

BANCA  CENTRALE  
DELLA REPUBBLICA DI SAN MARINO

*Annual Report*  

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*2019*



# Annual Report 2019



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

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## TABLE OF CONTENTS

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<b>GOVERNING BODIES OF THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO .....</b>	<b>5</b>
<b>GOVERNING COUNCIL'S REPORT ON OPERATIONS - FY 2019 .....</b>	<b>7</b>
<b>2019 ANNUAL REPORT .....</b>	<b>15</b>
<b>Balance Sheet Assets .....</b>	<b>17</b>
<b>Balance Sheet Liabilities.....</b>	<b>19</b>
<b>Guarantees and commitments .....</b>	<b>21</b>
<b>Profit and loss account .....</b>	<b>22</b>
<b>Reclassified profit and loss account.....</b>	<b>24</b>
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>8</b>
<b>Part A - General Part .....</b>	<b>11</b>
<b>Part B - Information on the balance sheet .....</b>	<b>14</b>
<b>Part C - Information on the profit and loss account .....</b>	<b>52</b>
<b>Part D - Other Information .....</b>	<b>65</b>
<b>BOARD OF STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 .....</b>	<b>67</b>
<b>AUDIT FIRM'S REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019.....</b>	<b>78</b>
<b>GUARANTEE FUND FOR DEPOSITORS .....</b>	<b>82</b>





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

Governing Council	
Catia Tomasetti	Chairman
Francesco Mancini	Vice Chairman
Gian Luca Amici	Member
Martina Mazza	Member
Antonella Mularoni	Member
Giacomo Volpinari	Member

Board of Statutory Auditors	
Pier Angela Gasperoni	Chairman
Francesca Mularoni <sup>1</sup>	Statutory Auditor
Valentina Di Francesco	Statutory Auditor

Directorate General	
Giuseppe Ucci	Acting Deputy Director
Daniele Bernardi <sup>2</sup>	Deputy Director

Supervision Committee	
Giuseppe Ucci	Chairman
Giuliano Battistini <sup>3</sup>	Internal Inspector
Marco Giulianelli	Internal Inspector
Milena Guidi	Internal Inspector
Maurizio Pappalardo <sup>4</sup>	Internal Inspector
Andrea Vivoli	External Inspector

Information as at 31 December 2019

<sup>1</sup> Office held since 29 August 2019.

<sup>2</sup> Temporarily seconded to Banca Nazionale Sammarinese S.p.A. since 21 August 2019.

<sup>3</sup> Office held since 27 March 2019.

<sup>4</sup> Office held since 5 September 2019.





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# Governing Council's Report on Operations - FY 2019



## Dear Shareholders,

Below are the financial highlights and main economic-equity indicators for financial year 2019.

	2019	2018	Change	
			Absolute	%
<b>Balance Sheet Totals</b>	<b>517,151,864</b>	<b>399,351,439</b>	<b>117,800,425</b>	<b>29.50%</b>
Loans to credit institutions	81,209,659	111,578,668	-30,369,009	-27.22%
Loans to customers	92,246,651	97,753,395	-5,506,744	-5.63%
Bonds and other debt financial instruments	300,697,672	161,299,796	139,397,876	86.42%
Shares, quotas and other capital financial instruments	5,390	5,160	230	4.46%
Shareholdings	19,000,000	0	19,000,000	n.a.
Debts with credit institutions	265,412,612	218,747,963	46,664,649	21.33%
Debts with customers	181,501,611	112,703,176	68,798,435	61.04%
Debts represented by financial instruments	0	0	0	0%
Net equity <sup>1</sup>	61,299,309	60,798,852	500,457	0.82%
Interest margin	2,210,325	1,481,365	728,960	49.21%
Profits and losses from financial transactions	5,888,897	-4,026,194	9,915,091	246.26%
Mediation margin	12,829,790	2,006,710	10,823,080	539.34%
Gross operating margin	3,120,192	-10,470,702	13,590,894	129.80%
Net result	500,457	-12,223,572	12,724,029	104.09%
Change in the Fund for general banking risks	-500,457	12,223,572	-12,724,029	-104.09%
Operating results	0	0	0	0%

<sup>1</sup>: It includes the endowment fund, reserves, the fund for general banking risks and the profit or loss for the year.

## Net equity data

The figures reflected in the table and referring to 31 December 2019 and 31 December 2018 show first of all that the balance sheet total increased by EUR 117.8 million in the last financial year, from EUR 399.35 million to EUR 517.15 million.

With reference to the main balance sheet items, funding and loans rose.

**Funding** from banks and customers at 31 December 2019 totalled EUR 446.91 million compared to EUR 331.45 million at 31 December 2018, reflecting an increase of EUR 115.46 million.

More specifically, in the period under review:

- Inflow from banks increased by EUR 46.66 million (21.33%), of which EUR 42.81 million pertained to on demand debts;
- Inflow from customers increased by EUR 68.80 million (61.04%), such increase also pertaining to on demand debts (EUR 70.84 million; 67.21%). In this regard, it should be noted that this increase was driven by the liquidity deposited with the Central Bank pertaining to Fondiss – Supplementary Welfare Fund of the Republic of San Marino – which liquidity as at 31 December was held with San Marino banks.

**Loans** to banks and to customers and holdings in the securities portfolio at 31 December 2019 stood at EUR 474.16 million compared to EUR 370.63 million as at 31 December 2018, up EUR 103.53 million.

More specifically:

- Loans to credit institutions decreased by EUR 30.37 million, of which EUR 16.07 million related to "other credits" due to the repayment of term loans to banks;
- Loans to customers decreased by EUR 5.51 million due to the repayment of instalments of outstanding loans.

The overall value of the **securities portfolio** as at 31 December 2019 stood at EUR 300.7 million, up EUR 139.40 million (86.42%) compared to 31 December 2018 due to the increase in funding from both banks and customers and resource allocation choices, including the write-off of the investment portfolio.

As illustrated in the relevant section of the Notes to the financial statements, the securities portfolio as at 31 December 2019 consisted entirely of securities held for trading following the early sale of "Demeter" securities, which as at 31 December 2018 were reflected in the investment securities portfolio.

**Shareholdings.** The Central Bank held a single shareholding representing the entire capital of Banca Nazionale Sammarinese S.p.A. for a face value of EUR 19 million.

This acquisition took place following the enactment of Law No. 102/2019 on bank crisis resolutions and was determined by a specific decision of the General Meeting of the Shareholders. The shareholding being referred to did not lead to the establishment of a Banking Group related to the Central Bank and, as under Article 24 of Law No. 157 dated 19 November 2019, shareholdings acquired following the application of Article 10(7) of Law No. 102 dated 14 June 2019 "are excluded from the management and coordination activity by the Central Bank of the Republic of San Marino".

As at 31 December 2019, **net equity** stood at EUR 61,299,309 and consisted of the (i) endowment fund subscribed by the Most Excellent Chamber and by banks, (ii) reserves, (iii) fund for general banking risks and (iv) profit or loss as detailed in the relevant section of the Notes to the financial statements, .

In order to replenish the equity reserves, The Bank's Governing Council resolved to allocate the net result for the year (EUR 0.5 million) to the fund for general banking risks and to end the year at breakeven, thereby causing net equity to increase by the same amount at the reporting date.

## **Economic and Income Indicators**

On the other hand, a review of the income indicators reflected in the statement of the reclassified profit and loss account shows that **mediation margin** (EUR 12.83 million) increased significantly compared to the figure posted in 2018 (EUR 2 million).

This result was driven by an increase across all of its components, including interest margin, revenues from services and, most notably, profits/losses from financial operations.

More specifically:

- **Interest margin**  
It should be noted that the decrease in interest received (down EUR 0.22 million; -8.48%) — which was partly due to the total lack of income from repurchase agreements in 2018 , such agreements being absent in 2019, and the decrease in interest received on the securities portfolio — was underpinned by the significant decrease in interest paid (down EUR 0.95 million, -83.40%). With regard to the latter, decreases were recorded in (i) interest on debts with credit institutions, whereas in 2018 a difference in margins related to forward hedging transactions, absent in 2019, was carried, and (ii) interest on debts with customers due to the absence of term deposits made, during 2018, by Fondiss - Supplementary Welfare Fund of the Republic of San Marino;
- **Service revenues**



They remained virtually stable compared to the previous year, increasing by EUR 0.18 million (3.93%). This result was driven by a EUR 1.11 million increase in commission earned regarding services provided to the Broader Public Administration, which in 2018 stood at only EUR 1.13 million, given that they were affected by the entire 20% statutory reduction made in each year over the 2016-2018 three-year period. The aforementioned reduction was also to be kept in the 2019-2021 three-year period; indeed, under the relevant draft agreement approved by the Bank's Governing Council and by the State Congress and pending signature, commissions are expected to fall in the region of EUR 2,240,000 in each year. However, this increase was partially offset by a decrease in other operating proceeds (down EUR 0.97 million, -26.42%), mainly due to the lower recovery of supervision expenses from supervised entities. In 2019, only ordinary costs were recovered as no extraordinary costs were incurred (in 2018, for example, extraordinary costs relating to the Asset Quality Review project were recovered);

- **Profits (losses) from financial transactions**

Net Profits from Financial Operations came in at EUR 5.89 million (as opposed to a EUR 4.03 million loss in 2018), showing a considerable increase (EUR 9.9 million) over the previous period. More specifically, securities management resulted in a EUR 2.24 million balance between gains and losses from valuation as at 31 December 2019 (EUR 4.17 million loss as at 31 December 2018) and trading gains totalling EUR 3.63 million (up EUR 3.48 million over 2018). Moreover, a profit of EUR 15,369 for foreign currency exchange/trading was posted as at 31 December 2019 (as opposed to a loss of EUR 6,143 as at 31 December 2018).

## Focus on the global economic situation

Global economic growth in 2019 stood at 2.9%, down sharply from 3.6% in 2018 and 3.8% in 2017.

In detail, the most advanced economies grew by 1.7% compared to 2.2% in the previous year; the Eurozone as a whole grew by 1.2% compared to 1.9% in 2018, with significant differences between countries, whose progress was not consistent and in many cases was held back by structural differences that had an impact on industrial policy and productivity. European economic growth, albeit slow, showed a very diverse distribution among the various countries. Spain grew by 2%, France by 1.3%, Germany by 0.6% and Italy as little as by 0.3%.

Despite a 2.3% increase in GDP compared to 2.9% in the previous year, the United States continued to be the driving force behind the global economy, followed by China, whose economic growth proved strong at 6.1% but still far from the 6.7% reached in 2018.

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

The general trend of the world economy was affected by a number of unresolved issues already seen in previous years, including: international terrorism, trade tensions and the Brexit, which were combined with new and recent threats to global stability.

Indeed, in addition to the (alas) now traditional Middle Eastern crisis areas, the turmoil and crises in Latin America countries have also become a concern, with special reference to Venezuela, where some sort of civil war is going on between the incumbent president Maduro and his rival and self-proclaimed president Guaidò.

The Venezuelan situation also has brought socio-economic instability to other South American countries such as Bolivia and Argentina.

During 2019, the geo-political problems were compounded by numerous major natural disasters, such as fires, floods, earthquakes that caused many fatalities and incalculable damage to the environment and the economy.

Against such a complex background, monetary authorities continued to provide support and inject liquidity into the financial systems in an effort to provide momentum to international economies.

The effects of these expansionary monetary policies contributed to a progressive narrowing of credit spreads of the main international bond issuers, allowing companies to finance themselves at decreasing costs, while overall stability remained a challenge yet to be tackled.

Still focusing on balance sheet figures, it should be stressed that mediation margin (EUR 12.83 million) proved adequate to support operating costs (administrative costs and value adjustments on intangible and tangible fixed assets), totalling EUR 9.71 million, showing a EUR 2.77 million decrease over 2018.

This aspect is also to be viewed as significant considering that in 2019 **gross operating margin** was positive again compared to 2018.

This result was driven by both the increased profitability in the bank's various profit areas, with special reference to the securities portfolio management, and a reduction in **overheads** during 2019.

