

Annual Report

2017



Annual Report 2017



CENTRAL BANK OF THE REPUBLIC OF SAN MARINO
Publicly and privately owned entity
Economic Operator Code SM04262 - Endowment fund 12,911,425.00 Euro fully paid up

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Governing Bodies of the Central Bank of the Republic of San Marino

Governing Council	
Silvia Cecchetti ¹	Vice Chairman
Francesco Mancini	Member
Martina Mazza ²	Member
Marco Bodellini ³	Member
Nicola Cavalli ⁴	Member

Board of Statutory Auditors	
Fabio Rossi	Chairman
Luca Marcucci	Statutory Auditor
Sandy Concetta Stefanelli	Statutory Auditor

Directorate General	
Roberto Moretti ⁵	Director General
Daniele Bernardi	Deputy Director General

Supervision Committee	
Roberto Moretti ⁶	Chairman
Mirella Sommella	External Inspector
Ugo Granata	External inspector

Data as at 31 December 2017

¹ In office as Vice Chairman since 10/05/2017

² Office held since 27/09/2017

³ Office held since 27/09/2017

⁴ Office held since 27/09/2017

⁵ Office held since 13/12/2017

⁶ Office held since 13/12/2017



Governing Council Report on 2017 Management





Dear Shareholders,

the main data and economic-equity indicators pertaining to 2017 management are summarized in the table below.

	2017	2016	Variation	
			Absolute	%
Balance Sheet Totals	408,455,362	463,910,538	-55,455,176	-11.95%
Loans to credit institutions	156,850,550	94,966,846	61,883,704	65.16%
Loans to customers	73,353,138	50,012,448	23,340,690	46.67%
Bonds and other debt financial instruments	143,276,961	296,150,012	-152,873,051	-51.62%
Shares, quotas and other capital financial instruments	4,665	4,300	365	8.49%
Shareholdings	0	0	0	0%
Debts with credit institutions	185,367,376	298,028,098	-112,660,722	-37.80%
Debts with customers	140,134,049	82,179,308	57,954,741	70.52%
Debts represented by financial instruments	0	0	0	0%
Net Equity ¹	73,022,424	75,638,636	-2,616,202	-3.46%
Money management margin	1,677,564	1,018,101	659,463	64.77%
Profits and losses from financial operations	1,875,419	2,635,551	-760,132	-28.84%
Financial management margin	3,552,983	3,653,652	-100,669	-2.76%
Gross contribution margin	6,227,385	6,384,389	-157,004	-2.46%
Gross operating margin	-2,225,227	-2,174,904	-50,323	2.31%
Operating loss	0	-2,173,521	-2,173,521	-100%

¹: Total includes the Endowment Fund, Reserves, the Fund for General Banking Risks and the Economic Result for the financial year.

From the up-to-date information entered in the table and referring to 31/12/2017 and 31/12/2016, what emerges first is that the balance sheet totals have dropped in the last financial year by -55.46 million Euro, from 463.91 million Euro to 408,46 million Euro.

With reference to the balance sheet elements, we report a significant increase in the collection originating from customers (57.95 million Euro, 70.52%) which went from 82.18 million Euro in 2016 to 140.13 million Euro in 2017, and a significant drop in the collection from credit institutions (-112.66 million Euro, -37.80%), decreased from 298.03 million Euro in 2016, to 185.37 million Euro in 2017.

As evidenced also in the specific Section of the Notes to the financial statements, the aforementioned increase in the collection from customers mainly reflects the deposit with the CBSM of the amounts related to Fondiss - Supplementary Welfare Fund of the Republic of San Marino.

Under assets, as regards the bank credit, it is worth noting that loans to credit institutions and loans to customers both increased, for an aggregate of approximately 85.22 million Euro.

In details, the former increased by 61.88 million Euro (65.16%), due to internal decisions regarding the allocation of liquidity and following the opening of financing transactions, whereas the latter, for 23,34 million Euro (46.67%), reflect the increase in loans disbursed to the Most Excellent Chamber.



The securities portfolio, on the contrary, registered a significant decrease for approximately -152.87 million Euro (-51.62%), down from 296.15 million Euro in 2016 to 143.28 million Euro in 2017; this variation mainly reflects the drop in funding, decisions regarding the allocation of liquidity and an increase in loans to customers.

As evidenced in the specific section of the Notes to the financial statements, the securities portfolio is divided into an investment portfolio for 42.14 million Euro, and a trading portfolio for 101.14 million Euro.

The Central Bank does not hold any shareholdings and thus there are no relations with subsidiaries. As regards, on the other hand, the relations with the shareholders of the Bank, such relations are part of the normal statutory functions of the Bank itself.

On 31/12/2017, the net equity, composed of the Endowment Fund subscribed by the Most Excellent Chamber and by banks as detailed in the specific section of the Notes to the financial statements, Reserves, the General Financial Risks Fund and the Operating Margin, registered a decrease for -2.62 million Euro, due to the utilisation of the General Financial Risks Fund.

To this regard, the Governing Council of the Bank, in order to cover the operating deficit and to stabilise the operating margin for 2017, resolved to reduce this fund, which operates as capital reserve available to the Management Body, and to break even the financial year.

By contrast, an examination of the income indicators that emerge from the Reclassified Profit and Loss Account Statement, highlights, in the first place, the money management margin, of 1.68 million Euro, showing a significant increase of 0.7 million Euro (64.77%) compared to 2016.

As regards the values of the components of such margin, it should be noted that an increase in interest received was registered (1.14 million Euro) mainly resulting from the increase in interest on debt securities. The amount of the latter (2.18 million Euro) reflects, for 1.45 million Euro, securities held for investment.

The aforementioned increase also reflects, to a lesser extent, interest received on loans. The latter includes interest resulting from repurchase agreements entered into with banks.

Moreover, an increase was registered in interest paid (0.48 million Euro), especially as regards interest related to debts with customers (0.34 million Euro); this increase mainly reflects the management of FONDISS - Supplementary welfare Fund of the Republic of San Marino (approximately 0.32 million Euro).

Net Profits from Financial Operations, equal to 1.88 million Euro (in 2016 they amounted to 2.64 million Euro) registered a considerable decrease of -0.76 million Euro, compared to the previous financial year. In details, securities management generated a balance between capital gains and capital losses resulting from the value as at 31/12/2017 of 619 Euro (up by 0.23 million Euro from 31/12/2016) and a profit from trading for 2.23 million Euro (down by -0.64 million Euro from that realised as at 31/12/2016). Additionally, as at 31/12/2017 a loss of 0.36 million Euro was registered for valuation/trading in foreign currencies (-0.35 million Euro compared to 31/12/2016), generated mainly by the foreign exchange loss (0.95 million Euro) related to a USD denominated bond, partly offset by the hedging forward transaction (for 0.59 million Euro).

The financial management margin is lower compared to that of 2016 by -2.76% (by 0.10 million Euro); in fact, it dropped from 3.65 million Euro to 3.55 million Euro.

In a global backdrop characterised by complexities and uncertainties, the financial markets registered positive results and trends on aggregate in 2017.

As regards equity markets, they reacted positively to the strong data on economic growth, with a series of rises that continued, rather constantly and linearly, for the entire twelve month period.



The Dow Jones index of the US market registered an increase of 25%, whereas in Europe rises were more limited, although very significant; Frankfurt Dax increased by 12.5%, Paris Cac by over 9% and the Mib FTSE by over 14%.

Equity prices, in fact, benefited not only from the recovery of the world economy, but also from the considerable level of liquidity still present on international financial markets thanks to the powerful expansionary measures started in the previous years and continued in 2017, although with gradually decreasing interventions.

Consistently with the positive trend of equity markets, also the creditworthiness of the main issuers showed signs of significant improvement; the iTraxx index that represents the performance of the creditworthiness of the main European bond issuers based on a five year maturity, after a slight widening in the first quarter, which led the indicator to rise up to 75, subsequently went down again to end 2017 on the lowest level of 45.

Interest rates in the Eurozone were affected both by the monetary policies of the ECB, with the reduction of the Quantitative Easing determined by the improvement of the data on economic growth in the countries of the Eurozone, which definitively allayed the deflationary fears that, in the previous years, represented a concrete threat to the economic recovery, and by the sustainability of the public indebtedness and, ultimately, by the sustainability of the single currency.

Euribor rates followed their negative trend throughout 2017, with a further drop from those registered in the previous year. For instance, the 12 month Euribor went down from -0.08 registered at the beginning of 2017 to -0.19 at the end of the year.

The interest rate spread between Italian and German bonds, although with relatively wide fluctuations, closed 2017 on levels similar to those of the beginning of the year, that is to say at 160 basis points. The fluctuations of the spread remained limited throughout the year within a range between 140 and 210 basis points, also thanks to the improvements in the economic variables and to the continuous monitoring by the ECB and to its interventions on the market through the Quantitative Easing.

The three-month Euribor rate remained under -0.30% throughout the year, closing 2017 near -0.33%; the rate for the ten year German bond showed an increasing trend in 2017, although with a high level of volatility close to the different European elections, the periods of uncertainty caused by the geo-political tensions in the Middle East and in Asia and the monetary policies of the Federal Reserve, which gradually continued its interest rate increase programme started at the end of 2016.

In this context, the US Treasury ended 2017 with returns similar to those of the beginning of the year, i.e. at 2.40%, after considerable fluctuations, during the period, with a high volatility that caused the parameter to fluctuate in a range from 2.60% in the first quarter to 2.00% at the end of summer.

Going back to the data of the Balance sheet, as regards the gross contribution margin, amounting to 6.23 million Euro, there is, compared to 2016, a decrease of -0.16 million Euro (-2.46%). This decrease is substantially similar to that recorded by the financial management margin; in fact, as evidenced by the Reclassified Profit and Loss Account diagram, the other proceeds/operating costs negatively influenced the components of the economic result for net 2.67 million Euro, in line with the result of 2016 (-2.73 million Euro).

As regards the other operating proceeds, it should be noted that the main income element is comprised of the revenues related to services rendered to the Public Administration. As explained in the Section of the Notes to the Financial Statements concerning the Commissions, since the agreement on the remuneration for such services expired on 31/12/2015 and for the three-year period 2016/2018 it is yet to be defined, the value registered in 2017 as regards the income element in question represents an estimate, although calculated based on objective elements.

The ordinary operating margin shows, in 2017, a negative value of -2.2 million Euro, with a small increase from 2016; the gross contribution margin, lower than in 2016, as mentioned above, was not sufficient, however, to cover the negative balance between general costs, value adjustments/recoveries on receivables for sums levied from supervised parties and other proceeds, in spite of an absolute value lower than that of the previous financial year (-8,45 million Euro in 2017 and -8.58 million Euro in 2016).

In detail, of the items of the profit and loss account, compared to 2016:

- labour costs (excluding directors and statutory auditors) decreased by -0.61 million Euro (-8.09%);
- other costs are substantially in line with those of 2016;
- other proceeds, including the recovery of sums levied from supervised parties and other types of recoveries of expenses, decreased by -0.36 million Euro (-8.54%);
- amortisations increased (Euro 83,443) due, amongst other things, to the reduction in the amortisation period of the costs related to the project for the restructuring of the bank, and to the beginning of the depreciation of the software for the Central Credit Register.

The extraordinary operating balance is negative for -3,669 million Euro, the gross operating margin is equal to -2.23 million Euro.

Provisions were made to the Financial risks and costs funds for 0.39 million Euro; specifically, 122,500 Euro to the fund for costs for extraordinary proceedings, 190,000 Euro to the fund for legal proceedings, and 80,500 Euro to the fund for legal fees/refunds of legal fees, as detailed in the specific section of the Notes to the financial statements.

As described above, the Governing Council resolved to use the General financial risk fund. The financial year was thus closed with a break even.

Finally, having regard to the "Guarantees and Commitments" an increase is worth noting in commitments for 64.98 million Euro, mainly generated by a forward hedging transaction (approximately 20 million Euro) and by the margins available on credit lines granted to banks (35 million Euro) and to customers (10 million).

For a broader representation of operations, and an explanation of the equity/economic situation, and of the organisational profile of the Bank, reference should be made to the Annual Report of the Central Bank to the Great and General Council.

Finally, as regards the evolution of operations, it should be borne in mind that, pursuant to art. no. 70 of Law no. 147 of 21 December 2017, in 2018 a comprehensive restructuring project that will involve both the statutory and organisational profiles of the Central Bank will be submitted to the Great and General Council, through the State Congress.

Significant events which occurred after the closure of the financial year

No relevant facts were recorded after the closure of the financial year.



Dear Shareholders,

The net equity of the Central Bank, following approval of the Financial Statements, will be as follows:

	Euro
Endowment Fund	12,911,425
Ordinary Reserve Fund	1,274,013
Statutory Reserve Fund	9,627,277
General Financial risks fund	49,209,709
Other Equity Reserves	0
Total Net Equity	73,022,424

Dear Shareholders,

The Governing Council's Report on 2017 Annual Report was read and submitted for approval on 9 May 2018.

On behalf of the Governing Council – following the reading of the Board of Statutory Auditors' Report – your approval is requested of the Financial Statements as a whole, in the manner proposed, pursuant to the laws currently in force.

Heartfelt thanks are due to the Directorate General and all staff for their hard work in favour of the Bank, as well as to the Board of Statutory Auditors for its members' participation at Governing Council meetings.

Finally, thanks are extended to the Shareholders, the Authorities of the Republic of San Marino and its Public Administration for the level of cooperation demonstrated.

San Marino, 30 May 2018





2017 Financial Statements







Balance Sheet Assets

Assets items		2017		2016	
10. CASH BALANCE AND AVAILABLE AT CENTRAL AND POST OFFICES	FUNDS BANKS		14,141,543		10,006,573
20. TREASURY BONDS AND FINANCIAL INSTRUMENTS, FOR REFINANCING PURPOSES AT CENTRAL BANKS	SIMILAR ELIGIBLE		0		0
a) Treasury Bonds and similar financial instruments		0		0	
b) other financial instruments eligible for refinancing purposes at the central banks		0		0	
30. LOANS TO CREDIT INSTITUTIONS			156,850,550		94,966,846
a) on demand loans		116,833,896		94,966,846	
b) other credits		40,016,654		0	
40. LOANS TO CUSTOMERS			73,353,138		50,012,448
a) on demand loans		201,227		203,772	
b) other credits		73,151,911		49,808,676	
50. BONDS AND OTHER FINANCIAL INSTRUMENTS	DEBT		143,276,961		296,150,012
a) issued by public institutions		11,622,694		33,883,557	
b) issued by credit institutions		39,181,734		181,474,174	
c) issued by financial undertakings other than credit institutions		78,554,770		42,064,687	
d) issued by other institutions		13,917,763		38,727,594	
60. SHARES, QUOTAS AND OTHER CAPITAL FINANCIAL INSTRUMENTS			4,665		4,300
70. SHAREHOLDINGS			0		0
a) financial undertakings		0		0	
b) non-financial undertakings		0		0	
80. SHAREHOLDINGS IN UNDERTAKINGS OF THE GROUP			0		0
a) financial undertakings		0		0	
b) non-financial undertakings		0		0	
90. INTANGIBLE FIXED ASSETS			754,168		952,056
a) financial leasing		0		0	
- of which assets under construction		0		0	
b) assets pending financial leasing for termination of leasing agreement		0		0	
- of which for breach of the lessee		0		0	



Assets items	2017		2016	
c) assets available resulting from debt recovery	0		0	
- of which assets available for the repayment of the loan by means of a settlement agreement	0		0	
c) goodwill	0		0	
e) start-up expenses	0		0	
f) other intangible fixed assets	754,168		952,056	
100. TANGIBLE FIXED ASSETS		3,716,784		3,955,084
a) financial leasing	0		0	
- of which assets under construction	0		0	
b) assets pending financial leasing for termination of leasing agreement	0		0	
- of which for breach of the lessee	0		0	
c) assets available resulting from debt recovery	0		0	
- of which assets available for the repayment of the loan by means of a settlement agreement	0		0	
d) lands and buildings	3,595,668		3,784,813	
e) other tangible fixed assets	121,116		170,271	
110. SUBSCRIBED CAPITAL NOT PAID IN		0		0
- of which called capital	0		0	
120. OWN SHARES OR UNITS		0		0
130. OTHER ASSETS		16,301,091		7,768,303
140. ACCRUED REVENUES AND DEFERRED EXPENSES		56,462		94,916
a) accrued revenues	0		0	
b) deferred expenses	56,462		94,916	
150. TOTAL ASSETS		408,455,362		463,910,538



Balance sheet liabilities

Liabilities items	2017		2016	
10. DEBTS WITH CREDIT INSTITUTIONS		185,367,376		298,028,098
a) on demand loans	83,559,790		164,627,749	
b) term or notice debts	101,807,586		133,400,349	
20. DEBTS WITH CUSTOMERS		140,134,049		82,179,308
a) on demand loans	78,391,689		82,179,308	
b) term or notice debts	61,742,360		0	
30. DEBTS REPRESENTED BY FINANCIAL INSTRUMENTS		0		0
a) bonds	0		0	
b) certificates of deposit	0		0	
c) other financial instruments	0		0	
40. OTHER LIABILITIES		8,709,672		7,359,184
- of which cheques in circulation and other securities	419,100		460,082	
50. ACCRUED EXPENSES AND DEFERRED REVENUES		234,041		64,493
a) accrued expenses	187,610		0	
b) deferred revenues	46,431		64,493	
60. STAFF RETIREMENT ALLOWANCES		494,800		540,819
70. RISKS AND COSTS FUNDS		493,000		100,000
a) retirement and similar costs funds	0		0	
b) tax fund	0		0	
c) other funds	493,000		100,000	
80. FUND FOR CREDIT RISKS		0		0
90. GENERAL FINANCIAL RISK FUND		49,209,709		51,825,921
100. SUBORDINATED LIABILITIES		0		0
110. SUBSCRIBED CAPITAL		12,911,425		12,911,425
120. SHARE PREMIUM		0		0
130. RESERVES		10,901,290		13,074,811
a) ordinary or legal reserve	1,274,013		3,447,534	
b) reserve for own shares or quotas	0		0	
c) statutory reserves	9,627,277		9,627,277	
d) other reserves	0		0	
140. REVALUATION RESERVE		0		0



