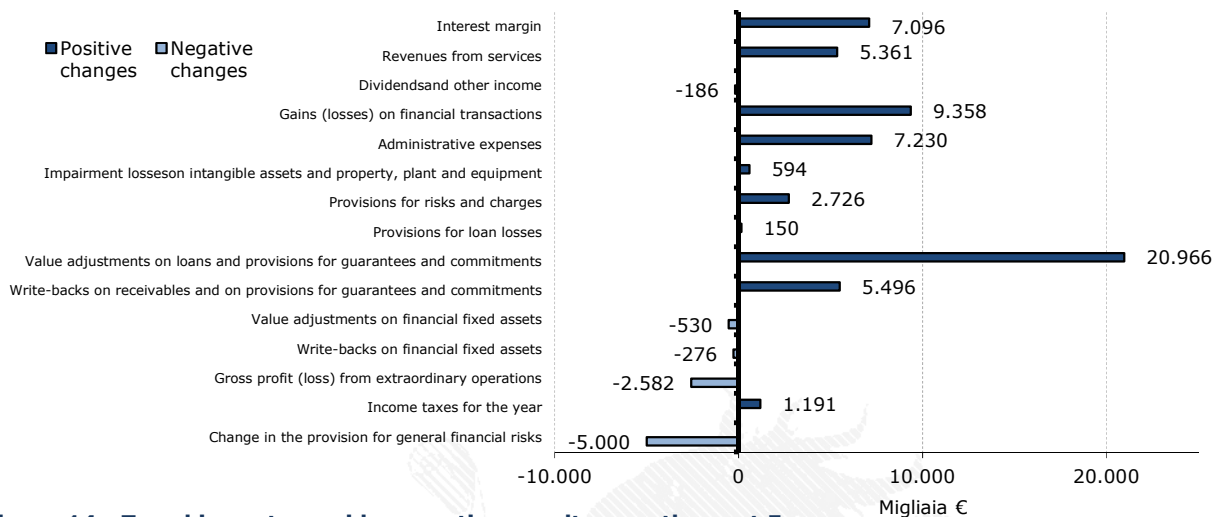
	2019	2020	2021
Average interest rate on loans*	2.04%	1.73%	1.69%
Average interest rate on collection of savings	0.80%	0.57%	0.43%
Spread	1.24%	1.15%	1.26%

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 13 - Contribution of the main profit and loss account items to the change in the operating results between 2020 and 2021**



**Figure 14 - Trend in system-wide operating results over the past 5 years**

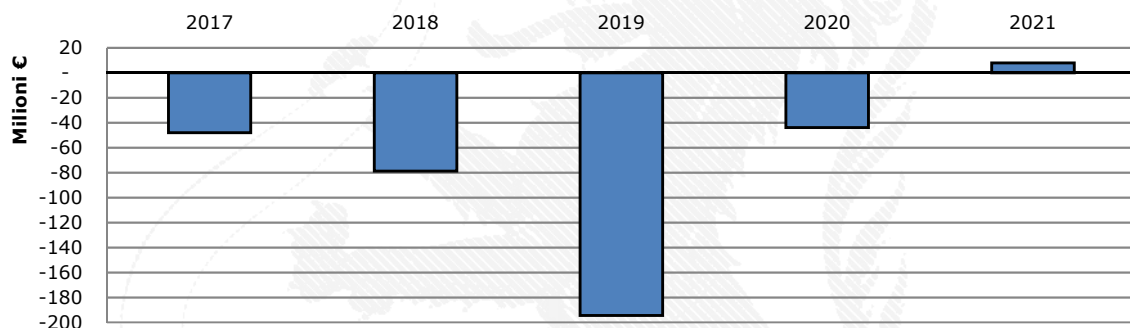


Table 9 shows the main profitability, cost and efficiency indicators of the banking system, calculated for the three-year period 2019-2021. With regard to the ROA and ROE indicators, values of 0.1% and 3.2% were recorded, respectively, an improvement compared to previous years. The indicators relating to the Net interest and other banking income on total assets and Gross operating profit on total assets were also up, equal to 2.6% (2% in 2020) and 0.5% (-0.2% in 2020) respectively. As regards the cost and efficiency indicators, the average labour costs and administrative costs per employee stood at approximately EUR 69 thousand<sup>17</sup> (EUR 68 thousand in 2020) and EUR 119 thousand (EUR 115 thousand in 2020), respectively. The average total funding per employee and net loans per employee increased compared to the previous year, from EUR 11.4 million to EUR 13.7 million and from EUR 3.3 million to EUR 3.5 million respectively.

**Table 9 - Main profitability, cost and efficiency indicators**

	2019	2020	2021
<b>Profitability indicators</b>			
Return on Average Assets (ROA)*	-4.1%	-1.3%	0.1%
Return on Average Equity (ROE)**	-69.2%	-17.6%	3.2%
Interest received/Interest-bearing assets	2.70%	2.37%	2.19%
Interest paid/Interest-paying liabilities	0.81%	0.58%	0.44%
Interest-bearing assets/Interest-paying liabilities***	64.4%	64.7	79.7%
Interest margin/Mediation margin***	35.6%	40.9%	39.2%
Interest margin/Total assets	0.9%	0.8%	1.0%
Mediation margin/Total assets	2.4%	2.0%	2.6%

<sup>17</sup> Labour costs do not include directors' and auditors' fees.

	2019	2020	2021
Gross operating margin/Total assets	-0.2%	-0.2%	0.5%
<b>Cost and efficiency indicators</b>			
Labour costs/Number of employees ( <i>in EUR thousands</i> )	68.8	68.4	68.9
Administrative costs per employee ( <i>in EUR thousands</i> )	119.7	115.0	119.1
Mediation margin per employee ( <i>in EUR thousands</i> )	207.7	181.0	272.5
Gross operating margin per employee ( <i>in EUR thousands</i> )	-14.4	-17.4	55.1
Total funding per employee ( <i>in EUR thousands</i> )****	10,686	11,375	13,666
Net loans to customers per employee ( <i>in EUR thousands</i> )****	3,462	3,285	3,483
Cost-Income Ratio (operating costs on mediation margin)***	106.9%	109.6%	79.8%
Value adjustments on credits/Gross loans to customers	6.0%	1.9%	1.2%

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 financial instruments) and loans, net of debts, with foreign banks and Central Bank<sup>18</sup>, again due and payable within 7 days.

The 7-day liquidity position at the end of 2021<sup>19</sup> stood at EUR 1,004 million, an increase of EUR 225 million compared to the end of 2020. The above-mentioned increase was affected, inter alia, by the early repayment on 30/04/2021 of the security "Republic of San Marino, zero coupon, 29 December 2023" owned by a San Marino bank, the transfers of deposits of an institutional entity from the Central Bank to the banking system, the coverage of losses for the year 2020 by the shareholder of a bank which took place at the end of 2021 and the increase in customer deposits and loan trends.

At the end of April 2022, the same aggregate amounted to EUR 991 million (Figure 15).

Looking at the average quarterly values of weekly statistics, in 2021 there was an increasing trend of the aggregate, which rose from EUR 742 million in the first quarter to EUR 926 million in the fourth quarter. The second and third quarters of 2021 recorded average quarterly values of EUR 859 million and EUR 890 million, respectively. In the first quarter of 2022, the average value of the 7-day liquidity position further increased to EUR 975 million.

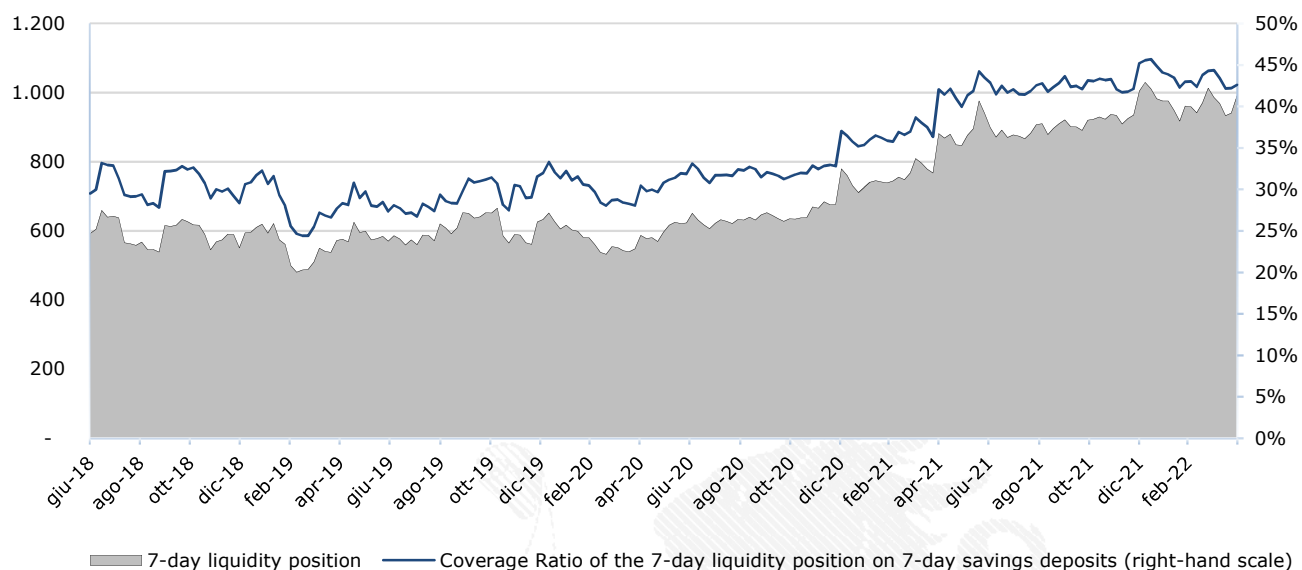
The 1-month liquidity position, which includes assets that can be liquidated within one month and 1-month net loans to foreign banks and the Central Bank, stood at EUR 1,037 million and EUR 995 million at the end of 2021 and at the end of April 2022, respectively.

The ratio between the 7-day liquidity position and the 7-day collection of savings (a.k.a. coverage ratio) at the end of 2021 and the end of April 2022 stood at 45% and 43%, respectively.

**Figure 15 - Trend in system-wide liquidity available at 7 days**

<sup>18</sup> Banks' term deposits with the Central Bank for the purposes of the reserve requirement are not included in the calculation of the 7-day liquidity position.

<sup>19</sup> As of 8 January 2021, the data on the liquidity of the banking system shown in this paragraph do not include those relating to Banca Nazionale Sammarinese S.p.A..



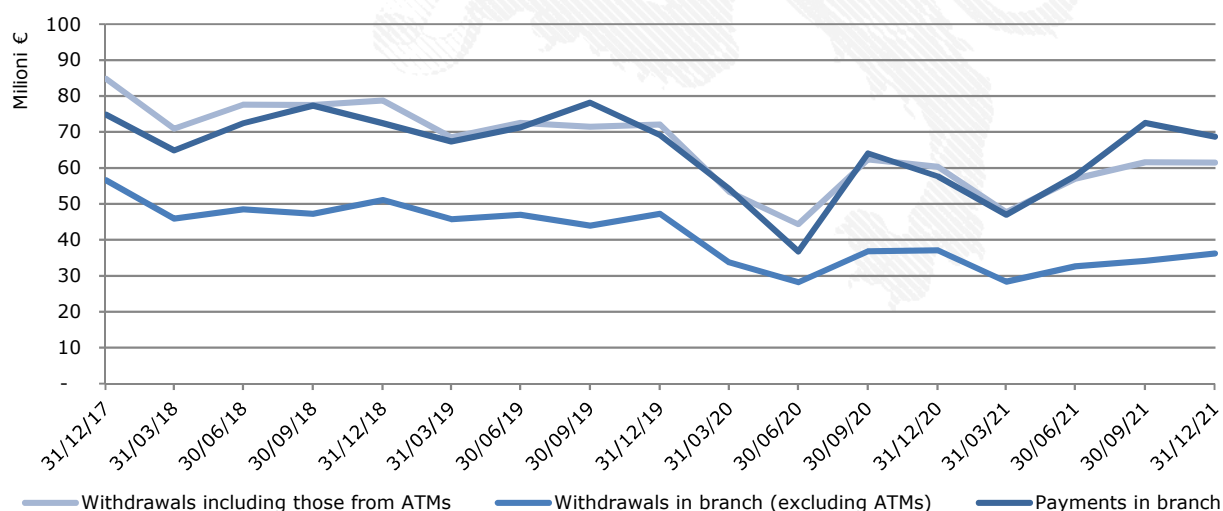
#### 1.1.10 Data in the banking system regarding the use of cash

In the year under review, withdrawals amounted to EUR 228 million (EUR 220 million in 2020, + 3.3%), of which EUR 96 million were carried out through ATMs (EUR 85 million in 2020, + 13.8%), against payments of EUR 246 million in the same period (EUR 213 million in 2020, + 15.7%).

The cash turnover indicator (obtained by benchmarking the quarterly average of withdrawals in branch, withdrawals from ATM 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 5% in 2020 to 4.8% in 2021.

Figure 16 shows the trends in withdrawals in branch (excluding ATMs), withdrawals including those from ATMs and deposits in branch recorded on a quarterly basis over the period 2018 - 2021. Looking at the graph, it can be noted that the aggregate of withdrawals in branch (excluding ATMs) fell from EUR 57 million in Q4 2017 to EUR 36 million in Q4 2021, a reduction of 36%. The aggregate of cash payments went from EUR 75 million in Q4 2017 to EUR 69 million in Q4 2021, a decrease of 8%.

**Figure 16 - 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 and debit cards issued by resident banks and payment institutions.

During 2021, there was an increase in the number of credit and debit card payment transactions and in the number of transactions, by 34 million and 731 thousand respectively.

**Table 10 - Credit and debit cards (issuing)**

	2020			2021		
	number of cards in circulation	number of transactions	amount of transactions	number of cards in circulation	number of transactions	amount of transactions
Credit cards	13,578	1,058,142	81,564,865	14,805	1,239,078	89,132,167
Debit cards	36,892	2,910,862	232,929,315	37,190	3,460,702	258,878,818

Notes: Amounts shown in EUR.

Table 11 shows the number and amount of acquiring POS transactions<sup>20</sup> registered in 2020 and 2021 regulated by resident banks and payment institutions, highlighting the type of card used. In the same period, ATM withdrawal transactions amounted to 94 million.

**Table 11 - Payment transactions with (acquiring) merchants**

	2020		2021	
	number of transactions	amount of transactions	number of transactions	amount of transactions
<b>Points of Sale (P.O.S.)</b>				
Payment transactions with operators under agreement	3,541,441	243,834,316	4,608,213	305,205,204
of which with credit cards	681,735	68,491,961	916,651	87,625,288
of which with debit cards	2,859,706	175,342,355	3,691,562	217,579,916

## 1.2 Rest of the System

### 1.2.1 Financial companies

The segment consists of a holding company, also authorised to carry out fiduciary activities.

At the end of 2021, this financial company had total assets of EUR 11.6 million and net equity of EUR 5.4 million. Gross loans, including financial lease transactions, amounted to EUR 6.8 million, while asset management totalled EUR 78 million and assets managed as fiduciaries amounted to EUR 7.4 million.

The number of employees working in the aforementioned financial company was 5 at the end of 2021.

Regulatory capital as at 31 December 2021 stands at EUR 4.8 million.

### 1.2.2 Payment institutions

A resident company is authorised to provide the Payment Services referred to in letter I of Annex 1 of the LISF, with the exclusion the services pursuant to point f) (money remittance service), g) (payment order instruction services), and h) (account information services) of the aforementioned letter I. The company mainly issues payment instruments through the acquisition of licences with payment circuits and agreements with banks for the distribution of products.

In 2021, the payment institution in question managed a total of EUR 68 million in issuing transactions, up by EUR 3 million (+4.8%) compared to the amount recorded at the end of 2020, and

<sup>20</sup> The data refer to operators qualified to use acquiring licences operating on international and national circuits.

in acquiring transactions for EUR 125 million, the latter settled with affiliated merchants and ATMs, also up by EUR 21 million (+19.8%) compared to the previous year.

At the end of 2021, the aforementioned payment institution recorded total assets of EUR 8.8 million, up by EUR 3.3 million compared to the previous year (+61.4%), mainly due to higher investments in tangible and intangible assets for a total of EUR 2.4 million (this aggregate stood at EUR 2.7 million at the end of 2021), a shareholders' equity of EUR 2.9 million, up by EUR 2.2 million compared to that recorded at the end of 2020.

The company has regulatory capital of EUR 0.7 million and has 14 employees (9 at the end of 2020).

During 2021, a non-resident financial company was authorised to provide Payment Services pursuant to points c) (execution of payment transactions, including the transfer of funds, on a payment account with the payment services provider of the user or with another payment service provider) and e) (issue of payment instruments or agreement of payment transactions) of the aforementioned letter I of Annex 1 of the LISF.

### **1.2.3 Asset Management Companies (AMCs)**

The structure of the sector remained stable, as in 2020, with 3 management companies authorised to provide collective investment services.

At the end of 2021, 14 mutual funds under San Marino law were active and managed by the 3 AMCs. In particular, the funds under management are broken down as follows: 9 open-end funds reserved for the general public, 1 alternative closed-end fund intended for professional clients, for which the disposal operations launched in 2021 are still in progress, and 4 funds established pursuant to specific Decree-Laws as part of extraordinary operations, which involved banking intermediaries in crisis. The latter, whose assets are mainly attributable to non-performing loans, are of the closed-end type and the relative shares are currently held by San Marino banks.

During the first quarter of 2022, the liquidation of a UCITS III open-end mutual investment fund for the general public was launched and concluded. Therefore, as at 31 March 2022, there were 13 mutual funds under San Marino law active and managed by the 3 AMCs.

At the end of 2021, the net equity of the aforementioned funds amounted to a total of EUR 220 million, marking an increase of EUR 16 million compared to 31 December 2020 (EUR 204 million). Assets under management relating to funds intended for customers - hence excluding the above-mentioned funds established under specific Decree-Laws and reserved for banks - totalled EUR 144.1 million at the end of 2021, showing an increase of roughly EUR 16 million compared to the previous year, accounting for the main component (around 65%) of the total volumes of the segment.

With reference to the 4 funds relating to non-performing assets, the volumes of assets for the year 2021 remained substantially unchanged compared to the previous year and the shareholders' equity at the end of 2021 was EUR 76 million compared to EUR 75.9 million in 2020. The incidence of these funds on the total assets managed, as a result of the changes occurred in the other types of funds, stood at 35%, recording a slight decrease compared to 2020 (37%).

In this regard, it should be noted that, in implementation of Budget Law no. 223 of 23 December 2020 "State and Public Entity Estimated Financial Statements for the financial year 2021 and Multi-year Financial Statements 2021/2023", the "crystallisation" of the maximum amount of benefits (tax credits) was defined as at 31 December 2020, recognised pursuant to the specific Law Decrees that determined the establishment of the 4 funds mentioned above. The values of the tax credits mentioned may not change with respect to the amount defined at the reference date of 31 December 2020.

#### 1.2.4 Insurance Companies

In 2021, the 2 domestic insurance companies continued to underwrite risks in the life business, through the use of the San Marino banking channel as well as through insurance intermediaries present in the Republic and authorised by CBSM.

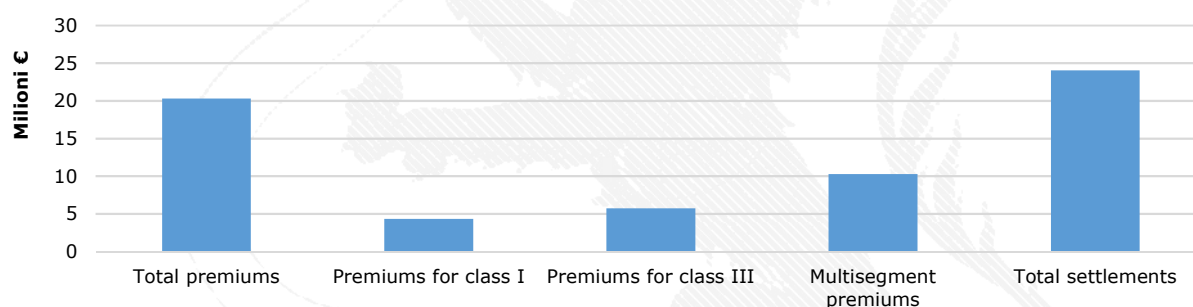
Total gross premiums<sup>21</sup> recorded in 2021 amounted to approximately EUR 20 million, up by roughly 84% on what was posted in 2020. Premiums written in 2021 are mainly composed of multi-branch contracts, accounting for roughly 51% of total gross premiums recorded in 2021, as well as traditional (class I) and unit-linked products, accounting for approximately 21% and 28%, respectively, of the aforementioned total.<sup>22</sup>

With regard to settlements, in 2021 the relative amount was equal to approximately EUR 24 million, up by approximately 60% compared to the same figure in 2020. In particular, it should be noted that requests for liquidation predominantly related (roughly 75%) to early redemptions of financial insurance policies with dedicated assets.