In this regard, it should be noted that on 5 March 2019, the Governing Council, as pursuant to the provisions of Article 52 of Law No. 173 dated 24 December 2018, approved an "operating cost rationalisation project for



2019” by:

- Adopting a budget contemplating a 20% reduction in administrative costs compared to the previous year;
- Reducing labour costs as a result of a three-year corporate agreement entered into with employees on 18 April 2019, such agreement having an impact on some important aspects of collective labour agreements currently in force.

The project, which is constantly monitored by the Governing Council, resulted in cost savings totalling EUR 2.3 million compared to the previous year (-20%). This decrease pertained to labour costs (down EUR 1.0 million) and other administrative costs (down EUR 1.3 million). As a result of these measures, total administrative costs stood at EUR 9.3 million, the lowest figure recorded in 11 years (a lower figure was posted as far back as 2008). This result underscores the commitment and the efforts made by the Institute during 2019.

With reference to the additional elements that contributed to the net operating result, it should be noted that compared to 2018 no value adjustments on financial fixed assets (EUR 1.54 million in 2018) were made, while provisions for risks and charges and value adjustments on credits increased. With regard to provisions in particular, in respect of which reference should be made to the section dealing with post balance-sheet events, emphasis is placed on provisions made to cover possible losses that may arise from subsidiary Banca Nazionale Sammarinese S.p.A. following the application of Law No. 113 dated 7 July 2020 and Delegated Decree No. 107 dated 30 June 2020.

The balance of **extraordinary operations** stood at -EUR 0.14 million.

The final **net operating income** stood at EUR 0.5 million.

As explained earlier, the Governing Council resolved to allocate an amount equal to the net operating result to the fund for general banking risks. The financial year thus ended with a breakeven result.

Finally, with regard to “Guarantees and Commitments”, the latter showed a significant decrease due to the absence of margins available on credit lines granted, which amounted to EUR 7.76 million as at 31 December 2018.

To gain further insights into operating performance, in addition to the view provided with respect to the state of affairs and the profit or loss for the period, reference should be made to the Annual Report of the Central Bank to the Great and General Council, as under Article 4(2) of Law No. 96/2005, as amended from time to time.

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## Post balance-sheet events

Below is a review of post balance-sheet events:

1. The Agreement between the State Congress and the Central Bank for the remuneration of the services provided to the Public Administration during the 2019/2021 three-year period was being finalised. A draft agreement was approved by the Governing Council of the Central Bank and by the State Congress, but internal formalities within the Public Administration had not yet been fully discharged for formal execution thereof. It should be noted that the impact on balance sheet/profit or loss have already been reflected in these financial statements, as it is felt that the essential approval steps in order to consider it virtually executed were taken;
2. By Delegated Decree No. 107 dated 30 June 2020, the new mission of Banca Nazionale Sammarinese S.p.A. was defined. This decree specifies, among other things, that:
  - It should administer the assets and liabilities arising from the resolution of Banca Cis - Credito Industriale Sammarinese S.p.A. under receivership in order to ensure appropriate compliance with the debts issued and other liabilities undertaken in accordance with the resolution programme;

- In order to achieve this mission, the claims and any other assets reflected in BNS financial statements and resulting from debt collection activities were expected to be assigned to "Società di Gestione Asstivi ex BNS S.p.A.", a special purpose vehicle incorporated under San Marino law for securitisation transactions;
- Pursuant to Article 4(1), "Within thirty days of the date of publication of this Decree, all the shares of BNS shall be transferred to the State at the value of the net equity shown in the financial statements as at 31 December 2019....".

The Great and General Council also approved the Law on "*Change to the financial statements of the State and of the entities of the Broader Public Sector for financial year 2020 and amendments to Law No. 157 dated 19 November 2019*", Law No. 113 dated 7 July 2020.

At the time of final approval, an amendment was approved whereby, among other things, the State Congress is authorised to acquire the shares of Banca Nazionale San Marino owned by the Central Bank at the net equity value — rather than face value as set out in the text of the draft law in its first reading — as reflected in the financial statements for the year ended 31 December 2019, which must be filed with the relevant office no later than 10 July 2020.

In this regard, given the sudden change in the legislative provisions regarding the transfer of Banca Nazionale Sammarinese S.p.A. shares, the Central Bank was, at time of writing this report, unable to reflect the effects on the balance sheet and profit and loss account of the proposed transfer at net equity as early as in its 2019 financial statements.

This is due to the fact that at the time of approval of these financial statements, the effects of the aforesaid sale cannot be quantified with certainty. Indeed, the (still) preliminary information provided by the Special Administrator neither allows a loss to be ruled out nor makes it possible to establish the exact amount thereof. Therefore, consistent with the reasonable and prudent person approach, it was considered appropriate to allocate provisions that would not be detrimental to the bank's capital integrity in relation to the unpredictability of such figure. The provisions being referred to totalled EUR 1.9 million, details of which are provided in the notes to the financial statements under item 70 "Risk and cost funds".

In addition, and to the extent as necessary, it should be noted that the Fund for general banking risks stood at EUR 37,486,594 and was therefore considered sufficient to cover potential risks arising from the transaction described herein.

## **Operating outlook**

The onset of the global health emergency in March 2020 caused by the Covid-19 pandemic also affected the Republic of San Marino. In this regard, many regulatory measures were taken, followed by a number of application and interpretation circulars that affected all sectors of the social and economic life and, clearly, also had an impact on the Bank.

In this connection, it should be noted that the Bank made considerable organisational and financial efforts to (i) deal with the situation during the months of the emergency, ensuring business continuity, and (ii) comply with the new regulations laid down by law in order to manage the operational and restart phase safely.

In the light of the foregoing, it was considered that the conditions for business to continue were met.

In this regard, it should be noted that the cost rationalisation process launched in 2019 continued. Indeed, at the beginning of the year under review, the Bank approved a budget for FY 2020 with cost savings in excess of 20% (under Law No. 173 dated 24 December 2018) compared to 2018, while the Employee Agreement dated 18 April 2019 was to continue to have effect in the coming years.



**Dear Shareholders,**

Following the approval of the financial statements, the net equity of the Central Bank will consist of the following items:

	<b>Figures shown in EUR</b>
Endowment Fund	12,911,425
Ordinary Reserve Fund	1,274,013
Statutory Reserve Fund	9,627,277
Fund for General Banking Risks	37,486,594
Other Equity Reserves	0
<b>Total Net Equity</b>	<b>61,299,309</b>

**Dear Shareholders,**

The Governing Council's report on operations for financial year 2019 was read out to you.

On behalf of the Governing Council — following the reading of the Board of Statutory Auditors' Report — you are requested to approve the financial statements as a whole, which have been submitted for approval pursuant to the laws currently in force.

Heartfelt thanks are extended to the Directorate General and all the staff members for the hard work they did for the Bank, as well as to the Board of Statutory Auditors for its support and for attending Governing Council meetings.

Finally, appreciation is expressed to the Shareholders, the Authorities of the Republic of San Marino and the Public Administration for the support provided.

San Marino, 8 July 2020

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# 2019 Annual Report





## Balance Sheet Assets

Assets items	2019		2018	
<b>10. CASH BALANCE AND FUNDS AVAILABLE AT CENTRAL BANKS AND POST OFFICES</b>		<b>13,498,523</b>		<b>12,457,784</b>
<b>20. TREASURY BONDS AND SIMILAR FINANCIAL INSTRUMENTS, ELIGIBLE FOR REFINANCING PURPOSES AT CENTRAL BANKS</b>		<b>0</b>		<b>0</b>
a) Treasury bonds and other kindred financial instruments	0		0	
b) other financial instruments eligible for refinancing purposes at central banks	0		0	
<b>30. LOANS TO CREDIT INSTITUTIONS</b>		<b>81,209,659</b>		<b>111,578,668</b>
a) on demand	81,019,950		95,319,092	
b) other credits	189,709		16,259,576	
<b>40. LOANS TO CUSTOMERS</b>		<b>92,246,651</b>		<b>97,753,395</b>
a) on demand	219,493		156,265	
b) other credits	92,027,158		97,597,130	
<b>50. BONDS AND OTHER FINANCIAL INSTRUMENTS</b>		<b>300,697,672</b>		<b>161,299,796</b>
a) issued by public institutions	19,810,572		12,128,383	
b) issued by credit institutions	188,692,285		68,836,122	
c) issued by financial companies other than credit institutions	73,255,661		71,327,110	
d) issued by other institutions	18,939,154		9,008,181	
<b>60. SHARES, QUOTAS AND OTHER CAPITAL FINANCIAL INSTRUMENTS</b>		<b>5,390</b>		<b>5,160</b>
<b>70. SHAREHOLDINGS</b>		<b>19,000,000</b>		<b>0</b>
a) financial companies	19,000,000		0	
b) non-financial companies	0		0	
<b>80. SHAREHOLDINGS IN UNDERTAKINGS OF THE GROUP</b>		<b>0</b>		<b>0</b>
a) financial companies	0		0	
b) non-financial companies	0		0	
<b>90. INTANGIBLE FIXED ASSETS</b>		<b>250,335</b>		<b>291,391</b>
a) financial leasing	0		0	
- of which assets under construction	0		0	
b) assets pending leasing for termination of leasing agreement	0		0	
- of which for breach of the lessee	0		0	



Assets items	2019		2018	
c) assets available resulting from debt recovery	0		0	
- of which assets available for repayment of loan through a settlement agreement	0		0	
c) goodwill	0		0	
e) start-up expenses	0		0	
f) other intangible fixed assets	250,335		291,391	
<b>100. TANGIBLE FIXED ASSETS</b>		<b>3,317,760</b>		<b>3,539,252</b>
a) financial leasing	0		0	
- of which assets under construction	0		0	
b) assets pending 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 repayment of loan through a settlement agreement	0		0	
d) lands and buildings	3,217,376		3,406,522	
e) other tangible fixed assets	100,384		132,730	
<b>110. SUBSCRIBED CAPITAL NOT PAID IN</b>		<b>0</b>		<b>0</b>
- of which called-up capital	0		0	
<b>120. OWN SHARES OR UNITS</b>		<b>0</b>		<b>0</b>
<b>130. OTHER ASSETS</b>		<b>6,881,980</b>		<b>12,371,905</b>
<b>140. ACCRUED REVENUES AND DEFERRED EXPENSES</b>		<b>43,894</b>		<b>54,088</b>
a) accrued revenues	0		0	
b) deferred expenses	43,894		54,088	
<b>150. TOTAL ASSETS</b>		<b>517,151,864</b>		<b>399,351,439</b>

## Balance Sheet Liabilities

Liabilities items	2019		2018	
<b>10. DEBTS WITH CREDIT INSTITUTIONS</b>		<b>265,412,612</b>		<b>218,747,963</b>
a) on demand	160,912,567		118,102,615	
b) term or notice debts	104,500,045		100,645,348	
<b>20. DEBTS WITH CUSTOMERS</b>		<b>181,501,611</b>		<b>112,703,176</b>
a) on demand	176,245,500		105,405,872	
b) term or notice debts	5,256,111		7,297,304	
<b>30. DEBTS REPRESENTED BY FINANCIAL INSTRUMENTS</b>		<b>0</b>		<b>0</b>
a) bonds	0		0	
b) certificates of deposit	0		0	
c) other financial instruments	0		0	
<b>40. OTHER LIABILITIES</b>		<b>5,674,904</b>		<b>5,968,099</b>
- of which cheques in circulation and kindred papers	384,859		429,533	
<b>50. ACCRUED EXPENSES AND DEFERRED REVENUES</b>		<b>64,079</b>		<b>108,267</b>
a) accrued expenses	0		0	
b) deferred revenues	64,079		108,267	
<b>60. STAFF RETIREMENT ALLOWANCES</b>		<b>505,170</b>		<b>522,748</b>
<b>70. RISK AND COST FUNDS</b>		<b>2,694,179</b>		<b>502,334</b>
a) retirement funds and similar provisions	0		0	
b) tax fund	0		0	
c) other funds	2,694,179		502,334	
<b>80. FUND FOR CREDIT RISKS</b>		<b>0</b>		<b>0</b>
<b>90. FUND FOR GENERAL BANKING RISKS</b>		<b>37,486,594</b>		<b>36,986,137</b>
<b>100. SUBORDINATED LIABILITIES</b>		<b>0</b>		<b>0</b>
<b>110. SUBSCRIBED CAPITAL</b>		<b>12,911,425</b>		<b>12,911,425</b>
<b>120. SHARE PREMIUM</b>		<b>0</b>		<b>0</b>
<b>130. RESERVES</b>		<b>10,901,290</b>		<b>10,901,290</b>
a) ordinary or legal reserve	1,274,013		1,274,013	
b) reserve for own shares or units	0		0	
c) statutory reserves	9,627,277		9,627,277	
d) other reserves	0		0	