Liabilities items	2017		2016	
150. PROFITS (LOSSES) CARRIED FORWARD		0		0
160. OPERATING PROFIT (LOSS)		0		-2,173,521
170. TOTAL LIABILITIES		408,455,362		463,910,538





Guarantees and Commitments

Items	2017	2016
10. GUARANTEES ISSUED	2,080,658	6,699,648
- of which:		
a) acceptances	0	0
b) other guarantees	2,080,658	6,699,648
20. COMMITMENTS	65,111,729	130,000
- of which:		
a) for certain use	20,111,729	130,000
- of which: financial instruments	0	0
b) for uncertain use	45,000,000	0
- of which: financial instruments	0	0
c) other commitments	0	0
TOTAL	67,192,387	6,829,648



Profit and Loss Account

Items of the Profit and Loss Account	2017	2016
10. INTEREST RECEIVED AND OTHER PROCEEDS	2,294,294	1,151,182
a) on loans to credit institutions	-101,404	-289,146
b) on loans to customers	216,222	200,810
c) on debt securities	2,179,476	1,239,518
20. INTEREST PAID AND OTHER COSTS	-616,730	-133,081
a) on debts with credit institutions	-277,591	-132,338
b) on debts with customers	-339,139	-743
c) on debts represented by securities	0	0
- of which on subordinated liabilities	0	0
30. DIVIDENDS AND OTHER PROCEEDS	0	0
a) on shares, quotas and other capital securities	0	0
b) on shareholdings	0	0
c) on shareholdings in undertakings of the group	0	0
40. COMMISSIONS EARNED	2,807,831	2,834,477
50. COMMISSIONS PAID	-125,238	-136,152
60. PROFITS (LOSSES) FROM FINANCIAL OPERATIONS	1,875,419	2,635,551
70. OTHER OPERATING PROCEEDS	3,869,468	4,226,267
80. OTHER OPERATING COSTS	-160,238	-125,039
90. ADMINISTRATIVE COSTS	-11,555,314	-12,155,854
a) labour costs	-7,119,194	-7,710,755
of which:		
- wages and salaries	-4,548,821	-4,930,928
- pension contributions	-1,290,090	-1,415,205
- staff retirement allowances	-521,977	-576,074
- severance and indemnity-related costs	0	0
- directors and statutory auditors	-236,788	-222,959
- other labour costs	-521,518	-565,589
b) other administrative costs	-4,436,120	-4,445,099
100. VALUE ADJUSTMENTS ON INTANGIBLE FIXED ASSETS	-332,219	-230,901
110. VALUE ADJUSTMENTS ON TANGIBLE FIXED ASSETS	-236,766	-254,641
120. PROVISIONS FOR RISKS AND COSTS	-393,000	-160,000
130. PROVISIONS TO THE CREDIT RISKS FUNDS	0	0
140. VALUE ADJUSTMENTS ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	-40,686	-12,411
150. VALUE RECOVERIES ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	638	9,701





Items of the Profit and Loss Account	2017	2016
160. VALUE ADJUSTMENTS ON FINANCIAL FIXED ASSETS	0	0
170. VALUE RECOVERIES ON FINANCIAL FIXED ASSETS	0	0
180. PROFIT (LOSS) ON ORDINARY ACTIVITIES	-2,612,541	-2,350,901
190. EXTRAORDINARY PROCEEDS	35,086	185,445
200. EXTRAORDINARY COSTS	-38,757	-8,065
210. EXTRAORDINARY PROFIT (LOSS)	-3,671	177,380
220. INCOME TAX FOR THE FINANCIAL YEAR	0	0
230. VARIATION TO THE GENERAL FINANCIAL RISKS FUND	2,616,212	0
240. OPERATING PROFIT (LOSS)	0	-2,173,521



Reclassified Profit and Loss Account

	2017	2016
10. INTEREST RECEIVED	114,818	-88,336
10.1 from customers	216,222	200,810
10.2 from credit institutions	-101,404	-289,146
1.2.1 <i>c/accounts and on demand deposits</i>	-336,937	-289,146
1.2.2 <i>term deposits and repurchase agreements</i>	235,533	0
1.2.3 <i>other interest</i>	0	0
20. INTEREST ON SECURITIES	2,179,476	1,239,518
30. DIVIDENDS AND OTHER PROCEEDS	0	0
40. INTEREST PAID	-616,730	-133,081
40.1 to customers	-339,139	-743
40.1.1 <i>c/accounts and on demand deposits</i>	-34,402	-743
40.1.2 <i>term deposits and repurchase agreements</i>	-304,737	0
40.2 to credit institutions	-89,981	-132,338
40.3 other assimilated interest and costs	-187,610	0
A. MONEY MANAGEMENT MARGIN	1,677,564	1,018,101
5. PROFITS FROM FINANCIAL OPERATIONS	2,364,972	3,434,541
6. FINANCIAL OPERATION COSTS	-489,553	-798,990
B. FINANCIAL MANAGEMENT MARGIN	3,552,983	3,653,652
70. OTHER OPERATING PROCEEDS	2,860,466	2,887,308
70.1 proceeds from securities management	65	31
70.2 proceeds from foreign currency management	0	0
70.3 other proceeds	2,860,401	2,887,277
80. OTHER OPERATING COSTS	-186,064	-156,571
80.1 securities management costs	-35,303	-44,884
80.2 foreign currency management costs	0	0
80.3 other costs	-150,761	-111,687
C. GROSS CONTRIBUTION MARGIN	6,227,385	6,384,389
90. OTHER PROCEEDS	3,816,833	4,173,436
of which from rounding off in Euro units	0	0
100. LABOUR COSTS	-6,882,406	-7,487,796
100.1 clerical	-3,297,522	-3,432,205
100.2 management and officers	-1,251,299	-1,498,723
100.3 pension contributions	-1,290,090	-1,415,205
100.4 provision to employee retirement fund	-521,977	-576,074
100.5 miscellaneous personnel costs	-521,518	-565,589
110. DEPRECIATION AND PROVISIONS COSTS	-568,985	-485,542





	2017	2016
120. OTHER COSTS	-4,772,322	-4,772,681
of which: from rounding off in Euro units	0	3
130. VALUE ADJUSTMENTS ON CREDITS	-40,686	-12,411
140. VALUE RECOVERIES ON CREDITS	638	9,701
D. ORDINARY OPERATING MARGIN	-2,219,543	-2,190,904
150. EXTRAORDINARY OPERATING PROCEEDS	407	16,000
160. EXTRAORDINARY OPERATING COSTS	-6,091	0
E. GROSS OPERATING MARGIN	-2,225,227	-2,174,904
170. WINDFALL PROCEEDS	34,679	169,445
180. WINDFALL COSTS	-32,664	-8,062
F. PRE-PROVISIONS PROFITS	-2,223,212	-2,013,521
190. PROVISIONS FOR RISKS AND COSTS	-393,000	-160,000
200. PROVISION TO THE FUND FOR GENERAL FINANCIAL RISKS	0	0
210. USE OF THE GENERAL FINANCIAL RISKS FUND	2,616,212	0
G. PRE-TAX PROFITS	0	-2,173,521
220. INCOME TAXES	0	0
H. NET PROFIT (LOSS)	0	-2,173,521



Notes to the Financial Statements





Notes to the Financial Statements

Structure and Contents of the Financial Statements

PART A – General Part

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Structure and Contents of the Financial Statements

The 2017 Financial Statements have been drawn up in accordance with the laws currently in force, in particular according to Law 96 of 29 June 2005 (Statutes of the Central Bank of the Republic of San Marino), Law no. 165 of 17 November 2005 and Law no. 47 of 23 February 2006 (Companies Law), as subsequently amended and supplemented.

The Financial Statements, comprising the Balance Sheet, the Profit and Loss Account and the Notes thereto, are accompanied by the Reports of the Governing Council, of the Board of Statutory Auditors and of the Auditing Company.

The Balance Sheet and the Profit and Loss Account were drawn up according to the templates defined by CBSM Regulation no. 2016/02; the Notes to the financial statements were prepared using the provisions of the aforementioned Regulation and of the CBSM Circular n. 2017/03 as reference, also taking into account the peculiarities typical of the activity of a Central Bank.

Furthermore, the Statement of Financial Conditions (Part D - Other Information) was attached to the Notes to the financial statements.

In order to facilitate the analysis of the data, the figures of the preceding financial year are also included, reclassified, if necessary, for the purpose of ensuring the comparability of the data of the two financial years.

Some of the items in the Notes to the financial statements have been represented according to their denomination in "Euro" and "foreign currencies"; all non-Euro currencies have been included in the latter category.

As regards the individual items of the Financial Statements, it should be noted that such items are expressed in units of Euro, obtained by rounding off the corresponding sum in decimals, that is by the sum of the rounded-off totals where sub-items are concerned.

The differences generated in such accounting practice are to be considered as off-balance sheet differences and have been included within the Financial Statements amongst the "Other Assets/Liabilities" and the "Extraordinary Proceeds/Costs" entry in the Profit and Loss Account; this is per the general criteria for drawing up bank financial statements.

Moreover, it is worth noting that the Notes to the financial statements do not contain any detailed table when the item in question has no accounting entries for the two financial years of reference. Similarly, there are no sections related to activities and/or cases that may not be exercised and/or applied given the aforementioned peculiarities.



Section 1 - Illustration of the Valuation Criteria

The 2017 Financial Statements have been drawn up in accordance with the general accounting principles of prudence, pertinence and continuity.

CASH BALANCE AND FUNDS AVAILABLE AT CENTRAL BANKS AND POST OFFICES

These are shown at face value, which corresponds to their presumed monetary value.

CREDITS

- Loans to credit institutions: these have been shown at face value, corresponding to their presumed monetary value; this also includes the share of interest accrued and matured on the closing date of the financial year.

- Loans to customers: these appear at their presumed monetary value, corresponding to their face value; they also reflect the share of interest accrued and matured on the closing date of the financial year.

- Other credits (contained in "Other Assets"): other credits are shown at their presumed monetary value, corresponding to their face value.

An exception is represented by the credits for the recovery of sums levied from supervised parties, which are shown at their presumed monetary value, net of value adjustments, corresponding to the share deemed as not recoverable. The fund for the devaluation of credits was filled in by considering the analytical devaluation deriving from alleged losses on these credits.

BONDS AND OTHER DEBT FINANCIAL INSTRUMENTS

As at 31/12/2017, the debt financial instruments of the bank are divided into investment portfolio and trading portfolio.

The investment portfolio, opened in the financial year 2017 with a specific resolution of the Governing Council, includes the financial instruments intended to be held on a long term basis by the company and valued at their purchase price. They were depreciated in case of permanent deterioration of the situation of the issuer and of the ability of the country of residence of the latter to repay its debts. The relevant value is adjusted for the portion of the trading spread (scarto di negoziazione).

The trading securities portfolio contains the financial instruments held, besides for investments purposes, also for trading purposes to satisfy treasury and trading needs. This portfolio is valued at the market value as at the last business day of the financial year, supplied by the appointed provider of investment services. An additional internal assessment was carried out on such values, for prudential purposes, based on the prices taken from information providers.

The difference between the book value of the individual security and its market value is recognised in the Profit and Loss Account under item "Profits (losses) from financial operations".

This item also includes the value of interest accrued at the end of the financial year.

SHARES, QUOTAS AND OTHER CAPITAL FINANCIAL INSTRUMENTS

There is only one share for an irrelevant amount, in relation to which, as there is no market price, reference is made to the value notified by the issuer as the transfer value as at 31/12/2017.



INTANGIBLE FIXED ASSETS

These are shown at their purchase price, including all accessory costs, and are depreciated on a yearly basis according to the direct method.

They include:

- software programmes depreciated based on depreciation plans with a maximum duration of 5 years and depreciation percentages consistent with the fiscal legislation (Law no. 166 of 16/12/2013 as subsequently amended);
- current intangible fixed assets, with reference to which no amortisation has been carried out yet;
- other multi-year costs.

Multi-year costs were recognised in the Financial Statements with the specific approval of the Board of Statutory Auditors.

With reference to multi-year costs related to the project for reviewing the internal organisation, governance and economic-financial balance of the Central Bank, it was decided to modify the estimated residual useful life and to depreciate the costs, incurred in 2016 and 2017, over a period of four years rather than in five years as originally decided, since this depreciation period is considered to be more appropriate to the nature and future use of the project. This change led to a different distribution over the years of the impact on the profit and loss account of the capitalised cost (as regards 2017, a greater economic cost for 47,064 Euro).

The amortisation of intangible fixed assets, during the first year, is carried out for the entire financial year, regardless of the date of actual use.

TANGIBLE FIXED ASSETS

These have been entered at their purchase price, inclusive of any accessory costs. In 2017, no devaluations and/or re-valuations were carried out on their value.

The cost of fixed assets is depreciated, taking into account the useful residual life of the assets, based on the percentages provided for by the current legislation on taxation (Law no. 166 of 16/12/2013 as subsequently amended) regarded to be representative of the useful life.

ACCRUED REVENUES AND DEFERRED EXPENSES

These items include the shares of costs and proceeds which are common to two or more financial years, in observation of the accounting principle of temporal pertinence.

OTHER ASSETS AND OTHER LIABILITIES

This item includes all assets and liabilities not related to any other assets items and liabilities items, including items in transit not allocated to the relevant accounts.

Other liabilities include, inter alia, means of payment drawn on the bank, such as the drawing and receipt cheques.

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies appear in Euro, based on the European Central Bank's exchange rate bulletin dated 29/12/2017.

The aggregate amount of the assets and liabilities in foreign currency is equal to 26,962,784 Euro and 3,951 Euro, respectively.



DEBTS

These are shown at their face value, and also include the interest accrued (if any) as at the closing date of the financial year.

STAFF RETIREMENT ALLOWANCES

This item illustrates the entire amount of the benefit accrued during the year by employees, pursuant to the laws and labour contracts currently in force.

FINANCIAL RISKS AND COSTS FUNDS

They are established for the purpose of covering certain or likely losses or debts, for which, however, at the end of the financial year the amount or occurrence day could not be determined. In the valuation of such funds, the general principles of prudence and expertise were satisfied, and no fund for generic risks was created without any underlying economic reason. Potential liabilities were recognised in the Financial Statements and registered in the funds since they are deemed likely and their relevant amount and costs is reasonably estimated.

There is no "tax fund" given that the Central Bank's Statutes set out that profits (if any) are exempt from General Income Tax.

GENERAL FINANCIAL RISK FUND

The fund was set up to cover general business risks and, therefore, constitutes net equity. The amount of any variation in this item is entered under this specific title in the Profit and Loss Account.

GUARANTEES AND COMMITMENTS

The guarantees issued have been entered at the value corresponding to the relative commitment undertaken or guaranteed.

The commitments related to spot delivery of foreign currencies are entered at the foreign exchange rate current on the date of the exercise, just as the commitments related to forward delivery of foreign currencies resulting from hedging transactions, in accordance with the provisions of Regulation no. 2016/02.

The commitments to pay funds are entered for the residual amount to be used.

INTEREST, COMMISSIONS, COSTS AND PROCEEDS

Interest, commissions, costs and proceeds are recognised on an accrual basis.

MEMORANDUM ACCOUNTS

Deposited third-party financial instruments and own financial instruments deposited with third parties are recognised at year-end market prices.

Section 2 – Adjustments and provisions made in compliance with fiscal regulations

No value adjustments or provisions were made exclusively in application of fiscal regulations.



Assets

1 Cash balance and available funds at central banks and post offices (Item 10 of Assets)

Table 1.1: detailed breakdown of item 10 "Cash balance and available funds at central banks and post offices"

	31/12/2017	31/12/2016	Variations	
Cash balance and available funds at central banks and post offices:			Amount	%
Cash and Cash Equivalents	14,141,543	10,006,573	4,134,970	41.32%
Total	14,141,543	10,006,573	4,134,970	41.32%

The vault cash is comprised of Euro-denominated notes and coins for a value of 14,139,907 Euro, including the cash available at the company used to perform the centralised cash management services and a cash fund for 99 Euro created at the Single Court of San Marino for legal notification expenses; it also includes foreign currencies for an equivalent of 1,636 Euro.

2 Treasury Bonds and other financial instruments eligible for refinancing purposes at the central banks (item 20 of Assets)

Table 2.1: detailed breakdown of item 20 "Treasury Bonds and other financial instruments eligible for refinancing purposes at the central banks"

This item shows no value since it contains the financial instruments that are held by the banks of San Marino and are eligible for refinancing at this Central Bank.