Net collection (the difference between premiums and settlements) therefore presents a negative balance of approximately EUR 3.7 million, up approximately 8% compared to 2020.

The breakdown and performance of domestic insurance business written as at 31 December 2021 is provided below.

**Figure 17 - Breakdown of domestic insurance business written as at 31 December 2021**



Source: supervisory report (figures shown in EUR millions)

**Table 12 - Performance of domestic insurance business written as at 31 December 2021**

	Class I	Class III	Multisegment	Total 2021	Total 2020	Annual change (%)
Gross premiums recorded	4,309	5,728	10,268	20,304	11,012	84%
Number of new policies	148	49	172	369	304	21%

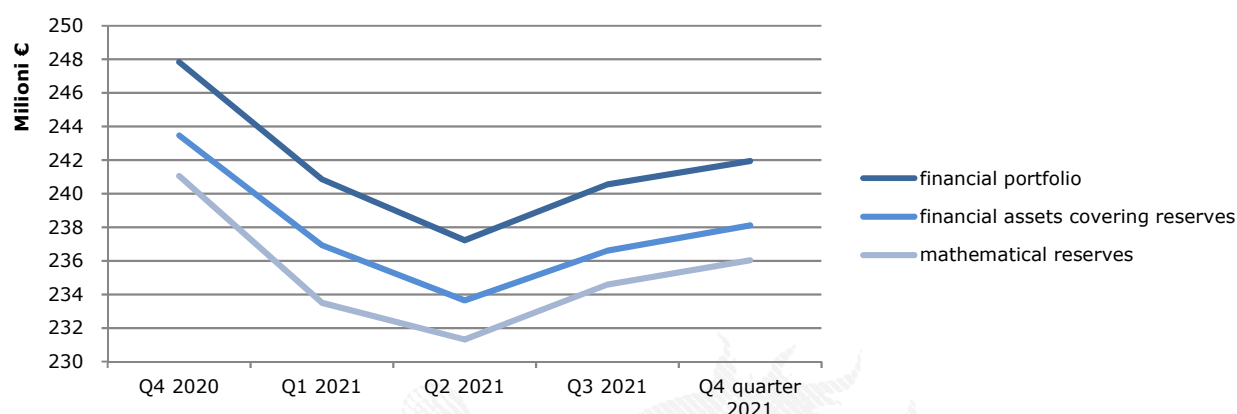
Source: supervisory report (amounts of premiums shown in EUR thousands)

As at 31 December 2021, the overall book value of the financial investments of domestic insurance companies was approximately EUR 242 million, a decrease of 2% compared to the figure as at 31 December 2020. The volume of financial investments compared with the change in the value of financial assets covering technical reserves and the volume of mathematical reserves is shown below.

<sup>21</sup> The relevant definition is provided in Annex F to Regulation No. 2009-01.

<sup>22</sup> "Multisegment" insurance products are "whole-life" policies and are characterised by the simultaneous presence in the same contract of distinct components that allow the investment to be diversified: the component invested in a separately managed account - where typically the capital can be guaranteed - and that invested in internal funds where the performance is influenced by the movements of the financial markets and on which there is generally no financial guarantee.

**Figure 18 - Volume of financial assets and mathematical reserves (financial portfolio)**



Source: supervisory report (figures shown in EUR millions)

**Table 13 - Volume of financial assets and reserves**

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Annual change %
Financial portfolio	247,850	240,861	237,225	240,557	241,953	-2%
Financial assets used to cover technical reserves	243,473	236,938	233,644	236,613	238,122	-2%
Mathematical reserves	241,057	233,503	231,314	234,588	236,043	-2%

Source: supervisory report (figures shown in EUR thousands)

In relation to the trend in the size of the financial portfolio (at book value, including accrued revenues) and the mathematical reserves, there was a positive difference between the total financial assets held and the amount of the mathematical reserves. It should also be noted that the financial assets directly allocated to cover the technical reserves (at book value, including accrued revenues) remained sufficient and recovered slightly in the third and fourth quarters compared to the decreasing trend recorded in the first and second quarters.

It should also be noted that the downward trend in assets under management and mathematical reserves is also determined by the negative amount of net collection and is mainly concentrated on financial insurance contracts (class III), whose mathematical reserves represent about 68% of the total at the end of 2021. On this subject, it should be noted that the amount of financial assets included in the separate internal accounts of revaluable products (at book value, including accrued revenues) was approximately EUR 69 million, a slight increase over the figure recorded in 2020.

An examination of the composition of the financial portfolio held (market value as at 31 December 2021), in line with that highlighted in 2020, shows a predominance of investments in bonds, cash and mutual investment fund units. The latter are basically used for structuring and hedging unit-linked type financial insurance products. It should also be noted that the impact of the equity segment on the composition of the financial portfolio is rather limited.

In the first quarter of 2022, the sector was characterised by CBSM initiatives in relation to a single operator, first with a measure of suspension of the administrative bodies pursuant to art. 84 of the LISF<sup>23</sup> and therefore, subsequently, with the launch of an Extraordinary Administration

<sup>23</sup> <https://www.CBSM.sm/site/home/sala-stampa/comunicati-stampa-e-notizie/articolo6103.html>

procedure pursuant to art. 78 of the LISF<sup>24</sup>, as part of which, to protect the interests of policyholders and creditors, the suspension of payments was also ordered pursuant to the provisions of art. 82 of the LISF<sup>25</sup>.

### 1.2.5 Insurance and reinsurance intermediaries

At the end of 2021, a total of 34 entities who perform insurance brokerage activities are registered in the Public Register of Insurance and Reinsurance Intermediaries, divided into natural persons and sole proprietorships (7), legal persons in the form of non-financial companies (24), and financial companies (3). In 2021, one entity was struck off the Register and there were three new registrations.

**Table 14 - Number of entities registered with the Register of insurance and reinsurance intermediaries who perform financial activities**

	Section A Individuals and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Active	6	23	3	32
Suspended	1	1	0	2
<b>Total</b>	<b>7</b>	<b>24</b>	<b>3</b>	<b>34</b>

Source: Register of insurance and reinsurance intermediaries

As at 31 December 2021, an additional 54 individuals as managers of insurance brokerage activities (RAI) of registered intermediaries were enrolled in section A.

With regard to the total brokerage volume, the total amount of premiums collected in 2021 in favour of foreign insurance companies was approximately EUR 50.9 million, of which approximately EUR 34.5 million relating to the non-life business and approximately EUR 16.4 million relating to the life business (for resident insurance companies, please refer to the specific paragraph).

The breakdown of the amount of premiums collected by intermediary type and by class in 2021 is summarised in the following table.

**Table 15 - Amount of premiums collected by type of insurance intermediary and by insurance class**

Amounts in EUR millions	Section A Individuals and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Life business	11.9	4.5	-	16.4
Non-Life business	8.6	25.4	0.5	34.5
<b>Total</b>	<b>20.5</b>	<b>29.9</b>	<b>0.5</b>	<b>50.9</b>

Source: Central Bank - Report on the business of insurance and reinsurance intermediaries

<sup>24</sup> <https://www.CBSM.sm/site/home/sala-stampa/comunicati-stampa-e-notizie/articolo6111.html>

<sup>25</sup> <https://www.CBSM.sm/site/home/sala-stampa/comunicati-stampa-e-notizie/articolo6112.html>



It should be noted that the intermediation carried out by financial companies on behalf of foreign insurance companies is marginal, as these intermediaries are mainly dedicated to intermediation on behalf of resident insurance companies.

The breakdown of the amount of premiums collected by policyholder type and by insurance business during 2021 is shown below.

**Table 16 - Amount of premiums collected by policyholder type and by insurance class**

Amounts in EUR millions	Policyholder Resident in San Marino	Policyholder Resident abroad	Total
Life business	15.9	0.5	16.4
Non-Life business	32.7	1.8	34.5
<b>Total</b>	<b>48.6</b>	<b>2.3</b>	<b>50.9</b>

Source: Central Bank - Report on the business of insurance and reinsurance intermediaries

### 1.2.6 Cold-Calling Parties

As at 31 December 2021, no financial advisors were registered in the special section of the Register of financial advisors established pursuant to Regulation no. 2014-01; during the first quarter of 2022, no applications were received for registration in the aforementioned section of the Register in question.

On the other hand, as regards the section of the Register dedicated to employees of authorised entities who carry out door-to-door selling, as at 31 December 2021, 33 entities were enrolled in the Register, up by one compared to the previous year; in fact, during the period in question, applications for the registration of 4 employees and applications for the cancellation of 3 employees attributable to the same authorised party were received and subsequently accepted.

In the first quarter of 2022, at the request of an authorised entity, the registration of an employee was cancelled, reducing the number of individuals enrolled in the section in question to 32.

In this regard, the CBSM Regulation no. 2021-01 "Miscellaneous targeted review of the supervisory provisions in force", also amended art. 11 "Professional requirements for financial advisors" of Regulation no. 2014-01 on financial advisory services and door-to-door sales. Therefore, the parties who were already enrolled in the Register of financial advisors at the date of entry into force of the aforementioned Regulation, and not in line with the new requirements, have a transitional period of 18 months (therefore expiring on 17 November) to comply with the new regulatory provisions.

### 1.2.7 Payment service providers

In January 2021, CBSM Regulation 2020-04 (Regulation of Payment and electronic money issuing services - Payment institutions and EMI) entered into force, implementing the provisions of Delegated Decree no. 177/2018 aimed at transposing into San Marino legislation Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services provided in the European Union and subsequent amendments made in the year 2018 (so-called Payment Services Directive II - PSD II) and the general rules of Law 165/2005.

Pursuant to the aforementioned Regulation, a "Register of Payment Service Providers" has been established, including subjects carrying out the payment services in the Republic of San Marino as listed in letter I) of Annex 1 of the LISF.

In this regard, the entry into force of Regulation no. 2021-01 "*Miscellaneous initiatives aimed at revising the current supervisory provisions*" had set a deadline for foreign parties that already provided acquiring services in favour of San Marino economic operators (typically in the e-commerce sector) to continue to provide the service until 31 December 2021; after that date the continuation

of the activity was subject to the authorisation of CBSM, pursuant to art. III.VI.8, paragraph 2, of Regulation no. 2020-04. This deadline was further extended to 30 June 2022 with the issue of Regulation no. 2022-01 in the first quarter of this year.

As at 31 December 2021, in relation to the above, the “Register of Payment Service Providers” recorded 8 entities of which 4 banks, a payment institution, a foreign financial company, the San Marino Post Office, as well as the Chamber of Commerce with the SMAC Office section. In fact, during 2021, a request for registration was completed by a foreign financial company<sup>26</sup>, while the assessment process is underway for another 2 foreign financial companies. In the same period, an authorised entity was also struck off the aforementioned register.

During the first quarter of 2022, following the change in the corporate purpose, an additional party was struck off the aforementioned Register. Therefore, as at 31 March 2022, a total of 7 payment service providers (PSP) were enrolled in the relevant Register.

#### **1.2.8 Independent financial advisors**

The Register of Independent Financial Advisors was established pursuant to art. 25-bis of Law no. 165/2005 and Regulation no. 2020-03 called the “Regulation on independent financial advisors”, issued on 31 July 2020 and entered into force on 3 August 2020. The Register includes individuals and companies other than authorised entities that provide independent professional investment advice.

During the year 2021 and in the first quarter of 2022, no applications were received for registration in the aforementioned Register, therefore, as for 2020, there are no registered entities.

<sup>26</sup> <https://www.CBSM.sm/site/home/sala-stampa/comunicati-stampa-e-notizie/articolo6085.html>

### 3 THE INSTITUTIONAL FUNCTIONS

#### 2.1 Supervision and Protection of Investors

##### 2.1.1 Supervisory policy

In 2021, the Supervisory Authority intensified its actions to strengthen the capital and organisational structure of banks and other supervised intermediaries, also urging the reference shareholders to take action through the necessary injections of capital and the selection of expert top management figures, able to map out credible and concretely achievable strategic development paths.

Special attention was focused on the risk management function of the banks, also with the introduction of new regulatory provisions, so as to make the contribution of this company structure in the management of credit risk increasingly more effective, taking into account the importance of the related capital absorptions, requiring additional checks on the quality of the loan portfolio in order to promptly identify potential signs of deterioration and take the consequent remedial action.

In this context, there were numerous discussions with the banks on the business plans for the three-year period 2021-2023 so as to incorporate objectives for restoring prudential parameters and profitability through a reduction in operating costs, redevelopment of assets based on new funding flows as well as the improvement of efficiency ratios.

The banking system's return to profit after 12 years of losses, the increase in total funding volumes (net of Banca Nazionale Sammarinese), the sharp increase in available liquidity and the reduction in the cost/income ratio are the first positive signs of a process of consolidation of the financial sector that will need to continue steadfastly, especially as regards the management of non-performing loans (NPLs), whose high incidence on total loans gross of adjustments requires extraordinary and systemic interventions.

In this regard, there is a need to proceed without delay in the implementation of the project aimed at setting up the system Vehicle foreshadowed by Law no. 157 of 3 August 2021, which introduces to the San Marino legal system both the general regulations on securitisation (Chapter II) and the special regulations on the system securitisation of banking assets (Chapter III), such as NPLs and related real estate, in line with the continuity of the provisions of San Marino Delegated Decree no. 126/2020.

In this regard, the Central Bank is working to complete the reference regulatory framework through:

- the issue of regulations on servicing activities (relating to the management and recovery of receivables) and on the weighting of securitisation exposures;
- the definition of supervisory expectations regarding prudential provisions relating to NPLs maintained as assets in the financial statements, depending on the age of the classification as non-performing loans and the nature of the guarantees supporting them in line with the *calendar provisioning* metrics introduced in 2018 by the European Central Bank for banking groups subject to the supervision of the Single Supervisory Mechanism.

The deconsolidation of the securitised risk positions or the capital hedging of those kept in the portfolio constitute two synergistic instruments for the purposes of the resolution of NPLs, whose size negatively affects the valuations carried out by the specialised agencies on the sovereign rating of San Marino (currently BB +), without prejudice to the improvement in the outlook from negative to stable in October 2021, due to the resilience shown, also by the financial sector, in response to the shock triggered by the COVID-19 epidemiological emergency.

The evolution under way in the payments sector and the possibilities offered by open banking are elements of undoubted interest for economic operators and users. The availability of modern and efficient payment services is a strategic objective that has led to the achievement of important results such as the registration of a leading foreign operator in the register of authorised entities operating

under the freedom to provide services regime (for the first time since the Central Bank was established).

At the same time, the network of relations and contacts with foreign Supervisory Authorities has expanded due to initiatives envisaged by both our intermediaries outside national borders and by foreign financial companies that have submitted an application for authorisation to operate in San Marino.

The use of the Euromarket by the Republic of San Marino, for the first time in its history, has engaged the Supervisory Authority in the preparation and publication of increasingly accurate and timely statistics on the state of health of the banking system in order to make it easier for the foreign institutional investors who have subscribed the bonds to understand the financial dynamics of the country.

### 2.1.2 The Supervision Committee

In 2021, the Supervisory Committee held 55 meetings at which 178 resolutions were passed, structured into the following topics:

**Table 17 - List of resolutions of the Supervisory Committee broken down by topic**

SUBJECT	NO. RESOLUTIONS
Authorisations	50
Situation of individual entities	26
Sanctions	23
Supervisory regulations	23
Inspections	10
Central Credit Register	9
Guidelines	7
Proceedings	7
Other	23
<b>TOTAL</b>	<b>178</b>

More specifically:

- the 76 resolutions concerning both authorisations and corporate situations mainly concerned the purchase of equity investments, amendments to the Articles of Association, interventions on problematic intermediaries, requests on business plans;
- the 23 decisions on sanctions concerned a total of six supervised entities and one non-supervised company by proceeding, where required by art. 32 of the Articles of Association of the Central Bank, with the publication of said decisions so as to disclose the measures in question;
- the 23 resolutions concerning regulatory measures were mainly conducive to the issuing of Central Bank regulations and circulars, including those relating to supervisory statistical reports.

### 2.1.3 The activities of the Supervisory Department

During the year, the Supervisory Department, with a staff of 25 resources, managed 5,360 communications with external parties, of which no. 3,608 incoming and no. 1,752 outgoing, in addition to no. 190 documents of internal value intended primarily for the collective bodies (Board of Directors and Supervisory Coordination).

In detail, the main types of correspondence entered into are summarised in the following table.

**Table 18 - Type of correspondence entered into by the Supervisory Department**

SUBJECT TYPE	INCOMING	OUTGOING	TOTAL
Paper-based obligations and initiatives	1,053	255	1308
Extraordinary procedures	655	93	748
Relations with other authorities and public administration collaborations	273	334	607
IMF and world bank	242	126	368
Central Credit Register	179	163	342
Regulations	175	155	330
Permissions/ authorisations and incorporations	178	117	295
Sanctioning procedures	113	116	229
Information systems and administrative profiles	9	115	124
Judicial investigations, complaints and disputes	80	23	103
Financial statements and minutes of the meetings of supervised parties	98	3	101
Securities transactions - management of Government bonds	68	29	97
Moneyval / national risk assessment	53	42	95
Bankruptcy proceedings / liquidations	56	33	89
Register of fiduciary shareholdings	69	9	78
Queries and interpretations	57	16	73
Inspections	23	39	62
Services and financial instruments	39	2	41
Supervised ownership structures and representatives	33	8	41
Depositors' guarantee fund	11	21	32
Banknotes	11	9	20
Other	133	44	177
<b>TOTAL</b>	<b>3,608</b>	<b>1,752</b>	<b>5,360</b>

In carrying out its institutional duties, the Supervisory Department provided support and collaboration to the Court (with whom 151 letters were exchanged), the Ministry of Finance (92 communications) and the Council Commission of inquiry (24 communications).

Beyond the supervisory activities carried out on the entities still enrolled in the registers, special commitment was required in the management of the disciplinary procedures that involved 748 discussions with the respective bodies, of which 340 concerned Banca Nazionale Sammarinese S.p.A., whose resolution procedure was concluded in July 2021 with the transformation into an Asset Management Company of the former BNS S.p.A., in compliance with the provisions of Delegated Decree no. 126/2020.

The following paragraphs illustrate in detail the supervisory activities carried out by the various organisational units that make up the Supervisory Department.

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

### **Administrative compulsory liquidations**

At the end of 2021, there were 12<sup>27</sup> administrative compulsory liquidations pending, of which 3 relating to banks and 9 relating to financial/trust companies.

During the year, no new administrative compulsory liquidation measures were taken, while a financial and trust company (Fidens Project Finance) concluded the liquidation activities, having filed the final

<sup>27</sup> Asset Banca S.p.A. is excluded from the calculation.



liquidation documentation pursuant to art. 96 of Law 165/2005 (LISF). Moreover, during the first quarter of 2022, an additional company (Fincapital) filed the final liquidation documentation, having already completed the transfer en bloc of assets, liabilities and legal relationships to a bank several years ago, pursuant to art. 92 of the LISF, and having returned the residual fiduciary mandates.

On 16 July 2021, CBSM Regulation no. 2021-02 entered into force, with which the functioning of the disciplinary procedures was regulated for the aspects delegated to CBSM by law or for those not already regulated by primary rules. One of the purposes of the Regulation is to facilitate the settlement of proceedings, by issuing guidelines that guide the bodies in carrying out the liquidation activities, by clarifying the criteria and requirements that the Authority assesses in the examination of the requests and through the provision of a more detailed report to CBSM and to the outside world.