<b>Liabilities items</b>	<b>2019</b>	<b>2018</b>
<b>140. REVALUATION RESERVE</b>	<b>0</b>	<b>0</b>
<b>150. PROFITS (LOSSES) CARRIED FORWARD</b>	<b>0</b>	<b>0</b>
<b>160. OPERATING PROFIT (LOSS)</b>	<b>0</b>	<b>0</b>
<b>170. TOTAL LIABILITIES</b>	<b>517,151,864</b>	<b>399,351,439</b>

## Guarantees and commitments

Items	2019	2018
<b>10. GUARANTEES ISSUED</b>	<b>2,004,748</b>	<b>1,854,748</b>
- of which:		
a) acceptances	0	0
b) other guarantees	2,004,748	1,854,748
<b>20. COMMITMENTS</b>	<b>300,293</b>	<b>7,755,000</b>
- of which:		
a) for certain use	300,293	0
- <i>of which</i> : financial instruments	0	0
b) for uncertain use	0	7,755,000
- <i>of which</i> : financial instruments	0	0
c) other commitments	0	0
<b>TOTAL</b>	<b>2,305,041</b>	<b>9,609,748</b>



## Profit and loss account

Items of the profit and loss account	2019	2018
<b>10. INTEREST RECEIVED AND OTHER PROCEEDS</b>	<b>2,399,618</b>	<b>2,621,817</b>
a) on loans to credit institutions	-92,441	208,859
b) on loans to customers	1,084,523	631,371
c) on debt securities	1,407,536	1,781,587
<b>20. INTEREST PAID AND OTHER COSTS</b>	<b>-189,293</b>	<b>-1,140,452</b>
a) on debts with credit institutions	-123,120	-620,700
b) on debts with customers	-66,173	-519,752
c) on debts represented by securities	0	0
<i>-of which on subordinated debt</i>	<i>0</i>	<i>0</i>
<b>30. DIVIDENDS AND OTHER PROCEEDS</b>	<b>0</b>	<b>0</b>
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
<b>40. COMMISSIONS EARNED</b>	<b>2,269,278</b>	<b>1,160,009</b>
<b>50. COMMISSIONS PAID</b>	<b>-142,826</b>	<b>-117,510</b>
<b>60. PROFITS (LOSSES) FROM FINANCIAL TRANSACTIONS</b>	<b>5,888,897</b>	<b>-4,026,194</b>
<b>70. OTHER OPERATING PROCEEDS</b>	<b>2,714,726</b>	<b>3,689,474</b>
<b>80. OTHER OPERATING COSTS</b>	<b>-110,610</b>	<b>-180,434</b>
<b>90. ADMINISTRATIVE COSTS</b>	<b>-9,344,975</b>	<b>-11,695,076</b>
a) labour costs	-6,166,021	-7,199,203
of which:		
- wages and salaries	-4,306,424	-4,992,013
- pension contributions	-1,136,340	-1,319,864
- staff retirement allowances	-481,978	-506,024
- severance and indemnity-related costs	0	0
- directors and statutory auditors	-222,782	-269,601
- other labour costs	-18,497	-111,701
b) other administrative costs	-3,178,954	-4,495,873
<b>100. VALUE ADJUSTMENTS ON INTANGIBLE FIXED ASSETS</b>	<b>-128,066</b>	<b>-537,780</b>
<b>110. VALUE ADJUSTMENTS ON TANGIBLE FIXED ASSETS</b>	<b>-236,557</b>	<b>-244,556</b>
<b>120. PROVISIONS FOR RISKS AND CHARGES</b>	<b>-2,369,345</b>	<b>-312,334</b>
<b>130. PROVISIONS FOR LOAN LOSSES</b>	<b>0</b>	<b>0</b>
<b>140. VALUE ADJUSTMENTS ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS</b>	<b>-112,553</b>	<b>-47,488</b>
<b>150. VALUE RECOVERIES ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS</b>	<b>0</b>	<b>437</b>
<b>160. VALUE ADJUSTMENTS ON FINANCIAL FIXED ASSETS</b>	<b>0</b>	<b>-1,536,747</b>

Items of the profit and loss account	2019	2018
<b>170. VALUE RECOVERIES ON FINANCIAL FIXED ASSETS</b>	<b>0</b>	<b>0</b>
<b>180. PROFIT (LOSS) ON ORDINARY ACTIVITIES</b>	<b>638,294</b>	<b>-12,366,834</b>
<b>190. EXTRAORDINARY PROCEEDS</b>	<b>165,241</b>	<b>155,398</b>
<b>200. EXTRAORDINARY COSTS</b>	<b>-303,078</b>	<b>-12,136</b>
<b>210. EXTRAORDINARY PROFIT (LOSS)</b>	<b>-137,837</b>	<b>143,262</b>
<b>220. INCOME TAX FOR THE FINANCIAL YEAR</b>	<b>0</b>	<b>0</b>
<b>230. CHANGE IN THE FUND FOR GENERAL BANKING RISKS</b>	<b>-500,457</b>	<b>12,223,572</b>
<b>240. OPERATING PROFIT (LOSS)</b>	<b>0</b>	<b>0</b>



## Reclassified profit and loss account

	2019	2018
1 - Interest received and other proceeds	2,399,618	2,621,817
2 - Interest paid and other costs	-189,293	-1,140,452
<b>A - Interest margin</b>	<b>2,210,325</b>	<b>1,481,365</b>
3 - Commissions earned	2,269,278	1,160,009
4 - Commissions paid	-142,826	-117,510
5 - Other operating proceeds	2,714,726	3,689,474
6 - Other operating costs	-110,610	-180,434
<b>B - Service revenues</b>	<b>4,730,568</b>	<b>4,551,539</b>
7 - Dividends and other proceeds	0	0
8 - Profits (losses) from financial transactions	5,888,897	-4,026,194
<b>C- Mediation margin (A+B+7+8)</b>	<b>12,829,790</b>	<b>2,006,710</b>
9 - Administrative costs	-9,344,975	-11,695,076
10 - Value adjustments on intangible and tangible fixed assets	-364,623	- 782,336
<b>D - Operating costs</b>	<b>-9,709,598</b>	<b>-12,477,412</b>
<b>E - Gross operating margin (C-D)</b>	<b>3,120,192</b>	<b>-10,470,702</b>
11 - Provisions for risks and charges	-2,369,345	-312,334
12 - Provisions for loan losses	0	0
13 - Value adjustments on credits and provisions for guarantees and commitments	-112,553	-47,488
14 - Value recoveries on credits and provisions for guarantees and commitments	0	437
15 - Value adjustments on financial fixed assets	0	-1,536,747
16 - Value recoveries and adjustments on financial fixed assets	0	0
<b>F - Net operating income</b>	<b>-2,481,898</b>	<b>-1,896,132</b>
17 - Extraordinary proceeds	165,241	155,398
18 - Extraordinary costs	-303,078	-12,136
<b>G - Gross operating margin of extraordinary operations</b>	<b>-137,837</b>	<b>143,262</b>
<b>H. Gross margin</b>	<b>500,457</b>	<b>-12,223,572</b>
19 - Income taxes for the financial year	0	0
<b>I - Net result*</b>	<b>500,457</b>	<b>-12,223,572</b>
20 - Change in the fund for general banking risks	-500,457	12,223,572
<b>Operating results</b>	<b>0</b>	<b>0</b>

\* Gross of change in the fund for general banking risks



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## Notes to the financial statements



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## Notes to the financial statements

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### Structure and Contents of the Financial Statements

#### PART A – General Part

##### Section 1 - Illustration of the Valuation Criteria

##### Section 2 - Adjustments and Provisions

#### PART B - INFORMATION ON THE BALANCE SHEET

#### PART C - INFORMATION ON THE PROFIT AND LOSS ACCOUNT

#### PART D - OTHER INFORMATION

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### Structure and Contents of the Financial Statements

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The 2019 Financial Statements were prepared in accordance with the laws currently in force, in particular according to Law No. 96 dated 29 June 2005 (Central Bank Statutes), Law No. 165 dated 17 November 2005 (LISF) and Law No. 47 dated 23 February 2006 (Company Law), as amended from time to time.

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

The Balance Sheet and the Profit and Loss Account were prepared according to the statements defined by CBSM Regulation No. 2016/02; the Notes to the financial statements were prepared based on the provisions set out in the aforementioned Regulation and CBSM Circular No. 2017/03, with account also being taken however of the peculiarities typical of the business of the Central Bank.

Furthermore, the Statement of Cash Flows (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 stated in EUR units, obtained by rounding off the corresponding sum in decimals, that is by the sum of the rounded-off totals of sub-items.

The differences generated based on such accounting practice were held under "Other assets/liabilities" of the Balance Sheet and "Extraordinary proceeds/costs" of the Profit and Loss Account, in accordance with the general criteria for preparing bank financial statements.

Moreover, it is worth noting that the Notes to the financial statements do not contain any breakdown table when the item in question has no accounting entries for the two accounting periods. Similarly, sections related to activities and/or situations that may not be carried out and/or are not applicable in the light of the aforementioned peculiarities were not included. (Tables not completed: 2.1-3.3-3.4-4.4-4.5-6.3-6.5-6.7-8.3-8.4-9.1-10.1-15.1-16.2-18.3-18.5-19.2-19.4-19.6-19.7-20.3-20.5-20.6-20.8-20.9-20.10-21.2-21.4-21.5-23.1-24.3-28.3-28.5-28.8-31.1-32.1-32.2-33.1-35.1-35.2-36.1-36.2-36.3-37.1).

## Part A - General Part

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- Section 1 - Illustration of valuation criteria

The 2019 Financial Statements were prepared in accordance with the general principle of prudence and accrual basis accounting and going concern basis.

### CASH BALANCE AND FUNDS AVAILABLE AT CENTRAL BANKS AND POST OFFICES

These were shown at face value, which corresponds to their estimated realisable value.

### CREDITS

- Loans to credit institutions: these were shown at face value, corresponding to their estimated realisable value; they also included the portion of interest accrued and matured at the reporting date.
- Loans to customers: these were carried at their estimated realisable value, corresponding to their face value; they also included the portion of interest accrued and matured at the reporting date.
- Other credits (held under "Other assets"): other credits were shown at their estimated realisable value, corresponding to their face value.

Exception to the above include credits for the recovery of sundry charges, which were carried at their estimated salvage value, corresponding to their face value net of value adjustments made, with relative increase in provisions for bad loans, to the extent of the amount deemed as not recoverable.

### BONDS AND OTHER DEBT FINANCIAL INSTRUMENTS

The securities portfolio at 31 December 2019 consisted entirely of securities held for both investment as well as trading purposes to satisfy treasury and trading needs. These securities were measured at the market value as at the last business day of the financial year, as notified by the designated provider. An additional internal assessment was carried out on such values for prudential purposes, based on the prices obtained from reputable counterparties.

The difference between the book value of the individual security and its market value was recognised in the profit and loss account under "Profits (losses) from financial transactions".

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

### SHARES, QUOTAS AND OTHER CAPITAL FINANCIAL INSTRUMENTS

Only one share (of limited amount) was accounted for, in respect of which reference was made to the value notified by the issuer — as transfer value as at 31 December 2019 — since no market price was provided.

### SHAREHOLDINGS

Only a 100% interest held in Banca Nazionale Sanmarinese was accounted for, the ownership of which did not result in the establishment of a Banking Group related to the Central Bank. As pursuant to Article

24 of Law No. 157 dated 19 November 2019, shareholdings acquired following the application of article 10(7) of Law No. 102 dated 14 June 2019 "*are excluded from the management and coordination activity by the Central Bank of the Republic of San Marino*". The BNS shareholding was carried at face value rather than at purchase cost/net equity, in accordance with Article 24 of Law No. 157/2019.