Table 3.1: detailed breakdown of item 30 "Loans to credit institutions"

	31/12/2017			31/12/2016			Variations	
	In Euro	In foreign currency	Total	In Euro	In foreign currency	Total	Total amount	%
Loans to credit institutions :								
A) On demand credits:	116,596,006	237,890	116,833,896	94,790,453	176,393	94,966,846	21,867,050	23.03%
A1. Mutual accounts opened for services rendered	1,779,728	0	1,779,728	860,653	0	860,653	919,075	106.79%
A2. C/accounts in credit	114,816,278	237,890	115,054,168	93,929,800	176,393	94,106,193	20,947,975	22.26%
A3. Others	0	0	0	0	0	0	0	0%
B) Other credits	40,016,654	0	40,016,654	0	0	0	40,016,654	n.a.
B1. Term deposits	0	0	0	0	0	0	0	0%
B2. C/accounts in credit	0	0	0	0	0	0	0	0%
B3. Repurchase agreements and repos	40,016,654	0	40,016,654	0	0	0	40,016,654	n.a.
B4. Others	0	0	0	0	0	0	0	0%
Total	156,612,660	237,890	156,850,550	94,790,453	176,393	94,966,846	61,883,704	65.16%

Inter-bank loans as at 31/12/2017 register an aggregate increase of 65.16% compared to 31/12/2016, resulting from the increase in on demand credits as well as in term credits.

This increase mainly reflects, as regards the former, internal decisions regarding the allocation of liquidity, and, as regards the latter, the opening of a financing transaction.



The Central Bank does not hold any shareholdings, thus, as at 31/12/2017, there are no credit positions towards subsidiaries and related undertakings or undertakings with which there is a shareholding link, and there are no subordinated credits.

This item includes interest accrued and matured at the end of the financial year on on-demand inter-bank loans, equal to -63,658 Euro (presence of negative interest received) and 16,654 Euro as interest accrued on repurchase agreements, classified under the relevant categories.

There are no value adjustments as regards inter-bank loans.

Table 3.2: composition of “Loans to credit institutions” based on the residual life

MATURITY	31/12/2017	31/12/2016
On demand	116,833,896	94,966,846
Up to 3 months	40,016,654	0
From over 3 months to 6 months	0	0
From over 6 months to 1 year	0	0
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	0	0
Without maturity	0	0
Total	156,850,550	94,966,846

About the residual life of the inter-bank loans, as shown also in table 3.2, as at 31/12/2017, there are only on demand credits and credits with a maturity of no more than three months.

4 Loans to customers (item 40 of assets)

Table 4.1: detailed breakdown of item 40 “Loans to customers”

	31/12/2017	31/12/2016	Variations
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	In Euro	In foreign currency	Total	In Euro	In foreign currency	Total	Total amount	%
A) On demand/until revoked:	201,227	0	201,227	203,772	0	203,772	-2,545	-1.25%
A1. C/accounts in credit	201,227	0	201,227	203,772	0	203,772	-2,545	-1.25%
A2. Others	0	0	0	0	0	0	0	0%
B) Other credits:	73,151,911	0	73,151,911	49,808,676	0	49,808,676	23,343,235	46.87%
B1. C/accounts in credit	67,536,747	0	67,536,747	47,542,018	0	47,542,018	19,994,729	42.06%
B2. Portfolio discounted and subject to collection	0	0	0	0	0	0	0	0%
B3. Repurchase agreements and repos	0	0	0	0	0	0	0	0%
B4. Other loans	5,615,164	0	5,615,164	2,266,658	0	2,266,658	3,348,506	147.73%
Total	73,353,138	0	73,353,138	50,012,448	0	50,012,448	23,340,690	46.67%



“Loans to customers” mainly refer to credit positions towards the Public Administration and, to a minimal extent, to loans to the employees of the Central Bank. The change in this item from the previous financial year mainly reflects the increase in credit lines granted. Specifically, this increase mainly regarded the item “Other credits - current accounts in credit”, which include two loans to the Most Excellent Chamber, respectively for:

- 60 million Euro, opened in December 2012, with repayment starting on 30/11/2014 and maturity on 31/05/2020. On 26 November 2014, the maturity of said loan as at 30/06/2026 was extended, and consequently the repayment instalments were halved to 2.5 million Euro, whereas the first instalment was cashed on 31/12/2014. As at 31/12/2017, the residual credit is equal to 42.5 million Euro;
- 25 million Euro, opened on 15 December 2017 and maturing on 31 December 2018. From 20 January 2018 to 31 December 2018 the credit line granted may be used for up to 35 million Euro.

As at 31/12/2017, an increase is registered also in the item “Other credits -other loans”, which includes the residual credit of an unsecured mortgage loan taken over by the Central Bank in 2017, as creditor of the Most Excellent Chamber (4.27 million Euro) and loans disbursed to employees of the CBSM (mortgage loans for 1.35 million Euro).

In relation to these latter loans, the Bank received mortgage guarantees from its employees amounting to 2,709,312 Euro and sureties amounting to 204,048 Euro, as shown in table 4.2 below.

The “interest to be debited to customers”, accrued and matured as at the end of the financial year, amounting to 37,007 Euro, is included in the “On demand - current account in credit” and “Other credits - current accounts in credit” items.

The Central Bank does not hold any shareholdings, thus, as at 31/12/2017, there are no credit positions towards subsidiaries and related undertakings or undertakings with which there is a shareholding link, and there are no loans granted to the members of the administrative, management and control bodies.

In any case, the loans are not subordinated loans.

Table 4.2: Secured loans to customers

	31/12/2017	31/12/2016	Variations	
			Amount	%
A) From mortgages	1,348,764	1,237,016	111,748	9.03%
B) From liens on:	0	0	0	0%
1. cash deposits	0	0	0	0%
2. securities	0	0	0	0%
3. other assets	0	0	0	0%

C) From guarantees of:	0	0	0	0%
1. Public Administrations	0	0	0	0%
2. Monetary financial institutions	0	0	0	0%
3. Investment funds other than monetary mutual funds	0	0	0	0%
4. Other financial companies	0	0	0	0%
5. Insurance undertakings	0	0	0	0%
6. Pension funds	0	0	0	0%
7. Non-financial companies	0	0	0	0%
8. e) Households and not-for-profit institutions servicing households	0	0	0	0%
- 8.1 Consumer and producer households	0	0	0	0%
- 8.2 Not-for-profit institutions servicing households	0	0	0	0%
9. Others	0	0	0	0%
Total	1,348,764	1,237,016	111,748	9.03%

The details refer to the mortgages granted to employees. These credits are sometimes characterised by the simultaneous presence of collaterals and personal guarantees; in the table such credits are entered under mortgage backed credits for their entire amount, given the latter guarantee is prevailing compared to the personal guarantee, which has a residual nature.

The aforementioned table, where the amount of credits secured by collaterals and/or personal guarantees should be reported, does not specify the availability restrictions applied on current accounts with reference to the loans disbursed.

There are no value adjustments as regards loans to customers.

Table 4.3: composition of “Loans to customers” based on the residual life.

MATURITY	31/12/2017	31/12/2016
On demand	237,974	245,790



Up to 3 months	24,352	21,844
From over 3 months to 6 months	2,524,354	3,036,678
From over 6 months to 1 year	28,082,016	3,058,5442
From over 1 year to 18 months	2,548,727	2,543,733
From over 18 months to 2 years	3,082,039	2,543,743
From over 2 years to 5 years	16,892,574	15,262,662
Over 5 years	19,961,102	23,299,454
Without maturity	0	0
Total	73,353,138	50,012,448

For data comparability purposes, the value related to the financial year 2016 was recalculated since, in 2017, according to the provisions of Regulation no. 2017/03, the valorisation of the table was made net of any interest accrued after the reference date.

A floating rate fee is received in relation to these credits. It should be noted that the loan to the Most Excellent Chamber of the residual value of 42.5 million Euro has been indicated, for the purposes of the above-mentioned breakdown, on the basis of the repayment plan (capital) agreed with the counterparty, although contractually it is a loan facility. The above-mentioned breakdown takes into account the new repayment plan agreed on 26 November 2014, which is described above.

Table 4.4: composition of "Loans to customers" (net values) by business sector

	31/12/2017	31/12/2016
a) Public Administrations	71,803,148	48,571,705
b) Financial companies other than credit institutions:	0	0
- Monetary financial institutions (excluding credit institutions)	0	0
- Investment funds other than monetary mutual funds	0	0
- Other financial institutions	0	0
- Insurance undertakings	0	0
- Pension funds	0	0

c) Non-financial companies - of which cancelled from the Resoaut	0	0
- Industry	0	0
- Construction	0	0
- Services	0	0
- Other non-financial companies	0	0
d) Households and not-for-profit institutions servicing households	1,549,990	1,440,743
- Consumer and producer households	1,549,990	1,440,743
- Not-for-profit institutions servicing households	0	0
e) Others	0	0
Total	73,353,138	50,012,448

5 Bonds and other debt financial instruments and shares, quotas and other capital financial instruments (items 50 - 60 of assets)

Table 5.1: composition of financial Instruments held for investment and held for trading

31/12/2017		
Items/Amounts	Held for investment	Held for trading
Bonds and other debt financial instruments:	42,139,696	101,137,265
- of which bonds and other subordinated debt financial instruments:	0	6,811,050
- of which bonds and other debt financial instruments maturing in 2018	0	21,937,008
a) issued by public institutions	0	11,622,694
b) issued by credit institutions	0	39,181,734
c) issued by financial undertakings other than credit institutions	42,139,696	36,415,074
d) issued by other institutions	0	13,917,763



Shares, quotas and other capital financial instruments:	0	4,665
a) shares	0	4,665
Total	42,139,696	101,141,930

Accrued income for interest as at 31/12/2017 on the "held for trading" securities portfolio, equal to 40,131 Euro, and on the "investment" securities portfolio, equal to 412,042 Euro, is included in the item "Bonds and other debt financial instruments".

Table 5.2: details of "financial instruments held as investment"

Items/Amounts	31/12/2017			31/12/2016		
	Purchase price	Balance Sheet Value	Fair value	Purchase price	Balance Sheet Value	Fair value
1. Debt financial instruments	42,139,696	42,139,696	==	0	0	0
1.1 Bonds	42,139,696	42,139,696	==	0	0	0
- listed	0	0	0	0	0	0
- unlisted	42,139,696	42,139,696	==	0	0	0
1.2 Other debt financial instruments	0	0	0	0	0	0
- listed	0	0	0	0	0	0
- unlisted	0	0	0	0	0	0
2. Capital financial instruments	0	0	0	0	0	0
- listed	0	0	0	0	0	0
- unlisted	0	0	0	0	0	0
Total	42,139,696	42,139,696	0	0	0	0

The investment portfolio is comprised of two structured securities, unlisted, both issued by the Special Purpose Vehicle (SPV) "Demeter Investments BV", purchased in 2017.

These securities were included in the investment portfolio with a specific resolution of the Governing Council and their balance sheet value as at 31 December 2017 is net of a trading spread for the year equal to 351.890 Euro.

For the purpose of identifying and monitoring the financial risks connected to the aforementioned securities, the Bank appointed a major international advisor.

Even though the fair value as at the end of the financial year is not available, based on the evaluation report prepared by the appointed advisor it is believed that there are no permanent losses on the aforementioned securities.

Table 5.3: annual changes in "Financial instruments held for investment"

	31/12/2017	31/12/2016
Opening balances	0	0
Increases:	42,491,586	0
1. Purchases	42,079,544	0
- of which: debt financial instruments	0	0
2. Value recoveries	0	0
3. Transfer from the trading portfolio	0	0
4. Other variations	412,042	0
Decreases:	351,890	0
1. Sales	0	0
- of which: debt financial instruments	0	0
2. Redemptions	0	0
3. Value adjustments	0	0
- of which: lasting devaluations	0	0
4. Transfer to the trading portfolio	0	0
5. Other variations	351,890	0
Final balances	42,139,696	0

With reference to the above table, the following should be pointed out:

Item 4: other variations

It refers to accrued revenues as at 31/12/2017 for interest on securities.

Item 5: other variations

It refers to the trading spreads on securities.



Table 5.4: composition of “Debt financial instruments held for investment” based on the residual life

Maturity	31/12/2017		31/12/2016	
	Fixed rate	Floating rate	Fixed rate	Floating rate
On demand	0	0	0	0
Up to 3 months	0	0	0	0
From over 3 months to 6 months	0	0	0	0
From over 6 months to 1 year	0	0	0	0
From over 1 year to 18 months	0	0	0	0
From over 18 months to 2 years	0	0	0	0
From over 2 years to 5 years	20,919,002	0	0	0
Over 5 years	21,220,694	0	0	0
Without maturity	0	0	0	0
Total	42,139,696	0	0	0

Table 5.5: detailed breakdown of “Financial Instruments held for Trading”

Items/Amounts	31/12/2017	31/12/2016
	Fair value	Fair value
1. Debt financial instruments	101,137,265	296,150,012
1.1 Bonds	101,137,265	296,150,012
- listed	0	0
- unlisted	101,137,265	296,150,012
1.2 Other debt financial instruments	0	0
- listed	0	0
- unlisted	0	0

2. Capital financial instruments	4,665	4,300
- listed	0	0
- unlisted	4,665	4,300
Total	101,141,930	296,154,312

The portfolio held for trading is comprised of securities not listed on regulated markets.

As detailed in Part A - Section 1, as regards the bond financial instruments the fair value was determined based on the market value on the last business day of the financial year and defined, following an internal assessment made on the basis of the prices taken from information providers.

As regards the capital financial instruments (of a small amount), the item is comprised only of the value of one share in the company Swift SCRL, which includes also the capital gains resulting from valuation, amounting to 365 Euro. The aforementioned balance sheet value was determined based on the value notified by the issuer, as the transfer value as at 31/12/2017.

Table 5.6: annual variations in "Financial instruments held for trading".

	31/12/2017	31/12/2016
Opening balances	296,154,312	253,596,494
Increases:	520,624,723	661,665,421
1. Purchases	518,053,206	657,870,738
- of which: debt financial instruments	518,053,206	657,870,738
- of which: capital financial instruments	0	0
2. Value recoveries and revaluations	134,001	561,842
3. Transfer from the investment portfolio	0	0
4. Other variations	2,437,516	3,232,841
Decreases:	715,637,105	619,107,603
1. Sales and refunds	715,148,145	617,720,319
- of which: debt financial instruments	715,148,145	617,720,319
- of which: capital financial instruments	0	0
2. Value adjustments and devaluations	133,382	792,570
3. Transfer to the investment portfolio	0	0
4. Other variations	355,578	594,714



Final balances	101,141,930	296,154,312
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With reference to the above table, the following should be pointed out:

Item: purchases
It includes:
- issue discounts due, on the negotiation date, on non-listed fixed income securities for a total of 41,253 Euro.
Item: value recoveries and revaluations
It refers to capital gains calculated in application of the valuation principle shown in Part A.
Item: other variations
It includes:
- profit from securities negotiation totalling 2,397,385 Euro;
- accrued revenues as at 31/12/2017 on interest on securities amounting to 40,131 Euro.
Item: sales and refunds
It includes:
- issue discounts amounting to 72,032 Euro matured on the negotiation/refund date on non-listed fixed income securities.
Item: value adjustments
It refers to capital losses calculated in application of the valuation principle shown in Part A.
Item: other variations
It includes:
- accrued revenues as at 31/12/2017 on interest on securities amounting to 181,443 Euro;
- losses from securities negotiation totalling 166,415 Euro;
- issue discounts for 2017 totalling 7,720 Euro on non-listed fixed income securities. To this regard, it should be noted that, during the financial year, an adjustment was made on issue discounts for 51,441 Euro, accrued as at 31/12/2016, erroneously calculated. Such adjustment did not have any impact on the economic result.

The significant decrease registered in the securities portfolio of the bank (held for investment and held for trading) equal to -152.87 million Euro reflects the drop in funding, internal decisions regarding the allocation of liquidity and an increase in loans to customers.

The Central Bank does not hold any shareholdings, thus, as at 31/12/2017, there are no financial instruments in the securities portfolio issued by subsidiaries and related undertakings or undertakings with which there is a shareholding link.

Table 5.7: composition of "Debt financial instruments held for trading" based on the residual life.

Residual duration of bonds	31/12/2017		31/12/2016	
	Fixed rate	Floating rate	Fixed rate	Floating rate
On demand	0	0	0	0
Up to 3 months	0	8,311,327	0	8,410,869
From over 3 months to 6 months	0	7,109,479	0	4,971,825



From over 6 months to 1 year	2,510,332	4,005,871	16,873,099	45,057,963
From over 1 year to 18 months	0	7,443,556	5,033,676	38,275,265
From over 18 months to 2 years	0	4,511,569	1,703,329	14,651,306
From over 2 years to 5 years	10,415,682	54,893,208	34,745,353	106,785,642
Over 5 years	940,941	995,300	15,635,700	4,005,985
Without maturity	0	0	0	0
Total	13,866,955	87,270,310	73,991,157	222,158,855

6 Shareholdings (items 70 - 80 of assets)

There are no "Shareholdings" as at 31/12/2017, nor as at 31/12/2016.

7 Intangible fixed assets (item 90 of assets)

Table 7.1: description and movements in item 90 "Intangible fixed assets"

Annual variations	31/12/2017	Financial leasing	Assets pending financial leasing for termination of leasing agreement	Assets available resulting from debt recovery	Goodwill	Start-up expenses	Other intangible fixed assets
A. Opening balances	952,056	0	0	0	0	0	952,056
B. Increases	194,437	0	0	0	0	0	194,437
B1. Purchases	191,397	0	0	0	0	0	191,397
B2. Value recoveries:	0	0	0	0	0	0	0
- of which for creditworthiness	0	0	0	0	0	0	0
B3. Revaluations	0	0	0	0	0	0	0
B4. Other increases	3,040	0	0	0	0	0	3,040
C. Decreases	392,325	0	0	0	0	0	392,325



C1. Sales	206	0	0	0	0	0	206
C2. Value adjustments:	332,219	0	0	0	0	0	332,219
- of which depreciations	332,219	0	0	0	0	0	332,219
- of which lasting devaluations	0	0	0	0	0	0	0
- of which for creditworthiness	0	0	0	0	0	0	0
C3. Other decreases	59,900	0	0	0	0	0	59,900
D. Final balances	754,168	0	0	0	0	0	754,168

With reference to the above table, the following should be pointed out:

Item B.1: purchases

It refers to costs for purchasing software programmes for 141,929 Euro, multi-year costs on third party assets for 9,468 Euro, multi-year costs related to the restructuring project outlined below for 40,000 Euro.