Extensive efforts were dedicated by CBSM to the revision of some regulatory provisions, then introduced as part of Law no. 207/2021, aimed at simplifying the final obligations of the administrative compulsory liquidation procedures and resolving the problem of the return of liquidity mandates whose trustees are unavailable or not cooperative as well as the return of sums and financial instruments to entitled parties who have not handled their withdrawal (unsecured creditors). These provisions concerned 5 liquidations. It is therefore also thanks to these primary and secondary regulatory changes, that a reasonable number of procedures still open may be settled in the current year or in the following year. Numerous activities were also carried out by CBSM in 2021 with regard to the disciplinary procedures, in order to settle them. In summary, as part of the supervision and management of liquidation procedures, the Central Bank, in 2021, issued provisions regarding: in 1 case, the replacement of bodies of companies pursuant to art. 86, paragraph 1, of the LISF;

- in 1 case, the determination of the indemnities due to the representatives of the company pursuant to art. 86, paragraph 4 of the LISF;
- in 3 cases, the payment of advances on remuneration pursuant to art. IV.XII.2, paragraph 2, of Regulation 2021-02;
- in 1 case, the authorisation to file the final liquidation financial statements, pursuant to art. 96, paragraph 1 of the LISF.

Moreover, the Central Bank:

- in 1 case issued provisions pursuant to art. 88, paragraph 3, of the LISF, in relation to the destination of some movable assets identified by the proceeding but not claimed by the relative owners;
- in 4 cases issued rulings in relation to requests for revision of the remuneration originally determined;
- in 1 case assessed the continued satisfaction of the integrity requirements of a representative;
- in 3 cases, the Central Bank provided financial support to the illiquid proceedings for their smooth running.

During the first quarter of 2022, the Central Bank authorised:

- in 3 cases the execution of allocations and partial refunds pursuant to art. 95, paragraph 4, of the LISF;
- in 1 case the finalisation of a settlement agreement to settle the liability actions against former company representatives;
- in 1 case, the filing of the final documentation, pursuant to art. 96 of the LISF.

### **Box 3: Sanctioning procedures**

#### **Proceedings started and sanctions imposed**

In 2021, the Central Bank issued administrative sanctions on the basis of the regulatory framework defined by Law no. 96/2005, by Law no. 165/2005 and, specifically, by Decree no. 76/2006. Since the entry into force of the amendments introduced by Decree no. 50/2019, the addressee of the

proceedings is the supervised entity as well as the persons who can be ascribed a personal, although not exclusive, liability.

A total of 13 sanctioning proceedings were initiated and concluded in 2021. In total, the amount of fines imposed came to EUR 324,110. Some of the entities on whom sanctions were imposed exercised the right to settlement as laid down by current legislation and the amount collected came to EUR 130,388. With regard to the remaining sanctions, for one measure the collection is in progress, while the remaining 3 measures are *sub judice*, as they were the subject of an administrative appeal.

From 2021, with the amendments introduced by Law 223/2020 to art. 32 of the Articles of Association (Law 96/2005), CBSM publishes the administrative penalty provision for five years both on its website and in the Official Bulletin, disclosing the nature of the violation, the recipients, any challenge to the measure, as well as the outcome of the proceedings.

This publication may be excluded or suspended if the publication of personal data appears disproportionate, or the same may jeopardise the stability of the financial markets or an ongoing criminal investigation, or the publication causes disproportionate damage to the legal or natural persons involved. In 2021, CBSM published on its website, in the section dedicated to the statutory supervisory functions, the circumstances predetermined by the same, under which it is possible to exclude or temporarily suspend the publication.

During 2021, in implementation of the aforementioned circumstances of exclusion or suspension, CBSM published in the dedicated section of the website the sanctions imposed against 4 supervised or authorised entities, in addition to that referring to Banca CIS - Credito Industriale Sammarinese in compliance with art. 9, paragraph 3, of Law 223/2020.

The collection activities, started in 2021 and in progress in 2022, on the sanctions imposed in the years prior to 2021, following a favourable outcome in the administrative appeals, if initiated, or as a result of the registration in the list of cases were important. This activity resulted in a total collection in 2021 of EUR 108,000, referring to no. 7 sanction measures, in addition to EUR 14,832 collected in the first quarter of 2022 as a result of the closure of a compulsory administrative liquidation procedure, jointly and severally liable with the sanctioned parties, which provided for the partial payment of two sanctions, reduced by the bankruptcy penalty.

In the first quarter of 2022, a judgement was issued by the Administrative Judge in relation to a previous appeal against sanctions, in favour of CBSM, for which collection is in progress of the amounts imposed and the related legal fees.

#### 2.1.4 Regulatory interventions

During 2021, the Central Bank issued a series of regulatory measures and more specifically:

- CBSM Reg. no. 2021-01 - *"Collection of measures designed to revise supervisory provisions currently in force"*;
- CBSM Reg. no. 2021-02 - *"Regulation on the disciplinary measures of financial companies"*;
- CBSM Reg. no. 2021-03 - *"Regulation for the virtual assets custody service by banks"*;
- CBSM Circular no. 2021-01 - *"Injection moment for the finalisation of the transfer orders in the San Marino systems"*.

Reg. CBSM no. 2021-01, issued on 13 March 2021, like the previous miscellaneous regulations, amended and supplemented a series of regulations and circulars in force on supervision, at the same time introducing provisions for cross-the-board application with a view to innovation and international opening of the financial system.

More specifically, the Regulation in question made provision for:

- a strengthening of the supervisory provisions relating to the internal control system of the supervised entities;
- updating of the regulations concerning the registration in the Registers of door-to-door offerers and insurance intermediaries kept by the Central Bank;

- the amendment of the regulations relating to the Central Credit Register with the inclusion of Trusts among the reporting parties;
- the updating and coordination of the regulations on the Depositors' Guarantee Fund with the possibility of intervention more recently introduced by Law no. 102/2019 also in the field of extraordinary administration and bank resolution;
- recognition of the equivalence of English to Italian for any communication or documentation sent to the Central Bank for supervisory purposes;
- updating of the regulations on authorisation for acquiring services provided by foreign institutions to San Marino economic operators, with the definition in particular of a scope of application that takes into account the evolution recorded in recent years in the area of electronic payments and the introduction of a simplified authorisation procedure for those Institutions based in the European Union or in the European Economic Area.

With reference to the above-mentioned update of the regulations on acquiring services provided by foreign institutions to San Marino economic operators, it should also be noted that the Central Bank also carried out a fact-finding survey on the local economic system in order to acquire updated information on local operators' use of to foreign institutes for acquiring services in the field of e-commerce (so-called virtual POS services). This investigation was also targeted at normalising the phenomenon with respect to the new San Marino regulatory framework within the time-frame for the adjustment, in any case envisaged by the regulations.

Reg. CBSM no. 2021-02 *on the disciplinary procedures of financial companies*, issued on 16 July 2021, instead regulated at the application level the provisions of Law no. 165/2005 (LISF) on extraordinary proceedings, i.e. suspension of administrative bodies, extraordinary administration and compulsory administrative liquidation, as well as by Law no. 102/2019 on bank resolution.

In particular, the Regulation has:

- introduced general and binding provisions for all procedures of the same type, in order to ensure the necessary consistency in the practices engaged in by the various bodies and in the supervision and guidance carried out by the Supervisory Authority;
- made provision for forms of involvement and collaboration of the San Marino Professional Associations, in line with the LISF reform introduced by Law no. 146/2014;
- implemented the provisions of Articles 79, paragraph 6, article 86, paragraph 4 and article 88, paragraph 4, of the LISF with regard to the requirements for accessing the appointments of Commissioner, Special Director, Liquidator and Member of the Supervisory Committee, the criteria for determining the relative remuneration and the methods and times of reporting to creditors recorded in the liabilities;
- duly defined the legal framework of Central Bank grants in support of the procedures, also in terms of conditions and methods/possibility of recovery;
- expressly referred to the principles of cost containment, speed, accountability and confidentiality for all procedures, also through the introduction of a Code of Ethics, specifically addressed to the representatives of the procedures and aligned with the most recent standards applied also abroad;
- ordered the mandatory publication of the indemnities received by the representatives of the proceedings;
- clarified, for each phase of the different disciplinary procedures, the different and specific responsibilities of the representatives of the same and of the Supervisory Authority, with particular regard to the profile of opinions, authorisations and the production of reports.

Reg. CBSM no. 2021-03 concerning *the virtual assets custody service by banks*, issued on 7 October 2021, implemented art. no. 10 of Delegated Decree 111/2021, which reserves the provision in San Marino of the service in question only to the banks, recognising specific regulatory powers in this regard to the Central Bank.

With the Regulation in question, in exercising its regulatory powers, the Central Bank has therefore regulated:

- the methods and timing of verification by the Supervisory Authority of the requirements prescribed by the banks for the provision of the virtual assets custody service;
- the possible causes of suspension of the authorisation and the related procedures;
- the contents and procedures for keeping and updating the public register of banks authorised to provide the service;
- the characteristics and the minimum amount of insurance coverage required to obtain and maintain the authorisation;
- IT incident reporting procedures.

The Regulation completes, as far as the Central Bank is concerned, the regulatory framework of San Marino for allowing the provision of the innovative virtual asset custody service by the banks concerned, without prejudice to, according to the provisions of the aforementioned Delegated Decree no. 111/2021, the right of the Institute for Innovation of the Republic of San Marino to issue its own and additional regulation with specific regard to the technical suitability requirements of banks for the issue by the same Institute of the relevant certificate of technical suitability for obtaining the authorisation from CBSM to provide the service.

CBSM Circular no. 2021-01, concerning the *injection moment for the finalisation of the transfer orders in the San Marino systems*, issued on 26 March 2021, replaced and repealed the previous Circular 2008-03 on this matter.

The new Circular has not introduced substantial changes compared to the previous one, confirming the previous provisions, except for updates in the identification of both the reference regulatory context and the transactions to be regulated according to the new SEPA nomenclature.

With regard to the regulatory interventions of 2021, it should be lastly noted that, on 22 December 2021, a public consultation procedure was launched on a new draft *Miscellaneous Regulation*, which was then issued on 23 February 2022 and which will be analysed accordingly in the Final Report of 2022.

#### **2.1.6 Supervisory reporting and methodologies**

Ordinary supervisory reporting concerned, also in 2021, 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 together with issuing and updating reporting forms and related operating handbooks.

In August 2021, following the amendments to CBSM Circulars nos. 2017-03 and 2016-01, made by CBSM Regulation no. 2021-01, the reporting models "Financial statement data - Reg. 2016-02" and "Reporting model of the contribution base pursuant to Regulation 2016-01 - Depositors' guarantee fund" and the relative operating handbooks were updated.

Given that the deadline for approval of the 2020 Financial Statements of authorised entities under Article 29 of Law 165/2005 has been postponed by one month, the deadlines for supervisory reports on financial statements data, prudential supervision and supplementary financial statements information have been extended to April 2021.

Starting from the June 2021 maintenance period, the rate for the establishment of the time deposit for the purposes of the reserve requirement, set forth in art. 142 of Law 165/2002, was reduced from 5% to 3.5%.

In March 2022, given the exceptional circumstances determined by the outbreak of the Russia-Ukraine conflict, certain exceptions were granted to the supervisory provisions relating to the transfer of securities between the trading portfolios and investment portfolios and their valuation.

Following the issue of Regulation 2022-01, which entered into force on 28 February 2022, the reporting models and operating handbooks were updated in relation to the changes introduced.



Supervisory reporting includes the production of national and international statistics, as well as relations with national and foreign authorities for the provision of the aforementioned statistical data and the Central Credit Register.

#### 2.1.6.1 National and international statistics

The Central Bank is responsible for collecting and publishing statistical data on entities and activities it supervises. The data received, after verification and validation phases, are fed into internal statistics, used for supervisory purposes, or are aggregated for statistics to be published in the specific section of the website [www.CBSM.sm](http://www.CBSM.sm), or are processed and sent to international contacts and inserted in the statistics on the various global financial systems.

CBSM periodically publishes the Quarterly Information Bulletin<sup>28</sup>, which describes, inter alia, the evolution of the legal and regulatory framework, the supervisory activities carried out, the structure of the financial system and details the data referring to the banking system.

The return flow pertaining to liquidity and the monthly accounting figures on funding and loans is also prepared periodically and sent to the banks with the asymmetric encryption system Pretty Good Privacy (PGP), OpenPGP standard.

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 of the Central Bank.

With regard to the first international bond issue of the Republic of San Marino which took place in February 2021, the Central Bank contributed to drafting the information material necessary for the said issue concerning data on the San Marino financial system and participated in the various meetings with the interested institutional parties.

The statistics which the Central Bank forwards to the IMF continued to be produced during 2021:

- *Monetary and Financial Statistics (MFS)* - reclassified balance sheet data of the Central Bank (MFSCBS) and San Marino banks (MFSODC), as well as 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)* - balance sheet and profit and loss account data and liquidity, economic, equity and prudential indicators for the banking, financial, and insurance systems (FSI1, FSI2, FSI3);
- *Financial Access Survey (FAS)* - annual data concerning access to the financial services.

During 2021, a technical assistance mission was agreed with the IMF in order to improve the quality of the statistical data produced by CBSM, to verify the available data sources and to define a plan for the adoption of the new reporting models referring to statistics FSIs. The aforementioned mission was carried out remotely from 28 March 2022 to 15 April 2022.

Within the framework of the e-GDDS<sup>29</sup>, the Central Bank contributes to the National Summary Data Page (NSDP) of San Marino by providing the following statistics:

**Table 19 - List of statistics produced as part of the e-GDDS**

Acronym	e-GDDS category	Frequency	Term
			publication
CBS	Central Bank Survey	Monthly	5 months
DCS	Depository Corporations Survey	Monthly	5 months

<sup>28</sup> <https://www.CBSM.sm/site/home/publicazioni-e-statistiche/bollettino-informativo-trimestrale.html>.

<sup>29</sup> The Enhanced General Data Dissemination System is an advanced statistical data dissemination system, established in 2015 by the Executive Board of the International Monetary Fund, 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.



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

As provided for by the Monetary Agreement between the European Union and San Marino, the CBSM 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)* - statistics on interest rates on deposits and loans applied by banks (see EU Regulation no. 1072/2013 of the European Central Bank of 24 September 2013, relating to statistics on interest rates applied by monetary financial institutions - recast - ECB/2013/34);
- *Balance Sheet Items statistics (BSI)* - statistics on the financial statements of Monetary financial institutions (banks and Central Bank), regarding their assets and liabilities, broken down by macro categories, institutional sectors and residence (see Regulation EU 379/2021 of the European Central Bank of 22 January 2021, relating to the financial statements items of credit institutions and the monetary financial institutions sector - recast ECB/2021/2);
- *Quarterly Financial Accounts (QFA)* - statistics on quarterly financial accounts regarding total financial assets and liabilities broken down by business segment and residence (see EU Guideline ECB/2013/24 of the European Central Bank of 25 July 2013 relating to the statistical reporting requirements of the ECB the field of quarterly financial account).

#### 2.1.6.2 Central Credit Register

The Central Credit Register is an information system on credit risks managed by the Central Bank, governed by art. 50 of the LISF and Circular no. 2015-02, which incorporates the information on the indebtedness of customers submitted by the participating intermediaries.

In the course of 2021, the aforementioned Circular 2015-02 was updated, inter alia, in order to make it possible to report risk positions in the name of a trust and to distinguish, in the case of doubtful loans and loans that have been classified as loss-making, the losses resulting from the assignment of the loan with respect to those resolved by the intermediary itself.

There were 11 intermediaries participating in the CCR as at 31 December 2021, including 4 banks, 1 financial company, 4 mutual investment funds, the company managing former BNS S.p.A. assets and the Central Bank.

The participating intermediaries are responsible for the accuracy of the information transmitted to the CR and the CBSM cannot change the reports received on its own initiative. The reports received are analysed to verify the compliance of the information reported with the reporting formats, the consistency of the information within the same report and with previous reports, and the respect for assigned benchmarks. In this regard, the intermediaries concerned are notified by means of a specific communication of flows rejected because they contain formally incorrect information or of findings.

The central credit register also receives personal information on entities to be registered, risk position and 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.

The CCR acquires information on qualitative changes in the debt situation of customers and promptly transmits them to the intermediaries concerned and provides the daily update of personal data from official sources relating to its registered parties.

Moreover, the CCR makes available to the participating intermediaries a customised monthly return flow containing the personal data and the total indebtedness towards the San Marino credit system of individual customers and their jointly-obligated customers, as reported by the intermediaries themselves. For each name reported, the return flow contains at system level the

exposure broken down by cash loans, including non-performing loans, credit commitments, guarantees received and the information section.

At the reference date of 31 December 2021, about 14,430 entities were reported to the Central Credit Register, including natural persons (66.9%), legal persons (17.9%) and joint accounts (15.2%). As at the same date, the following information was provided as a whole: cash loans (drawn amount totalled approximately EUR 2,822 million), credit commitments (drawn amount totalled approximately EUR 200 million) and guarantees received (with guaranteed amount and guarantee value totalling approximately EUR 1,532 million and EUR 2,833 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 whose debts were transferred by the entity being enquired about.

The instructions and forms for submitting requests for accessing data as well as further information on the Central Credit Register (FAQ, fact sheet on CCR and guide to reading the debtor prospectus) are published in the specific section of the Central Bank's website. The aforementioned requests for access to the data recorded in the CCR and the relative replies can also be sent by means of Notice and certified e-mail (PEC).

During 2021, approximately 3,000 responses to first information requests transmitted by participating intermediaries were processed by the Central Credit Register, with which approximately 33,900 accounting dates were investigated: out of these, approximately 12,700 contained information on amounts. In the first quarter of 2022, approximately 800 responses were processed, with which approximately 8,900 accounting dates were investigated: out of these, approximately 3,200 contained information on amounts. During 2021, 51 requests for access to data recorded in the CCR archive were processed and 15 in the first quarter of 2022.

#### *2.1.6.3 Revision of the Supervisory Information System*

In 2021, the Central Bank launched an overall project to revise the IT infrastructures of the Supervisory Department, considered strategic for the efficient performance of the management, verification and control of information as well as intervention on reporting intermediaries. The project is coordinated by the Supervisory Department Manager with the support of the Information Supervision Service and the Organisation and Information Systems Office.

Taking into account the complexity and scope of the project, it was divided into two macro phases, the first relating to the revision of the personal data files and public supervisory registers, the second of which will concern the review of the management processes and processing of supervisory reports and the reporting used for the internal and external purposes of the Central Bank.

In December 2021, the feasibility study of the information system relating to the management of personal data and public supervisory registers was completed and in the subsequent month of March 2022 the phase of analysis of the detailed requirements and software development was launched, in collaboration with the IT provider.

In particular, the development of a new application for the management of supervisory information has the following objectives:

- increase in the security levels of IT systems;
- rationalisation and reorganisation of the basic personal data for the subjects of interest of the Department;
- computerisation and updating of procedures for managing public registers and supervisory registers;
- optimisation of personal data search procedures;

- interoperability between the information systems of the authorised entities and that of the Department;
- strengthening of control tools for supervisory reporting;
- integration with other databases already available to the Department;
- optimisation of the procedures for the creation and management of internal and external reports of the Department.

The completion of the first phase of the project relating to the management of personal data and supervisory registers is currently expected by the first half of 2023.

### **2.1.7 Controls over the banking and financial system**

#### **2.1.7.1 Documentary controls**

During 2021, as part of its Supervisory functions, the Central Bank continued with the securitisation of supervised entities, carried out in particular by a specific organisational unit within the Supervision Department.

Paper-based initiatives are targeted at overcoming any anomalies (potential or already identified) in the technical profiles of intermediaries (capital, asset quality, internal organisation, profitability, liquidity and risk sensitivity) and are divided into knowledge-based, preventive and corrective according to the purpose of the supervisory action. In general, the objective of the securitisation activity is to verify observance of the technical balances, compliance with current provisions and the adoption of controls aimed at ensuring the sound and prudent management of supervised intermediaries that allows, indirectly, also the pursuit of the systemic purposes of CBSM to promote financial stability and the protection of savings (art. 3 of Law 96/2005).

The aforementioned paper-based initiatives are based on the analysis of the overall information framework available to the Supervisory Authority, in which a key role is played by the data and information provided by the supervised entities through the supervisory reports forwarded periodically or following an express request from the Central Bank through "knowledge-based" initiatives. Additional sources that provide input to the information framework are also represented by the inspection of intermediaries, which is an important reference for subsequent assessments, as well as the information flows exchanged with other national or foreign supervisory authorities. In this regard, note should be taken of the information acquired through the reports provided to the Supervisory Authority by third parties, such as the customers of supervised entities, as part of the provisions set forth in art. 68 of the LISF, which may also take the form of whistleblowing reports and, as such, are characterised by special forms of confidentiality within the Central Bank<sup>30</sup>.