As this item was appropriately carried at face value (rather than at cost/net equity), it was not subject to impairment test.

The impairment loss is determined by comparing the carrying amount of the shareholding with its recoverable amount, which is determined based on the future benefits expected to flow into the investor's business.

In the event of impairment losses on shareholdings, they must be written down.

### INTANGIBLE FIXED ASSETS

These were carried at their purchase price, including any ancillary costs, and were amortised on a yearly basis according to the straight-line method.

They included:

- Software programmes amortised based on amortisation plans with a maximum duration of 5 years and amortisation percentages consistent with the fiscal legislation (Law No. 166 dated 16 December 2013, as amended from time to time);
- Intangible fixed assets under construction, with reference to which no amortisation took place;
- Other multi-year costs.

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

During the first year, intangible fixed assets are amortised for the entire financial year, regardless of the date of actual use.

### TANGIBLE FIXED ASSETS

These were carried at their purchase price, inclusive of any ancillary costs. No write-downs or write-ups were made in 2019.

The cost of fixed assets is depreciated, taking into account the remaining service life of the assets, based on the percentages laid down by the current legislation on taxation (Law No. 166 of 16/12/2013, as amended from time to time) that were deemed to reflect service life.

### ACCRUED REVENUES AND DEFERRED EXPENSES

These items include the portion of costs and proceeds that are common to two or more financial years, in accordance with the accruing principle.

### OTHER ASSETS AND OTHER LIABILITIES

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

Other liabilities include, inter alia, means of payment drawn on the bank, such as quittance and drawer's cheques.

### ASSETS AND LIABILITIES IN FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies were shown in Euro, based on the European Central Bank's exchange rate bulletin dated 30 December 2019.

The aggregate amount of assets and liabilities in foreign currency totalled EUR 293,208 and EUR 866, respectively.

### DEBTS

These were carried at their face value, and also included any interest accrued at the reporting date.

### STAFF RETIREMENT ALLOWANCES

This item accounts for the entire amount of benefits accrued during the year by employees, pursuant to the laws and labour agreements currently in force.

## RISK AND COST FUNDS

They are established for the purpose of covering certain or likely losses or debts in respect of which, however, the amount or date of occurrence could not be determined at the reporting date. In measuring such funds, the general principle of prudence and accrual basis accounting were relied upon, and no fund for generic risks was established without an underlying economic reason. Potential liabilities were recognised in the financial statements and were reflected in the funds insofar as they were deemed likely and based on a reasonable estimation of the relevant amount.

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

## FUND FOR GENERAL BANKING RISKS

This fund was set up to cover general business risks and, therefore, qualifies as net equity. The balance of any change in this item is held under a specific item in the profit and loss account.

## GUARANTEES AND COMMITMENTS

Guarantees issued were reflected at the value corresponding to the relative commitment undertaken or guaranteed.

Commitments to disburse funds were reflected to the extent of the residual amount to be used.

## INTEREST, COMMISSIONS, COSTS AND PROCEEDS

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

## MEMORANDUM ACCOUNTS

Deposited third-party financial instruments and own financial instruments deposited with third parties were recognised at year-end market prices, if available. In other cases, they were priced at face or issue value and in yet other cases at a symbolic value.

- 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"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Cash balance and available funds at central banks and post offices:				
Cash and available funds	13,498,523	12,457,784	1,040,739	8.35%
<b>Total</b>	<b>13,498,523</b>	<b>12,457,784</b>	<b>1,040,739</b>	<b>8.35%</b>

The vault cash consisted of euro-denominated notes and coins totalling EUR 13,494,790, including cash available at the company used to discharge centralised cash management duties and cash on hand (EUR 99) maintained with the Single Court of San Marino for legal notification expenses. It also included foreign currencies for an equivalent of EUR 3,733.

### 2 Treasury bonds and other financial instruments eligible for refinancing purposes at 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 central banks"**

No amount was entered for this item since it accounts for financial instruments that are held by the banks of San Marino and are eligible for refinancing at this Central Bank.

### 3 Loans to credit institutions (item 30 of Assets)

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

	31/12/2019			31/12/2018			Change	
	In EUR	In foreign currency	Total	In EUR	In foreign currency	Total	Total amount	%
Loans to credit institutions:								
A) On demand:	80,779,852	240,098	81,019,950	95,087,119	231,973	95,319,092	-14,299,142	-15.00%
A1. Mutual accounts opened for services provided	3,400,443	0	3,400,443	1,417,619	0	1,417,619	1,982,824	139.87%

A2. Current accounts with a credit balance	77,379,409	240,098	77,619,507	93,669,500	231,973	93,901,473	-16,281,966	-17.34%
A3. Others	0	0	0	0	0	0	0	0%
<b>B) Other credits</b>	<b>189,709</b>	<b>0</b>	<b>189,709</b>	<b>16,259,576</b>	<b>0</b>	<b>16,259,576</b>	<b>-16,069,867</b>	<b>-98.83%</b>
B1. Term deposits	0	0	0	0	0	0	0	0%
B2. Current accounts with a credit balance	0	0	0	16,259,576	0	16,259,576	-16,259,576	-100%
B3. Repurchase agreements and repos	0	0	0	0	0	0	0	0%
B4. Others	189,709	0	189,709	0	0	0	189,709	n.a.
<b>Total</b>	<b>80,969,561</b>	<b>240,098</b>	<b>81,209,659</b>	<b>111,346,695</b>	<b>231,973</b>	<b>111,578,668</b>	<b>-30,369,009</b>	<b>-27.22%</b>

Loans to banks as at 31 December 2019 showed an overall decrease of 27.22% over the previous period, resulting from a decline in on demand credits as well as term credits.

As shown in the table, no term loans were in place as at 31 December 2019.

This item includes interest accrued and overdue at year end on on demand loans to banks, amounting to -EUR 32,966 (recognition of negative interest received).

The amount of credits pertaining to subsidiary Banca Nazionale Sammarinese totalled EUR 189,709 (Other credits - Others).

The credits described in this section are not subordinate.

**Table 3.2: Situation of cash loans to credit institutions.**

Categories/Amounts	31/12/2019			31/12/2018		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A) Non-performing loans:	0	0	0	0	0	0
A1 Bad loans	0	0	0	0	0	0
A2. Problem loans	0	0	0	0	0	0
A3. Restructured loans	0	0	0	0	0	0

A4. Expired/past due loans	0	0	0	0	0	0
A5. Unsecured loans towards countries at risk	0	0	0	0	0	0
B) Performing loans	81,209,659	0	81,209,659	111,578,668	0	111,578,668
<b>Total</b>	<b>81,209,659</b>	<b>0</b>	<b>81,209,659</b>	<b>111,578,668</b>	<b>0</b>	<b>111,578,668</b>

### Table 3.3: Trends in non-performing loans to credit institutions

No "non-performing loans to credit institutions" were recognised either as at 31 December 2019 or 31 December 2018.

### Table 3.4: Trend in total value adjustments of "Loans to credit institutions".

No "value adjustments of loans to credit institutions" were recognised either as at 31 December 2019 or 31 December 2018.

### Table 3.5: Breakdown of "Loans to credit institutions" based on residual life

MATURITY	31/12/2019	31/12/2018
On demand	81,020,259	95,319,092
Within 3 months	0	0
After 3 to 6 months	-309	16,259,576
After 6 to 12 months	0	0
After 12 to 18 months	0	0
After 18 to 24 months	0	0
After 2 to 5 years	0	0
Over 5 years	0	0
Without maturity	189,709	0
<b>Total</b>	<b>81,209,659</b>	<b>111,578,668</b>

With regard to the residual life of the loans to banks, as also shown in table 3.5, as at 31 December 2019, the majority of such loans were payable on demand.

It should be noted that the figures with a negative sign shown in the table within the three-to-six-month maturity range refer to negative interest received to be collected, accrued in 2019.

In relation to the loans shown in this section, it should be noted that the remuneration received in the majority of positions was settled at a floating rate.

Table 4.1: Detailed breakdown of item 40 "Loans to customers"

	31/12/2019			31/12/2018			Changes	
	In EUR	In foreign currency	Total	In EUR	In foreign currency	Total	Total amount	%
A) On demand/until revoked:	219,493	0	219,493	156,265	0	156,265	63,228	40.46%
A1. Current accounts with a credit balance	219,493	0	219,493	156,265	0	156,265	63,228	40.46%
A2. Others	0	0	0	0	0	0	0	0%
B) Other credits:	92,027,158	0	92,027,158	97,597,130	0	97,597,130	-5,569,972	-5.71
B1. Current accounts with a credit balance	87,719,033	0	87,719,033	92,640,916	0	92,640,916	-4,921,883	-5.31%
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	4,308,125	0	4,308,125	4,956,214	0	4,956,214	-648,089	-13.08%
<b>Total</b>	<b>92,246,651</b>	<b>0</b>	<b>92,246,651</b>	<b>97,753,395</b>	<b>0</b>	<b>97,753,395</b>	<b>-5,506,744</b>	<b>-5.63%</b>

"Loans to customers" mainly referred to amounts due from the Public Administration and, to a lesser extent, loans to the employees of the Central Bank. The overall change in this item compared to the previous year was due to a decrease in "Other credits", notably "Other credits - current accounts with credit balance", which included three loans to the Most Excellent Chamber, totalling respectively:

- EUR 60 million, raised in December 2012, with repayment starting on 30 November 2014 and payoff on 31 May 2020. On 26 November 2014, the payoff date of the aforesaid loan as was extended to 30 June 2026, and, as a result, repayment instalments were halved to EUR 2.5 million, whereas the first instalment was collected on 31 December 2014. As at 31 December 2019, the residual credit stood at EUR 32.5 million;
- EUR 25 million, raised in December 2017 and increased to EUR 35 million in February 2018, with payoff date initially set on 31 December 2018 and later extended to 31 July 2020;
- EUR 20 million, raised in December 2018, with initial payoff date set on 30 June 2019 and later extended to 31 July 2020.
- The decrease was due to the repayment of the instalments relating to the first loan.

As at 31 December 2019, "Other credits - other loans" also showed a decrease, such item including the residual credit of an unsecured mortgage loan taken over by the Central Bank in 2017 as creditor of the Most

Excellent Chamber (EUR 3.20 million) and loans disbursed to employees of CBSM (mortgage loans totalling EUR 1.11 million).

In relation to the latter, the Bank received mortgage guarantees from its employees amounting to EUR 2,529,312 and sureties amounting to EUR 204,048, as shown in table 4.2 below.

"Interest to be debited to customers", accrued and overdue at year end, totalling EUR 219,695, was held under "On demand - current accounts with a credit balance" and "Other credits - current accounts with a credit balance".

The Central Bank did not hold any shareholdings in corporate customers. Therefore, as at 31 December 2019 no credit positions were maintained with subsidiaries and associated companies or companies linked by a participating interest. Likewise, no loans granted to the members of the administrative, management and control bodies were in place.

The credits described in this section are not subordinate.

**Table 4.2: Secured loans to customers**

	31/12/2019	31/12/2018	Changes	
			Amount	%
A) From mortgages	1,108,325	1,223,114	-114,789	-9.38%
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 provided by:	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 companies	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%
<b>Total</b>	<b>1,108,325</b>	<b>1,223,114</b>	<b>-114,789</b>	<b>-9.38%</b>

Disclosures refer to mortgages granted to employees. These loans are sometimes extended against collaterals and personal guarantees. In the table below, such loans are stated under mortgage-backed loans for their entire amount, given that the mortgage lien is prevailing compared to the personal guarantee, which is residual in nature.

The aforementioned table, where the amount of credits secured by collateral and/or personal guarantees is reflected, does not specify availability obligations applied on current accounts with reference to loans disbursed.