Item B.4: Other increases

It refers to fixed assets under construction.

Item C.1: sales

Residual value to be depreciated of assets sold during 2017.

Item C.3: other variations

It refers to a credit note on fixed assets under construction and advances for 37,500 Euro and to the recognition of a windfall cost on multi-year costs for 22,400 Euro, resulting from the adjustment of amounts already accounted for in 2016.

Table 7.2: detailed breakdown of item 90 "Intangible fixed assets"

Items/Values	31/12/2017			31/12/2016		
	Purchase price/Production cost	Balance Sheet Value	Fair value*	Purchase price/Production cost	Balance Sheet Value	Fair value*
A. Financial leasing	0	0	0	0	0	0
- of which assets under construction	0	0	0	0	0	0
B. Assets pending financial leasing for termination of leasing agreement	0	0	0	0	0	0
- of which for breach of the lessee	0	0	0	0	0	0
C. Assets available resulting from debt recovery	0	0	0	0	0	0

- of which assets available for the repayment of the loan by means of a settlement agreement	0	0	0	0	0	0
D. Goodwill	0	0	0	0	0	0
E. Costs of start-up	0	0	0	0	0	0
F. Other intangible fixed assets	1,428,815	754,168	==	1,294,536	952,056	==
Total	1,428,815	754,168	==	1,294,536	952,056	==

*The data related to the fair value was not specified since, in case of a valuation at purchase cost, it is optional.

As regards the composition of the aforementioned item, it should be noted that:

1. it includes multi-year costs for 705,600 Euro (historical cost) that refer to the consulting activities related to projects for reviewing the internal organisation, governance and economic-financial balance of the Central Bank, started in 2016. The Bank, having assessed the objectives and future use of the benefits resulting from the analyses and consequent recommendations, also based on possible organisational interventions that aim, prospectively, to get a return to the economic balance, after having obtained the specific approval of the Board of Statutory Auditors to the treatment of the expenditure as intangible fixed assets, confirmed the capitalisation of such costs, with the adjustments to the depreciation period already outlined in Part A "Valuation Criteria". In 2017 these costs were depreciated for 188,184 Euro;
2. the software programmes for 359,712 include the one related to the Central Credit Register, activated in 2017. It still includes fixed assets under construction referred to such Central Credit Register for 3,040 Euro, pending depreciation, since they refer to elements not yet realised/tested.

8 Tangible fixed assets (item 100 of assets)

Table 8.1: description and movements in item 100 "Tangible fixed assets"

Annual variations	31/12/2017	Financial leasing	Assets pending financial leasing for termination of leasing agreement	Assets available resulting from debt recovery	Lands and buildings	Other tangible fixed assets
A. Opening balances	3,955,084	0	0	0	3,784,813	170,271
B. Increases	34,473	0	0	0	0	34,473
B1. Purchases	34,473	0	0	0	0	34,473



B2. Value recoveries:	0	0	0	0	0	0
- of which for creditworthiness	0	0	0	0	0	0
B3. Revaluations	0	0	0	0	0	0
B4. Other variations	0	0	0	0	0	0
C. Decreases	272,773	0	0	0	189,146	83,627
C1. Sales	36,007	0	0	0	0	36,007
C2. Value adjustments:	236,766	0	0	0	189,146	47,620
- of which depreciations	236,766	0	0	0	189,146	47,620
- of which lasting devaluations	0	0	0	0	0	0
- of which for creditworthiness	0	0	0	0	0	0
C3. Other variations	0	0	0	0	0	0
D. Final balances	3,716,784	0	0	0	3,595,667	121,117

With reference to the above table, the following should be pointed out:

Item B.1: purchases

This item includes the costs for the purchase of:

- furniture and furnishings totalling 9,424 Euro;
- electronic machinery totalling 16,588 Euro;
- systems and fittings totalling 8,461 Euro.

Item C.1: sales

Residual value to be depreciated of assets sold during 2017.

Table 8.2: detailed breakdown of item 100 "Tangible fixed assets"

Items/Values	31/12/2017			31/12/2016		
	Purchase price/Production cost	Balance Sheet Value	Fair value*	Purchase price/Production cost	Balance Sheet Value	Fair value*
A. Financial leasing	0	0	0	0	0	0



- of which assets under construction	0	0	0	0	0	0
B. Assets pending financial leasing for termination of leasing agreement	0	0	0	0	0	0
- of which for breach of the lessee	0	0	0	0	0	0
C. Assets available resulting from debt recovery	0	0	0	0	0	0
- of which assets available for the repayment of the loan by means of a settlement agreement	0	0	0	0	0	0
D. Lands and buildings	6,304,853	3,595,667	==	6,304,853	3,784,813	==
E. Other tangible fixed assets	600,245	121,117	==	613,634	170,271	==
Total	6,905,098	3,716,784	==	6,918,487	3,955,084	==

*The data related to the fair value was not specified since, in case of a valuation at purchase cost, it is optional.

9 Subscribed Capital not Paid In (item 110 of assets)

Table 9.1: composition of item 110 "Subscribed capital not paid in"

There are no amounts of Subscribed capital not paid in as at 31/12/2017 and 31/12/2016.

10 Transactions on own shares (item 120 of assets)

There are no own shares as at 31/12/2017, nor as at 31/12/2016.

11 Other assets (item 130 of assets)

Table 11.1: composition of item 130 "Other assets"

	31/12/2017	31/12/2016
Other assets:		
Security margins	1,441,936	0
Premiums paid for options	0	0



Other	14,859,155	7,768,303
Total	16,301,091	7,768,303

“Other assets” include:

1. the credit for 5.58 million Euro for the commissions to be collected for services rendered in 2016 and 2017 to the Broader Public Administration. In 2017, the latter did not pay any amount for these services, since the relevant agreement expired on 31/12/2015 and it had not been renewed yet. For the purpose of recognising such income in the financial statements, an estimate was made, as specified in the section dedicated to Commissions Earned (as at 31/12/2016 the credit was equal to 2.8 million Euro);
2. the recoveries of sums levied from supervised parties for 2017, totalling 3.3 million Euro (ordinary amounts for approximately 2.4 million Euro and for the project “Asset Quality Review for the Banking System” for approximately 0.9 million Euro), which the supervised parties are obliged to pay back to the Central Bank by 31 May 2018 (in 2016 they amounted to approximately 3.6 million Euro, comprised of ordinary recoveries for approximately 2.5 million Euro and 1.1 million Euro for the project “Asset Quality Review for the Banking System”);
3. the credits for the recovery of sums levied from supervised parties related to the years before 2017, which are still unpaid. These credits, with a face value of 235,970 Euro (in 2016 they amounted to 162,687 Euro), were devalued analytically for the amount of the portion that was not deemed recoverable and were adjusted accordingly.

Likewise, also the recoveries of the costs related to the financial year 2017, against the debtors of past due, but not collected, loans, were subject to the same devaluation and subsequent adjustments.

Overall, the value adjustments made in the financial year 2017 were equal to 40,686 Euro, the value recoveries were equal to 638 Euro, whereas the overall devaluation was equal to 135,257 (in 2016 such devaluation was equal to 95,209 Euro);

4. invoices to be issued related to retrocessions of costs for the financial years 2015, 2016 and 2017 of the project “Central Credit Register” for an aggregate amount of 757,364 Euro. As at 31/12/2016, they amounted to 514,949 Euro; they were increased for the costs for the financial year 2017 (Euro 242,415). These amounts shall be recovered within the context of the invoicing activities that will be carried out by the Central Bank, pursuant to Circular no. 2015-02 (contribution to start-up costs for the Central Credit Register by participating intermediaries);
5. entries to be settled related to the pre-authorised collections equal to approximately 4.3 million Euro.

12 Accrued revenues and deferred expenses (item 140 of assets)**Table 12.1: composition of item 140 "Accrued revenues and deferred expenses".**

	31/12/2017	31/12/2016
Accrued revenues	0	0
Deferred expenses:	56,462	94,916
- miscellaneous costs	52,536	88,100
- multi-year costs	3,926	6,816
Total	56,462	94,916

Miscellaneous costs mainly refer to rentals paid in advance for services (such as leasing of premises, databank services).

Liabilities

13 Debts with Credit Institutions (item 10 of liabilities)**Table 13.1: detailed breakdown of item 10 "Debts with Credit Institutions"**

	31/12/2017			31/12/2016			Variations	
	In Euro	In foreign currency	Total	In Euro	In foreign currency	Total	Total amount	%
A) On demand credits:	83,559,790	0	83,559,790	164,620,860	6,889	164,627,749	-81,067,959	-49.24%
A1 Mutual accounts opened for services rendered	0	0	0	0	0	0	0	0%
A2. Demand deposits	83,559,790	0	83,559,790	164,620,860	6,889	164,627,749	-81,067,959	-49.240%
A3. Others	0	0	0	0	0	0	0	0%
B) Term or notice debts	101,807,586	0	101,807,586	133,400,349	0	133,400,349	-31,592,763	-23.68%
B1. Overdrawn c/accounts	71,303,060	0	71,303,060	89,390,249	0	89,390,249	-18,087,189	-20.23%



B2. Term deposits	30,504,526	0	30,504,526	44,010,100	0	44,010,100	-13,505,574	-30.69%
B3. Repurchase agreements and reverse repos	0	0	0	0	0	0	0	0%
B4. Other loans	0	0	0	0	0	0	0	0%
Total	185,367,376	0	185,367,376	298,021,209	6,889	298,028,098	-112,660,722	-37.80%

Accrued expenses related to interest accrued as at 31/12/2017 on term deposits, equal to 4,526 Euro, are included under item "Term or notice debts - term deposits", whereas item "Term or notice debts - overdrawn c/accounts" includes interest paid to be credited for 4,088 Euro.

Item "Term or notice debts - overdrawn c/accounts" includes, by specifying the technical form of the account, the amount of the Legal Reserves created by the banks and related to the maintenance period 15/12/2017-14/01/2018.

Collection from banks is down by 37,8% compared to 2016; this decrease refers to both on demand current accounts and term deposits.

Table 13.2: composition of Debts with credit institutions based on the residual life.

MATURITY	31/12/2017	31/12/2016
On demand	83,559,790	164,627,749
Up to 3 months	20,005,486	35,010,161
From over 3 months to 6 months	9,499,785	0
From over 6 months to 1 year	999,255	8,999,939
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	0	0
Without maturity	71,303,060	89,390,249

Total	185,367,376	298,028,098
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As regards residual life, it should be noted that the debts with banks related to deposits opened for the purposes of the compulsory reserve are included in the category "Without maturity" since the Legal Reserve requirement remains valid in time, even though, depending on the actual maintenance period, the amounts of the individual deposits are subject to variations. These debts are paid at a floating rate.

The Central Bank does not hold any shareholdings, thus, as at 31/12/2017, there are no debts with subsidiaries and related undertakings or undertakings with which there is a shareholding link.

14 Debts with customers (item 20 of liabilities)

Table 14.1: detailed breakdown of item 20 "Debts with customers"

	31/12/2017			31/12/2016			Variations	
Debts with customers	In Euro	In foreign currency	Total	In Euro	In foreign currency	Total	Total amount	%
A) On demand credits:	78,391,128	561	78,391,689	82,161,088	18,220	82,179,308	-3,787,619	-4.61%
A1. Overdrawn c/accounts	78,391,128	561	78,391,689	82,161,088	18,220	82,179,308	-3,787,619	-4.61%
A2. Savings deposits	0	0	0	0	0	0	0	0%
A3. Others	0	0	0	0	0	0	0	0%
B) Term or notice debts:	61,742,360	0	61,742,360	0	0	0	61,742,360	n.a.
B1. Time overdrawn c/accounts	0	0	0	0	0	0	0	0%
B2. Term savings deposits	55,562,989	0	55,562,989	0	0	0	55,562,989	n.a.
B3. Repurchase agreements and reverse repos	6,179,371	0	6,179,371	0	0	0	6,179,371	n.a.



B4. Other funds	0	0	0	0	0	0	0	0%
Total	140,133,488	561	140,134,049	82,161,088	18,220	82,179,308	57,954,741	70.52%

Interest paid to customers, accrued on current accounts at the end of the financial year, equal to 801 Euro, are included in the item "On demand debts - overdrawn current accounts", whereas 282,989 Euro and 13,234 Euro of accruals on interest paid are included under the items "Term or notice debts - Term savings deposits" and "Term or notice debts - Repurchase agreements and reverse repos".

With reference to the composition of this item, it should be borne in mind that on demand debts are comprised mainly by the funding from the Broader Public Administration; whereas term or notice debts include sale repurchase agreements opened with Guarantee Fund for Depositors (item B.3) and the amounts deposited by Fondiss - Supplementary Welfare Fund of the Republic of San Marino (item B.2).

The increase in the item only reflects the increase in term or notice debts and, mostly, the deposit with the Central Bank of the amounts related to the Fondiss - Supplementary Welfare Fund of the Republic of San Marino.

Table 14.2: composition of "Debts with customers" based on the residual life

MATURITY	31/12/2017	31/12/2016
On demand	78,391,689	82,179,308
Up to 3 months	1,416,544	0
From over 3 months to 6 months	58,018,817	0
From over 6 months to 1 year	2,306,999	0
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	0	0
Without maturity	0	0
Total	140,134,049	82,179,308

The Central Bank does not hold any shareholdings, thus, as at 31/12/2017, there are no debts with subsidiaries and related undertakings or undertakings with which there is a shareholding link.

15 Debts represented by financial instruments (item 30 of liabilities)

Table 15.1: composition of debts represented by financial instruments

There are no "debts represented by financial instruments" as at 31/12/2017 nor at 31/12/2016.

16 Other liabilities (item 40 of liabilities)

Table 16.1: composition of item 40 "Other liabilities".

	31/12/2017	31/12/2016
Other liabilities:		
Security margins	0	0
Premiums received on options	0	0
Cheques in circulation and other securities	419,100	460,082
Other	8,290,572	6,899,102
Total	8,709,672	7,359,184

"Other liabilities" include, besides cheques in circulation, corresponding to the drawing and receipt cheques issued within the context of the State Treasury Service:

1. the sums available to third parties that refer to Treasury Service receipts that, due to the time required to process them, have yet to be credited to their relevant current accounts for 836,220 Euro and the entries to be settled related to the pre-authorised collections equal to approximately 4.4 million Euro (as at 31/12/2016 the amounting to approximately 2.6 million Euro and 146,691 Euros respectively);
2. the Overdue Tax Collection entries already collected and pending being paid to the relevant entities, amounting to 500,468 Euro and other suspended items relating to the Tax Service, amounting to 256,091 Euro (as at 31/12/2016 they were equal to 337,624 Euro and 377,053 Euro respectively);
3. the existing debts related to the labour costs amounting to approximately 1.6 million Euro (as at 31/12/2016 they were equal to 1.7 million Euro approximately), which include compensations, social security and tax costs (including the values related to the calculation of residual holidays as at 31/12/2017) and remunerations for directors and statutory auditors yet to be paid.

Table 16.2: composition of "Other liabilities" based on the residual life.



MATURITY	31/12/2017	31/12/2016
On demand	101,403	84,840
Up to 3 months	7,547,474	6,105,285
From over 3 months to 6 months	663,601	685,216
From over 6 months to 1 year	0	0
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	0	0
Without maturity	397,194	483,843
Total	8,709,672	7,359,184

17 Accrued expenses and deferred revenues (item 50 of liabilities)

Table 17.1: composition of item 50 "Accrued expenses and deferred revenues"

	31/12/2017	31/12/2016
Accrued expenses:	187,610	0
- miscellaneous expenses	187,610	0
Deferred revenues:	46,431	64,493
- miscellaneous costs	0	0
- multi-year costs	46,431	64,493
Total	234,041	64,493



The increase in this item was determined by "Accrued expenses", which correspond to the amount accrued, as at 31/12/2017, of the spread between the forward rate set forth in the outright agreement and the spot rate applicable when such agreement is entered into, and regarding the hedging transaction outlined in the section related to the "Guarantees and Commitments".

18 The funds (items 60-70-80 of liabilities)

Table 18.1: movements occurred in item 60 "Staff retirement allowances".

	31/12/2017	31/12/2016
Opening balances	540,819	555,172
Increases	494,800	541,468
- provisions	494,800	540,819
- other variations	0	649
Decreases	540,819	555,821
- withdrawals	540,819	555,821
- other variations	0	0
Closing balance	494,800	540,819

This item reflects the benefit substituting for the staff retirement allowances accrued, in the financial year, by the employees ("provisions").

The retirement allowances accrued in one financial year are paid to the employees in the following financial year ("withdrawals"), within the deadlines provided for by the labour agreement from time to time in force.