In addition, the paper-based supervisory activity in the strict sense described above are supported by the preliminary authorisation procedures submitted by the supervised entities in relation to the provisions of the legal (primary) and regulatory (secondary) framework in force. The preliminary examination of these requests, also carried out using the overall data available, makes it possible, on the one hand, to enrich the information framework and, on the other, to be able to provide effective responses to the requests made by the intermediaries through the aforementioned applications, normally conducive to pursuing business development objectives.

In 2021, paper-based activities in the broadest sense involved the production of more than<sup>31</sup> 800 documents classified as authorisation, knowledge-based, preventive<sup>32</sup> and corrective processes, as well as collaboration initiatives with third parties and other national and foreign authorities. In this regard, note the significant commitment of the Supervisory Authority as a result of requests from third-party authorities, such as - solely by way of example - the requests received from the Council Committee of Investigation, established pursuant to *art. 2 of Constitutional Law no. 2 of 14 June*

<sup>30</sup> For further information, see the CBSM Regulation 2007-01.

<sup>31</sup> The figure referring to the securitisation activity includes the number of initiatives also attributable to the sanction proceedings and the settlement procedures since in the first half of 2021 these were managed by the same organisational unit in charge of the securitisation.

<sup>32</sup> The scope of the authorisation procedures also includes the issuing of clearances and/or approvals or other authorisation-related measures, regardless of their names.



*2019 on alleged political or administrative responsibilities involving Credito Industriale Sammarinese - Banca Cis and on banking crises.*

As at 31 March 2022, paper-based activities resulted in the production of 226<sup>33</sup> documents.

#### 2.1.7.2 Inspections

The 2021 inspection plan was prepared, as usual, according to a "risk-based" approach based on information available to the various Supervisory services. In this regard, it should be noted that the implementation of the programme is, in any case, subject to changes during the year, depending on the indications of the Supervisory Board due, for example, to possible developments of the intermediaries or the emergence of elements that require an urgent audit, or for the requests for collaboration made by the Single Court pursuant to art. 104 of the LISF.

Also in 2021, the activity of the Inspection Supervision Service was affected by the persistence of the state of health emergency due to Covid-19. The inspections were carried out "on-site" where possible and making extensive use of remote contact methods (telephone calls, video-calls, exchange of documents via electronic messaging, etc.).

In this context, 6 inspections at banks, one at an authorised non-banking entity and 2 inspections at insurance intermediaries were carried out in 2021. Overall, the inspections in question are divided into targeted interventions (3), with an extended scope (1) and as activities specifically carried out on behalf of the Judicial Authority pursuant to art. 104 of the LISF (no. 5).

With particular reference to access for Supervisory purposes, in 3 cases they were carried out with on-site presence limited to the time strictly necessary for the start of the activity, and subsequently remotely for the acquisition of documents and discussions with company representatives and the employees of intermediaries. The aforementioned initiatives were aimed at:

- the verification, at a bank, of the correct methods of classification and valuation of loans;
- for inspections carried out with insurance intermediaries, the verification of the location of the registered office, compliance with the rules of separation of the premises where the activity is carried out, the separation of owned accounts from the accounts used for premium collection, professional updating and requirements of employees and associates and, lastly, the rules of conduct and transparency with regard to customers.

The extended scope inspection access carried out at an authorised non-banking entity was instead carried out on site, with direct access to the information systems and documentation of the inspected entity.

Lastly, as part of the collaboration with the Single Court of the Republic of San Marino<sup>34</sup>, it should be noted that the Inspection Supervision Service carried out 7 preliminary and / or investigative support activities, of which 5 activities with inspections of supervised entities (indicated as "specific" inspections in table 20), aimed at acquiring information of interest in the context of criminal proceedings. This collaboration entailed the use of the staff of the Inspection Supervision Service for a total of 194 man-days, equal to more than 20% of the total.

**Table 20 - Supervisory inspection accesses carried out in the 2019-2021 three-year period**

<sup>33</sup> For comparative purposes, the value referring to 2022 also includes actions attributable to sanctioning proceedings and liquidation procedures.

<sup>34</sup> Relations between the Central Bank and the Judicial Authorities are governed by art. 104, paragraph 4 of the LISF, which provides that the Law Commissioner, for the execution of judicial investigations to be carried out with authorised entities, financial advisors, independent financial advisors and insurance and reinsurance intermediaries, may take advantage of the collaboration of Central Bank.



	2019			2020			2021		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	9	0	0	5	0	1	6	1	2
- of which broad scope	1	0	0	0	0	0	0	1	0
- of which targeted	4	0	0	3	0	1	1	0	2
- of which specific	4	0	0	2	0	0	5	0	0
<b>Total</b>	<b>9</b>			<b>6</b>			<b>9</b>		

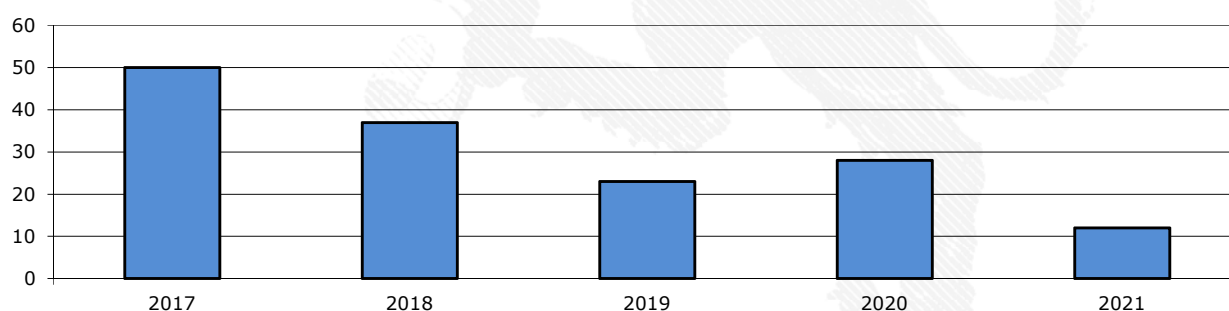
The results of the inspections generally entailed the subsequent launch of sanctioning proceedings and, in some cases, the transmission of reports to the Financial Intelligence Agency. In 2021, the On-site Supervision Service, within the framework of the cooperation with the Financial Intelligence Agency, sent 2 reports of suspicious transactions and 2 disclosures relating to facts and circumstances that could be related to breaches of anti-money laundering legislation.

#### 2.1.7.3 *Protest Information Service*

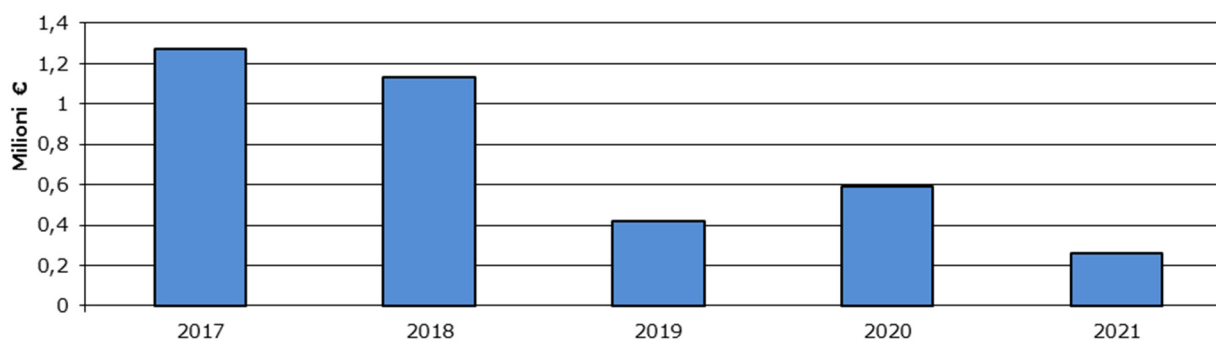
The service consists of aggregating the data provided on a monthly basis by the San Marino banks regarding the names of the protested cheques and transmitting the report, with the same frequency, to all parties authorised to carry out banking activities or grant loans.

The charts below show the number of names relative to protested cheques and the total amount, shown in millions, recorded during the 2017-2021 period. In 2021, 12 protested names were reported, while the total amount protested, including cheques with unknown drawer, amounted to EUR 261,940.

**Figure 19 - Number of names related to protested cheques**



**Figure 20 - Protested amounts**

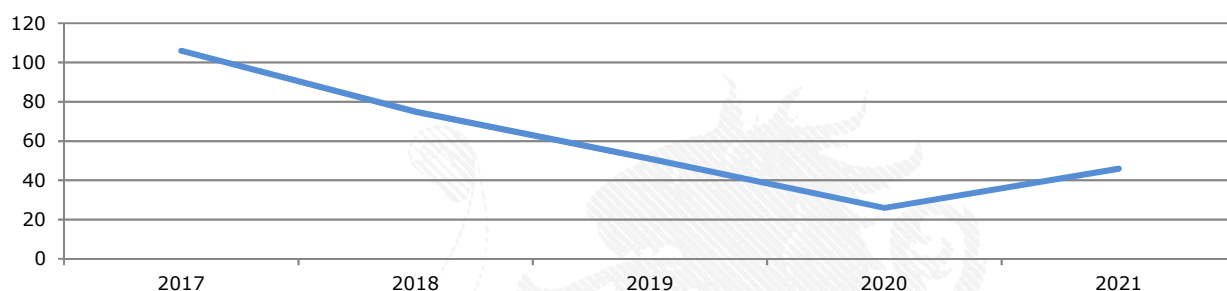




## 2.2 Management of Counterfeit Banknotes and Coins in Euro

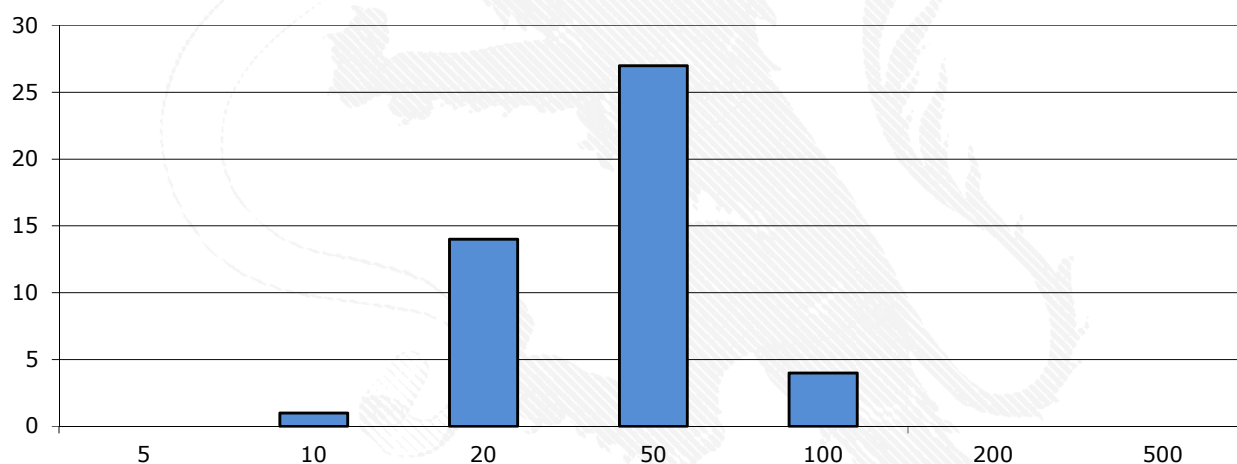
The charts below show a comparison of the values relating to euro-denominated counterfeit banknotes detected from 2017 to 2021, also highlighting the most significant data of the activity carried out last year. In 2021, a total of 46 banknotes were withdrawn from circulation and recognised as fake, marking an increase of 77% compared to the previous year (presumably due to the poor circulation of banknotes due to the COVID-19 pandemic situation), while no cases of counterfeit coins were verified.

**Figure 21 - Number of counterfeit banknotes: 2017-2021 annual data comparison**



The chart below shows that 50 euro banknotes accounted for the most cases of counterfeiting.

**Figure 22 - Counterfeit banknotes withdrawn from circulation in 2021: breakdown by denomination**

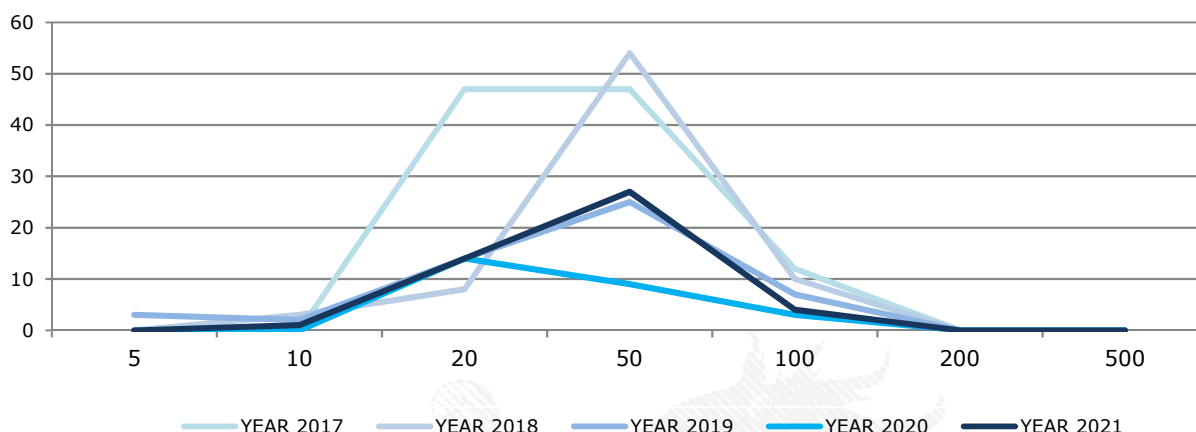


The changes compared to the previous year are listed below:

- the 10 euro banknotes (2.2% of the total) increased from 0 in 2020 to 1 in 2021;
- the 20 euro banknotes (30.4% of the total) did not record any changes, remaining at 14 in both 2020 and 2021;
- the 50 euro banknotes (58.7% of the total) increased from 9 in 2020 to 27 in 2021;
- the 100 euro banknotes (8.7% of the total) increased from 3 in 2020 to 4 in 2021;

As for 5 euro, 200 euro and 500 euro banknotes, no banknotes were taken out of circulation and recognised as counterfeit in both years.

**Figure 23 - Denomination of counterfeit banknotes: 2017-2021 annual data comparison**



European Central Bank publications showed that, in 2021, 24.6% fewer Euro banknotes were withdrawn from circulation than in 2020 (347,000 compared to 460,000 withdrawn the previous year). The denominations that recorded the highest number of counterfeits concerned the 50 euro and 20 euro banknotes, accounting for a total of 65.9% of the counterfeits. The European Central Bank also announced that the majority of counterfeit banknotes (95.4%) were detected in euro area countries; 4.2% of the counterfeits came from EU Member States, which are not part of the Euro area, and 0.4% from other parts of the world.

### 2.3 Cash Handling

In 2021, the Central Bank distributed cash to the San Marino banking system through 26 grants. The requests for cash received by the San Marino banking system recorded a decrease in terms of the amounts distributed compared to the previous year, equal to 65%. In addition, it should be noted that the Central Bank does not supply the San Marino banking system with 200 and 500 euro denominations.

In compliance with the current legislation, in 2021, cash handlers sent to the CBSM 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. This periodic disclosure is managed through functions present in the IT procedure called Cash Management.

The handling of cash in euro is regulated, inter alia, by the Memorandum of Understanding signed between the Central Bank and the Bank of Italy on 15 November 2019. A review of this Memorandum is currently under way to remove the limits envisaged both for the procurement of banknotes suitable for recirculation and for the deposit of banknotes unsuitable for circulation and to provide for the payment of banknotes suitable for recirculation at the Forlì branch of the Bank of Italy.

With particular reference to euro coins, note that they are regulated by the Memorandum of Understanding signed between the Central Bank of San Marino and the Treasury Department of the Ministry of Economy and Finance (MEF) on 15 November 2016; this protocol regulates the activities pertaining to the authentication of euro coins and their treatment that are not suitable for circulation, for which the State of the Republic of San Marino makes use of the Italian National Centre for the Analysis of Coins (CNAC).

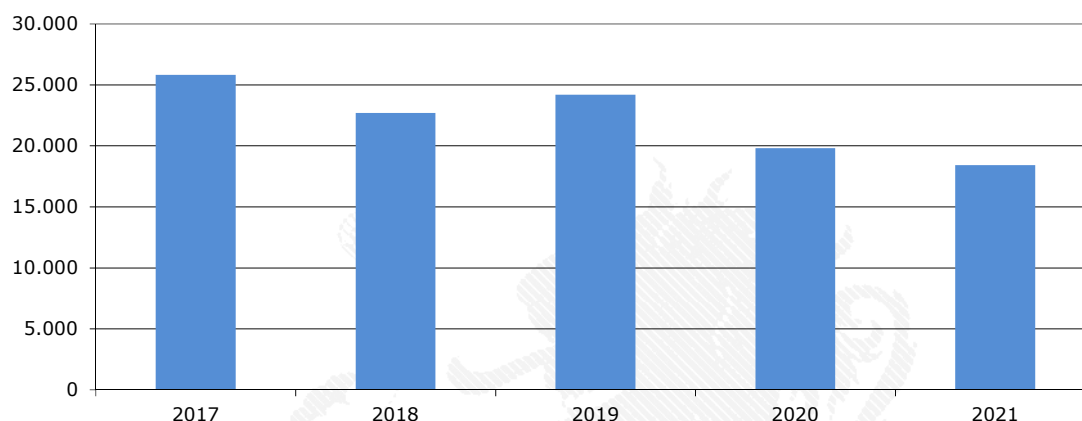
### 2.4 Currency Authority

2021 is the last year in which the CVS (Statistical Currency Notifications) were prepared by the banking system; in fact, they were repealed with art. 15 of Law 183/2021.

In 2021, until the month of October, the Central Bank gathered statistical information, on a monthly basis, on cross-border settlements made by the banks of San Marino, whether for their own

account or on behalf of their resident customers, relating to transactions having a value equal to or in excess of EUR 15,500. The figures shown below represent the CVS flows sent to the Central Bank and the respective values across a time horizon running from the start of 2017 until October 2021. Due to the repeal of the instrument, the data consider only 10 months of 2021 and consequently the comparison with the historical series is not fully representative.

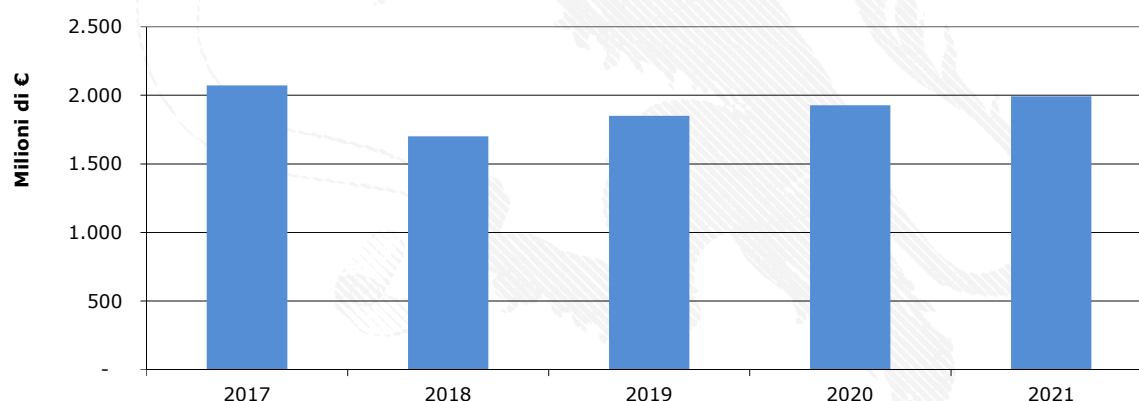
**Figure 24 - Total flows (number of CVS)**



In 2021, a total of 18,416 CVS were received by banks, representing a year-on-year decrease of 7% (in 2020, a total of 19,795 CVS were received).