**Table 4.3: Situation of cash loans to customers**

Categories/Amounts	31/12/2019			31/12/2018		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A) Non-performing loans:	0	0	0	0	0	0
A1 Bad loans	0	0	0	0	0	0
A2. Problem loans	0	0	0	0	0	0
A3. Restructured loans	0	0	0	0	0	0
A4. Expired/past due loans	0	0	0	0	0	0
A5. Unsecured loans towards countries at risk	0	0	0	0	0	0
B) Performing loans	92,246,651	0	92,246,651	97,753,395	0	97,753,395
<b>Total</b>	<b>92,246,651</b>	<b>0</b>	<b>92,246,651</b>	<b>97,753,395</b>	<b>0</b>	<b>97,753,395</b>

**Table 4.4: Trend in non-performing loans to customers**

No "non-performing loans to customers" were accounted for either as at 31 December 2019 or 31 December 2018.

**Table 4.5: Trend in total value adjustments of "Loans to customers".**

No value adjustments of loans to customers were recognised either as at 31 December 2019 or 31 December 2018.

**Table 4.6: Breakdown of “Loans to customers” based on residual life**

<b>MATURITY</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
On demand	438,525	297,182
Within 3 months	22,323	23,463
After 3 to 6 months	2,522,345	57,523,464
After 6 to 12 months	58,078,051	3,080,241
After 12 to 18 months	2,544,835	2,546,956
After 18 to 24 months	3,078,219	3,080,272
After 2 to 5 years	16,871,190	16,882,064
Over 5 years	8,691,163	14,319,753
Without maturity	0	0
<b>Total</b>	<b>92,246,651</b>	<b>97,753,395</b>

A floating rate fee is received in relation to these loans. It should be noted that the loan to the Most Excellent Chamber, having a residual value of EUR 32.5 million, was stated, for the purposes of the above-mentioned breakdown, on the basis of the repayment schedule (principal portion) agreed with the counterparty, even though it qualifies as a loan facility from a contractual perspective. The above-mentioned breakdown takes into account the new schedule agreed on 26 November 2014, as described above.

**Table 4.7: Breakdown of “Loans to customers” (net amounts) by business sector**

	<b>31/12/2019</b>	<b>31/12/2018</b>
a) Public Administrations	90,919,111	96,374,017
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 companies	0	0
- Pension funds	0	0
c) Non-financial companies	0	0

- 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	1,327,540	1,379,378
- Consumer and producer households	1,327,540	1,379,378
- Not-for-profit institutions servicing households	0	0
e) Others	0	0
<b>Total</b>	<b>92,246,651</b>	<b>97,753,395</b>

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

**Table 5.1: breakdown of financial instruments held for investment and held for trading**

31/12/2019		
Items/Amounts	Held for investment	Held for trading
<b>Bonds and other debt financial instruments:</b>	<b>0</b>	<b>300,697,672</b>
- of which bonds and other subordinated debt instruments:	0	0
- of which bonds and other debt financial instruments maturing in 2020;	0	15,825,510
a) issued by public institutions	0	19,810,572
b) issued by credit institutions	0	188,692,285
c) issued by financial companies other than credit institutions	0	73,255,661
d) issued by other institutions	0	18,939,154
<b>Shares, quotas and other capital financial instruments:</b>	<b>0</b>	<b>5,390</b>
a) shares	0	5,390
<b>Total</b>	<b>0</b>	<b>300,703,062</b>

The securities portfolio at 31 December 2019 consisted entirely of financial instruments "held for trading". Accrued interest as at that date (EUR 80,958) was held under "Bonds and other debt financial instruments".

**Table 5.2: Breakdown of "Financial instruments held for investment"**

Items/Amounts	31/12/2019			31/12/2018		
	Purchase price	Balance sheet value	Fair value	Purchase price	Balance sheet value	Fair value
1. Debt financial instruments	0	0	0	43,287,887	40,751,183	38,708,338
1.1 Bonds	0	0	0	43,287,887	40,751,183	38,708,338
- listed	0	0	0	0	0	0
- unlisted	0	0	0	43,287,887	40,751,183	38,708,338
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
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43,287,887</b>	<b>40,751,183</b>	<b>38,708,338</b>

As at 31 December 2019, the investment portfolio was nil. As at 31 December 2018, it consisted of two structured unlisted bonds purchased in 2017 — both issued by the Special Purpose Vehicle (SPV) "Argentum Netherlands BV" (formerly "Demeter Investments BV") — which underwent early disposal in 2019.

In March 2019, the US dollar denominated security held for a face value of USD 20,000,000 was sold. The sale, as resolved upon by the Governing Council, was previously illustrated in the 2018 financial statements, since the ensuing loss of EUR 1,536,747 was recognised in that year as a write-down of such security. In 2019, the effect on the profit and loss account was reflected as a EUR 89,389 loss, recognised as an extraordinary income component and corresponding to the trading premium/discount resulting from the adjustment made to the security.

In November 2019, the euro denominated security held for a face value of EUR 20,650,000 underwent early disposal.

The sale, as resolved upon by the Governing Council, was chiefly due to the need to dispose of an investment made in breach of the internal regulations of the Central Bank. The effects of the sale include:

- An increase in resources available for investments that have a higher degree of liquidity and are more consistent with the institutional aims of CBSM, with account also being taken of the country's cash requirements;
- An improvement in the asset allocation of CBSM's own portfolio. It is more prudent as well as appropriate to diversify investments, avoiding the allocation of considerable amounts to a single security;
- In terms of balance sheet, the write-off of the investment portfolio, while in terms of P&L account it resulted in a loss of EUR 191,998 held as an extraordinary income item.

**Table 5.3: Annual changes in "Financial instruments held for investment"**

	31/12/2019	31/12/2018
<b>Opening balances</b>	<b>40,751,183</b>	<b>42,139,696</b>
<b>Increases:</b>	<b>0</b>	<b>1,427,243</b>
1. Purchases	0	0
- of which: debt financial instruments	0	0
2. Value recoveries	0	0
3. Transfer from the trading portfolio	0	0
4. Other changes	0	1,427,243
<b>Decreases:</b>	<b>40,751,183</b>	<b>2,815,756</b>
1. Sales	39,940,023	0
- of which: debt financial instruments	39,940,023	0
2. Redemptions		0
3. Value adjustments		1,536,747
- of which: lasting devaluations		0
4. Transfer to the trading portfolio		0
5. Other changes	811,160	1,279,009
<b>Final balances</b>	<b>0</b>	<b>40,751,183</b>

With regard to the year ended 31 December 2019, the following should be noted:

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**Item: Decreases - Sales**

They refer to the sale of the two structured bonds.

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**Item: Decreases - Other changes**

They include:

- Trading premiums and discounts pertaining to 2019 totalling EUR 111,297;
  - Interest on securities accrued at 31 December 2018, totalling EUR 418,476;
  - A EUR 281,387 loss from trading of securities.
-

**Table 5.4: Breakdown of "Debt financial instruments held for investment" based on residual life**

Maturity	31/12/2019		31/12/2018	
	Fixed rate	Floating rate	Fixed rate	Floating rate
On demand	0	0	0	0
Within 3 months	0	0	0	0
After 3 to 6 months	0	0	0	0
After 6 to 12 months	0	0	0	0
After 12 to 18 months	0	0	0	0
After 18 to 24 months	0	0	0	0
After 2 to 5 years	0	0	40,751,183	0
Over 5 years	0	0	0	0
Without maturity	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>40,751,183</b>	<b>0</b>

**Table 5.5: Breakdown of "Financial instruments held for trading"**

Items/Amounts	31/12/2019	31/12/2018
	Fair value	Fair value
1. Debt financial instruments	300,697,672	120,548,613
1.1 Bonds	300,697,672	120,548,613
- listed	0	0
- unlisted	300,697,672	120,548,613
1.2 Other debt financial instruments	0	0
- listed	0	0
- unlisted	0	0
2. Capital financial instruments	5,390	5,160
- listed	0	0
- unlisted	5,390	5,160
<b>Total</b>	<b>300,703,062</b>	<b>120,553,773</b>

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

As regards bond financial instruments, fair value was determined based on the market value on the last business day of the financial year and was defined as previously illustrated in Part A - Section 1 of these Notes.

The increase in the value of the investment portfolio compared to 2018 was due to (i) an increase in funding from both banks and customers and (ii) resource allocation decisions, including the writing-off of the investment portfolio.

As regards capital financial instruments (of a small amount), this item comprised only the value of one share held in Swift SCRL, also reflecting capital gains resulting from valuation, amounting to EUR 230. The aforementioned book value was determined based on the figure notified by the issuer as a transfer value at 31 December 2019.

**Table 5.6: Annual changes in "Financial instruments held for trading".**

	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Opening balances</b>	<b>120,553,773</b>	<b>101,141,930</b>
<b>Increases:</b>	<b>506,343,929</b>	<b>235,544,033</b>
1. Purchases	500,118,951	235,078,632
- of which: debt financial instruments	500,118,951	235,078,632
- of which: capital financial instruments	0	0
2. Value recoveries and revaluations	2,478,975	47,617
3. Transfer from the investment portfolio	0	0
4. Other changes	3,746,003	417,784
<b>Decreases:</b>	<b>326,194,640</b>	<b>216,132,190</b>
1. Sales and redemptions	325,754,442	211,732,560
- of which: debt financial instruments	325,754,442	211,732,560
- of which: capital financial instruments	0	0
2. Value adjustments and devaluations	234,059	4,218,696
3. Transfer to the investment portfolio	0	0
4. Other changes	206,139	180,934
<b>Final balances</b>	<b>300,703,062</b>	<b>120,553,773</b>

With reference to the above table, the following should be noted:

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**Item: Increases - Purchases**

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They include:

- Issue discounts due on the trading date on non-listed fixed income securities, totalling EUR 247,329.

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**Item: Increases - Value recoveries and revaluations**

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They refer to capital gains calculated in application of the valuation principle shown in Part A.

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**Item: Increases - Other changes**

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They include:

- Trading gains totalling EUR 3,665,045;
- Accrued revenues as at 31 December 2019 on interest on securities, totalling EUR 80,958.

**Item: Decreases - Sales and redemptions**

They include:

- Issue discounts accrued as at the trading/redemption date on non-listed fixed income securities, totalling EUR 230,880.

**Item: Decreases - Value adjustments**

They refer to capital losses calculated in application of the valuation principle shown in Part A.

**Item: Decreases - Other changes**

They include:

- Accrued revenues as at 31 December 2018 on interest on securities, totalling EUR 154,005;
- A EUR 36,433 loss from trading of securities;
- Issue discounts, pertaining to 2019, on non-listed fixed income securities, totalling EUR 15,701.

As at 31 December 2019, the securities portfolio did not include financial instruments issued by subsidiary Banca Nazionale Sammarinese.

**Table 5.7: Breakdown of "Debt financial instruments held for trading" based on residual life**

Residual duration of bonds	31/12/2019		31/12/2018	
	Fixed rate	Floating rate	Fixed rate	Floating rate
On demand	0	0	0	0
Within 3 months	0	6,246,720	0	0
After 3 to 6 months	0	1,841,868	0	0
After 6 to 12 months	0	7,736,922	0	0
After 12 to 18 months	0	47,801,510	0	3,207,843
After 18 to 24 months	11,744,881	23,960,267	5,227,670	7,250,507
After 2 to 5 years	37,124,361	162,385,320	21,579,675	62,301,289
Over 5 years	393,710	1,462,113	2,414,454	18,567,175
Without maturity	0	0	0	0
<b>Total</b>	<b>49,262,952</b>	<b>251,434,720</b>	<b>29,221,799</b>	<b>91,326,814</b>

**6 Shareholdings (items 70 - 80 of Assets)**

**Table 6.1: Shareholdings and Shareholdings in group companies**

Name	Legal form	Registered office	Business activity	Share capital	Net equity	Profit/loss	% share held	Balance sheet value (b)	Fair value	Net equity share (a)	Comparison (a-b)
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A) Group companies	0	0	0	0	0	0	0	0	0	0	0	0
B) Affiliated companies	0	0	0	0	0	0	0	0	0	0	0	0
C) Other controlled companies												
1. Banca Nazionale Sammarinese S.p.A.	Joint-stock company	San Marino	Bancaria	EUR 19,000,000	n.a.	n.a.	100%	n.a.	n.a.	n.a.	n.a.	n.a.