Table 18.2: composition of item 70 "Financial risks and costs funds"

Composition:	31/12/2017	31/12/2016
Retirement funds and similar provisions	0	0
Tax fund	0	0
Other funds:	493,000	100,000
- fund for costs for extraordinary proceedings	122,500	0
- fund for costs for legal expenses/repayments	80,500	0



- fund for legal proceedings	290,000	100,000
Total	493,000	100,000

Table 18.3: movements in sub-item c) "Other funds"

	31/12/2017	31/12/2016
Opening balances	100,000	0
Increases	393,000	160,000
- provisions	393,000	160,000
- other variations	0	0
Decreases	0	60,000
- withdrawals	0	60,000
- other variations	0	0
Closing balance	493,000	100,000

The movements of "other funds" reflect:

1. the provision for 122,500 Euro to the "fund for costs for extraordinary proceedings", intended to cover for costs resulting from the proceedings referred to in Title II of Part II of Law no. 165 of 17 November 2005, as economic support to be used for two administrative compulsory winding-up procedures open since 2017;
2. the provision for 190,000 Euro to the "fund for legal proceedings", which refers to two labour disputes opened in 2016;
3. the provision for 80,500 Euro to the fund for costs for legal expenses/repayments related to the legal expenses that CBSM must refund, under the statutory provisions currently in force and the labour agreements, to two employees (former Director General and one officer), following their acquittal in the legal proceeding no. 343/2015.

A summary of the legal proceedings in which the Central Bank has been involved in legal disputes, following an assessment on the evolution of the latter, is set forth below:

1. for labour-related proceedings no. 29/2016 and 47/2016, 190,000 Euro were appropriated, in addition to 100,000 Euro already appropriated;
2. for the civil proceeding no. 97/2016 it was decided not to make any appropriation since no sufficient information emerged to support such appropriation.

Table 18.4: movements in item 80 "Fund for credit risks"

There are no provisions to the "Fund for credit risks" as at 31/12/2017, nor as at 31/12/2016.

19 General financial risk fund, subordinated liabilities, subscribed capital, Issue Premiums; Reserves; Revaluation reserves; Profits (losses) carried forward and Operating Profit (loss) (items 90-100-110-120-130-140-150-160 of liabilities)

Table 19.1: composition of item 90 "General financial risk fund"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Initial balance	51,825,921	51,825,921	0	0%
Contributions in the financial year	0	0	0	0%
Withdrawals in the financial year	-2,616,212	0	2,616,212	100%
Closing balance	49,209,709	51,825,921	-2,616,212	-5.05%

With a resolution of the Governing Council, withdrawals were made from the general financial risk fund for 2.62 million Euro for the purpose of covering the operating deficit for 2017.

Purpose of this fund, gradually appropriated over the years, is to cover the general entrepreneurial risk and is similar to a capital reserve.

The withdrawals from the general financial risk fund for the purpose of containing the losses and supporting the economic result must be made with the preparation of the balance sheet by the Management Body, prior to the recognition of the economic result. This is not a reserve that can be changed by the General Meeting of the Shareholders, like the legal reserve and the statutory reserves.

For this reason, with reference to the financial year 2017, the Governing Council resolved to use this capital reserve, specifically appropriated during the years, and to bring the economic result to a breakeven.

The general financial risk fund is a component of the Assets of the Bank, as the other reserves mentioned above, to be used by the General Meeting of the Shareholders. As shown in table no. 19.9 related to the "Variations in net equity in the last 4 years", the effect of reducing such fund, for the purpose of stabilising the economic result, is to reduce the capital aggregate.

Table 19.2: composition of item 100 "Subordinated liabilities"

There are no "Subordinated liabilities" as at 31/12/2017, nor as at 31/12/2016.

Table 19.3: composition of item 110 "Subscribed capital"

	31/12/2017			31/12/2016			Variations	
	No. shares	Unit value	Total value	No. of shares	Unit value	Total value	Amount	%
Registered shares	2,500	5,164.57	12,911,425	2,500	5,164.57	12,911,425	0	0%



Totals	2,500	5,164.57	12,911,425	2,500	5,164.57	12,911,425	0	0%
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As provided for in art. 20 of the Central Bank Statutes, the "Endowment fund" is subdivided into nominative and indivisible shares of 5,164.57 Euro each.

The ownership structure of shares is as follows:

- 67% the Most Excellent Chamber of the Republic of San Marino;
- 16% Cassa di Risparmio della Repubblica di San Marino S.p.A.;
- 6% Banca di San Marino S.p.A.;
- 5% Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A.;
- 5% Banca Cis - Credito Industriale Sammarinese S.p.A.;
- 1% Banca Sammarinese di Investimento S.p.A.

In 2017, no changes occurred in the value of the capital of the Central Bank; as regards the composition of such share capital, on the other hand, it should be noted that Cassa di Risparmio della Repubblica di San Marino S.p.A. acquired an additional 2% previously held by Asset Banca S.p.A.. This way, the shareholding held by the Cassa increased to 16% from 14% in 2016.

Table 19.4: composition of item 120 "Share premiums"

There are no "Share Premium" as at 31/12/2017, nor as at 31/12/2016.

Table 19.5: composition of item 130 "Reserves"

	31/12/2017	31/12/2016	Variations	
			Amount	%
a) Ordinary or legal reserve	1,274,013	3,447,534	-2,173,521	-63.05%
b) Reserve for own shares or quotas	0	0	0	0%
b) Statutory reserves	9,627,277	9,627,277	0	0%
d) Other reserves	0	0	0	0%
Total	10,901,290	13,074,811	-2,173,521	-16.62%

The variations occurred in 2017 reflect only the decrease in the ordinary reserve following the settlement of the loss for the financial year 2016, in line with the resolution of the meeting held on 21 June 2017, in compliance with art. 23 paragraph 5 of the Statutes (Law no. 96 of 29 June 2005, as subsequently amended and supplemented).

Table 19.6: composition of item 140 "Revaluation reserve".



There is no "Revaluation reserve" as at 31/12/2017 nor as at 31/12/2016.

Table 19.7: composition of item 150 "Profits (losses) carried forward".

There are no "Profits (losses) carried forward" as at 31/12/2017, nor as at 31/12/2016.

Table 19.8: composition of item 160 "Operating profit (loss)"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Operating profit (loss)	0	-2,173,521	2,173,521	100%

The economic result for the financial year is a breakeven as a result of the utilisation of the general financial risk fund, as outlined above.

Table 19.9: variations in net equity in the last 4 years

	Subscribed capital	Ordinary or legal reserve	Statutory reserve	Operating results	General financial risks fund	Total
Balances as at 31/12/2014	12,911,425	6,820,202	9,627,277	50,143	51,825,921	81,234,968
Balances as at 31/12/2015	12,911,425	6,840,259	9,627,277	- 3,392,725	51,825,921	77,812,157
Balances as at 31/12/2016	12,911,425	3,447,534	9,627,277	- 2,173,521	51,825,921	75,638,636
Balances as at 31/12/2017	12,911,425	1,274,013	9,627,277	0	49,209,709	73,022,424

Table 19.10: composition of funding by business sector

	31/12/2017	31/12/2016
a) Public Administrations	126,909,485	70,489,466



b) Financial companies other than credit institutions:	0	0
- Monetary financial institutions (excluding credit institutions)	0	0
- Investment funds other than monetary mutual funds	0	0
- Other financial institutions	0	0
- Insurance undertakings	0	0
- Pension funds	0	0
c) Non-financial companies - of which cancelled from the Resoaut	77,820	82,950
- Industry	0	0
- Construction	0	0
- Services	77,820	82,950
- Other non-financial companies	0	0
d) Households and not-for-profit institutions servicing households	6,005,788	5,698,375
- Consumer and producer households	5,713,285	5,321,184
- Not-for-profit institutions servicing households	292,503	377,191
e) Others	7,140,956	5,908,517

Guarantees and Commitments

20 Guarantees and Commitments

Table 20.1: composition of the "guarantees issued"

	31/12/2017	31/12/2016	Variations	
			Amount	%
A) Credit commitments of a commercial nature	0	0	0	0%



B) Credit commitments of a financial nature	2,080,658	6,699,648	-4,618,990	-68.94%
C) Assets pledged as guarantee	0	0	0	0%
- of third party bonds	0	0	0	0%
- of own bonds	0	0	0	0%
Total	2,080,658	6,699,648	-4,618,990	-68.94%

Table 20.2: composition of above mentioned credit commitments

	31/12/2017	31/12/2016	Variations	
			Amount	%
A) Credit commitments of a commercial nature	0	0	0	0%
A1. Acceptances	0	0	0	0%
A2. Sureties and bank guarantees	0	0	0	0%
A3. Strong comfort letters	0	0	0	0%
A4. Other	0	0	0	0%
B) Credit commitments of a financial nature	2,080,658	6,699,648	-4,618,990	-68.94%
B1. Acceptances	0	0	0	0%
B2. Sureties and bank guarantees	2,080,658	6,699,648	-4,618,990	-68.94%
B3. Strong comfort letters	0	0	0	0%
B4. Other	0	0	0	0%
Total	2,080,658	6,699,648	-4,618,990	-68.94%

The specified credit commitments are sureties that the Bank released as guarantee for commitments subscribed by the Broader Public Administration.



Table 20.3: composition of “guarantees issued” based on the residual life

MATURITY	31/12/2017	31/12/2016
On demand	0	0
Up to 3 months	0	0
From over 3 months to 6 months	0	0
From over 6 months to 1 year	300,000	300,000
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	1,554,748	6,173,738
Without maturity	225,910	225,910
Total	2,080,658	6,699,648

Table 20.4: assets pledged as guarantee of own debts

There are no assets pledged as guarantee of own debts.

Table 20.5: margins available on credit lines

As at 31/12/2017, CBSM has no credit facilities open with other central banks and/or commercial banks and/or financial companies that would allow, by virtue of contractual agreements, to have access to cash collection or funding.

There are certain commercial banks with which the CBSM performs activities for the sale and purchase of securities, and carries out Forex and Money Market activities, and with which it is possible to carry out transactions, not secured by collateral, for the collection of cash for short periods of time and for limited amounts.

These operations result from the mutual granting of credit lines with such parties.

Table 20.6: composition of “Spot commitments”

	31/12/2017	31/12/2016	Variations	
			Amount	%
A. Disbursement commitments for certain use	0	0	0	0%
- of which commitments for loans to be disbursed	0	0	0	0%
B. Commitments to exchange financial instruments for certain use	0	0	0	0%
C. Disbursement commitments for uncertain use	35,000,000	0	35,000,000	n.a.%
- of which negative margins to be used on credit lines	35,000,000	0	35,000,000	n.a.%
- of which put options issued	0	0	0	0%
D. Commitments to exchange financial instruments for uncertain use	0	0	0	0%
E. Other commitments	100,056	130,000	-29,944	-23.03%
Total	35,100,056	130,000	34,970,056	26,900.04%

The sub-item "Other commitments" is comprised exclusively of spot transactions concerning currencies to be delivered/received. The latter has been reclassified in this item in the financial year 2017, since it is regarded as more appropriate for the representation of its nature compared to the previous recording in sub-item A.

For data comparability purposes, the value of this item related to the financial year 2016 was thus recalculated also considering that, in 2017, a component regarded to be a transaction that cannot generate any credit risks was excluded.

The value for 2016 was maintained at the contractual price agreed with the counterparty and was not valued at the spot price applicable as of the closing date of the financial year since the difference in valuation is for an insignificant amount.

The sub-item of the table "Disbursement commitments for uncertain use" refers to the available margin on a credit line granted to a resident bank.

Table 20.7: Term commitments

Transaction Type	Hedging	Trading transaction	Other transactions
1. Sales and purchases	0	0	0
1.1. Financial instruments	0	0	0



- purchases	0	0	0
- sales	0	0	0
1.2 Currencies	0	0	0
- currency against currency	0	0	0
- purchases against Euro	0	0	0
- sales against Euro	0	0	0
2. Deposits and loans	0	0	10,000,000
- to be disbursed	0	0	10,000,000
- to be received	0	0	0
3. Derivative contracts	20,347,605	0	0
3.1 With exchange of capital:	20,347,605	0	0
a) Securities	0	0	0
- purchases	0	0	0
- sales	0	0	0
b) Currencies	20,347,605	0	0
- currency against currency	0	0	0
- purchases against Euro	0	0	0
- sales against Euro	20,347,605	0	0
c) Other assets	0	0	0
- purchases	0	0	0
- sales	0	0	0
3.2 Without exchange of capital	0	0	0
a) Currencies	0	0	0
- currency against currency	0	0	0
- purchases against Euro	0	0	0
- sales against Euro	0	0	0



b) Other assets	0	0	0
- purchases	0	0	0
- sales	0	0	0

Loans to be disbursed refer to term commitments already taken and related to the opening of credit facilities granted to the Most Excellent Chamber in 2017 and outlined in Section 4 of the Balance Sheet regarding Loans to customers.

The derivative contract, recorded at the forward settlement value, refers to a forward transaction of 24,000,000 USD, opened as hedging against the foreign exchange risk related to a bond for a face value of 20,000,000 USD held in the investment portfolio.

For balance sheet purposes, as outlined in the Section regarding the "Valuation criteria", the transaction was recognised at the spot foreign exchange rate applicable as of the closing date of the financial year (20,011,673 Euro), based on a consistent valuation principle for assets and liabilities linked one to the other, defined for hedging transactions.

As at 31/12/2017 this transaction, following the evaluation described above, by determining a positive component of 0.59 million Euro, partially covered the negative result of the Euro evaluation in question, equal to 0.95 million Euro.

Table 20.8: Financial derivatives

Transaction Type	Hedging	Trading transaction	Other transactions
1. Derivative contracts	20,146,775	0	0
1.1. With exchange of capital:	20,146,775	0	0
a) Securities	0	0	0
- purchases	0	0	0
- sales	0	0	0
b) Currencies	20,146,775	0	0
- currency against currency	0	0	0
- purchases against Euro	0	0	0
- sales against Euro	20,146,775	0	0
c) Other assets	0	0	0
- purchases	0	0	0
- sales	0	0	0



1.2 Without exchange of capital	0	0	0
a) Currencies	0	0	0
- currency against currency	0	0	0
- purchases against Euro	0	0	0
- sales against Euro	0	0	0
b) Other assets	0	0	0
- purchases	0	0	0
- sales	0	0	0

Table 20.9: composition of “Commitments” based on the residual life

MATURITY	31/12/2017	31/12/2016
On demand	0	0
Up to 3 months	20,111,729	130,000
From over 3 months to 6 months	35,000,000	0
From over 6 months to 1 year	10,000,000	0
From over 1 year to 18 months	0	0
From over 18 months to 2 years	0	0
From over 2 years to 5 years	0	0
Over 5 years	0	0
Without maturity	0	0
Total	65,111,729	130,000

Table 20.10: Derivative contracts on credits

As at 31/12/2017 there are no derivative contracts on credits.



Memorandum accounts

21 Memorandum accounts

Table 21.1: Memorandum accounts

Items	31/12/2017	31/12/2016
1) Asset management	0	0
a) Asset management for customers	0	0
- of which liquidity	0	0
- of which liquidity deposited with the reporting entity	0	0
- of which debt securities	0	0
- of which debt securities issued by the reporting entity	0	0
- of which capital securities and CIS units	0	0
- of which capital securities issued by the reporting entity	0	0
b) Own portfolios managed by third parties	0	0
2 Financial instruments custody and management	283,506,245	436,472,958
a) Deposited third-party financial instruments	140,676,792	140,500,089
- of which debt securities issued by the Central Bank	0	0
- of which capital securities and other securities issued by the Central Bank	0	0
- of which third-party financial instruments deposited with third parties	433,630	1,528,113
b) Own financial instruments deposited with third parties	142,829,453	295,972,869
3) Financial instruments, liquidity and other assets linked to the activities as depositary bank	55,280,104	38,587,579
a) Liquidity	104	579
- of which liquidity deposited with the Central Bank	104	579
b) Debt securities	0	0
- of which: debt securities issued by the Central Bank	0	0



c) Capital securities, CIS units, other financial instruments	0	0
-of which capital securities issued by the Central Bank	0	0
d) Other assets other than financial instruments and liquidity	55,280,000	38,587,000

As regards item "2) Financial instruments custody and management - a) deposited third-party financial instruments", the item includes those related to the bond issues of the Most Excellent Chamber of the Republic of San Marino, in relation to which the Central Bank also performs the service of centralised management of such securities in a dematerialised form.

With reference to item "3) Financial instruments and other assets linked to the activities as depositary bank" it should be noted that the values indicated refer to the custodian bank activities carried out by the Central Bank on behalf of Fondiss - Supplementary welfare fund of the Republic of San Marino, pursuant to Law no. 191 of 6 December 2011. "Other assets other than financial instruments and liquidity" reflect the term deposits held by Fondiss with the CBSM and referred to item "Debts with customers" of Balance sheet Liabilities.

With reference to other memorandum accounts, the following is reported:

- the assets foreclosed by the Overdue Tax Collection Service of the Central Bank and deposited with third parties, pending their auction sale pursuant to art. 70 et seq. of Law no. 70 dated 25 May 2004, were registered with a value of 98,888 Euro. As at 31/12/2017, the entries to be collected amount to 315,440,378 Euro, whereas the guarantees received with reference to the extensions granted by the Overdue Tax Collection Service amount to 17,511,383 Euro;
- the amount of the mediation guarantee fund managed by the Central Bank (CBSM Regulation no. 2013-03) is equal to 650,000 Euro;
- the amount of the guarantee fund for depositors managed by the Central Bank (CBSM Regulation no. 2016-01) is equal to 6,239,716 Euro;
- the Promissory Note with a value of 46,316,856 Euro issued by the Government of the Republic of San Marino in favour of the International Monetary Fund and linked to the share of the Republic in the International Monetary Fund, is deposited with the Central Bank.