However, the value of amounts settled increased by 3.4%, from EUR 1,926 million in 2020 to EUR 1,991 million in 2021.

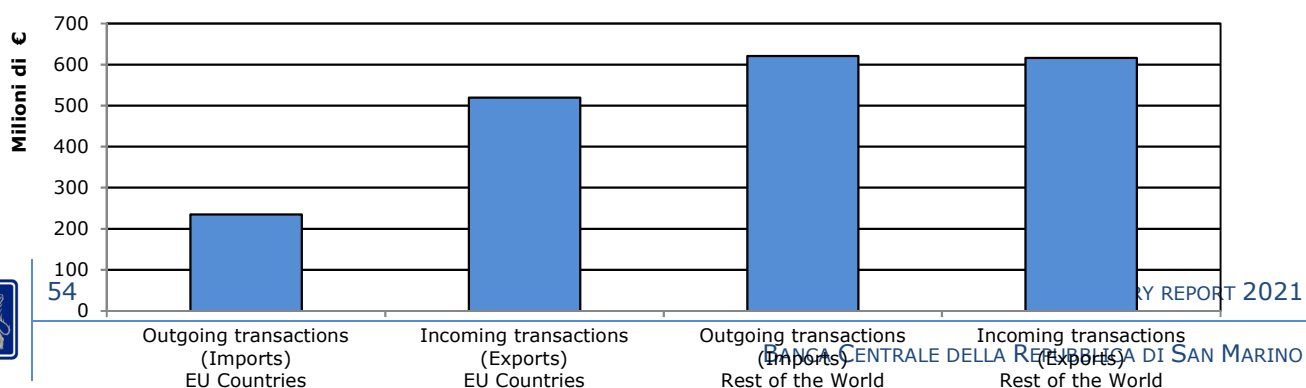
**Figure 25 - Amounts settled by the San Marino banking system**



"Incoming transactions" relating to CVS operations in 2021 stood at EUR 1,135 million, of which 45.7% related to countries belonging to the European Union (EUR 519 million) and 54.3% (for an equivalent of EUR 616 million) related to the rest of the world.

"Outgoing transactions" related to CVS operations in 2021 totalled EUR 856 million, of which 27.4% related to countries belonging to the European Union (EUR 235 million) and 72.6% (for an equivalent of EUR 621 million) related to the rest of the world.

**Figure 26 - Incoming and outgoing transactions broken down by geographical areas**



In 2021, the Central Bank also continued to send 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's participation in the International Monetary Fund.

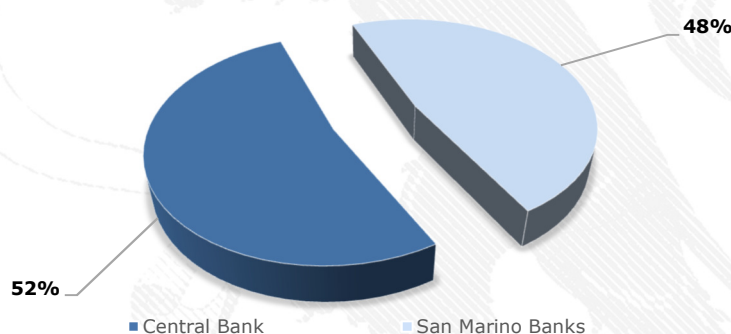
## 2.5 Payment System

In 2021, 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, the number of transactions increased by 5.2% and the overall value of amounts settled rose by 7%.

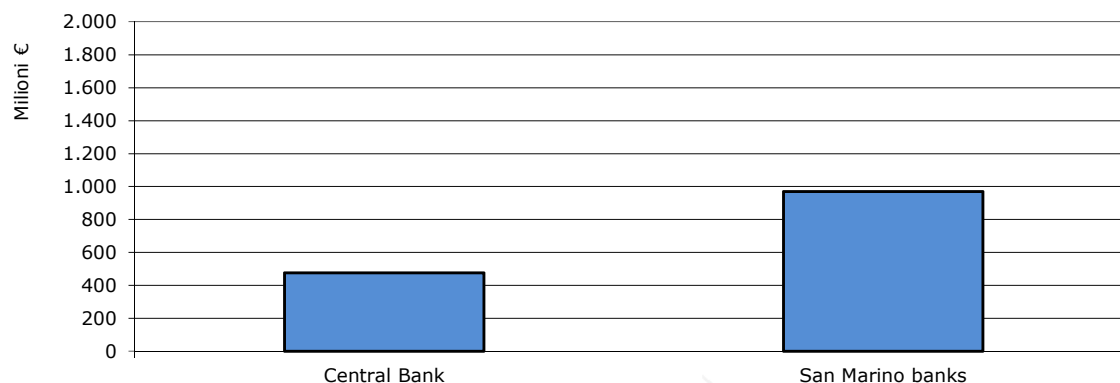
For 2021, a breakdown of percentages and amounts settled between the Central Bank and the banks of San Marino is shown in the following charts.

The high percentage of national bank transfers transmitted by the Central Bank compared to bank transfers sent by other San Marino banks is 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), characterised by a large number of small transactions.

**Figure 27 - Breakdown of the number of national bank transfers transmitted**



**Figure 28 - Amounts settled through national bank transfers**

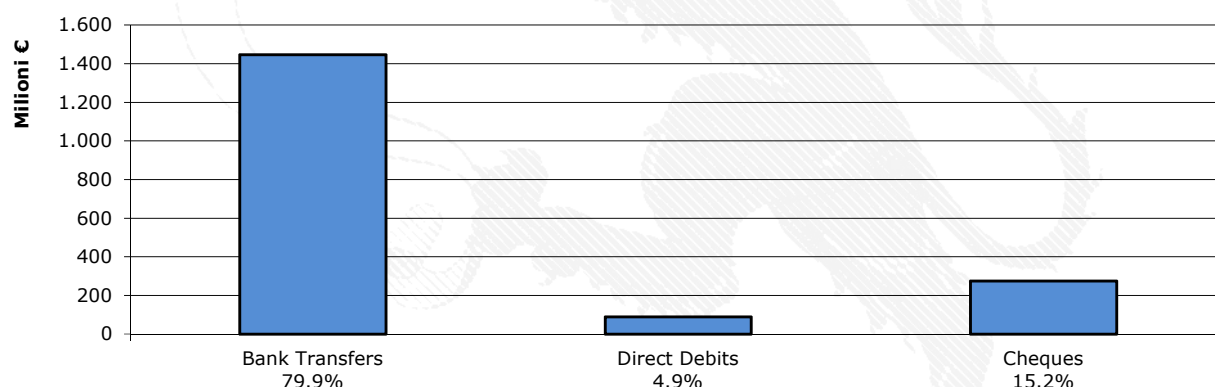


The banking system transmitted approximately 577,000 national wire transfers for a value of EUR 1,445 million, marking a 9.3% increase in the number of transactions and a 6% rise in the value of the amounts.

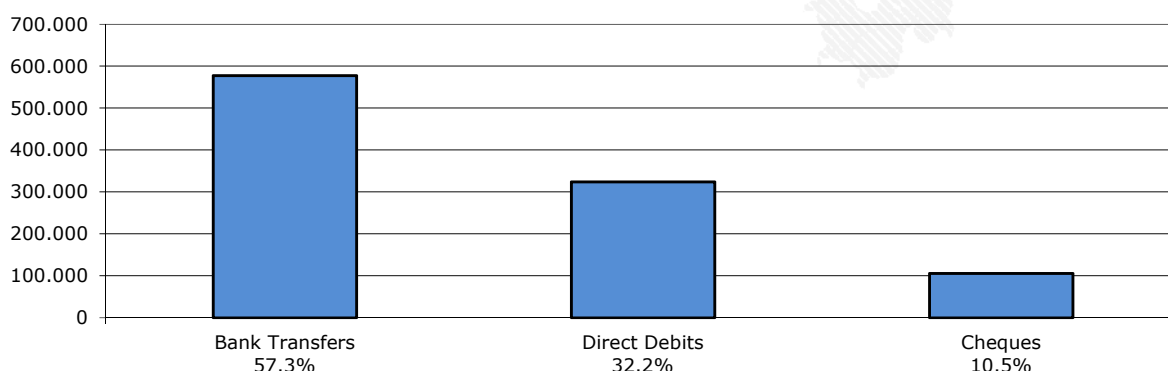
Direct debits, i.e. the payment instrument the creditor uses to request debits on the debtor's current account, recorded approximately 324,000 payment orders for the year 2021, for a value of approximately EUR 90 million. The comparison with the data of 2020 shows an increase in both the number of direct debits sent by the Central Bank to San Marino banks equal to 1.4% and in the amounts settled equal to 20.7%.

The charts below provide a percentages breakdown of the types of payment methods channelled through the RIS in 2021, divided by amount and number of payment orders, respectively.

**Figure 29 - Amounts settled by bank transfers, direct debits, and cheques**



**Figure 30 - Number of orders settled by wire transfers, direct debits, and cheques**





As part of the Domestic Contact Exchange Service (SRD), in 2021, approximately 106,000 national cheques were exchanged for a value of approximately EUR 275 million; compared to 2020, cheques exchanged decreased by 3.5%, while the value of the amounts recorded an increase of 8.4%.

Lastly, it should be noted that in November 2022 the T2-T2S Consolidation project will be launched at European level and at global level the SWIFT platform will migrate messaging to the ISO20022 XML format. These processes will involve all the players in the financial system and the Central Bank has already taken steps to adapt its infrastructures to the new standards, in synergy with the Bank of Italy for the T2-T2S Consolidation part and with the IT outsourcers for the ISO20022 XML part. Both issues are particularly challenging for the structure and the system, with a transition period that will end in 2025.

## 2.6 State Treasury

For the year 2021, the activities carried out by the Treasury Department focused on:

- on inflows, through collection slips and pending items that amount to more than EUR 1,540 million, with an increase of 24.79% compared to 2020 and 25.77% compared to 2019;
- on outflows, through the execution of the Payment Mandates and pending items for over EUR 1,443 million, marking an increase of 31.81% compared to the values of the previous year and 23.91% compared to 2019.

**Table 21 - Volumes processed expressed in relation to total orders**

Entity	2019		2020		2021	
	Inflows	Outflows	Inflows	Outflows	Inflows	Outflows
C.O.N.S.	6,342,859.60	5,992,342.86	5,158,330.60	5,008,793.17	6,571,393.40	6,201,328.93
University	7,659,264.17	6,578,880.90	6,021,639.20	5,346,495.44	8,016,517.53	6,817,421.19
A.A.S.L.P.	24,661,702.82	23,151,120.62	20,103,215.62	18,937,202.58	20,534,140.21	19,287,177.34
State Gaming Authority	326,118.13	273,986.42	235,922.10	178,319.66	265,737.79	184,306.42
A.A.C.N.M.	2,827,579.44	1,369,868.02	3,180,707.62	1,117,066.30	4,093,184.16	830,946.25
I.S.S.	352,572,839.87	346,022,639.61	339,900,000.40	330,881,762.67	361,038,338.33	339,467,736.65
FONDISS	25,997,009.73	23,743,924.15	25,053,825.49	22,824,901.08	27,152,910.10	24,243,381.56
Chamber of Commerce	644,962,687.67	612,513,065.79	711,230,931.44	602,355,803.28	993,218,989.86	939,727,283.75
A.A.S.S.	159,771,975.11	145,523,604.49	123,811,323.42	108,666,481.79	119,915,207.96	107,000,883.36
<b>Total</b>	<b>1,225,122,036.54</b>	<b>1,165,169,432.86</b>	<b>1,234,695,895.89</b>	<b>1,095,316,825.97</b>	<b>1,540,806,419.34</b>	<b>1,443,760,465.45</b>

Source: Central Bank (data updated as at 31 March 2022)

In 2021, the Treasury Department carried out a total of 91,319 transactions as indicated in table 22, a marked increase (approximately +11.50%) compared to the previous year. More specifically, 20,074 Reversals of Collection, 29,624 Pending Incoming Items, 40,684 Payment Mandates and 937 Outgoing Pending Items were carried out.

**Table 22 - Volumes processed expressed in relation to the number of orders**

Entity	2019					2020					2021				
	REV	PPE	MAN	PPU	TOT	TOT	PPE	MAN	PPU	TOT	TOT	PPE	MAN	PPU	TOT
C.O.N.S.	389	137%	1,985	69	2,580	346	100	1,622	29	2,097	382	122	1,819	43	2,366

Entity	2019					2020					2021				
	REV	PPE	MAN	PPU	TOT	TOT	PPE	MAN	PPU	TOT	TOT	PPE	MAN	PPU	TOT
University	454	83	2,908	42	3,487	463	56	2,387	33	2,939	559	45	2,486	31	3,121
A.A.S.L.P.	590	378	4,928	88	5,984	567	274	4,223	81	5,145	589	281	4,995	79	5,944
State Gaming Authority	166	91	258	51	566	149	64	253	75	541	179	86	263	47	575
A.A.C.N.M.	1,113	393	246	38	1,790	1,145	373	252	38	1,808	1,034	439	273	37	1,783
I.S.S.	4,610	5,470	17,875	212	28,167	4,388	5,606	15,120	211	25,325	4,691	6,311	15,845	259	27,106
FONDISS	5	2,167	57	24	2,253	6	2,775	63	22	2,866	6	3,375	56	23	3,460
Chamber of Commerce	10,297	15,129	10,462	328	36,216	10,894	15,170	8,797	308	35,169	11,781	18,196	9,948	272	40,197
A.A.S.S.	1,078	1,006	5,131	209	7,424	729	911	4,213	168	6,021	853	769	4,999	146	6,767
<b>Tota</b>	<b>18,702</b>	<b>24,854</b>	<b>43,850</b>	<b>1,061</b>	<b>88,467</b>	<b>18,687</b>	<b>25,329</b>	<b>36,930</b>	<b>965</b>	<b>81,911</b>	<b>20,074</b>	<b>29,624</b>	<b>40,684</b>	<b>937</b>	<b>91,319</b>

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

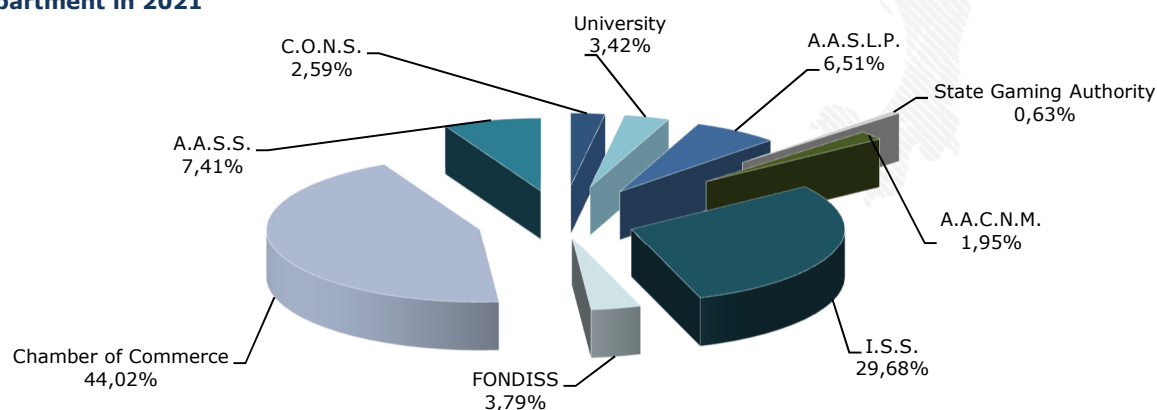
Source: Central Bank (data updated as at 31 March 2022)

Revenue was collected through the entire network of bank branches in San Marino. In fact, the Convention stipulated between the Central Bank and the San Marino commercial banks on 24 February 2005 sets forth that payments due by users to the Public Administration, Entities and Autonomous Companies can be made at any bank branch present in the territory of the Republic, and to a limited extent, through the branches of the Treasury Department of the Central Bank. The bank transfer is a payment method whose use is increasing considerably among taxpayers when compared with previous years due to the health emergency. This has led to an increase in daily workloads, of approximately one FTE staff member<sup>35</sup>, for the daily crediting to beneficiary Entities through the creation of pending incoming items.

In addition, for the activities related to the Treasury Department, payment notices overdue were collected through its branches and the banks of the Collection Department, crediting the Entities through the generation of pending incoming items on the areas of competence of the individual offices of the Public Administration, as well as collections relating to expired tax demands within the terms of payment and collection transactions carried out by the Collection Officers.

Lastly, pursuant to Law No. 44/2007, 1,224 attachment procedures were performed in respect of payment orders concerning parties in arrears with the Public Administration.

**Figure 31 - Percentage volumes of collection and payment transactions carried out by the Treasury Department in 2021**



The chart in figure 31 shows how most of the transactions, expressed in percentage terms, were carried out on behalf of the Chamber of Commerce (44.02%) and the Social Security Institution (29.68%); followed by the State Autonomous Authority for Public Services (7.41%), the State

<sup>35</sup> Full time equivalent

Autonomous Authority for Public Works (6.51%), FONDISS (3.79%), the University (3.42%), the National Olympic Committee of San Marino (2.59%), the Authority for Civil Aviation and Maritime Navigation (1.95%) and the State Gaming Authority (0.63%).

The use of the Sepa Direct Debit was further consolidated, becoming increasingly efficient and allowing not only the payment of utilities of the State Autonomous Authority for Public Services, but also of other utilities such as those managed by the I.S.S., to the Primary School Management, Kindergarten, Tax Office, Vehicle Register and Transport Office and, of course, the SMaC circuit.

Also in 2021, the use of bank transfer as a payment instrument prevailed over quittance and drawer's cheques, the latter instrument still used for the payment of pensions, albeit to a considerably reduced extent compared to previous years, also thanks to art. 24 of Law no. 146/2014, which, in paragraph 4, laid down the obligation for taxpayers to communicate their current accounts for the settlement of their credit positions.

During 2021, the Treasury Department continued to provide deposit services to the extended Public Administration, mainly in the form of a current account, structured and modulated according to the needs of the Entity/Office.

The periodic reporting to the extended Public Administration was all carried out within the terms established by law. Specifically, on a daily basis, the cash ledgers were provided with a summary of the inflows and outflows for each Entity, while on a monthly basis the cash checks were prepared showing the balancing between the volumes processed by the Treasurer and the balances of the bank current accounts on which the Entity's funds are deposited, in addition to the account statements of said transactions and the reconciliation statements between them and the cash ledgers.

Lastly, the "Cash Flow Statement" required by art. 3 of Law no. 35/1993 "Establishment of the Single Treasury Service" (amended by art. No. 51 of Law no. 96 of 29 June 2005), as well as by the provisions of Law 30/1998 "General rules on the accounting system of the State" and subsequent amendments and additions, was prepared and sent to the Board of Statutory Auditors of each Entity, the Secretary of State for Finance and Budget, the Public Finance Department, the Public Finance Control Commission and the Governing Council of the Central Bank.

## **2.7 State Tax Department**

### **2.7.1 Regulatory and operational aspects**

In 2021, given the persistence of the Covid-19 health emergency, the rules introduced in the previous year were extended, aimed at favouring the tax debtor by allowing him to extend the terms of the guaranteed payment instalments (from 5 to 10 years) and the non-guaranteed payment instalments (from 18 to 36-48 months), and with the possibility of discharge of penalties and interest in the tax payment slip if paid or duly paid in instalments by its due date.

In addition to this, with art. 10-bis of Law Decree no. 107/2021, the deadline for the submission of the application for the facilitated settlement of past due receivables in the tax collection office was extended to 15 October 2021, also known as "Scrapping", pursuant to paragraph 4 of art. 68 of Law no. 223/2020. By means of art. 38 of Law no. 207/2021, a further possibility of facilitated settlement was also granted for the tax assessments issued by the Tax Collection Department also for the year 2021, as well as for the "Mano Regia" procedures. The appropriate application must be submitted by 31 May 2022, while payment, as occurred previously, may be made in a lump-sum by 31 May or in three instalments falling due in the current year.

Law no. 154/2021, with a significant impact on the operations of the Tax Collection Office, was also issued. In particular, art. 9 made provision for the possibility for a creditor, subject to the authorisation of the Law Commissioner, to ask the Department for a search of the economic and financial situation of its debtor; art. 11 of the same Law, in defining the limit of attachment of pensions, in fact allowed their attachment only up to the limit of 1/5 and except for the receipt by the debtor of a minimum amount of pension equal to twice the value of the social pension. Lastly, art. 12

of the same Law provided for the possibility for the Judge to delegate sales by public auction to the Tax Collection Office.