Following the resolution measure adopted by the Central Bank on 21 July 2019, effective 22 July 2019, concerning Banca Cis - Credito Industriale Sammarinese S.p.A. under receivership, the latter changed its name to Banca Nazionale Sammarinese S.p.A. (BNS).

The EUR 19 million share capital was fully subscribed by the Central Bank and paid up by the latter by converting existing loans to the aforementioned Banca CIS into shares of BNS capital.

Ownership of a 100% interest did not give rise to a banking group related to CBSM. The above statement is further substantiated by Article 24 of Law No. 157 dated 19 November 2019, stating that "Shareholdings acquired following the application of Article 10(7) of Law 102/2019 are excluded from the management and coordination activity by the Central Bank of the Republic of San Marino".

The banking activity carried out by Banca Nazionale Sammarinese S.p.A. was, pursuant to the aforementioned law provision, limited "solely to the processes and operations strictly necessary to complete the migration of current accounts to other banking institutions and focused on debt collection activities".

By Delegated Decree No. 107 dated 30 June 2020, the new mission of Banca Nazionale Sammarinese S.p.A. was defined. This decree specifies, among other things, that:

- BNS should administer the assets and liabilities arising from the resolution of Banca Cis - Credito Industriale Sammarinese S.p.A. under receivership in order to ensure appropriate compliance with the debts issued and other liabilities undertaken in accordance with the resolution programme;
- In order to achieve this mission, the claims and any other assets reflected in BNS financial statements and resulting from debt collection activities were expected to be assigned to "Società di Gestione Asstivi ex BNS S.p.A.", a special purpose vehicle incorporated under San Marino law for securitisation transactions;
- Within thirty days of the date of publication of the aforesaid Decree, all the shares of BNS will be transferred to the State at the value of the net equity shown in the financial statements as at 31 December 2019.

Tables 6.1 and 6.2 do not show the figures relating to the BNS equity and fair value, since the relevant approved financial statements were not yet available. For further details, reference should be made to "Post balance-sheet events" in the Report of the Governing Council.

**Table 6.2: Breakdown of item 70 "Shareholdings"**

Items/Amounts	31/12/2019			31/12/2018		
	Purchase price	Balance sheet value	Fair value	Purchase price	Balance sheet value	Fair value
In credit institutions	19,000,000	19,000,000	n.a.	0	0	0
- listed	0	0	0	0	0	0
- unlisted	19,000,000	19,000,000	n.a.	0	0	0
In other financial companies	0	0	0	0	0	0
- listed	0	0	0	0	0	0
- unlisted	0	0	0	0	0	0
Other	0	0	0	0	0	0
- listed	0	0	0	0	0	0
- unlisted	0	0	0	0	0	0
<b>TOTAL</b>	<b>19,000,000</b>	<b>19,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Table 6.3: Breakdown of item 80 "Shareholdings in group companies".**

No "Shareholdings in group companies" were shown either as at 31 December 2019 or 31 December 2018.

**Table 6.4: Annual changes in item 70 "Shareholdings"**

	31/12/2019
<b>A) Opening balances</b>	0
<b>B) Increases</b>	19,000,000
B.1 Purchases	19,000,000
B2. Value recoveries	0
B.3 Revaluations	0
B.4 Other changes	0
<b>C) Decreases</b>	0
C.1 Sales	0
C.2 Value adjustments	0
- of which: lasting devaluations	0

C.3 Other changes	0
<b>D) Closing balance</b>	19,000,000
<b>E) Total revaluations</b>	0
<b>F) Total adjustments</b>	0

**Table 6.5: Annual changes in item 80 "Shareholdings in group companies"**

No "Shareholdings in group companies" were shown either as at 31 December 2019 or 31 December 2018.

**Table 6.6: Assets and liabilities involving controlled companies (item 70)**

	31/12/2019
Assets	
- Loans to credit institutions	189,709
<i>of which: subordinated</i>	0
<i>of which: to affiliated companies</i>	0
<i>of which: subordinated</i>	0
- Loans to other financial companies	0
<i>of which: subordinated</i>	0
<i>of which: to affiliated companies</i>	0
<i>of which: subordinated</i>	0
- Loans to other companies	0
<i>of which: subordinated</i>	0
<i>of which: to affiliated companies</i>	0
<i>of which: subordinated</i>	0
- Bonds and other debt financial instruments	0
<i>of which: subordinated</i>	0
<i>of which: to affiliated companies</i>	0
<i>of which: subordinated</i>	0
Liabilities	
- Debts with credit institutions	5,014,524
of which: to affiliated companies	0
- debts with other companies	0
of which: to affiliated companies	0
- Debts represented by financial instruments	0
of which: to affiliated companies	0

- Subordinated debt	0
of which: to affiliated companies	0
Guarantees and commitments	0
- Guarantees issued	0
- Commitments	0

Debts with credit institutions represent the balance of the centralised account held by the subsidiary with the Central Bank.

**Table 6.7: Assets and liabilities involving controlled companies of the banking group (item 80)**

No "Shareholdings in group companies" were shown either as at 31 December 2019 or 31 December 2018.

**7 Intangible fixed assets (item 90 of Assets)**

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

Annual changes	31/12/2019	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
<b>A. Opening balances</b>	<b>291,391</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>291,391</b>
<b>B. Increases</b>	<b>87,010</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>87,010</b>
B1. Purchases	37,210	0	0	0	0	0	37,210
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	49,800	0	0	0	0	0	49,800
<b>C. Decreases</b>	<b>128,066</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>128,066</b>
C1. Sales	0	0	0	0	0	0	0
C2. Value adjustments:	128,066	0	0	0	0	0	128,066
- of which depreciation	128,066	0	0	0	0	0	128,066
- 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	0	0	0	0	0	0	0
<b>D. Final balances</b>	<b>250,335</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>250,335</b>

With reference to the above table, the following should be noted:

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**Item B.1: Purchases**

They refer to costs incurred for purchasing software programmes, totalling EUR 34,059, and multi-year costs on third party assets, totalling EUR 3,151.

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**Item B.4: Other increases**

They refer to fixed assets under construction.

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**Item C.2: Value adjustments**

They refer to annual amortisation to the extent of EUR 128,066.

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**Table 7.2: Breakdown of item 90 "Intangible fixed assets"**

Items/Amounts	31/12/2019			31/12/2018		
	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 repayment of loan through 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	690,385	250,335	==	798,475	291,391	==
<b>Total</b>	<b>690,385</b>	<b>250,335</b>	<b>==</b>	<b>798,475</b>	<b>291,391</b>	<b>==</b>

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

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

Annual changes	31/12/2019	Financial leasing	Assets pending financial leasing for termination of leasing agreement	Assets available resulting from debt recovery	Lands and buildings	Other tangible fixed assets
<b>A. Opening balances</b>	<b>3,539,252</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,406,522</b>	<b>132,730</b>
<b>B. Increases</b>	<b>15,111</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,111</b>
B1. Purchases	15,111	0	0	0	0	15,111
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 changes	0	0	0	0	0	0
<b>C. Decreases</b>	<b>236,603</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>189,146</b>	<b>47,457</b>
C1. Sales	0	0	0	0	0	0
C2. Value adjustments:	236,557	0	0	0	189,146	47,411
- of which depreciation	236,557	0	0	0	189,146	47,411
- of which lasting devaluations	0	0	0	0	0	0
- of which for creditworthiness	0	0	0	0	0	0
C3. Other changes	46	0	0	0	0	46
<b>D. Final balances</b>	<b>3,317,760</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,217,376</b>	<b>100,384</b>

With reference to the above table, the following should be noted:

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**Item B.1: Purchases**


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This item includes costs for the purchase of:

- Electronic equipment totalling EUR 8,410;
  - Systems and fittings totalling EUR 6,701.
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**Item C.3: Other changes**


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Residual value to be depreciated regarding assets sold during 2019.

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**Table 8.2: Breakdown of item 100 "Tangible fixed assets"**

Items/Amounts	31/12/2019			31/12/2018		
	Purchase price/Producti on cost	Balance sheet value	Fair value*	Purchase price/Product ion 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 repayment of loan through a settlement agreement	0	0	0	0	0	0
D. Lands and buildings	6,304,853	3,217,376	==	6,304,853	3,406,522	==
E. Other tangible fixed assets	681,645	100,384	==	667,269	132,730	==
<b>Total</b>	<b>6,986,498</b>	<b>3,317,760</b>	<b>==</b>	<b>6,972,122</b>	<b>3,539,252</b>	<b>==</b>

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

## 9 Subscribed capital not paid in (item 110 of Assets)

No portions of subscribed capital not paid in were reflected either as at 31 December 2019 or 31 December 2018.

## 10 Transactions on own shares (item 120 of Assets)

No own shares were reflected either as at 31 December 2019 or 31 December 2018.

## 11 Other assets (item 130 of Assets)

**Table 11.1: Breakdown of item 130 "Other assets"**

	31/12/2019	31/12/2018
<b>Other assets:</b>		
Security margins	0	0

Premiums paid for options	0	0
Other	6,881,980	12,371,905
<b>Total</b>	<b>6,881,980</b>	<b>12,371,905</b>

“Other assets” include:

1. Receivables totalling EUR 2.24 million pertaining to commissions to be collected as a consideration for services provided to the Broader Public Administration in 2019.

In this connection, it should be noted that an agreement for the remuneration of services to be provided to the Public Administration in the 2019-2021 three-year period was being finalised. A draft was approved by the Governing Council of CBSM on 6 May and was recently approved by the State Congress. All the internal procedures within the Public Administration were yet to be discharged in order that such agreement may be executed. However, it was felt that the fundamental approval steps to consider it virtually executed had been taken. Having said this, the relative revenue for the 2019 financial year was recorded, totalling EUR 2,240,000.

At 31 December 2018, the amount receivable stood at EUR 6.72 million as it related to commissions for the 2016-2018 three-year period, which were settled during 2019.

2. Recoveries of ordinary supervision charges for 2019, totalling EUR 2.17 million (no extraordinary costs were recognised in 2019, such as those incurred for the “Asset Quality Review for the Banking System” in 2018), which supervised entities were required to pay to the Central Bank by 31 May 2020 (in 2018 they stood at EUR 2.9 million, of which approximately EUR 2.4 million pertained to ordinary charges and approximately EUR 0.5 million pertained to the “Asset Quality Review for the Banking System” project );
3. Amounts receivable pertaining to the recovery of sums levied from supervised parties, start-up/maintenance of Central Credit Register, centralised cash management and sundry recoveries that were still unpaid.

These amounts receivable, having a face value of EUR 708,443 (in 2018 they stood at EUR 154,991), were fully written down, as was the case in the previous year.

No adjustments were made to credit positions having a face value of EUR 480,606, since they were considered as fully recoverable.

Adjustments were made to mounts receivable for the recovery of sums levied from supervised parties in financial year 2019 (with payment due in May 2020) relating to entities already holding unpaid loans (face value EUR 39,249).

Ensuing value adjustments made in financial year 2019 stood at EUR 112,553, while overall write-downs totalled EUR 267,086 (EUR 154,991 in 2018);

During 2019, loans to struck off companies were written off to the extent of a face amount of EUR 458, such amount being previously entirely written down.

4. Invoices to be issued included EUR 183,647 pertaining to the recovery of costs incurred in 2019 for maintenance of the Central Credit Register and the related initial information service, totalling EUR 182,687 and EUR 960, respectively (Circular No. 2015-02). In 2018, the amount of this recovery stood at EUR 175,633.

5. Entries to be settled in relation to the pre-authorized collection procedure, totalling approximately EUR 0.7 million (approximately EUR 1.4 million at 31 December 2018).

## 12 Accrued revenues and deferred expenses (item 140 of Assets)

**Table 12.1: Breakdown of item 140 "Accrued revenues and deferred expenses".**

	31/12/2019	31/12/2018
Accrued revenues	0	0
Deferred expenses:	43,894	54,088
- sundry accruals	34,922	48,373
- long-term deferred revenues	8,972	5,715
<b>Total</b>	<b>43,894</b>	<b>54,088</b>

Miscellaneous costs mainly referred to rentals paid in advance for services (such as software maintenance, database services).