Table 21.2: composition of Indirect Funding by business sector.

	31/12/2017	31/12/2016
a) Public Administrations	467,050	938,258
b) Financial companies:	0	0
- Monetary financial institutions	0	0



- Investment funds other than monetary mutual funds	0	0
- Other financial institutions	0	0
- Insurance undertakings	0	0
- Pension funds	0	0
c) Non-financial companies - of which parties cancelled from the Register of Authorised Entities	0	0
- Industry	0	0
- Construction	0	0
- Services	0	0
- Other non-financial companies	0	0
d) Households and not-for-profit institutions servicing households	224,810	848,085
- Consumer and producer households	224,810	848,085
- Not-for-profit institutions servicing households	0	0
e) Others	0	0

Part C - Information on the Profit and Loss Account

22 Interest (items 10 - 20 of the profit and loss account)

Table 22.1: detailed breakdown of item 10 "Interest received and other proceeds"

	31/12/2017	31/12/2016	Variations	
			Amount	%
A) On Treasury Bonds and other financial instruments eligible for refinancing purposes at the central banks	0	0	0	0%
<i>A1. Treasury Bonds and other similar instruments</i>	0	0	0	0%



<i>A2. Other financial instruments eligible for refinancing purposes at the central banks</i>	0	0	0	0%
B) on loans to credit institutions	-101,404	-289,146	187,742	64.93%
B1. C/accounts in credit	-337,070	-282,333	-54,737	-19.39%
B2. Deposits	133	-6,813	6,946	101.95%
B3. Other loans	235,533	0	235,533	n.a.
<i>of which on leasing transactions</i>	0	0	0	0%
C) On loans to customers	216,222	200,810	15,412	7.67%
C1. C/accounts in credit	137,735	199,328	-61,593	-30.90%
C2. Deposits	0	0	0	0%
C3. Other loans	78,487	1,482	77,005	5,196.02%
<i>of which on leasing transactions</i>	0	0	0	0%
D) On debt securities issued by credit institutions	414,149	736,317	-322,168	-43.75%
D1. Certificates of deposit	0	0	0	0%
D2. Bonds	414,149	736,317	-322,168	-43.75%
D3. Other financial instruments	0	0	0	0%
E) On debt securities from customers (issued by other issuers)	1,765,327	503,201	1,262,126	250.82%
E1. Bonds	1,765,327	503,201	1,262,126	250.82%
E2. Other financial instruments	0	0	0	0%
Total	2,294,294	1,151,182	1,143,112	99.30%

As shown in the previous table 22.1, compared with 2016, the overall increase in interest received for 1,143,112 Euro (99.30%) is mainly determined by the increase in interest received on debt financial instruments of other issuers, equal to 1,262,126 Euro. Interest received on bonds, for 1,45 million Euro, reflects the securities held for investment.

Moreover, again with reference to the increases, an increase was registered in interest with credit institutions, for an aggregate of 187,742 Euro, determined by the increase of interest resulting from the repurchase agreements ("Other loans"), up from zero in 2016 to 235,533 in 2017.



With reference to other interest on inter-bank loans, it should be noted that, just as in 2016, in light of negative interest rates received on such transactions, they showed a negative value. The same situation did not occur with reference to customer loans, nor for the debt securities held in own portfolio.

It is also worth noting that the increase in interest on loans to customers reflects the increase on interest on mortgages for 77,005 Euro, generated mainly by the new credit position opened in 2017 with the Most Excellent Chamber (as outlined in the specific section of the Balance Sheet), which is partly offset by the drop in interest received on current accounts for -61,593 Euro.

Table 22.2: detailed breakdown of item 20 "Interest paid and other costs"

	31/12/2017	31/12/2016	Variations	
			Amount	%
A) on debts with credit institutions	277,591	132,338	-145,253	-109.76%
<i>A1. Overdrawn c/accounts</i>	4,091	1	4,090	409.000%
<i>A2. Deposits</i>	58,459	132,337	-73,878	-55.83%
<i>A3. Other debts</i>	215,041	0	215,041	n.a.
B) On debts with customers	339,139	743	338,396	45,544.55%
<i>B1. Overdrawn c/accounts</i>	34,402	743	33,659	4,530.15%
<i>B2. Deposits</i>	282,989	0	282,989	n.a.
<i>B3. Other debts</i>	21,748	0	21,748	n.a.
C) On debts with credit institutions represented by securities	0	0	0	0%
<i>- of which on certificates of deposit</i>	0	0	0	0%
D) On debts with customers represented by securities	0	0	0	0%
<i>- of which on certificates of deposit</i>	0	0	0	0%
E) On subordinated liabilities	0	0	0	0%
<i>- of which on hybrid capitalisation instruments</i>	0	0	0	0%
Total	616,730	133,081	483,649	363.42%



As shown in table 22.2 above, in 2017 interest paid registered a significant increase, resulting mainly from the increase in interest related to debts with customers. Specifically, with reference to the latter, it should be noted that such variation reflects higher interest registered as regards deposit transactions made in 2017.

With reference, on the other hand, to the interest on debts with credit institutions, it should be noted that the spread between the forward rate set forth in the agreement and the spot rate applicable when such agreement was entered into, and regarding the hedging transaction outlined in the section related to the "Guarantees and Commitments" is classified in the sub-item "Other debts".

23 Dividends and other proceeds (item 30 of the profit and loss account)

There are no "Dividends and other proceeds" as at 31/12/2017, nor as at 31/12/2016.

24 Commissions (items 40 - 50 of the profit and loss account)

Table 24.1: detailed breakdown of item 40 "Commissions earned"

	31/12/2017	31/12/2016	Absolute variations and %	
			Amount	%
Commissions earned:				
a) Guarantees issued	3,631	6,792	-3,161	-46.54%
b) Credit derivatives	0	0	0	0%
c) Advice on financial instruments	0	0	0	0%
d) Collection and payment services	1,956,937	1,980,455	-23,518	-1.19%
e) Depositary bank services	7,200	7,200	0	0%
f) Financial instruments custody and management	0	0	0	0%
q) Other services	840,063	840,030	33	0%
Total	2,807,831	2,834,477	-26,647	-0.94%

Items "Collection and payment services" and "Other services" include the revenues associated with the provision of services rendered to the Broader Public Administration. In 2017, as it was in 2016, the latter did not pay any amount for these services, not for the financial year 2016 nor for 2017, since the relevant agreement expired on 31/12/2015 and it has not been renewed yet, in spite of the fact that negotiations already started.



In light of the fact that the negotiations require additional time, such income was registered in the financial statements making an estimate, although based on objective elements, for an amount similar to that made in 2016 and taking into consideration the provisions of the State Congress in the Resolution no. 13 of 5/12/2017.

Specifically, with the aforementioned resolution, the State Congress, given that the agreement for the three-year period 2016-2018 is being defined, also considering that the services rendered by the Central Bank in the past financial year were regularly rendered as provided for in the Agreement entered into for the three-year period 2013-2015, pending a new agreement, authorised for the Entity Most Excellent Chamber the appropriation of the amount to be paid up to 2,009,500 Euro (amount paid with reference to 2015 and appropriated for 2016), and invited the other Entities and Autonomous Authorities to take care of the relevant accounting entries, and reserved to adopt the future Agreement with a subsequent resolution.

The entities confirmed having executed the aforementioned appropriations within the context of the circularisation activities carried out by the auditing company for an aggregate of 2,778,000 Euro.

In consideration of the foregoing and in particular of the fact that the services in question have been delivered, the revenue was recorded for an amount corresponding to the aforementioned confirmations received, i.e. 2,778,000 Euro.

Within table 24.1 above, in order to specify the commissions for services rendered to the Public Administration in 2017, the same criterion used in 2016 was adopted for the allocation between the different items.

By contrast, the item "Depository bank services" includes the commissions received by the Central Bank for the depository bank service carried out on behalf of Fondiss - Supplementary Welfare Fund of the Republic of San Marino.

Table 24.2: detailed breakdown of item 50 "Commissions paid"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Commissions paid:				
a) Guarantees received	0	0	0	0%
b) Credit derivatives	0	0	0	0%
c) Management of portfolios of financial instruments:	35,304	44,721	-9,417	-21.06%
- own portfolio;	32,215	41,684	-9,469	-22.72%
- portfolio of third parties	3,089	3,037	52	1.71%



d) Collection and payment services	19,229	17,413	1,816	10.43%
e) Other services	70,705	74,018	-3,313	-4.48%
Total	125,238	136,152	-10,914	-8.02%

For data comparability purposes, the value for 2016 of the sub-items "Management of portfolios of financial instruments - portfolio of third parties" and "Other services" was amended since, in 2017, an accounting reclassification was carried out, it was considered more appropriate to consistently represent the commissions debited by Clearstream for the portfolios of financial instruments and with reference to the c/accounts.

The commissions for "Other services" also include the annual commission of 40,000 Euro and the total quarterly commissions of 1,356 Euro paid to the Italian counterpart for the procurement services for banknotes and coins (in 2016, the annual fee amounted to 40,000 Euro, and the quarterly fees to 1,692 Euro in aggregate); the rest are, as in the previous financial year, miscellaneous commissions requested by the banks on current accounts.

25 Profits (losses) from financial operations (item 60 of the profit and loss account)

Table 25.1: composition of item 60 "Profits (losses) from financial operations"

As at 31/12/2017				
Items/Operations	Transactions on financial instruments	Foreign currency transactions	Transactions on precious metals	Other transactions
A1. Revaluations	134,001	0	0	0
A2. Devaluations	-133,382	0	0	0
B. Other profits/losses	2,230,971	-356,171	0	0
Total	2,231,590	-356,171	0	0
1. Government bonds	0			
2. Other debt financial instruments	2,231,225			
3. Capital financial instruments	365			
4. Derivative contracts on financial instruments	0			
Total	2,231,590			



Item A.1: revaluations

It represents the aggregate value of the capital gains existing on the portfolio of debt and capital securities as at 31 December 2017.

Item A.2: devaluations

It represents the aggregate value of the capital losses existing on the securities portfolio as at 31 December 2017.

Item B.: other profits/losses

The item refers to profits and losses resulting from securities negotiation, including those occurring at the time of reimbursement at maturity; in the second column, it indicates the proceeds (trading/valuation) derived from currencies.

Profits from financial operations dropped by -0.76 million Euro compared to 2016:

1. securities management generated a balance between capital gains and capital losses resulting from the value as at 31/12/2017 of 619 Euro (up by 0.23 million Euro from 31/12/2016) and a profit from trading for 2.23 million Euro (down by -0.64 million Euro from that realised as at 31/12/2016);
2. as at 31/12/2017 a loss of 0.36 million Euro was registered for valuation/trading in foreign currencies (as at 31/12/2016 there was a loss for a few thousands Euro), generated mainly by the foreign exchange loss related to a USD denominated bond held for investment (0.95 million Euro), partly offset by the hedging forward transaction (for 0.59 million Euro).

26 Other operating proceeds (item 70 of the profit and loss account) and other operating costs (item 80 of the profit and loss account)

Table 26.1: composition of items 70 - 80 "Other operating proceeds", "Other operating costs"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Other operating proceeds:				
a) Rents received	3,500	3,500	0	0%
b) Recovery of costs for adjusting the RIS to SEPA standards	18,062	18,062	0	0%
c) Recovery of sums levied from supervised parties	3,315,054	3,613,795	-298,741	-8.27%
d) Credit notes, allowances and positive rounding-off of figures	51	38	13	34.21%
e) Proceeds from Overdue Tax Collection Services	52,365	51,643	722	1.40%
f) Recovery of costs for Central Credit Register	242,415	313,776	-71,361	-22.74%



g) Recovery of costs associated with procurement services for banknotes and coins	212,823	217,729	-4,906	-2.25%
h) Annual maintenance costs of the RIS for SEPA payment instruments	16,570	0	16,570	n.a.
i) Miscellaneous proceeds	8,628	7,724	904	11.70%
Total	3,869,468	4,226,267	-356,799	-8.44%
Other operating costs:			Amount	%
a) Expenses related to the centralised management of cash	99,412	104,620	-5,208	-4.98%
b) Allowances and various rounding-off of figures	100	99	1	1.01%
c) Costs for extraordinary proceedings on supervised entities	60,000	20,000	40,000	200.00%
d) Miscellaneous costs	726	320	406	126.88%
Total	160,238	125,039	35,199	28.15%

The item "Other operating proceeds" includes, as the most significant economic component, the portion of the total costs deriving from performing the supervisory function on other financial, insurance and lending activities, charged to supervised parties for the financial year 2017. The remainder of these costs is not recovered and the Central Bank bears these expenses. As already explained in the section of Assets related to "Other Assets", also for this year the recovery includes the expenses incurred for the project "Asset Quality Review for the Banking System".

The item "Recovery of costs for Central Credit Register" refers to the recognition of the recovery of the costs for the financial year 2017 that will be made within the context of the future invoicing that the Central Bank will carry out pursuant to Circular no. 2015-02.

The "Recovery of costs associated with procurement services for banknotes and coins" refers to the recoveries made in 2017 with the relevant amount for the period.

The item "Other operating costs" is mainly comprised of "Expenses related to the centralised management of cash" and of "Costs for extraordinary proceedings on supervised entities" in favour of administrative compulsory winding-up procedures, to support the coverage of their respective costs.

27 Administrative costs (item 90 of the profit and loss account)

Table 27.1: Number of employees by category

	Average	Number as at 31/12/2017	Number as at 31/12/2016	labour costs as at 31/12/2017
a) Senior Officers	2.67	2	3	537,726



b) Managers	9.25	9	10	1,450,226
c) Rest of staff	81	81	81	4,910,344
1. front office managers/clerks	77.00	77	77	
2. support staff	4.00	4	4	
Total	92.92	92	94	6,898,296

The aggregate data of labour cost as at 31/12/2017 is not the same as that of the balance sheet because the item "Senior Officers" also includes consultancy costs. Moreover, this latter item does not correspond with that specified in Table no. 27.3 below "remuneration" given that it takes into account the contribution costs not considered in the second.

Table 27.2: detailed breakdown of sub-item b) "Other administrative costs"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Remuneration of the auditing company for auditing the Central Bank and the Guarantee Fund for Depositors	30,240	20,980	9,260	44.14%
- of which: for services other than the auditing of the balance sheet	5,061	0	5,061	n.a.
Graphic art work and advertising	7,150	6,617	533	8.06%
Insurance premiums	260,044	231,980	28,064	12.10%
Miscellaneous utilities and clearing of premises	129,185	138,301	-9,116	-6.59%
Forms, stationary and newspapers	37,227	40,793	-3,566	-8.74%
Postage and telephone	227,298	225,733	1,565	0.69%
Consumables and spare parts	14,477	9,038	5,439	60.18%
Professional consultancy fees	1,503,933	1,348,447	155,486	11.53%
Reimbursement of travel costs	98,797	58,298	40,499	69.47%
Travel	39,873	60,176	-20,303	-33.74%
Rentals, technical assistance, repairs and various services	1,603,922	1,519,819	84,103	5.53%



Association memberships and similar fees	30,174	29,282	892	3.05%
Rents paid	105,600	95,546	10,054	10.52%
Import taxes	3,621	1,743	1,878	107.75%
Armed security	30,126	47,970	-17,844	-37.20%
Translations	7,563	25,379	-17,816	-70.20%
Various transport	25,636	26,372	-736	-2.79%
Donations	200,000	500,000	-300,000	-60.00%
Reimbursement of legal fees	36,153	0	36,153	100%
Miscellaneous and varied expenses	45,101	58,625	-13,524	-23.07%
Total	4,436,120	4,445,099	-8,979	-0.20%

Administrative costs ("Labour Costs" and "Other administrative costs") include the costs incurred for the Financial Intelligence Agency.

The most significant variations evidenced in the table above include the decrease in the item "Donations" (-300,000; -60%); this item represents the restorations/increases of the Endowment fund of the Central Bank Foundation, made by the CBSM. On 31/10/2017, the Council of XII ordered that the Central Bank Foundation be placed under administration, and appointed 3 commissioners for this purpose.

Table 27.3: remuneration

	31/12/2017	31/12/2016	Variations	
			Amount	%
Directors	204,028	191,999	12,029	6.27%
Statutory Auditors	32,760	30,960	1,800	5.81%
Management	429,474	411,262	18,212	4.43%
Total	666,262	634,221	32,041	5.05%

Table 28.1: composition of items 100-110 "Value adjustments on intangible and tangible fixed assets"

	31/12/2017	31/12/2016	Variations	
			Amount	%
a) Intangible fixed assets	332,219	230,901	101,318	43.88%
- Software	141,135	93,301	47,834	51.27%
- multi-year costs	188,184	137,600	50,584	36.76%
- multi-year costs on third party assets	2,900	0	2,900	n.a.
b) Tangible fixed assets	236,766	254,641	-17,875	-7.02%
- real property	189,146	189,146	0	0%
- systems and fittings	15,823	21,255	-5,432	-25.56%
- other tangible fixed assets	31,797	44,240	-12,443	-28.13%
Total	568,985	485,542	83,443	17.19%

As regards the variation of this item compared to 2016, the increase was determined only by the increase in the adjustments on intangible fixed assets, made, inter alia, because of the reduction of the amortisation period for the multi-year costs related to the project for the overall strategic restructuring of the Central Bank, already outlined in the section dedicated to the "Valuation criteria", and due to amortisation of the software of the Central Credit Register.