As can be observed, there are three new features that have an immediate operational impact on the Department. For these new activities, the Department took steps straight away in order to be operational in the immediate future, also involving the Offices that own the data subject to searches, as well as the Court with which an economic and operational agreement is being drafted in preparation for the holding of auctions on its behalf. In application of the above regulation, pension attachment orders were also initiated, although without an adequate IT procedure, since - due to a lack of the time actually needed - it was not possible to make changes to the programs.

With regard to the strengthening of the collection procedures of the Tax Collection Department, as required by law, the Bank has sent a proposal for a Law, also aimed at strengthening and updating the operating procedures, to make the action more incisive, and the final decisions by the competent Authorities are pending. The new provisions will make it possible to provide the Department with more effective tools for the collection of taxes recorded in the tax rolls, to fill regulatory gaps and to simplify certain operating procedures.

Finally, it should be noted that in 2021, significant impetus was injected and much progress was made in the development of the new information system that the Department will adopt. The new system will allow the automation of various activities currently carried out, the computerisation of activities recently assigned by the Authorities to the Department, easier monitoring of debt positions as well as, among other benefits, more powerful data processing. Lastly, it will allow the computerised management of the inventory of sequestered assets and public auctions. The adaptations to the applications are continuing in collaboration and synergy with the Public Administration Offices and their IT outsourcers.

### 2.7.2 Collection activity conducted since the service was started

From 2005 to 2021, approximately EUR 794.3 million was assigned by the Lending Institutes to the Tax Collection Department for collection. A portion of this amount amounting to EUR 222.7 million (roughly 28%), 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.

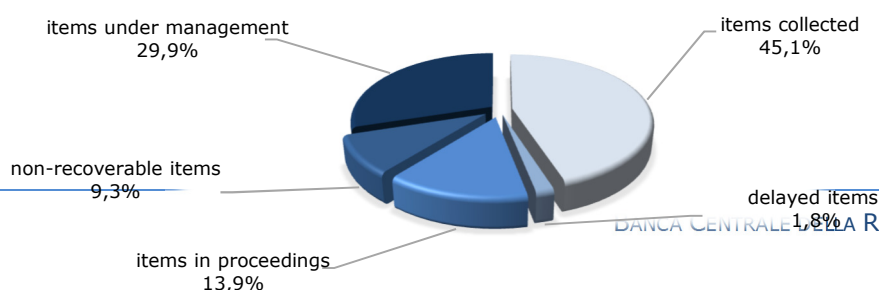
Of the tax demands issued, net of cancellations (EUR 571.6 million) amounts collected from 2005 to 2021 totalled EUR 257.6 million, of which EUR 18.9 million in 2021. Comparing the total collections with the total overdue tax demands, net of cancellations, recovery stood at around 45.1%.

On the other hand, EUR 171.1 million amounts overdue were still under management, i.e. approximately 29.9% of debts under collection net of cancellations. These items were subject to enforcement actions, either in progress or to be started, or pertain to debts with no possibility of being salvaged, but still outstanding.

On the other hand, 1.8% of loans, equal to EUR 10.3 million, are currently subject to extensions granted pursuant to art. 34 of Law 70/2004: these extensions are backed by a guarantee in favour of the Central Bank (mortgage or bank guarantee on first demand).

The sum of items pertaining to entities involved in insolvency proceedings stood at EUR 79.3 million as at 31 December 2021 (13.9% of the total), while items deemed as not collectable stood at EUR 53.4 million (9.3% of the total).

**Figure 32: Report of tax demands managed by the Tax Collection Department, net of cancellations, from 2005 until 31 December 2021**





### 2.7.3 Precautionary and executive proceedings

During 2021, several legal mortgages were recorded as a precautionary measure; these actions aim to guarantee the future collection of the receivable or the payment in instalments.

As regards enforcement action in the strict sense, attachments of personal or real property in 2021 totalled 55, 4 of which proved unsuccessful because the debtor could not be located or property was not eligible for attachment. 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. 52/2019, among the criteria the Overdue Tax Collection Department considers as low priority 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. During the year, moreover, the Overdue Tax Collection Department, at its own initiative and/or by order of the Creditor Entities, applied for bankruptcy or compulsory winding-up proceedings to be started against taxpayers found to be in debt default.

### 2.7.4 Entries in the Overdue Tax Register in 2021

Entries in the Overdue Tax Register in 2021 totalled about EUR 35.1 million and pertained to 36,935 items. A comparison with the previous year shows a decrease of approximately EUR 2.0 million (-5.5%).

**Table 23 - Entries in the Overdue Tax Register in 2021**

Items	2020		2021	
	Amount	Number of items	Amount	Number of items
Managed	37,097,638.84	36,230	35,064,407.73	36,935
Cancelled	19,628,106.98	4,155	11,407,429.69	5,745
% cancelled	52.90%	11.50%	32.50%	15.60%

### 2.7.5 Entries broken down by Entity

In 2021, the trend recorded in the previous year of a reduction in the total number of registrations continued. In particular, the most significant reduction was by the Institute for Social Security (EUR -1.6 million, equal to -22.2%) and by the State Autonomous Authority for Public Services (EUR -0.50 million, equal to -37.0%). On the other hand, the Chamber of Commerce increased by 1.1% (EUR +0.3 million).

**Table 24 - Entries in the Overdue Tax Register broken down by Entity**

Entity	2020		2021	
	Amount	Number of items	Amount	Number of items
Chamber of Commerce	27,569,912.02	28,174.00	27,860,389.08	28,709.00
Social Security Institution	7,008,043.78	3,990.00	5,450,490.20	4,084.00



FONDISS	945,079.42	3,113.00	755,496.72	2,861.00
State Autonomous Authority for Public Services	1,354,200.38	938.00	853,691.86	1,265.00
Central Bank	220,403.24	15.00	140,995.59	11.00
Financial Intelligence Agency	0.00	0.00	0.00	0.00
State Autonomous Authority for Public Works	-	-	3,344.28	5.00
<b>Total</b>	<b>37,097,638.84</b>	<b>36,230.00</b>	<b>35,064,407.73</b>	<b>36,935.00</b>

### 2.7.6 Entries in the Overdue Tax Register made by the Chamber of Commerce

In terms of numbers, entries in the overdue tax register of the Chamber of Commerce accounted for 77.7% of the overall total. Of these, roughly 69.6% pertained to the Registry Office due primarily to the single tax bill, while around 19.9% and 5.8% pertained to the Tax Office indirect tax section and direct tax section of said office, respectively.

In terms of value, the largest portion pertained to the Tax Office (80.5%), followed by the Registry Office (14.1%).

**Table 25 - Entries in the overdue tax register only for the Chamber of Commerce**

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	15,212,507.76	5,702	7,714,478.16	2,556
Direct taxation section of the Tax Office	7,219,524.27	1,668	2,333,267.80	315
Registry	3,934,432.24	19,993	113,544.37	346
Civil Police	323,362.16	662	84,724.72	155
Gendarmerie	40,074.00	63	3,297	6
Guardia di Rocca	38,980.00	14	0	0
Administrative Control Office	984,900.00	439	8,100.00	23
Vehicles Register	23,047.00	128	1,575	7
Agricultural Resources Management Office	128.50	1	0	0
Office for Economic Affairs	44,200.00	12	2,429.00	1
Data Protection Authority	4,004.5	3	1,503	2
Elementary Schools Directorate	5,393.80	16	791.80	2
Industry Office	0	0	5,3691.2	4
State stock and valuables Section	25,734.85	7	0	0
Land Registry Technical Office	4,100	1	0	0
Employment office	0	0	2,545.28	2
<b>Total</b>	<b>27,860,389.08</b>	<b>28,709</b>	<b>10,319,947.33</b>	<b>3,419</b>

### 2.7.7 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.

**Table 26 - Entries in the overdue tax register made for ISS and FONDISS**

Office	Entry in the Overdue Tax Register	Release from the Register
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	Amount	Number of items	Amount	Number of items
Contributions office	5,375,156.28	3,820	835,390.06	1,358
Public Healthcare Department	10,849.54	13	972.08	2
External healthcare benefits office	33,200.00	27	1,100	1
Accounting Office	31,284.38	224	6,932.43	35
FONDISS	755,496.72	2,861	45,802.40	653
<b>Total</b>	<b>6,205,986.92</b>	<b>6,945</b>	<b>890,196.97</b>	<b>2,049</b>

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

The taxes entered in the "Single Tax Bill" (CAUTA) are an exception to all other tax entries, as they are collected directly by the Overdue Tax Collection Department, i.e. on a "first demand" basis, and is the only revenue collected by the Department for which the taxpayer can order a pre-authorised debit.

In 2021, 19,981 single tax bills were issued for a total amount of approximately EUR 3.9 million. It should be noted that roughly EUR 830,000, i.e. 27.3% of the total amount collected amounting to approximately EUR 3 million, derives from pre-authorised debits.

**Table 27 - CAUTA: comparison year 2020 and year 2021**

Overdue Tax Entries	2020		2021	
	Amount	Number of items	Amount	Number of items
Entered	4,191,963.94	19,990	3,921,060.90	19,981
Cancelled	20,876.60	88	12,944.32	81
Collected by the Central Bank	3,268,658.98	17,153	3,042,183.10	17,183
To be managed	895,099.50	2,737	862,702.98	2,708
% cancelled	0.50%	0.44%	0.33%	0.41%
% collected by the Central Bank	78%	86%	77.59%	86%
% to be managed	21%	14%	22%	13.55%

It should be noted that the process of collecting the Single Tax Bill involves processing a large number of items. In 2021, the latter accounted for approximately 54.1% of the total items and mostly related to entries against family heads for EUR 20.00 per each tax demand.

### 2.7.9 The facilitated settlement of past due receivables in the Tax Collection Department, also known as "Scrapping"

Art. 68 of Law no. 223/2020 allowed taxpayers who presented receivables recorded in the register and in the "Mano Regia" procedures, entrusted to the Tax Collection Department for compulsory collection, to settle these pending charges without payment of penalties and interest even if accrued after the expiry of the tax demands. The so-called "Scrapping" was envisaged for the tax demands issued until 31 December 2020.

The payment of the amounts due could take place in a lump sum by 15 May 2021, or through a payment extension for a maximum number of 3 instalments with maturity on 15 May 2021, 15 September 2021 and 15 November 2021.

As already mentioned, with Article 10-bis of Law Decree no. 107/2021, the deadline for submitting the application for the facilitated settlement was extended, thus excluding only those who had already applied for the previous one; the deadlines for payments were postponed to 15 October 2021 for payment in a lump sum, or to 15 October 2021, 15 February 2022 and 15 April 2022 for payment in three instalments.

With regard to the facilitated settlement of 2020, concluded on 15 November 2021, a total of 216 requests were presented; of these, 149 cases were successful. Approximately EUR 2.3 million was collected. On the other hand, 67 cases were revoked, as they do not have regular payments. For these, approximately EUR 143 thousand was collected, amounts considered as advances on the related payables.

**Table 28 - Data on facilitated settlement of Law no. 223/2020**

Entity	Amount booked in overdue tax register	Amount under facilitated settlement	Amount cancelled
Chamber of Commerce	1,846,034.77	1,370,164.63	475,870.14
Social Security Institution	802,517.91	601,521.48	200,996.43
FONDISS	115,218.28	99,897.82	15,320.46
State Autonomous Authority for Public Services	242,788.64	201,022.85	41,765.79
Central Bank	36,000.00	18,000.00	18,000.00
Financial Intelligence Agency	54,000.00	26,958.78	27,041.22
State Autonomous Authority for Public Works	0	0	0
<b>Total</b>	<b>3,096,559.60</b>	<b>2,317,565.56</b>	<b>778,994.04</b>

With regard to the practices referred to in art. 10-bis of Law Decree no. 107/2021, 106 requests were presented, of which 24 revoked as without payment of the first instalment.

### 2.7.10 Public auctions

The sale of the sequestered assets represents the final phase of the executive procedure and its regular implementation over time allows greater possibilities for recovery of the credit both for the Creditor and the debtor.

As in the previous year, also in 2021 the organisation of the auctions was hindered by the restrictions imposed following the spread of COVID-19. For those organised, it was also necessary to take precautions such as the method without auction, with offers in a closed envelope.

In particular, in 2021, 4 public auctions were held; 2 of which closed in the first round, one in two rounds and the other was completed in three auction sessions.

The total amounts collected came to approximately EUR 180 thousand, equal to 46.3% of the value of the assets put up for sale at the time of attachment, i.e. approximately EUR 390 thousand.

**Table 29 - Collections resulting from the auctions of movable assets in 2020**

	2020					
	I auction	II auction	III auction	I auction	II auction	III auction
Value of assets	157,400.00	108,780.00	35,120.00	218,630.14	153,041.10	87,952.06
Collected	2,414.00	54,552.00	46,864.00	-	-	92,000.00
% collected	1.6%	51%	134%	0%	0%	105%

(\*) Sum of the value of the assets at the first session of each auction.

### 2.7.11 Legal activities

Pursuant to Article 5, paragraph 5 of Law no. 70/2004 "The Tax Collector is authorised to assume the defence, through their own attorney, of the Chamber of Commerce, 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 legal representative, an employee of the Central Bank".

In fact, the legal representative, an employee of CBSM in service at the Tax Collection Department, makes an appearance at the proceedings in court for the defence and in the interest of the above entities, both as plaintiff, and as defendant: the majority of cases involve voluntary interventions in the civil-enforcement cases where which the plaintiff asks the Law Commissioner to proceed with the sale at auction of a piece of real estate owned by the defendant and when there is an attachment on that asset carried out by the Collection Officials in their collection activities or a mortgage registered in favour of CBSM. Sometimes it is the same legal representative of the Overdue Tax Collection Department who takes the initiative of initiating a civil action, often of a precautionary nature (seizure, revocatory, etc.) to preserve the integrity of the debtor's assets in view of the enforcement actions.

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.

In summary, this is the activity carried out in 2021:

- a) 1 civil action in bankruptcy proceedings (action to set aside a transaction) currently pending appeal (judgment);
- b) 1 civil lawsuit in insolvency matters (objection to the open competition decree);
- c) 3 administrative first instance appeals;
- d) 2 administrative appeals;
- e) 2 administrative third instance appeals (judgment);
- f) 3 cases of non-contentious jurisdiction regarding acceptance of succession and two cases of non-contentious jurisdiction regarding an estate in abeyance, two cases of non-contentious jurisdiction regarding succession and eight cases of non-contentious jurisdiction for mortgage fraud;
- g) participation in 5 civil-enforcement cases;
- h) 7 civil proceedings concerning "instrumental procedure";
- i) 4 civil actions regarding enforcement of overdue tax collection notices;
- j) 4 mano regia procedures.

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.

## **2.8 The Finance Department**

During the course of 2021, the Covid-19 pandemic continued to represent a serious global problem and a major encumbrance for global economies. Deaths exceeded 5 million at a global level and the main variants of the Virus, Delta and Omicron, slowed the process of returning to normality and forced the various governments to keep extraordinary measures in place to contain social and production activities to combat the spread of the virus.

The pandemic represented one of the main factors responsible for the interruption of the "supply chain" and caused interruptions and slowdowns, at global level, in the supply of raw materials, semi-finished and finished products. These slowdowns in distribution created significant shortcomings on the supply side, especially taking into account the fact that global economies were trying to restart after the long "lockdown" phase and helped create the conditions for an overheating of prices on a global scale, starting from raw materials.

The decline in the flow of goods and services has been stunted further in the more advanced economies, struggling with the increasingly stringent rules dictated by the processes of the "green economy", which require increasingly sophisticated materials and processes to be able to effectively produce the ecological change hoped for by most countries throughout the world, and already started by the most advanced nations from an economic point of view. In fact, in 2021, the United Nations Climate Change Conference (COP26) was held, which reaffirmed the strategic policies for a



“decarbonisation” of economies, for public investments in the green economy and transfers in favour of consumers to facilitate the ecological transition.

The most advanced countries, on the basis of previous agreements, should provide 100 billion dollars a year in financing to be allocated to climate initiatives to help the economies of developing countries.

However, the combination of the Covid-19 pandemic and policies related to climate change risk exacerbating the differences between the main countries. After years of total absence, inflation noticeably reared its head again in all advanced countries and in most of the world's economic areas. This forced the political and monetary authorities to address the problem which, although in part sought and expected, was highlighted with a speed and size that were not expected or foreseeable in the pre-pandemic economic context.

The main central banks maintained, during 2021, the prudent attitude and careful observation of the inflationary phenomenon, which at least in the initial phases could have temporary characteristics that could have been mitigated as the negative effects of the pandemic dissipated. The behaviour of the central banks of the main countries and geographical areas, in the last decade, has been aimed at favouring an accommodating monetary policy and providing sufficient liquidity to the financial markets through various support measures, including the purchase of bonds and programmes for the disbursement of liquidity through open market transactions and longer-term repurchase agreements.

In particular, throughout 2021, the ECB continued the financial programmes specifically created to support the economy and to combat the negative effects of the spread of the pandemic (such as the APP Asset Purchase Program and the PEPP Pandemic Emergency Purchase Program).

In 2022, the ECB plans to abandon this accommodative monetary policy and start a new cycle of rate hikes to combat the current level of inflation.

Global economic growth in 2021 stood at +5.9%, a strong recovery compared to -3.1% in 2020. The most advanced economies grew by 5.2% compared to a fall of 4.5% recorded in 2020. The USA recorded 6% growth compared to -3.4% in the previous year and the Eurozone grew overall by 5% against a decline of 6.3% in 2020.

As regards the countries of the Eurozone, France posted growth of 6.3%, Italy increased by 5.8% and Spain by 5.7% against the declines experienced in the previous year.

Economic growth in emerging countries stood at 6.4%, with a significant recovery compared to -2.1% in 2020; the economic performance of China, which grew by 8% compared to +2.3% in the previous year, and of India, which recorded growth of 9.5% in 2021 against a 7.3% decline in 2020, made a substantial contribution to this figure.

The consumer price index increased by 2.8% for the advanced economies, with quite marked differences between the various countries. As regards the Euro area, 2021 closed with a 2.2% increase in prices; Japan recorded a decline of 0.2% and the USA an increase of 4.3%.

With regard to the performance of the main European economic variables, which also have a direct impact on the performance of investments and of the securities portfolio of CBSM, it should be noted that the trend in interest rates, identified through the performance of German bonds on the main maturities of the yield curve, rose moderately and therefore in line with the performance of the yields of US government bonds.

The credit spreads of the main European issuers, represented by the ITRX indices, remained at relatively low levels within a rather narrow range, albeit characterised by considerable volatility.

### **2.8.1 Analysis of financial activity data**

An examination of the financial statement data shows that the size of the Securities Portfolio amounted to EUR 409 million at the end of the year (of which EUR 19 million represented by non-



redeemable government securities, acquired by way of payment by the SNB), with an increase of approximately 53% compared to the value of 2020, which amounted to EUR 266 million.

Receivables from credit institutions amounted to approximately EUR 372 million, an increase of 5% compared to the 2020 figure of EUR 354 million.

Loans to customers, represented almost exclusively by the item "other receivables", fell to EUR 27 million compared to EUR 87 million euro in 2020, marking a 69% decrease (reduction mainly due to the expiry and repayment of loans disbursed to the Chamber of Commerce and the repaid at the beginning of March 2021).

An analysis of liabilities shows an increase in debts with credit institutions, as they rose to EUR 561 million at the end of 2021 compared to EUR 425 million in the previous period, reflecting an overall increase of 32%, chiefly due to an increase of 43% in on demand debts, which rose to EUR 466 million from EUR 324 million in 2020.