## Liabilities

## 13 Debts with credit institutions (item 10 of Liabilities)

**Table 13.1: Breakdown of item 10 "Debts with credit institutions"**

	31/12/2019			31/12/2018			Changes	
	In EUR	In foreign currency	Total	In EUR	In foreign currency	Total	Total amount	%
A) On demand:	160,912,567	0	160,912,567	118,102,615	0	118,102,615	42,809,952	36.25%
A1 Mutual accounts opened for services rendered	0	0	0	0	0	0	0	0%
A2. Demand deposits	160,912,567	0	160,912,567	118,102,615	0	118,102,615	42,809,952	36.25%
A3. Others	0	0	0	0	0	0	0	0%
B) Term or notice debts	104,500,045	0	104,500,045	100,645,348	0	100,645,348	3,854,697	3.83%
B1. Current accounts with a debit balance	88,498,702	0	88,498,702	69,634,457	0	69,634,457	18,864,245	27.09%

B2. Term deposits	16,001,343	0	16,001,343	31,010,891	0	31,010,891	-15,009,548	-48.40%
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%
<b>Total</b>	<b>265,412,612</b>	<b>0</b>	<b>265,412,612</b>	<b>218,747,963</b>	<b>0</b>	<b>218,747,963</b>	<b>46,664,649</b>	<b>21.33%</b>

Accrued expenses related to interest accrued as at 31 December 2019 on term deposits, totalling EUR 1,343, were held under "Term or notice debts - term deposits", whereas "Term or notice debts - current accounts with a debit balance" included interest paid to be credited, totalling EUR 2,786.

"Term or notice debts - current accounts with a debit balance" include the amount of the reserve requirement of Article 142 of Law No. 165/2005 established by the banks and related to the maintenance period spanning 15 December 2019 - 14 January 2020, hence highlighting the technical nature of such accounts.

Despite a 48.40% decrease in term deposits, inflow from banks showed an overall 21.33% increase compared to the year ended 31 December 2018. This increase pertained mainly to current accounts on demand.

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

<b>MATURITY</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
On demand	160,912,567	118,102,615
Within 3 months	16,001,343	21,011,088
After 3 to 6 months		9,999,803
After 6 to 12 months	0	0
After 12 to 18 months	0	0
After 18 to 24 months	0	0
After 2 to 5 years	0	0
Over 5 years	0	0
Without maturity	88,498,702	69,634,457
<b>Total</b>	<b>265,412,612</b>	<b>218,747,963</b>

As regards residual life, it should be noted that debts with banks related to deposits opened for the purposes of the reserve requirement of Article 142 of Law No. 165/2005 were held under "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 changes. These debts are paid at a floating rate.

The amount of debts pertaining to subsidiary Banca Nazionale Sammarinese totalled EUR 5,014,524 (On demand - Demand deposits).

#### 14 Debts with customers (item 20 of Liabilities)

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

Debts with customers	31/12/2019			31/12/2018			Changes	
	In EUR	In foreign currency	Total	In EUR	In foreign currency	Total	Total amount	%
A) On demand:	176,244,872	628	176,245,500	105,405,272	600	105,405,872	70,839,628	67.21%
A1. Current accounts with a debit balance	176,244,872	628	176,245,500	105,405,272	600	105,405,872	70,839,628	67.21%
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:	5,256,111	0	5,256,111	7,297,304	0	7,297,304	-2,041,193	-27.97%
B1. Time overdrawn c/accounts	0	0	0	0	0	0	0	0%
B2. Term savings deposits	0	0	0	0	0	0	0	0%
B3. Repurchase agreements and reverse repos	5,256,111	0	5,256,111	7,297,304	0	7,297,304	-2,041,193	-27.97%
B4. Other funds	0	0	0	0	0	0	0	0%
<b>Total</b>	<b>181,500,983</b>	<b>628</b>	<b>181,501,611</b>	<b>112,702,576</b>	<b>600</b>	<b>112,703,176</b>	<b>68,798,435</b>	<b>61.04%</b>

Interest paid to customers, accrued on current accounts at the end of the financial year, totalling EUR 822, was held under "On demand debts - current accounts with a debit balance", whereas accruals on interest paid, totalling EUR 4,154, were held under "Term or notice debts - Repurchase agreements and reverse repos".

With reference to the breakdown of this item, it should be noted that on demand debts consist mainly of funding from the Broader Public Administration, whereas term or notice debts account for reverse repurchase agreements maintained with the Guarantee Fund for Depositors (item B.3).

These debts are paid at a floating rate.

The overall increase in this item was mainly due to the increase in “Debts on demand - current accounts with a debit balance” which as at 31 December 2019 reflected the liquidity of Fondiss — Supplementary Welfare Fund of the Republic of San Marino — which Fund as at 31 December 2018 was maintained with other San Marino banks.

**Table 14.2: Breakdown of “Debts with customers” based on residual life**

<b>MATURITY</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
On demand	176,245,500	105,405,872
Within 3 months	3,242,839	2,427,448
After 3 to 6 months	2,013,272	3,470,682
After 6 to 12 months		1,399,174
After 12 to 18 months	0	0
After 18 to 24 months	0	0
After 2 to 5 years	0	0
Over 5 years	0	0
Without maturity	0	0
<b>Total</b>	<b>181,501,611</b>	<b>112,703,176</b>

The Central Bank does not hold any shareholdings in corporate customers. Therefore, as at 31 December 2019 no credit positions existed with subsidiaries and associated companies or companies linked by a participating interest.

## 15 Debts represented by financial instruments (item 30 of Liabilities)

**Table 15.1: Breakdown of debts represented by financial instruments**

No “debts represented by financial instruments” were accounted for either as at 31 December 2019 or 31 December 2018.

## 16 Other liabilities (item 40 of Liabilities)

**Table 16.1: breakdown of item 40 “Other liabilities”**

	<b>31/12/2019</b>	<b>31/12/2018</b>
Other liabilities:		
Security margins	0	0

Premiums received on options	0	0
Cheques in circulation and kindred papers	384,859	429,533
Other	5,290,045	5,538,566
<b>Total</b>	<b>5,674,904</b>	<b>5,968,099</b>

In addition to cheques in circulation — corresponding to quittance and drawer’s cheques issued within the context of the State Treasury Service — “Other liabilities” included:

1. Sums available to third parties pertaining to (i) Treasury Service receipts that, due to the time required to process them, were yet to be credited to their relevant current accounts to the extent of approximately EUR 2.8 million, and (ii) transactions to be settled in relation to the pre-authorized collection procedure amounting to EUR 707,651 (as at 31 December 2018, they stood at approximately EUR 1 million and EUR 1.4 million, respectively);
2. Tax demands notified by the Overdue Tax Collection Department, with payment being already collected and waiting to be transferred to the relevant entities, totalling EUR 498,364, and other suspended items relating to the aforesaid Overdue Tax Collection Department, totalling EUR 89,520 (as at 31 December 2018, they stood at EUR 712,974 and EUR 109,738, respectively);
3. Existing debts related to labour costs, falling in the region of EUR 0.7 million (as at 31 December 2018, they stood at EUR 1.4 million approximately), including emoluments, social security and tax costs (including amounts related to the calculation of untaken holiday entitlement as at 31 December 2019) yet to be paid.

**Table 16.2: Breakdown of “Other liabilities” based on residual life**

<b>MATURITY</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
On demand	115,230	200,700
Within 3 months	5,235,781	4,811,427
After 3 to 6 months	3,592	586,891
After 6 to 12 months		0
After 12 to 18 months		0
After 18 to 24 months		0
After 2 to 5 years		0
Over 5 years		0
Without maturity	320,301	369,081
<b>Total</b>	<b>5,674,904</b>	<b>5,968,099</b>

## 17 Accrued expenses and deferred revenues (item 50 of Liabilities)

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

	31/12/2019	31/12/2018
Accrued expenses:	0	0
Miscellaneous expenses	0	0
Deferred revenues:	64,079	108,267
long-term deferred revenues	64,079	108,267
<b>Total</b>	<b>64,079</b>	<b>108,267</b>

At 31 December 2019, the value of multi-year costs pertained to the recovery of charges, already collected from a financial perspective, related to the start-up phase of the Central Credit Register and to compliance of RIS – San Marino Interbank Network – with SEPA (Single Euro Payments Area) standards.

## 18 Funds (items 60-70-80 of Liabilities)

**Table 18.1: Movements in item 60 "Staff retirement allowances"**

	31/12/2019	31/12/2018
<b>Opening balances</b>	<b>522,748</b>	<b>524,541</b>
<b>Increases</b>	<b>490,040</b>	<b>499,736</b>
- provisions	490,040	499,736
- other changes	0	0
<b>Decreases</b>	<b>507,618</b>	<b>501,529</b>
- withdrawals	507,618	501,529
- other changes	0	0
<b>Closing balance</b>	<b>505,170</b>	<b>522,748</b>

This item accounts for the indemnity in lieu of staff retirement allowances accrued during 2019 ("provisions"), including the sum of staff retirement allowances relating to holiday leave remaining from previous years.

The indemnity accrued in one financial year is paid to the employees in the following financial year ("withdrawals"), within the deadlines laid down by the labour agreement from time to time in force. "Withdrawals" also reflects a decrease, occurred in 2019, in the amount due for staff retirement allowances to be paid in respect of untaken holiday entitlement.

**Table 18.2: Breakdown of item 70 "Risk and cost funds"**

<b>Breakdown:</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Retirement funds and similar provisions	0	0
Tax funds	0	0
Other funds:	2,694,179	502,334
- fund for costs for extraordinary proceedings	278,500	61,250
- fund for legal proceedings	460,295	437,500
- provisions for losses on equity investments	1,900,000	0
- fund for miscellaneous costs	55,384	3,584
<b>Total</b>	<b>2,694,179</b>	<b>502,334</b>

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

	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Opening balances</b>	<b>502,334</b>	<b>493,000</b>
<b>Increases</b>	<b>2,369,345</b>	<b>312,334</b>
- provisions	2,369,345	312,334
- other changes	0	0
<b>Decreases</b>	<b>177,500</b>	<b>303,000</b>
- withdrawals	175,385	299,592
- other changes	2,115	3,408
<b>Closing balance</b>	<b>2,694,179</b>	<b>502,334</b>

The increase in "other funds" pertained to the allocation of:

1. EUR 217,250 to the "fund for costs for extraordinary proceedings", designed to cover costs arising from proceedings pursuant to Title II of Part II of Law No. 165 dated 17 November 2005;
2. EUR 200,295 to the "fund for lawsuits", the total amount of which, amounting to EUR 460,295, was determined on the basis of the estimated costs, including legal expenses and lawyer's fee reimbursements, that may arise from proceedings pending before the Court;
3. EUR 1,900,000 to "provisions for losses on equity investments" to cover losses that may arise from Banca Nazionale Sammarinese S.p.A. following the application of recent Law No. 113 dated 7 July 2020 and Delegated Decree No. 107 dated 30 June 2020. The extent of the allocation has been illustrated in the Report of the Governing Council — Post-balance sheet events and represents the best possible estimate based on the data available to date;

4. EUR 51,800 to the “fund for miscellaneous costs”.

The decrease, on the other hand, pertained to the (i) use of the “Fund for lawsuits” totalling EUR 175,385 in relation to the out-of-court settlement of a dispute that occurred in 2019 and recognition of contingent assets totalling EUR 2,115 (other changes) following termination of related provisions.

As was the case in previous years, it was decided not to make any provisions with regard to civil lawsuit No. 97/2016, since no sufficient information was available to warrant such provisions.

For the purposes of data comparability, 2018 figures relating to “decreases-uses” and “decreases-other changes” were changed in order to separate, consistent with 2019, uses of funds from decreases in such funds due to surplus (contingent assets).

#### Table 18.4: Movements in item 80 “Fund for credit risks”

No allocations were made to the “Fund for credit risks” either as at 31 December 2019 or 31 December 2018.