Table 28.2: composition of item 120 "Provisions for risks and costs"

	31/12/2017	31/12/2016	Variations	
			Amount	%
a) Retirement funds	0	0	0	0%
b) Tax funds	0	0	0	0%
c) Other funds:	393,000	160,000	233,000	145.63%



<i>of which: fund for legal proceedings;</i>	190,000	100,000	90,000	90.00%
<i>of which; fund for costs for legal expenses/repayments;</i>	80,500	0	80,500	n.a.
<i>of which; fund for costs for extraordinary proceedings</i>	122,500	60,000	62,500	104.17%
Total	393,000	160,000	233,000	145.63%

As specified in the section of Liabilities related to "Financial risks and costs funds", the provisions reflect:

1. 122,500 Euro to the fund for costs for extraordinary proceedings, which refers to economic support to be allocated to two administrative compulsory winding-up procedures initiated in 2017;
2. 190,000 Euro to the fund for legal proceedings, which refers to two labour disputes initiated in 2016;
3. 80,500 Euro to the fund for costs for legal expenses/repayments with reference to the legal expenses that CBSM must refund to two employees following their acquittal in the legal proceeding no. 343/2015.

Table 28.3: item 130 "Provisions to the credit risk funds"

In 2017 and 2016, no provisions were made to the fund for credit risks.

Table 28.4: composition of item 140 "Value adjustments on credits and provisions for guarantees and commitments"

	31/12/2017	31/12/2016	Variations	
			Amount	%
a) Value adjustments on credits	40,686	12,411	28,275	227.82%
b) Provisions for guarantees and commitments	0	0	0	0%
Total	40,686	12,411	28,275	227.82%

These are the value adjustments made to credits in 2017 for the recovery of sums levied from supervised parties included under "other assets", as shown in the detail in this latter item.

Table 28.5: composition of item 150 "Value recoveries on credits and provisions for guarantees and commitments"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Value recoveries	638	9,701	-9,063	-93.42%
Total	638	9,701	-9,063	-93.42%

These are the value recoveries made in 2017 with reference to credits for the recovery of sums levied from supervised parties included under "other assets", as shown in the detail in this latter item.

Table 28.6: composition of item 160 "Value adjustments on financial fixed assets"

In 2017 and 2016, no value adjustments were made on financial fixed assets.

Table 28.7: composition of item 170 "Value recoveries on financial fixed assets"

In 2017 and 2016, no value recoveries were made on financial fixed assets.

29 Extraordinary Proceeds (item 190 of the profit and loss account) and Extraordinary Costs (item 200 of the profit and loss account)

Table 29.1: composition of items 190 and 200 "Extraordinary Proceeds" and "Extraordinary Costs"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Extraordinary proceeds				
a) Windfall proceeds	6,422	112,927	-106,505	-94.31%
b) Contingent assets	28,257	56,518	-28,261	-50.00%
c) Capital gains	407	16,000	-15,593	-97.46%
d) Rounding off in Euro units	0	0	0	0%
Total	35,086	185,445	-150,359	-81.08%



Extraordinary costs				
a) Windfall costs	30,113	4,414	25,699	582.22%
b) Contingent liabilities	2,551	3,648	-1,097	-30.07%
c) Capital losses	6,091	0	6,091	n.a.
d) Rounding off in Euro units	2	3	-1	-33.33%
Total	38,757	8,065	30,692	380.56%

As evidenced in the table above, the amount of the extraordinary elements of income is significantly lower compared to 2016.

The most significant amount is that of the windfall costs, which mainly reflects the allocation, already mentioned with reference to the comment on multi-year costs in section "Intangible fixed assets", for amounts already recognised in 2016 and subsequently rectified by the supplier.

30 Variation to the General financial risk fund (Item 230 of the profit and loss account)

Table 30.1: composition of item 230 " Variation to the General financial risk fund"

	31/12/2017	31/12/2016	Variations	
			Amount	%
Variation to the General financial risks fund	2,616,212	0	-2,616,212	n.a.
Total	2,616,212	0	-2,616,212	n.a.

As commented in the corresponding item of liabilities, the utilisation of the General financial risks fund was made according to a resolution of the Governing Council, for the purpose of covering the operating deficit in the financial year 2017.

More details concerning the movements of the general financial risks funds are available in the previous Section 19, table 19.1.

Part D - Other Information

31 Statement of financial conditions

Generated and collected funds	2017	2016



Generated and collected funds	2017	2016
Funds generated from operations		
Operating loss	0	-2,173,521
Provisions for risks and costs	393,000	160,000
Provision to the fund for general banking risks	0	0
Value adjustments on fixed assets	568,985	485,542
	961,985	-1,527,979
Increase in funds collected:		
Other liabilities	1,350,488	0
Debts with credit institutions	0	94,279,933
Debts with customers	57,954,741	0
Debts represented by financial instruments	0	0
Provisions for staff retirement allowances	494,800	540,819
Other variations	0	649
Accrued expenses and deferred revenues	169,548	64,493
	59,969,577	94,885,894
Decrease in funds used		
Other assets	0	0
Shares, quotas and other capital financial instruments	0	0
Cash and available funds	0	249,896
Intangible fixed assets	60,106	0
Tangible fixed assets	36,007	0
Accrued revenues and deferred expenses	38,454	0
Inter-bank loans	0	0
Bonds and other debt financial instruments	152,873,051	0
Loans to customers	0	6,006,273
Shareholdings	0	0
	153,007,618	6,256,169
Total generated and collected funds	213,939,180	99,614,084



Funds used and spent	2017	2016
Value recoveries and use of funds generated from operations:		
Value recoveries (on "other funds")	0	0
Utilisation of other funds	2,616,212	60,000
Dividends paid out	0	0
Other reserves (unavailable reserves)	0	0
	2,616,212	60,000
Increase in funds spent:		
Other assets	8,532,788	5,108,323
Other variations	0	0
Cash and available funds	4,134,970	0
Loans to credit institutions	61,883,704	37,350,406
Loans to customers	23,340,690	0
Intangible fixed assets	194,437	791,709
Tangible fixed assets	34,473	131,876
Shares, quotas and other capital financial instruments	365	670
Bonds and other debt financial instruments	0	42,557,148
Shareholdings	0	0
Accrued revenues and deferred expenses	0	40,192
	98,121,427	85,980,324
Decrease in funds collected:		
Other liabilities	0	5,522
Debts with banks	112,660,722	0
Debts with customers	0	13,012,417
Use of staff retirement allowances	540,819	555,821
Debts represented by financial instruments	0	0
Accrued expenses and deferred revenues	0	0
	113,201,541	13,573,760
Total funds used and spent	213,939,180	99,614,084

Board of Statutory Auditors Report on the Financial Statements closed on 31 December 2017



CENTRAL BANK OF THE REPUBLIC OF SAN MARINO

Publicly and privately owned entity

Registered office: San Marino (RSM) - via del Voltone, 120
Endowment Fund: 12,911,425.00 Euro (fully paid up)
Registered in Register of Companies with number 180
Economic Operator Code SM04262

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BOARD OF STATUTORY AUDITORS REPORT ON THE FINANCIAL STATEMENTS CLOSED ON 31/12/2017

♦ ♦ ♦ ♦ ♦

Dear Shareholders,

the Financial Statements closed on 31 December 2017, which the Board of Directors has submitted for your approval, were drawn up in accordance with the laws currently in force (Law no. 96 dated 29/06/2005 and subsequent amendments thereto - Central Bank Statutes; Law no. 165 dated 17/11/2005 - Law on Companies and on Banking, Financial and Insurance Services; Law no. 47 of 23/02/2006 - Companies Law); they are comprised of Balance Sheet, Profit and loss account, Notes to the financial statements and by the Report of the Governing Council.

The Financial Statements and the Notes to the financial statements containing the explanation of the valuation criteria, the adjustments and the provisions, the information on the balance sheet, on the profit and loss account and other information, as well as the report of the Governing Council were approved by the latter on 9 May last and on such occasion they were made available to the Board of Statutory Auditors, which waived the deadline referred to in art. 83 paragraph 1 of Law n. 47 of 23/02/2006 ("Companies Law").

The Notes to the financial statements contain, besides the accounting principles adopted, details of the process for the determination of the operating loss, which amounts to **2,616,212 Euro, loss that was entirely covered with the general financial risks fund.**

The operating results are contained in the following categories of asset and income figures expressed in Euro units, obtained by rounding off the actual accounting amounts – whether up or down – to the closest Euro unit. Alternatively the sum of the rounded-off figures of the sub-items was used. Any off-balance sheet differences generated in such accounting practice are included within the Financial Statements amongst the “Other Balance Sheet Assets/Liabilities” and the “Extraordinary Proceeds/Costs” entry in the Profit and Loss Account; this is per the general criteria for drawing up bank financial statements:

LIABILITIES	EURO	384,642,647
ENDOWMENT FUND	EURO	12,911,425
RESERVES	EURO	10,901,290
OPERATING LOSS	EURO	0

ASSETS	EURO	408,455,362
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Guarantees and Commitments:

GUARANTEES ISSUED	EURO	2,080,658
COMMITMENTS	EURO	65,111,729

*The outcome of the Balance Sheet is confirmed by the Reclassified Profit and Loss Account,
as follows:*

INTEREST RECEIVED	EURO	114,818
INTEREST ON SECURITIES	EURO	2,179,476
DIVIDENDS AND OTHER PROCEEDS	EURO	0
INTEREST PAID	EURO	-616,730

MONEY MANAGEMENT MARGIN	EURO	1,677,564
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PROFITS FROM FINANCIAL OPERATIONS	EURO	2,364,972
FINANCIAL OPERATION COSTS	EURO	- 489,553

FINANCIAL MANAGEMENT MARGIN	EURO	3,552,983
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OTHER OPERATING PROCEEDS	EURO	2,860,466
OTHER OPERATING COSTS	EURO	-186,064
OTHER PROCEEDS	EURO	3,816,833
LABOUR COSTS	EURO	-6,882,406
DEPRECIATION AND PROVISIONS COSTS	EURO	-568,985
OTHER COSTS	EURO	-4,772,322

VALUE ADJUSTMENTS ON CREDITS	EURO	-40,686
VALUE RECOVERY ON CREDITS	EURO	638
<hr/>		
ORDINARY OPERATING MARGIN	EURO	-2,219,543
<hr/>		
EXTRAORDINARY OPERATING PROCEEDS	EURO	407
EXTRAORDINARY OPERATING COSTS	EURO	-6,091
WINDFALL PROCEEDS	EURO	34,679
WINDFALL COSTS	EURO	-32,664
<hr/>		
PRE-PROVISION LOSS	EURO	-2,223,212
<hr/>		
PROVISION FOR RISKS AND COSTS	EURO	-393,000
PROVISION TO FUND GEN. BANKING RISKS	EURO	0
USE OF MISCELLANEOUS FUNDS	EURO	0
<hr/>		
OPERATING LOSS	EURO	-2,616,212
<hr/>		
USE OF THE GENERAL FINANCIAL RISKS FUND	EURO	2,616,212
<hr/>		
INCOME TAXES	EURO	0
OPERATING LOSS	EURO	0

The operating loss for 2,616,212 Euro was covered through the use of the general financial risks fund, in accordance with the resolution of the Governing Council. Purpose of this fund, appropriated over the years, is to cover the general entrepreneurial risk and is similar to a capital reserve and, in fact, the negative result is brought to zero.

AUDITING CHECKS

The Board of Statutory Auditors has examined the Report made by the Independent Auditing company appointed by the Shareholders Assembly, received on 10th May 2018, and which, in its conclusion, expresses the following opinion: “In our opinion, the financial statements represent the true and correct equity and financial performance of the CENTRAL BANK OF THE REPUBLIC OF SAN MARINO as at 31/12/2017 and the economic result for the financial year closed on such date”.

SUPERVISORY ACTIVITIES

- ✓ During 2017, the Board of Statutory Auditors performed its periodic checks, the outcome of which , together with the relevant accompanying documentation, is included in the specific minute book;
- ✓ The members of the Board of Statutory Auditors attended the Governing Council meetings, in accordance with the statutory and legislative regulations that govern its running, **were kept informed** by the Governing Council regarding the general proceeding of operations, including the foreseeable evolution thereof, as well as information on those operations having the most important implications from an economic, financial and equity standpoint and on those carried out by the related parties;
- ✓ The Board of Statutory Auditors, on the basis of the information obtained, **was able to verify** that the actions resolved and implemented are compliant with the law and the Statutes and that they do not seem imprudent, risky, in potential conflict of interest or in contrast with the decisions taken by the General Meeting of the Shareholders;
- ✓ The Board of Statutory Auditors **supervised** the observance of the Law and the Statutes, as well as the compliance with the principles of proper management;
- ✓ it is declared that the general organisation of the these Financial Statements is in line with the laws regulating the drawing up and structuring thereof;
- ✓ from comparisons made between the Notes to the current Financial Statements with those relative to last year it may be noted that the valuation of the balance sheet figures in each was carried out on the basis of identical criteria. The data in the two documents may therefore be accurately compared.

Given the facts outlined above, and keeping in mind that no irregular facts have emerged nor contrary reservations been expressed, the Board of Statutory Auditors declares its opinion that - to the extent of its responsibility and to the best of its knowledge – the information presented conforms with the laws governing the drawing up and structuring of Financial Statements. Moreover, the aforesaid have been drawn up clearly and represent the true and correct equity, financial and general economic performance of the Central Bank; the Board of Statutory Auditors

therefore invites the Shareholders Assembly to approve the Financial Statements closed on 31 December 2017 in the form proposed by the Governing Council.

Finally, the members of the Board of Statutory Auditors would like to express their gratitude to the Governing Council, the Director General, and the staff for their cooperation and willingness to facilitate the Members' understanding of the facts and the conduction of all of their above-mentioned supervisory checks.

San Marino, 25th May 2018

THE BOARD OF STATUTORY AUDITORS

Luca Marcucci

Ms. Sandy Stefanelli

Independent Auditing
Company's Report on the
Financial Statements closed on
31 December 2017



INDEPENDENT AUDITOR'S REPORT PURSUANT TO ART. 23 PARAGRAPH 3 OF LAW NO. 96 OF 29 JUNE 2005 (STATUTES OF THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO)

*To the Shareholders of the
CENTRAL BANK OF THE REPUBLIC OF SAN MARINO*

Introduction

We have audited the Financial Statements of the CENTRAL BANK OF THE REPUBLIC OF SAN MARINO (hereinafter also referred to simply as the Bank), which comprise the Balance Sheet as at December 31, 2017 and the Income Statement for the financial year then ended and the related Notes to the accounts.

Basis for Opinion

We conducted our audit in accordance with the regulations in force in the Republic of San Marino and, where applicable, with the international Standard Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent from the Bank, in accordance with the ethical requirements applicable under the legal framework of San Marino to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our opinion.

Other Aspects

This report was issued pursuant to art. 23, paragraph 3 of Law No. 96 of 29 June 2005 (Statutes of the CENTRAL BANK OF THE REPUBLIC OF SAN MARINO). The legal audit procedures were performed by an Entity different from the undersigned audit firm.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of these financial statements that give a true and fair view, in accordance with the laws and regulations of San Marino and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the

Società di revisione ed organizzazione contabile

termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulatory framework of San Marino will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the regulatory framework of the Republic of San Marino and, where applicable, in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level, regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

B

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the CENTRAL BANK OF THE REPUBLIC OF SAN MARINO as at December 31, 2017 and of its economic result for the financial year then ended.

Emphasis of matter

Without qualifying our opinion, we draw attention on the information detailed in the Notes to the financial statements as regards the following significant facts.

- The Bank used, as permitted by the regulations in force, the General Financial Risks Fund for 2.6 million Euro in order to cover the deficit of the financial position for the year 2017.
- During the financial year, the Bank purchased two structured financial instruments for an aggregate value of 42.5 million Euro, not listed, both issued by a Special Purpose Vehicle (SPV). These financial instruments were included in the investment portfolio of the Bank with a specific resolution of the Governing Council and are valued at their purchase cost, net of a trading spread for the year. The fair value of such financial instruments is not available, however the Bank, in order to identify and monitor the financial risks related to this investment, appointed a major international advisor. Based on the evaluation reported by the above mentioned advisor, the Bank considered as inexistent any permanent loss of value with reference to the aforementioned financial instruments.
- The revenues related to the provision of services provided to the Broader Public Administration, for the year 2017, were estimated by the Bank, even though based on objective elements. In 2017, as well as in 2016, the latter did not pay any amount for these services, since the relevant agreement expired on 31/12/2015 and it has not been renewed yet, in spite of the fact that negotiations already started. The estimated amount of 2.8 million Euro has been determined in line with the Resolution of the State Congress no. 13 of 05/12/2017 as well as on the basis of the written confirmations received from the Entities of the Public Administration.

San Marino, 10th May 2018

AB & D Audit Business & Development S.p.A.