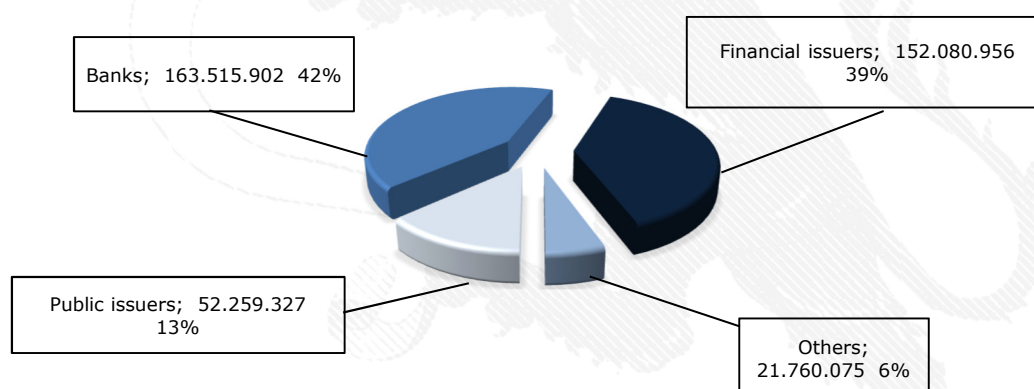
Debts with customers recorded a decrease of approximately 18% over the previous year, standing at approximately EUR 211 million compared to EUR 257 million in 2020.

The income statement figures show that interest income was negative by EUR 1.4 million, mainly due to the negative remuneration on higher liquidity deposits with treasury banks.

Similarly, due to the negative rates, the interest to be paid to customers was positive for an amount of EUR 0.3 million.

At the end of 2021, financial transactions posted a profit of EUR 0.935 million compared to EUR 2.41 million posted at the end of 2020.

**Figure 33 - Breakdown of the bond portfolio\***



\* In EUR millions

## 2.9 Second Social Security Pillar (FONDISS)

In 2021, a part of the pension contributions was invested, on a monthly basis, in term deposits with San Marino banks.

As the custodian bank of Fondiss, the Central Bank verified the correctness of the investment limits and arranged the settlement of the funds for the opening and repayment of the aforementioned deposits. As in previous years, the Central Bank checked the monthly unitary value of the unit, calculated by the administrative functions of the Fund, with particular regard to the value of the assets and the number of units in circulation.

**Table 30 - Financial instruments and other assets linked to the activities as depositary bank**

	31 December 2020	31 December 2021
Liquidity deposited with the Central Bank	77,243,629	68,830,997

	31 December 2020	31 December 2021
Other assets other than financial instruments and liquidity (term deposits)	30,402,000	63,500,000
Pension Fund Segregation Public Vehicle	15,111,701	13,520,996
<b>Total</b>	<b>122,757,330</b>	<b>145,851,993</b>

Notes: Amounts in EUR, excluding accruals.

## 2.10 The Trust Register

In 2021, the Trust Registry Office was involved in the Registry computerisation project, which was completed in October 2021. Therefore, the Register of Trusts is processed both on paper and electronically as permitted by art. 4, paragraph 2 of Delegated Decree no. 50/2010.

Through the new application it is currently possible to manage all requests from users, such as registration requests (original, modification or cancellation) and the issue of certifications pursuant to art. 5 of the above-mentioned Delegated Decree.

In addition, the new software makes it possible to extract statistics and perform checks on the correct fulfilment of certain obligations envisaged by the reference legislation with a significant gain in terms of safety, effectiveness and efficiency. The number of trusts entered in the Register as at 31 December 2021, net of cancellations, stood at 203 (of which 1 foreign trust), growing by +13.41% as compared to the corresponding number (i.e., number of active trusts) at the end of 2020 (179).

More specifically, in 2021 the Office made the following entries in the Register:

- a) 32 new trusts;
- b) 8 cancellations of trusts formerly registered;
- c) 28 changes to Register records;

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

At 31 March 2022, the number of active trusts stood at 209, including 1 foreign trust. During the first quarter of 2022, 6 new trusts were registered, 3 changes to the records included in the Register were carried out, while no cancellations of previously registered trusts were carried out.

In the context of the aforementioned operational processes, in 2021 the Office initiated 3 sanctioning proceedings, of which one for breach of art. 13, paragraph 8 of Law no. 42/2010 (late sending of the half-yearly request to the non-resident trustee to learn of any changes to the elements indicated in the certificate), 1 for breach of art. 28-bis of Law no. 42/2010 (failure to appoint the new resident agent within the deadlines) and 1 for breach of art. 23-quater of Law no. 92/2008 (failure to communicate the trust beneficial owners). In the first quarter of 2022, an additional sanctioning procedure was launched for the violation of art. 7, paragraph 1 of Law 42/2010 (delayed drafting of the certificate of the Trust) not yet concluded. The total amount of sanctions imposed in 2021 amounts to EUR 14,504.40.

Moreover, in 2021, the Office issued 9 certificates under Article 5 of Delegated Decree 50/2010, of which 6 at the request of trustees and 3 at the request of the resident agent. In the first quarter of 2022, 4 certificates were issued, of which one requested by a resident agent and 3 by trustees.

In 2021, 3 requests for information relating to the Trust Register were processed, of which 1 from an Office or Entity of the Broader Public Sector pursuant to Decree-Law No. 125/2015 and 2 from the Single Court. During the first quarter of 2022, a request from the Financial Intelligence Agency was processed.

At the request of the AML Officer at CBSM, 19 verifications of names subject to restrictions in implementation of the UN resolutions to combat terrorist financing were performed last year. In the first quarter of 2022, the AML Officer at CBSM gave an immediate response to 8 requests.

During the first quarter of 2022, the Office also verified the presence in the Register of Trusts and in the Register of Trust Beneficial Owners of the names subject to restrictions by the European Union relating to the Russian-Ukrainian conflict in order to follow up, in the event of a positive response, on the measures envisaged by Decree-Law 35/2022.

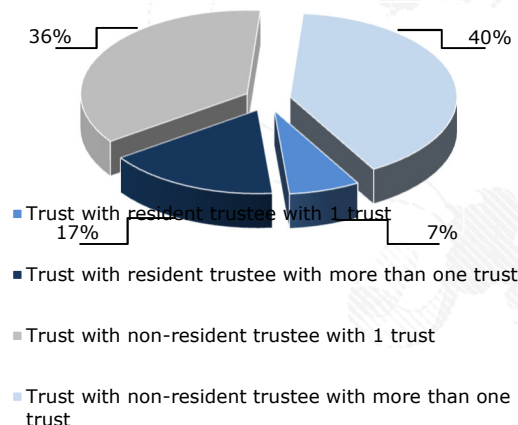
In 2021, 5 communications were sent to the Financial Intelligence Agency pursuant to art. 37 of Law 92/2008, while no further situations were found worthy of communication or reporting to other Authorities. During the same year, a voluntary appeal was also filed before the Court for the Trust and fiduciary relationships pursuant to art. 53 of Law no. 42/2010. In the first quarter of 2022, there were no situations worthy of communication or reporting to the Authorities.

With regard to the Trust beneficial owners register, established pursuant to Article 23-quater of Law no. 92/2008, the Trust Register Office has made provision during 2021 and in the first quarter of 2022 for the inclusion in the electronic application of the notices of beneficial owners received.

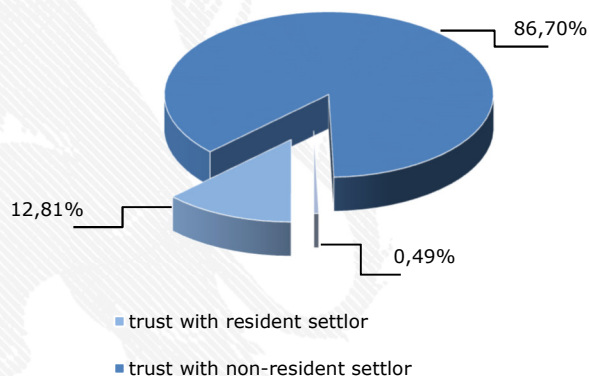
In 2021, 20 accesses to the Register of Trust Beneficial Owners were made by the competent Authorities as per paragraph 7 of the same art. 23-quater of Law no. 92/2008, while there were 3 accesses in the first quarter of 2022.

The charts below show statistical data regarding the Trust institute in San Marino as at 31 December 2021.

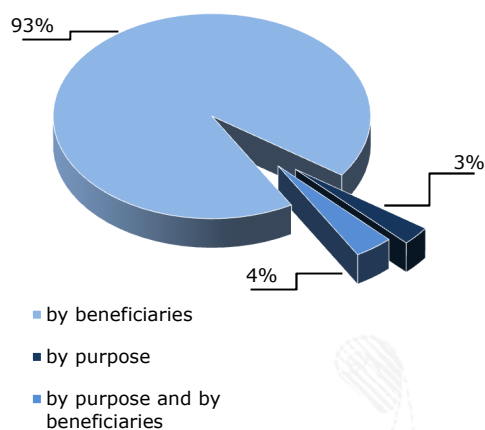
**Figure 34 - Type of trustees**



**Figure 35 - Origin of depositors**



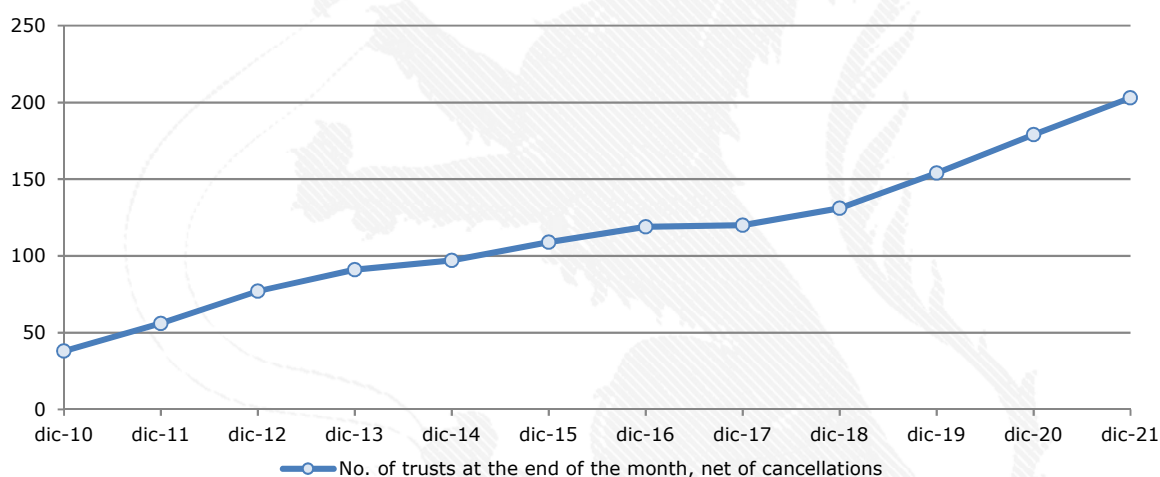
**Figure 36 - Type of trusts**



**Figure 37 - Type of resident agent**



**Figure 38 - Registration trend**



## 2.11 Register of Fiduciary Shareholdings

During 2021, a change in the current regulatory framework determined substantial effects with regard to the archive of trust investments held by CBSM. With the entry into force of Law no. 183/2021 (art. 14) and as a result of the provisions of art. 37 of Law Decree 139/2017, with effect from 3 November 2021, the obligations pursuant to art. 2, paragraph 2 of Law 98/2010 on the archive of trust investments (APF) ceased to apply.

With reference to the 2021 financial year, the following table shows the number of reports up to the date of termination of the communication obligations regarding the archive of trust investments (3 December 2021) as described above, distinguishing between the number of reports received from trust companies, both in San Marino and abroad, and those received as a result of collaboration with the offices of the public administration and the authorities responsible for exchanging information.

**Table 31 - Activities carried out: requests and reports received**

Reports/requests	03/11/2021*
Number of reports received from trust companies and banks*	21
Number of requests for information received from Public Offices and relevant Authorities	7

Notes: \* Reference date, termination of disclosure obligations pursuant to art. 2 Law 98/2010.

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

In line with the provisions of Law 96/2005 (art. 40 point f)), the Central Bank acts as the institutional reference point for International Financial Organisations, Central Banks, Supervisory Authorities or similar foreign Authorities. CBSM also collaborates with the San Marino authorities in international relations relating to any aspect directly or indirectly concerning the financial system.

### International Monetary Fund - IMF

In the first quarter of the year (8-12 February 2021), the IMF's "Virtual Staff Visit" was held. The visit, carried out in virtual mode owing to known issues related to the COVID-19 pandemic, saw the significant commitment of most of the Organisational Units of the Supervision Department, together with the General Management, in a series of conference calls with the experts of the IMF on matters relating to the state of the Financial System. In the same period, meetings were also held, again in virtual mode, with representatives of the Government and the Public Administration, to examine the situation of the public accounts and the economy as a whole. At the end of the visit, the IMF published the final summary document of the assessments of the IMF experts (Staff Visit Concluding Statement), as part of which account was taken, among other things, of the considerable resilience shown by the financial system during the pandemic ("The resilience of the financial sector during the pandemic has been remarkable").

The discussions with the IMF continued afterwards, in particular during the Spring Meetings in April 2021 (held this year in virtual mode), and then continued during the summer in preparation for the annual mission Art. IV of the IMF held in September 2021.

Given the improvement in health conditions, the visit was carried out in part in a face-to-face setting, giving the Washington experts the opportunity to speak directly with the institutions of San Marino, thus encouraging more effective dialogue and discussion. The objective of the mission, which involved, together with CBSM, also representatives of the Government, the Public Administration and the various sectors of the San Marino economy, was to examine the economic situation of the Republic of San Marino with particular reference, as regards CBSM, to the current state of play and the development dynamics of the financial system. In the official report, published at the end of the visit, the assessments of the IMF were highlighted, in which it emerged, among other things, that in view of the difficulties initially encountered by the country in launching the vaccination campaign, the latter then proved to be "successful" and San Marino was recognised as a "global leader in terms of the speed and coverage of the vaccination roll-out".

With regard to issues strictly related to the financial system, the progress achieved in the process of stabilisation of the banking system was highlighted, with particular reference to the improvement of the general situation of liquidity, of the confidence of depositors (inferred from the recent increase in the level of deposits) and of the processes of improvement in the efficiency of the banking intermediaries through the reduction of the relative operating costs. The document also placed the emphasis on further activities to be carried out to address the challenges that still exist, in the first place relating to the amount of NPLs present in the banking system.



A further area of relations with the IMF was represented by the production and dissemination of financial statistics, for which activities and exchanges of communications with the International Monetary Fund were intensified, in order to pursue the adoption of new metrics for the preparation of the Financial Soundness Indicators (FSIs), for the development of which the IMF proposed the opportunity to hold a specific technical assistance (TA) meeting, held in April 2022.

### **Relations with other international organisations and rating agencies**

At the beginning of March 2021, the so-called "FaceToFace" mission was held with experts from Moneyval<sup>36</sup>, the Council of Europe body for combating money laundering and terrorist financing (AML-CFT). This mission, which ideally completes the work already started in 2020, made it possible to carry out a fruitful and final discussion, in preparation for the plenary assembly which, at the beginning of April, discussed and approved the final evaluation report of the Republic of San Marino on the subject of combatting money laundering and terrorist financing.

The report recognised the progress made by the country in improving measures to combat money laundering and the financing of terrorism (AML-CFT), also acknowledging the completion according to the second National Risk Assessment, in which CBSM also actively participated with its own personnel from the Supervisory Department, as well as the other San Marino supervisory authorities. In this regard, the Central Bank's activities continued in order to pursue the constant improvement of the regulatory and supervisory framework, also in line with the recommendations contained in the final Moneyval report.

The fourth quarter of 2021 was characterised by an important event that also directly affected CBSM: on 20 October 2021, the annual meeting of the Joint Committee was held in San Marino pursuant to the provisions of the current Monetary Agreement between San Marino and the European Union. The committee, composed of a delegation from San Marino and a delegation from the European Union, the latter consisting of representatives of the European Commission, the European Central Bank, the Italian Ministry of Economy and Finance and the Bank of Italy, in particular, discussed the application of the provisions included in the Annex to the Monetary Agreement already transposed into the internal legal system, the progress made by San Marino in the last year in transposing EU legal acts and the regulatory activities planned.

The discussion covered all 5 areas / matters envisaged in the Annex to the Monetary Agreement: prevention of money laundering, prevention of fraud and counterfeiting, euro banknotes and coins, banking and financial regulations, collection of statistical data. The Joint Committee also approved the deadlines for transposition into the San Marino legal system of the new legal acts of the European Union, most recently included by the European Commission in the Annex to the Monetary Agreement, pursuant to the provisions of Article 8 thereof.

During the year, in particular in the first quarter of 2021 and as usual after the IMF visit, discussions were held with the FITCH agency to update the sovereign rating of the Republic of San Marino. Also in this case, the activity was managed by the Supervisory Organisational Units, presenting the situation of the financial system as a whole, also in light of the judgments expressed previously by the IMF. At the beginning of April 2021, the FITCH agency confirmed the previous rating.

In the following month of September, also in this case after the visit of the IMF, there was a further assessment by the FITCH agency to update the sovereign rating of the State. Also in light of the judgments expressed previously by the IMF and on the basis of the information provided by CBSM (with regard to the financial system) and the San Marino institutional stakeholders (for the economy as a whole), the agency confirmed the BB+ rating for San Marino, however, revising the outlook from negative to stable. The FITCH report shows that the rating confirmed to the Republic is conditioned by the percentage of NPLs in the financial system, but it should be noted that the "system" approach pursued, based on a reduction in the amount of doubtful loans through their securitisation and the

<sup>36</sup> <https://www.coe.int/en/web/moneyval>

establishment of the IGRC - "Credit Management and Recovery Institute" as system servicer, has produced successful results in other countries, such as Italy and Greece, in the management of NPLs.

### **Relations with other Central Banks and Supervisory Authorities**

During the year 2021, the Central Bank continued to interact with the foreign supervisory authorities, aimed at strengthening the international CBSM relations and thereby improving the image of the financial system as a whole. These reports concerned supervisory authorities and foreign central banks, both European and non-European, also in relation to applications submitted by authorised San Marino parties. In these areas, CBSM has also worked to consolidate its relations by defining specific agreements for the exchange of information. These contacts also concerned the supervisory authorities of the foreign financial companies that provide payment services to San Marino commercial operators, in order to qualify the related operations in the framework of the provisions of the CBSM regulation no. 2020-04 (see above).

## 4 ADVISORY AND COOPERATION ACTIVITY

The Central Bank's effective performance of its functions is based on intense consultancy, collaboration, analysis and research in the banking and financial area, and in some cases in the economic field, as well as in the legal domain; provides advice to the San Marino government on economic and financial policies and takes part in the general scientific debate; as part of foreign relations, it participates in the activities of the main international banking and financial bodies.

The activities described above that are carried out by the Central Bank, for example in the field of statistics, contribute to the design of San Marino banking and financial policy, to the fulfilment of other institutional functions as well as to the formulation and, at times, to the evaluation of proposals in the various areas of economic policy. More directly connected with the institutional guidelines in the field of financial stability are the initiatives aimed at the development of a series of methodological tools for the economic analysis and for the formulation of forecasts of the main macroeconomic aggregates.

Consultancy and collaboration on financial, economic and statistical matters within the Central Bank are carried out by the professional staff employed in the workforce who also provide their knowledge outside the organised units in which they are located.

In fact, CBSM carries out services on behalf of the State, to which it provides collaboration and consultancy both on the management of treasury and tax collection tasks, for collections and payments of the public sector, in the public debt sector, in the activity of combating usury; but also in the exercise of the supervision on the transparency and correctness of the conduct adopted, in pursuing the sound and prudent management of the intermediaries, the overall stability and efficiency of the financial system, as well as the observance of the provisions governing the matter by the supervised entities.

In the international context, the Central Bank assumes the role of reference or advisor for the State in numerous international commitments that affect the functions of central banking and, in particular, the profiles of financial stability. It participates in cooperation in European arenas, with various groups and multilateral organisations. It carries out technical assistance initiatives in favour of supervisory authorities of emerging countries and countries in transition.

Also in 2021, some State Secretariats and Public Administration offices, as well as the Court, requested the advice of CBSM in various areas, from regulatory to financial. 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, to the purely technical and legal drafting of regulations on the basis of strategic decisions or policies adopted by said San Marino State Secretariats or Institutions themselves, through to support in managing the credit lines granted by International Bodies or the issuing of debt securities on the international market.

The Central Bank has been active for several years in measuring and reporting the man-hours of each employee on the various activities. During the second half of 2021, the entire process was revised with a view to its strengthening and efficiency, in order to obtain a more precise breakdown of the time worked among the various institutional functions of the Bank; since the beginning of 2022, surveys have been circulated using the new methodology adopted.