Marco Stolfi - Partner



Guarantee Fund for Depositors



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Statement of Operations for the F.Y. 2017: Assets and liabilities statements

ASSETS	2017		2016	
	Total value	As a percentage of assets	Total value	As a percentage of assets
A. FINANCIAL INSTRUMENTS	0	0%	0	0%
A.1. Listed financial instruments	0	0%	0	0%
A.1.1. Debt securities	0	0%	0	0%
A.1.2. Capital securities	0	0%	0	0%
A.1.3. CIS parts	0	0%	0	0%
A.2. Unlisted financial instruments	0	0%	0	0%
A.2.1. Debt securities	0	0%	0	0%
A.2.2. Capital securities	0	0%	0	0%
A.2.3. CIS parts	0	0%	0	0%
A.3. Derivative financial instruments	0	0%	0	0%
B. CREDITS	6,179,371	99%	0	0%
B.1. Repurchase agreements	6,179,371	99%	0	0%
B.2 Others	0	0%	0	0%
C. CASH AT BANKS	0	0%	0	0%
C.1 On demand	0	0%	0	0%
C.2 Others	0	0%	0	0%
D. LIQUIDITY	60,345	1%	5,000,618	100%
E. OTHER ASSETS	0	0%	0	0%
TOTAL ASSETS	6,239,716	100%	5,000,618	100%

LIABILITIES	2017	2016
	Total value	Total value
F. FUNDING RECEIVED	0	0
G. DERIVATIVE FINANCIAL INSTRUMENTS	0	0
H. OTHER LIABILITIES	0	0
TOTAL LIABILITIES	0	0

NET	2017	2016
	Total value	Total value
NET ASSET VALUE OF THE FUND	6,239,716	5,000,618



Statement of Operations for the F.Y. 2017: Income Position

	2017	2016
	Total value	Total value
FINANCIAL INSTRUMENTS	0	0
LISTED FINANCIAL INSTRUMENTS	0	0
PROCEEDS FROM INVESTMENTS	0	0
Interest and other proceeds on debt securities	0	0
Dividends and other proceeds on capital income	0	0
Proceeds on CIS parts	0	0
PROFIT/LOSS FROM PROCEEDS	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
CAPITAL GAINS/CAPITAL LOSSES	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
HEDGING TRANSACTIONS MARGIN OF LISTED FINANCIAL INSTRUMENTS	0	0
Operating margin of listed financial instruments	0	0
UNLISTED FINANCIAL INSTRUMENTS	0	0
PROCEEDS FROM INVESTMENTS	0	0
Interest and other proceeds on debt securities	0	0
Dividends and other proceeds on capital income	0	0
Proceeds on CIS parts	0	0
PROFIT/LOSS FROM PROCEEDS	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
CAPITAL GAINS/CAPITAL LOSSES	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
HEDGING TRANSACTIONS MARGIN OF UNLISTED FINANCIAL INSTRUMENTS	0	0
Operating margin of unlisted financial instruments	0	0
NON-HEDGING DERIVATIVE FINANCIAL INSTRUMENTS	0	0
Operating margin in non-hedging derivative financial instruments	0	0
CREDITS	21,748	0
Interest received and other proceeds	21,748	0
Value increases/decreases	0	0
Profit/loss from proceeds	0	0
Operating margin of loans	21,748	0
CASH AT BANKS	0	0
Interest received and other proceeds	0	0
Operating margin of cash at banks	0	0
OTHER ASSETS	0	0
Operating margin of investment in other assets	0	0
FOREIGN CURRENCY MANAGEMENT	0	0



Operating margin of foreign currency management	0	0
OTHER OPERATING TRANSACTIONS	0	0
Operating margin of other transactions	0	0
<u>GROSS OPERATING MARGIN OF NORMAL OPERATIONS</u>	21,748	0
FINANCIAL COSTS	0	0
Interest paid on funding received	0	0
Other financial costs	0	0
<u>NET OPERATING MARGIN OF NORMAL OPERATIONS</u>	21,748	0
OPERATING COSTS	0	0
Commissions	0	0
Administrative costs	0	0
Other operating costs	0	0
OTHER REVENUES AND COSTS	999	618
Other revenues	999	618
Other costs	0	0
<u>OPERATING PROFIT(LOSS)</u>	22,747	618



Statement of Operations for the F.Y. 2017: Notes to the Financial Statements



Structure and Contents of the Statement

The format of the Statement of Operations of the Guarantee Fund for Depositors was prepared, in compliance with the provisions of article III.III.2, paragraph 2, of the "Regulations on the Guarantee Fund for Depositors" (Reg. 2016-01 as subsequently amended), based on the provisions of Regulation 2007-06 of the Central Bank currently in force, and of the formats annexed thereto, to the extent compatible.

More specifically, the format of the statement provided for the so called "Open" Funds was used as base, then only the items typical of mutual investment funds were eliminated, the level of details of those items that, under the laws currently in force, may not have any movement for the Guarantee Fund for Depositors was reduced, and some sub-items were adjusted due to the peculiarities of such Fund.

The Statement is comprised of the Assets and liabilities statements, the Income Position and the Notes to the financial statements, and it is accompanied by the Board of Statutory Auditors Report and by the Report of the Auditing Company. The Statement, in fact, is meant to explain, as regards each financial year, the composition of assets and liabilities of the Fund, the economic result achieved and the movements in equity, whereas a broader representation of operations is available in the Annual Report on the Activities of the Fund, appendix of the Annual Report of the Central Bank to the Great and General Council.

Part A - Assets and Liabilities and Net Equity of Fund

Section 1 - Illustration of the Valuation Criteria

In preparing this statement, the accounting principles and valuation criteria generally applied by mutual investment funds were used, according to the laws and regulations currently in force. Figures in units of Euro.

Liquidity and cash at banks, as well as credits, are valued at face value, which corresponds to their presumed monetary value.

Interest received and paid, other proceeds and costs to be borne by the fund are calculated on an accrual basis, regardless of the date of their collection and payment, also by recognising, where necessary, the accrued revenues and deferred expenses and accrued revenues and expenses.

As regards the valuation of financial instruments as at 31 December 2017, it is worth noting that on such date none is included in the portfolio.

Section 2 - Assets

A. FINANCIAL INSTRUMENTS

A.1. Listed financial instruments

As at the reference date of this statement, the Fund does not hold any listed Financial Instruments in its portfolio.

A.2. Unlisted financial instruments

As at the reference date of this statement, the Fund does not hold any unlisted Financial Instruments in its portfolio.

A.3. Derivative financial instruments



As at the reference date of this statement, the Fund does not hold any derivative Financial Instruments in its portfolio.

B. CREDITS

Credits	31/12/2017	31/12/2016
Repurchase agreements	6,179,371	0
Others	0	0
Total	6,179,371	0

The "Credits - Repurchase agreements" refer to repurchase agreements transactions open as at 31/12/2017 with the Central Bank of the Republic of San Marino and carried out according to the investment policy defined by the Governing Council of the CBSM itself, at the meeting held on 12 April 2017.

As at 31/12/2016, instead, the Fund did not hold any Credits.

Interest accrued at the end of the financial year on such transactions are equal to 13,234 Euro and are included in the item in question.

C. CASH AT BANKS

As at the reference date of this statement, there is no cash at banks other than the current account open with the Central Bank and included under "Liquidity".

For data comparability purposes, the value related to the financial year 2016 of the item in question has been brought to zero since, in 2017, an accounting reclassification was made for the aforementioned current account under "Liquidity" rather than in this item. Consequently, as evidenced in the paragraph below, the value of "Liquidity" was also modified for 2016.

D. LIQUIDITY

Liquidity	31/12/2017	31/12/2016
Liquidity	60,345	5,000,618
Total	60,345	5,000,618

"Liquidity" refers to the current account open in the name of the Fund with the Central Bank of the Republic of San Marino.

The amount of liquidity held on the current account as at 31/12/2017 is significantly lower than the amount deposited in such account as at 31/12/2016 (variation: -4.94 million Euro), due to the investments made and described above in paragraph "B. Credits".

The interest to be received accrued as at the end of the financial year with reference to such current account, equal to 20 Euro, are included in the item in question.

E. OTHER ASSETS

As at the reference date of this statement, the Fund does not hold Other Assets.



Section 3 - Liabilities

F. FUNDING RECEIVED

As at the reference date of this statement, the Fund has not received any Funding.

G. DERIVATIVE FINANCIAL INSTRUMENTS

As at the reference date of this statement, the Fund has no position in derivative Financial Instruments.

H. OTHER LIABILITIES

As at the reference date of this statement, the Fund has no Other Liabilities.

Section 4 - Net Asset Value

Net Asset Value of the Fund	31/12/2017	31/12/2016
Net equity at the beginning of the period	5,000,618	0
Increases	8,627,914	5,000,000
Decreases	7,411,563	0
Result for the period	22,747	618
Net equity at the end of the period	6,239,716	5,000,618

With reference to the content of the Table, it should be noted that:

a. The increases reflect:

- as for 1.22 million Euro, to ordinary contributions, for the purpose of reaching the coverage level of 0.4% in 2017, set by the Management Body with reference to the minimum European target level of 0.8% by 2024;

- as for 7.41 million Euro, to the extraordinary contributions received from the participating banks, requested from the remaining participating banks by the Management Body, pursuant to art.III.II.2 of Reg.2016-01, with reference to the administrative compulsory winding-up of Asset Banca occurred in the first half of 2017. This amount corresponds to 0.5% of the deposits covered, that is to say the maximum level that the Management Body could, at the time, independently request as extraordinary contribution;

b. the decreases refer to the repayment of the aforementioned contributions to the participating banks, occurred on 11/07/2017, as a consequence of the provisions of art. 3 of the Decree-Law n. 79 of 10 July 2017 and following the failure of the Fund to intervene for the depositors of Asset Banca S.p.A. in lca;



c. the result for the period is of 22,747 Euro, tax exempt due to the institutional characteristics of the Fund.

Part B - Income Position

The financial year in question shows a positive result for 22,747 Euro. This result reflects the components shown in the tables of this section.

Section 1 - Operating Margin of Financial Instruments

In the period under review, the Fund did not enter into any transaction on financial instruments.

Section 2 - Operating Margin of Credits

Credits	31/12/2017	31/12/2016
Interest received and other proceeds	21,748	0
Value increases/decreases	0	0
Profit/loss from proceeds	0	0
Total	21,748	0

This item reflects the amount of interest accrued with reference to the repurchase agreement transactions made with the Central Bank of the Republic of San Marino.

As at 31/12/2016, this item was equal to zero, since the Fund had not carried out any transaction on Credits.

Section 3 - Operating Margin of Cash at Banks

As at the reference date of this statement, there are no income elements resulting from cash at banks.

For data comparability purposes, the value of the item in question related to the financial year 2016 was brought to zero since, in 2017, an accounting reclassification was made for the current account opened with the CBSM into "Liquidity" and, consequently, the relevant returns were recognised under "Other revenues and costs". Therefore, as evidenced in the paragraph below, the value of such "Other revenues and costs" was also modified for 2016.

Section 4 - Operating margin of investment in other assets

In the period under review, the Fund did not enter into any transaction on other assets.

Section 5 - Operating Margin of Foreign Currency Management

In the period under review, the Fund did not enter into any foreign currency transaction.

Section 6 - Operating Margin of Other Transactions

In the period under review, no other operating transactions were entered.

Section 7 - Financial Costs



In the period under review no loans were opened.

Section 8 - Operating Costs

For the financial year 2017, costs of operation of the Fund were borne by the Central Bank, as established with resolution dated 12 April 2017 by the Governing Council of the Central Bank of the Republic of San Marino itself.

Section 9 - Other Revenues and Costs

Other revenues and costs	31/12/2017	31/12/2016
Other revenues	999	618
Other costs	0	0
Total	999	618

"Other revenues" include:

- 998 Euro of interest accrued on the current account opened with the Central Bank of the Republic of San Marino;
- 1 Euro due to rounding off to one unit of Euro generated by the compilation of the financial statements formats.

Part C - Other Information

There is no other information to report.



Board of Statutory Auditors Report on the Statement of Operations for the financial year 2017



CENTRAL BANK OF THE REPUBLIC OF SAN MARINO

Publicly and privately owned entity

Registered office: San Marino - via del Voltone, 120
Endowment Fund: Euro 12,911,425.00 fully paid up
Registered in Register of Companies with number 180
Economic Operator Code SM04262

♦ ♦ ♦ ♦ ♦

BOARD OF STATUTORY AUDITORS REPORT ON THE STATEMENT OF OPERATIONS FOR THE FINANCIAL YEAR ENDED ON 31/12/2017 GUARANTEE FUND FOR DEPOSITORS

♦ ♦ ♦ ♦ ♦

Dear Shareholders,

the Financial Statements closed on 31 December 2017, which the Board of Directors has submitted for your approval, were drawn up in accordance with the laws currently in force (Law no. 96 dated 29/06/2005 and subsequent amendments thereto - Central Bank Statutes; Law no. 165 dated 17/11/2005 - Law on Companies and on Banking, Financial and Insurance Services; Law no. 47 of 23/02/2006 - Companies Law); it is comprised of the Assets and liabilities statements, the Income Position and the Notes to the financial statements, and of the Board of Statutory Auditors Report and the Report of the Auditing Company.

The Statement on Operations for the financial year was approved by the Governing Council on 9 May 2018 and on such occasion it was made available to the board of Statutory Auditors.

During the financial year ended on 31 December 2017, our activities were based on the provisions of Law and on the Code of Conduct for the Board of Statutory Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Professional Register of Chartered Accountants and Accounting Professionals) of the Republic of San Marino.

STATEMENT OF OPERATIONS

The income position of the statement of operations shows a positive result for Euro 22,747 and is comprised of the following items:

BALANCE SHEET

ASSETS	Euro	6,239,716
LIABILITIES	Euro	0
NET ASSET VALUE OF THE FUND	Euro	6,239,716

INCOME POSITION:

CREDITS from INTEREST RECEIVED AND OTHER EURO PROCEEDS	21,748
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GROSS OPERATING MARGIN OF NORMAL		
	OPERATIONS EURO	21,748
OTHER REVENUES AND COSTS	EURO	999
OPERATING PROFIT	EURO	22,747

The Board of Statutory Auditors has examined the Report made by the Independent Auditing company, which was received on 10 May 2018, and which – in its conclusion – expresses the following opinion: “the statement on operations of the Guarantee Fund for Depositors represents the true and correct equity and financial performance of the Fund as at 31/12/2017 and the economic result for the financial year closed on such date, in compliance with the Regulation no. 2007-06 Issued by the Central Bank of the Republic of San Marino governing the criteria for their preparation”.

SUPERVISORY ACTIVITIES

- ✓ We have monitored the compliance with the laws, the Regulations of the Guarantee Fund for Depositors and the principles for a correct management.
- ✓ We acquired from the Management Body, information on the overall performance of operations and its outlook, as well as on the most significant transactions, by size or features, carried out by the Fund, based on the information acquired we have no remark to report.
- ✓ We were able to verify that the actions resolved and implemented are compliant with the law and the Regulation and that they do not seem imprudent, risky, in potential conflict of interest;
- ✓ We have assessed and monitored, to the extent of our own liability, the adequacy and functioning of the accounting-administrative system, its reliability in correctly representing management-

related issues through the acquisition of information from the managers of management body, the party in charge of the auditing, and, to this regard, we have no particular remark to report.

- ✓ To the extent necessary, we hereby acknowledge that the Board of Statutory Auditors is not aware of any decision taken by the competent Bodies, which is not compliant with the regulations of the Central Bank or with the laws;
- ✓ During the supervisory activity, no further significant facts emerged that would require to be mentioned in the document report.

Given the facts outlined above, and keeping in mind that no irregular facts have emerged, nor contrary reservations been expressed, the Board of Statutory Auditors declares its opinion that - to the extent of its responsibility and to the best of its knowledge – the information presented conforms with the laws governing the drawing up and structuring of the Statement of Operations. Moreover, the aforesaid has been drawn up clearly, and truly and correctly represents assets and liabilities statements and the income position, and therefore invites the Meeting of the Shareholders to approve the Statement of Operations closed on 31 December 2017 in the form proposed by the Governing Council.

Finally, the members of the Board of Statutory Auditors would like to express their gratitude to the Governing Council, the Director General, and the Deputy Director General for their cooperation and willingness to facilitate the Members' understanding of the facts and the conduction of all of their above-mentioned supervisory checks.

Rep. San Marino, 25th May 2018

THE BOARD OF STATUTORY AUDITORS

Luca Marcucci

Ms. Sandy Stefanelli

Auditing company report on the Statement of Operations for the financial year 2017



INDEPENDENT AUDITOR'S REPORT PURSUANT TO ART. 33 OF THE LISF AND ART. III.III.2, PARAGRAPH 2, OF THE "REGULATION OF THE GUARANTEE FUND FOR DEPOSITORS" (CBSM REGULATION NO. 2016-01) AND PROVISIONS OF THE CBSM REGULATION NO. 2007-06 CURRENTLY IN FORCE

**To the Participants and to the Guaranteed Parties of the
Guarantee Fund for Depositors**

Opinion

We have audited the Financial Statements of the Guarantee Fund for Depositors, which comprise the Balance Sheet as at December 31, 2017 and the Income Statement for the financial year then ended and the related Notes to the accounts.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Fund as at December 31, 2017 and of its economic result for the financial year then ended, in accordance with Regulation no. 2007-06 issued by the Central Bank of the Republic of San Marino.

Basis for opinion

We conducted our audit in accordance with the regulations in force in the Republic of San Marino and, where applicable, with the International Standard Auditing (San Marino has not adopted yet its own standards on auditing). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent from the Fund, the Management Board appointed by the Central Bank of the Republic of San Marino, as well as from the directors of the latter, in accordance with the ethical requirements applicable under the legal framework of San Marino to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors of the Central Bank of the Republic of San Marino are responsible for the preparation of these financial statements that give a true and fair view, in accordance with Regulation no. 2007-06 issued by the Central Bank of the Republic of San Marino, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Fund or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulatory framework of San Marino will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the regulatory framework of the Republic of San Marino and, where applicable, in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund and Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern;

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- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level, regarding among other matters, the planned scope and timing of the audit and significant audit findings.

San Marino, 10th May 2018

AB & D Audit Business & Development S.p.A.


Marco Stolfi - Partner



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