The data relating to the first quarter of 2022 on FTE (Full Time Equivalent) human resources employed on the institutional functions carried out by CBSM for the service of third parties that require continuous operations by CBSM resources are presented below. As can be seen from the diagram, the advisory function absorbs the daily operations of a staff member who, based on different skills, dedicates time to carrying out this type of operation.

The FTE resources indicated must be compared to an actual presence in the Bank during the first quarter of 2022 of 71 employees. The values are obtained after the allocation, among the various

functions, of the hours spent on internal activities<sup>37</sup>, necessary for the general operation of the structure.

**Table 32 - FTE by institutional function**

THE INSTITUTIONAL FUNCTIONS	FTE Full time equivalent
Supervisory authority	24.92
Tax collection agency	14.05
Treasury	5.69
Institutional support *	3.25
Trust Register	1.92
Contact person **	1.9
Central Credit Register	1.22
Payment System	1.14
Statistics ***	1.11
<b>Consulting ****</b>	<b>0.93</b>

\* Support to entities (e.g. State, ISS) or institutions (e.g. Court) in any form that does not already fall within the scope of the Consultancy Function

\*\* Relations with foreign counterparts (Central Banks and Supervisory Authorities), international and supranational institutions (e.g. IMF, World Bank, Bank for International Settlements) and rating agencies

\*\*\* Production of all types of periodic statistics intended for the PA and / or foreign contacts or also intended for internal bodies as long as they refer to supervisors or third parties

\*\*\*\* Drafting of bills and search for forms of financing of the financial requirements of the State or forms of investment of deposits of PA liquidity

### 3.1 Regulatory advice

Also in 2021, the State Secretariats requested the technical contribution of the Central Bank with regard to specific financial regulations, mainly for the purposes of transposition into the internal legal system of certain European Union provisions under the current Monetary Agreement.

The consultancy provided by CBSM resulted both in the preparation of opinions and observations on draft regulations already prepared by the proposing State Secretariats, and in the overall preparation of certain drafts of legal documents, and through the participation in working groups set up by said State Secretariats.

During the course of 2021, the Bank provided its consultancy with regard to the following regulations:

- Delegated Decree no. 23 of 19 February 2021 “*Issuance of Public Debt securities of the Republic of San Marino, fixed rate 3.25%, 24 February 2024*”, relating to the first issue on the international markets of the Republic of San Marino;
- Delegated Decree no. 111 of 23 June 2021 “*Regulations governing the custody of virtual assets*”, which defined the primary rules relating to the provision by banks, to which the activity is reserved, of the virtual asset custody service. With regard to this Delegated Decree, the Central Bank provided its technical contribution by taking part in the activities of the specific working group set up by the Ministry of Industry, which was responsible for both conducting technical analyses on the custody service of virtual assets, and then drawing up the draft Delegated Decree;
- Law no. 157 of 30 August 2021 “*Measures and instruments for the securitisation of loans*”, which introduced the general regulations on securitisation into the San Marino legal system and also defined the specific regulations on the securitisation of banking assets. The relative draft law, with respect to the initial proposal prepared by the San Marino Banking Association as part of the so-called “Progetto NPL” (NPL Project) was the subject of various changes and integrations, the

<sup>37</sup> Administration and financial statements, personnel management, internal audit, risk management and others.



result of a discussion coordinated by the Ministry of Finance and which saw CBSM repeatedly involved for a technical contribution on the drafts gradually formulated during said discussions;

- Delegated Decree no. 210 of 23 December 2021 "*Amendments to Delegated Decree no. 22 of 26 February 2015 - Articles of Association of the company Poste San Marino S.p.A.*" which, by changing the corporate purpose of Poste San Marino S.p.A., removed from it all reference to financial services and in any case provided for the possibility of continuing to provide payment services as agent for payment service providers or a party authorised by the later. For this regulatory initiative, the Central Bank provided technical support in order to ensure completeness and coordination with sector provisions.

With regard to the collaboration provided in the field of transposition into the internal system of legal acts of the European Union pursuant to the provisions of the current Monetary Agreement, in the course of 2021 the contribution requested from the Bank concerned the overall drafting of the following drafts of the European Union delegated decrees:

- Delegated Decree no. 175 of 14 October 2021 "*Amendments to Law no. 101 of 29 July 2013, implementing Council Regulation (EU) 2015/159, ECB Decisions (EU) 2019/2195 and 2020/2090 and ECB Guideline (EU) 2020/2091*", with which the San Marino regulations were amended on banknotes and coins pursuant to the aforementioned Law no. 101/2013 in order to align it with the aforementioned provisions of the European Union;
- Delegated Decree no. 193 of 30 November 2021 "*Provisions on fraud and counterfeiting of non-cash payment instruments in transposition of Directive (EU) 2019/713*", which made amendments to the Criminal Code and constitutes the third provision on the matter, from a time perspective, after Law. no. 102/2013 "*Criminal provisions against fraud and counterfeiting*" and Law Decree no. 80/2016 "*Urgent measures against counterfeiting*". In this case, given the predominantly criminal matter, the advice of CBSM was coordinated by the Ministry of Finance in collaboration with the Department of Institutional Affairs and Justice;
- Delegated Decree no. 8 of 24 January 2022 (ratification of Delegated Decree no. 211 of 24 December 2021) "*Provisions on financial matters in transposition of Regulations (EU) no. 648/2012, 909/2014, 2365/2015 and 1011/2016*", with which the provisions set forth in the 4 aforementioned European Union regulations, pertaining to different subjects and also known with the abbreviations EMIR, CSDR, SFTR and BMR, were implemented. More specifically, the Delegated Decree introduced provisions on OTC derivatives, central counterparties and trading repositories, securities settlement and central securities depositories, as well as on the transparency of financing transactions through securities and re-use and of indices used as a *benchmark*.

With reference to the latter Delegated Decree, the Central Bank, on behalf of the Secretariat of State for Finance and the Budget, also took part in the activities of a working group in the second half of 2021, in which the San Marino Banking Association also participate, which, in preparation for the drafting of the Delegated Decree, carried out in-depth analyses on the aforementioned 4 European Union Regulations and prepared an impact analysis document.

With regard to regulatory consultancy, it should also be noted that in the second half of 2021, the Central Bank issued, following a request from the competent State Secretariats, its opinion on the changes that should be made to Law no. 191/2011 establishing the supplementary pension system of San Marino in order to overcome the current criticalities, which have already been the subject of references by CBSM in the past and therefore to achieve a functional and efficient supplementary pension system.

Lastly, it is worth noting the regulatory contribution to the drafting of the Delegated Decree of "strengthening the collection activity of the Sole Collection Service" which, in implementation of Article 6 of Law no. 183 of 29 October 2021, should have been adopted by 31 December 2022. At the request of the Secretariat of State for Finance and the Budget, in fact, the Central Bank proceeded to update the previous draft, already transmitted for the same purpose in May 2020.



### 3.2 Other consulting and collaborations

As already presented in previous reports, the Central Bank not only provides regulatory consulting, but also provides its broader technical contribution to other Institutions or Bodies of the Republic of San Marino, by also participating in technical committees or working groups. Cooperation that in these contexts can take on different forms, concerning specific requests or longer-term or recurring project activities. The contribution requested from the Central Bank may also consist in the drafting of opinions, assessments or in-depth technical reports or the preparation of statistics. In this latter regard, also in 2021 the CBSM continued to collaborate with the Statistics Office for the preparation of San Marino statistics on the balance of payments. In particular, CBSM provides the Statistics Office with a set of data functional to the processing by the latter Office of the overall balance of payments of the Republic of San Marino. The data provided by the Central Bank mainly concern the financial account section of the balance of payments and are processed on the basis of statistics collected by the banking and financial system.

In the first half of 2021, the Bank also collaborated with the Agenzia per lo Sviluppo Economico-Camera di Commercio S.p.A., providing its contribution to the preparation of some sections relating to the San Marino financial system including a broader document published by the agency itself and targeted at providing potential investors with a general overview of the characteristics of the San Marino legal and economic system.

In the first few months of 2021, in addition to the regulatory contribution provided with reference to Delegated Decree no. 23 of 19 February 2021, CBSM continued to collaborate on a more extensive basis with the Secretariat of State for Finance and the Budget for the purpose of carrying out the first issue of public debt securities on international markets.

In October 2021, the Central Bank then provided its technical contribution as part of the annual meeting of the Joint Committee, a body envisaged by the current Monetary Agreement. The Joint Committee is the mixed group composed of a delegation from San Marino and a delegation from the European Union, consisting of representatives of the European Commission, the European Central Bank, the Italian Ministry of Economy and Finance and the Bank of Italy, which has the task of assessing the state of progress in the implementation by San Marino of the European Union regulations envisaged by the Monetary Convention and above all to define the new deadlines, again in terms of transposition, with regard to the new legal acts of the European Union that are included in the Monetary Convention from time to time, more precisely in the relative Annex, or with regard to the amendments that, within the European Union, are in any case made to those already included in that Annex. In this last regard, note should be taken of the technical support provided by the Central Bank to the Secretariat of State for Finance and the Budget for the purposes of the evaluation of the legal acts of the European Union most recently included in the aforementioned Annex and discussion in the Joint Committee, in addition to the activities carried out by the Central Bank in this context with reference to the activities for which it is responsible.

With reference to the European context, it is also worth mentioning the technical collaboration provided by the Central Bank to the European Affairs Department of the Foreign Affairs Department at the end of 2021 with regard to the impact assessment of some technical profiles concerning Directive 2008/48/EC relating to consumer credit agreements, already subject to analysis in the past, which are expected to be included in the broader list of European Union legal acts referred to in the draft Annex on consumer protection to the Agreement of Association with the European Union under negotiation.

Lastly, in 2021, the collaboration provided by CBSM to the Economic Activities Office was constant, in particular with regard to the processing of opinions on the potential integration of the corporate purpose of new economic operators of activities subject to its own supervision by the Authority in charge.

During the autumn of 2021, the Central Bank was asked to collaborate with the General Directorate of Public Finance for the public selection, based on qualifications and motivational

interview, of a staff member to be employed in support of public debt management activities at the Finance and Budget Department. This activity was assigned to an employee operating in the Supervisory Department, who therefore participated as an expert member of the Evaluation Commission.

In addition to the matter focused on, it is important to highlight how the activities of the Finance Department, in addition to being mainly dedicated to the management of financial risks of CBSM, through investment transactions that are mainly directed towards the bonds that make up the portfolio owned by the bank, was also involved in other projects and functions at various times during the year.

In the first part of the year, the Finance Department completed the analysis and the activity for the signing of the financial contracts with the counterparties necessary for the Repo activities collateralised by bonds. In detail, the activity that led to the signing of the EMA (European Master Agreement) with the Bank of Italy had already begun at the end of the spring of 2020, with the request formulated to the Governing Council of the European Central Bank for access to instruments for the collection of liquidity through monetary policies and expansive measures, carried out by the European Central Bank as part of the programmes to support the banking and financial system. Subsequently, in December, the Finance Department was engaged, at the request of the Chairman, in the work necessary to provide advice to the Finance Secretariat on instruments for combating inflation. The work carried out by the Finance Department in December 2021, including the research of the material, comparison with market counterparties on financial instruments that can be used to hedge inflationary trends, preparation of a summary and explanatory document to be shared with the Presidency, the Management and the other structures of the bank involved in this analysis, involved 8 man-hours.

With regard to the activities of the Collection Department, 2021 was a year of intense collaboration with the Secretary of State for Finance and the Budget, in particular, due to the political choices for the country's economic exit from the Covid-19 pandemic. Moreover, as already mentioned, CBSM drafted and sent to the competent Authorities a law proposal to strengthen tax collection activities and increase the effectiveness of collections.

With regard to the Treasury service, likewise, the Central Bank hopes for the creation of a joint working group, first and foremost with the bodies that use the service but also to include banks, commercial firms, user representatives and other interested parties, to define the future developments of the service in the medium-term, in order to keep it up-to-date in terms of efficiency, technology and usability.

Lastly, again in 2021, the Central Bank provided maximum support in all the activities required by the Council Commission of Investigation on alleged political or administrative responsibilities that involved Credito Industriale Sammarinese Banca CIS and on banking crises, established with Constitutional Law no. 2/2019. These operations absorbed several CBSM resources from various Organisational Units that provided their services in the research, analysis and drafting of documents and all other related activities.

CBSM's advisory activity involved the issue of various opinions, aimed at providing banking and financial support, as well as legal support in the exercise of the activities of competence or to ensure the consistency of the choices made with the regulations of the sector.

The forms of cooperation and advice provided by the Central Bank in the various areas of jurisdiction are summarised below, 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;
- working group for the preparation of regulations on the virtual assets custody service;
- 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**

- collaboration with State Secretariats on regulatory matters relating to the financial system;
- collaboration with the Finance and Budgetary State Secretariat in issuing national debt certificates on international markets;
- collaboration with Agenzia per lo Sviluppo Economico-Camera di Commercio S.p.A.;
- cooperation with the Office for Economic Affairs, Central Liaison Office and the Supervision Office of the Department of Economics;
- cooperation with the Financial Intelligence Agency;
- collaboration with the Court of the Republic of San Marino;
- support to the activities of the Council Commission of Investigation on alleged political or administrative responsibilities that involved Credito Industriale Sammarinese Banca CIS and on banking crises, established with Constitutional Law no. 2/2019;
- support to the extended Public Administration in the compilation of questionnaires and statistics requested by international organisations in relation to economic, tax and financial matters.

## 5 MEASURES PUT IN PLACE TO FIGHT AGAINST COVID-19

### 5.1 Directions in the Bank's premises

In continuity with what occurred in 2020, also in 2021 the Central Bank Management in collaboration with the Organisational Units in the staff (Human Resources, Organisation and General Services) constantly monitored the health emergency by taking the necessary actions in order to protect the health of employees as much as possible and therefore mitigate the risk of interruption of the strategic functions supporting the operation of the San Marino financial system.

The actions taken concerned:

- the issuing of the appropriate internal provisions for the Bank's personnel and their constant review based on the evolution of the health situation and the consequent regulatory updates on the matter;
- the continuation, where appropriate and possible, of home work for a number of employees such as to ensure maximum distancing within the Bank's premises;
- the organisation of swabs for personnel in contact with colleagues who have positive results, even if this contact is not identified as "close" by the ISS.

With regard to the organisation of work and the presence of staff on the premises of the Central Bank, the actions taken were consistent with the provisions of the previous year and concerned, more specifically:

- the use of protective equipment (gels, masks) and thermal scanners at building entrances;
- limiting the reception of external guests, technicians and suppliers to cases of necessity only;
- diversification of access to the Bank's premises;
- the restriction of the reception of external users with the obligation to use personal protective equipment;
- suspension of travel, except when strictly necessary;
- the organisation of meetings, both with external and internal participants in audio/video conference mode;
- the provision of specific detergents for the cleaning of premises open to the public, offices, toilets and meeting rooms and the integration of cleaning and sanitising activities in the Bank's premises;
- limiting the use of common areas and recommending less travel to offices other than one's own.

### 5.2 Teleworking

With the aim of achieving the maximum distance between personnel and in line with the actions implemented in the previous year, all the technical and organisational measures necessary to resort to home work were reactivated. These measures concerned a number of staff such as to allow the maximum possible distance between people present in the Offices, reaching, in most cases, at most one individual in each room.

To this end, employees were provided with the necessary tools (laptops, tablets) equipped with appropriate technical support to ensure a secure remote connection (e.g. use of VPN, remote terminal connections, hard disk encryption, cloud solutions).

Electronic authorisation processes (e.g. use of digital signatures, e-mail) have been adopted to make 'remote' operations more efficient by developing the internal regulatory environment.



## 6 ANNUAL REPORT ON THE GUARANTEE FUND FOR DEPOSITORS

### 6.1 2021 Operational Highlights

During 2021, 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.

Taking into account the important changes introduced to the safety net system for depositors' guarantee with Law no. 102/2019 on bank resolutions, which changed its general formulation, on the proposal of the Management Body (hereinafter also referred to as the "Agenda"), the CBSM Regulation no. 2021-01 "Collection of targeted reviews of the supervisory provisions in force", which amended the CBSM Regulation no. 2016-01 on the Guarantee Fund for Depositors, entered into force on 17 May 2021. In particular, the amendments concerned the introduction of the new Title VI of Part III of the aforementioned Regulation, which governs the extraordinary interventions of the Fund in cases of extraordinary administration, resolution procedures as well as additional intervention methods in cases of compulsory administrative liquidation, if the principle of "lower expense" is guaranteed with respect to the possibility of repayment of the depositors. The main methods of intervention envisaged by the new regulations consist of the granting of loans (for extraordinary administration or resolution procedures), the issue of guarantees, the purchase of assets or the capitalisation of a bridge institution (for resolution procedures) as well as in interventions aimed at absorbing the sale deficit, also favouring the transfer of assets and liabilities (in cases of compulsory liquidation).

The regulatory changes also concerned the expansion of the frequency of reporting relating to the contribution base by the banks participating in the FGD, taking it from annual to half-yearly.

Below is an overview of the main events that characterised operations in 2021.

As in previous years, in 2021 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.

Collaboration with IADI (International Association of Deposit Insurers) also continued, contributing, among other things, to the completion of the Annual Survey, albeit with the GFD not being a full member of said organisation.

During 2021, CBSM maintained relations with a foreign guarantee fund, in order to exchange knowledge on areas of interest and for technical collaboration purposes.

The GFD collaborated with the competent structures of CBSM in order to define any areas of intervention for privacy and the protection of personal data.

The annual contribution to the Fund in 2021 from the participating banks was set by the Management Body at 0.061% of protected deposits, corresponding to a total of EUR 982,830, divided among the participating banks. The aforementioned annual contribution rate in 2021 was brought back into line with pre-Covid levels, after the rate had been temporarily lowered in 2020, in consideration of the effects of the pandemic on the San Marino economic cycle.

However, the target level of 0.80% for protected deposits to be reached by 3 July 2024 remains unchanged. This target level corresponds to the minimum level of financial resources that the GFD is, pursuant to the regulations in force, required to reach, 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.



Following the contribution for 2021 made by the banks, the coverage level of 0.60% of protected deposits was reached at 31 December 2021, standing at EUR 9,943,122 compared to EUR 8,955,626 at the end of 2020. The increase in the value of the provision is determined not only by the contributions at the end of 2020, but also by the interest, equal to EUR 4,666 on the liquidity held in the current account with CBSM. The amount was down compared to the previous year, when it stood at EUR 11,867 and included both interest deriving from liquidity held in the current account and interest deriving from repurchase agreements. During 2021, the SB, as an investment strategy, decided to maintain its liquidity on the current account deposit held with CBSM, considering the best return on this deposit, compared to market returns, taking into account the time horizon and the risk profile of FGD investments. As at 31 December 2021, there were therefore no repurchase agreements with CBSM.

As was the case in previous years, in 2021, the Central Bank maintained 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".

In March 2021, following a resolution of Central Bank Governing Council, the new member of the Fund's Management Body, Mr. Ivan Pagliarani, took over the duties of the outgoing member, Mr. Filippo Vella. In addition to the aforementioned member, the Body is therefore made up of the Chairperson, Ms Silvia Cesarini, and Mr. Alex Alessandrini.

**Table 33 - Fund figures as at 31 December 2021**

Figures	
4	participating banks (in alphabetical order: Banca Agricola Commerciale – Istituto Bancario Sammarinese S.p.A.; Banca di San Marino S.p.A.; Banca Sammarinese di Investimento S.p.A.; Cassa di Risparmio della Repubblica di San Marino S.p.A.)
59,411	the total number of GFD protected depositors in the 4 participating banks
1,650	million was the total value of "deposits protected" under the GFD
9.9	million was the value of the GFD's "available financial means"
0.60%	approximate percentage value of the GFD's endowment at 31 December 2021
0.80%	was the minimum target level to be reached through ordinary contribution by 3 July 2024, save for exceptions under Article VII.II.1, paragraph 9 of Regulation 2016-01.
10	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 2024, a 7-day time limit will apply, pursuant to Article III.I.5 of Regulation 2016-01)
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.

## 6.2 The 2021 Report

For a review of assets and liabilities as well as operating costs and revenues for 2021, reference should be made to the "Statement of Operations for financial year 2021", which was prepared pursuant to Article III.III.2, paragraph 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 assets and liabilities includes the balance sheet, the profit and loss account and accompanying notes, complete with the reports of the CBSM's Board of Statutory Auditors and of the Independent Auditor appointed by the Central Bank.

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