### 19 Fund for general banking risks, Subordinated debt, Subscribed capital, Share 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: breakdown of item 90 “Fund for general banking risks”

	31/12/2019	31/12/2018	Changes	
			Amount	%
<b>Opening balance</b>	36,986,137	49,209,709	-12,223,572	-24.84%
Contributions in the financial year	500,457	0	500,457	n.a.
Withdrawals in the financial year	0	-12,223,572	12,223,572	-100%
<b>Closing balance</b>	<b>37,486,594</b>	<b>36,986,137</b>	<b>500,457</b>	<b>1.35%</b>

By resolution of the Governing Council, provisions to the extent of EUR 0.5 million were allocated to the Fund for general banking risks with a view to strengthening the bank’s assets with the operating surplus recorded in 2019.

The purpose of this fund, is indeed to cover the general entrepreneurial risk and is similar to a capital reserve.

In relation to financial year 2019, the Governing Council resolved to end the year with a breakeven result and to allocate the economic surplus to this fund, the purpose also being to replenish, albeit only partially, the equity reserves previously used up to cover the deficits recorded in the past few financial years. It should be stressed that provisions to the Fund for general banking risks must be made at the time the financial statements are prepared by the Management Body, prior to recognising the operating results. This is not a reserve that can be changed by the General Meeting of the Shareholders, as is the case with the legal and the statutory reserves.

The Fund for general banking risks is a component of the Bank’s equity, like the other reserves mentioned above, to be used by the General Meeting of the Shareholders. As shown in Table 19.9 relating to “Changes in net equity in the last 4 years”, allocating provisions to this fund resulted in an increase in the balance sheet total.

**Table 19.2: Breakdown of item 100 "Subordinated debt"**

No "Subordinated debt" was recognised either as at 31 December 2019 or 31 December 2018.

**Table 19.3: Breakdown of item 110 "Subscribed capital"**

Type of shares	31/12/2019			31/12/2018			Changes	
	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%
<b>Totals</b>	<b>2,500</b>	<b>5,164.57</b>	<b>12,911,425</b>	<b>2,500</b>	<b>5,164.57</b>	<b>12,911,425</b>	<b>0</b>	<b>0%</b>

As pursuant to Article 20 of the Central Bank Statutes, the "Endowment fund" is subdivided into registered and indivisible shares of EUR 5,164.57 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 Nazionale Sammarinese S.p.A.;
- 1% Banca Sammarinese di Investimento S.p.A.

**Table 19.4: Breakdown of item 120 "Share premium"**

No "Share Premium" was recognised either as at 31 December 2019 or 31 December 2018.

**Table 19.5: Breakdown of item 130 "Reserves"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
a) Ordinary or legal reserve	1,274,013	1,274,013	0	0%
b) Reserve for own shares or units	0	0	0	0%
b) Statutory reserves	9,627,277	9,627,277	0	0%
d) Other reserves	0	0	0	0%
<b>Total</b>	<b>10,901,290</b>	<b>10,901,290</b>	<b>0</b>	<b>0%</b>

**Table 19.6: Breakdown of item 140 "Revaluation reserve"**

No "Revaluation reserve" was set aside either as at 31 December 2019 or 31 December 2018.

**Table 19.7: Breakdown of item 150 "Profits (losses) carried forward"**

No "Profits (losses) carried forward" were recognised either as at 31 December 2019 or 31 December 2018.

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

	31/12/2019	31/12/2018	Changes	
			Amount	%
<b>Operating profit (loss)</b>	0	0	0	0%

The financial year ended with a breakeven result due to the provisions allocated to the Fund for general banking risks as outlined earlier.

**Table 19.9: Changes in net equity in the last 4 years**

	Subscribed capital	Ordinary or legal reserve	Statutory reserve	Operating results	Fund for general banking risks	Total
<b>Balances as at 31/12/2016</b>	12,911,425	3,447,534	9,627,277	-2,173,521	51,825,921	75,638,636
<b>Balances as at 31/12/2017</b>	12,911,425	1,274,013	9,627,277	0	49,209,709	73,022,424
<b>Balances as at 31/12/2018</b>	12,911,425	1,274,013	9,627,277	0	36,986,137	60,798,852
<b>Balances as at 31 December 2019</b>	12,911,425	1,274,013	9,627,277	0	37,486,594	61,299,309

**Table 19.10: Breakdown of funding by business sector**

	31/12/2019	31/12/2018
a) Public Administrations	166,397,634	98,866,805
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 companies	0	0

- Pension funds	0	0
c) Non-financial companies	22,044	89,789
- <i>of which</i> parties cancelled from the Register of Authorised Entities	0	0
- Industry	0	0
- Construction	0	0
- Services	22,044	89,789
- Other non-financial companies	0	0
d) Households and not-for-profit institutions servicing households	5,768,966	5,491,577
- Consumer and producer households	5,599,521	5,312,372
- Not-for-profit institutions servicing households	169,445	179,205
e) Others	9,312,968	8,255,005

## Guarantees and Commitments

**Table 20.1: Breakdown of “guarantees issued”**

	31/12/2019	31/12/2018	Changes	
			Amount	%
A) Credit commitments of a commercial nature	0	0	0	0%
B) Credit commitments of a financial nature	2,004,748	1,854,748	150,000	8.09%
C) Assets pledged as guarantee	0	0	0	0%
- for third party obligations	0	0	0	0%
- for own obligations	0	0	0	0%
<b>Total</b>	<b>2,004,748</b>	<b>1,854,748</b>	<b>150,000</b>	<b>8.09%</b>

**Table 20.2: Breakdown of credit commitments**

	31/12/2019	31/12/2018	Changes	
			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	2,004,748	1,854,748	150,000	8.09%
B1. Acceptances	0	0	0	0%
B2. Sureties and bank guarantees	2,004,748	1,854,748	150,000	8.09%
B3. Strong comfort letters	0	0	0	0%

B4. Other	0	0	0	0%
<b>Total</b>	<b>2,004,748</b>	<b>1,854,748</b>	<b>150,000</b>	<b>8.09%</b>

The stated credit commitments consist of sureties that the Bank provided as guarantee for commitments undertaken by the Broader Public Administration.

**Table 20.3: Situation of credit commitments to credit institutions**

No "credit commitments to credit institutions" were accounted for either as at 31 December 2019 or 31 December 2018.

**Table 20.4: Situation of credit commitments to customers**

Categories/Amounts	31/12/2019			31/12/2018		
	Gross exposure	Total value adjustments	Net Exposure	Gross exposure	Total value adjustments	Net Exposure
A) Non-performing loans	0	0	0	0	0	0
- of which Bad loans	0	0	0	0	0	0
- of which Problem loans	0	0	0	0	0	0
- of which Restructured loans	0	0	0	0	0	0
- of which Overdue/past due loans	0	0	0	0	0	0
- of which Unsecured loans towards countries at risk	0	0	0	0	0	0
B) Performing loans	2,004,748	0	2,004,748	1,854,748	0	1,854,748
<b>Total</b>	<b>2,004,748</b>	<b>0</b>	<b>2,004,748</b>	<b>1,854,748</b>	<b>0</b>	<b>1,854,748</b>

**Table 20.5: Breakdown of "guarantees issued" based on residual life**

MATURITY	31/12/2019	31/12/2018
On demand	0	0
Within 3 months	450,000	300,000
After 3 to 6 months	0	0
After 6 to 12 months	0	0
After 12 to 18 months	0	0

After 18 to 24 months	0	0
After 2 to 5 years	1,554,748	0
Over 5 years		1,554,748
Without maturity	0	0
<b>Total</b>	<b>2,004,748</b>	<b>1,854,748</b>

**Table 20.6: Assets pledged as guarantee of own debts**

No assets pledged as guarantee of own debts were accounted for.

**Table 20.7: Margins available on credit lines**

As at 31 December 2019, CBSM had no credit facilities with other central banks and/or commercial banks and/or financial companies providing access, pursuant to contractual agreements, to cash collection or funding.

**Table 20.8: Breakdown of "Spot commitments"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
A Disbursement commitments for certain use	0	0	0	0%
- <i>of which</i> commitments for loans to be disbursed	0	0	0	0%
B. Commitments to exchange financial instruments for certain use	0	0	0	0%
C. Commitments to disburse funds for uncertain use	0	7,755,000	-7,755,000	-100%
- <i>of which</i> negative margins to be used on credit lines	0	7,755,000	-7,755,000	-100%
- <i>of which</i> put options issued	0	0	0	0%
D. Commitments to exchange financial instruments for uncertain use	0	0	0	0%
E. Other commitments	300,293	0	300,293	n.a.
<b>Total</b>	<b>300,293</b>	<b>7,755,000</b>	<b>-7,454,707</b>	<b>-96.13%</b>

The sub-item of table "Other commitments" refers to foreign exchange (Forex) transactions.

Unlike in 2018, at 31 December 2019 there were no commitments to provide funds for margins available on credit lines.

**Table 20.9: Term commitments**

No term commitments were in place as at 31 December 2019.

**Table 20.10: Financial derivatives**

No financial derivative contracts were in place as at 31 December 2019.

**Table 20.11: Breakdown of "Commitments" based on residual life**

<b>MATURITY</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
On demand	200,129	0
Within 3 months	100,164	0
After 3 to 6 months	0	7,755,000
After 6 to 12 months	0	0
After 12 to 18 months	0	0
After 18 to 24 months	0	0
After 2 to 5 years	0	0
Over 5 years	0	0
Without maturity	0	0
<b>Total</b>	<b>300,293</b>	<b>7,755,000</b>

**Table 20.12: Derivative contracts on credits**

No credit derivatives were in place as at 31 December 2019.

## Memorandum accounts

**Table 21.1: Memorandum accounts**

Items	31/12/2019	31/12/2018
<b>1) Asset management</b>	<b>0</b>	<b>0</b>
a) Asset management for customers	0	0
- of which liquidity	0	0
- of which liquidity deposited with the Central Bank	0	0
- of which debt securities	0	0
- of which debt securities issued by the Central Bank	0	0
- of which debt securities issued by other credit institutions of San Marino	0	0
- of which capital securities and CIS units	0	0
- of which capital securities issued by the Central Bank	0	0
b) Own portfolios managed by third parties	0	0
<b>2 Financial instruments custody and management</b>	<b>496,784,897</b>	<b>302,524,237</b>
a) Deposited third-party financial instruments	177,162,793	141,791,762
- of which debt securities issued by the Central Bank	0	0
- of which debt securities issued by other credit institutions of San Marino	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	322,536	259,201
b) Own financial instruments deposited with third parties	319,622,104	160,732,475
<b>3) Financial instruments, liquidity and other assets linked to activities as custodian bank</b>	<b>84,648,392</b>	<b>76,639,280</b>
a) Liquidity	84,648,392	716
- of which liquidity deposited with the Central Bank	84,648,392	716

b) Debt securities	0	0
- of which debt securities issued by the Central Bank	0	0
- of which debt securities issued by other credit institutions of San Marino	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	0	76,638,564

As regards "2) Financial instruments custody and management - a) deposited third-party financial instruments", this item includes instruments related to the bond issues of the Most Excellent Chamber of the Republic of San Marino, in relation to which the Central Bank also provides a 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 amounts stated 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 dated 6 December 2011.

With reference to other memorandum accounts, the following information is provided:

- The assets foreclosed by the Overdue Tax Collection Service of the Central Bank and deposited with third parties, pending their auction sale pursuant to Article 70 et seq. of Law No. 70 dated 25 May 2004, were recognised for a total amount of EUR 336,707. As at 31 December 2019, amounts due for collection totalled 307,808,488 Euro, while guarantees received in relation to extensions granted by the Overdue Tax Collection Service stood at EUR 23,839,546;
- The amount of the mediation guarantee fund managed by the Central Bank (CBSM Regulation No. 2013-03) stood at EUR 650,000;
- The guarantee fund for depositors managed by the Central Bank (CBSM Regulation No.2016-01) totalled EUR 8,372,374;
- The promissory note issued by the Government of the Republic of San Marino in favour of the International Monetary Fund to the extent of EUR 45,610,457 and related to the Republic's share held in the International Monetary Fund was deposited with the Central Bank.

With regard to the "San Marino Investor Compensation Fund", established by Decree No. 148 dated 22 November 2018, and the "Extraordinary Fund for the Protection against Financial Fraud", established by Decree No. 131 dated 27 September 2018, no recognition was made, since the relevant implementing regulations and decrees had not yet been issued in order that these funds may become operational.

**Table 21.2: Breakdown of indirect funding by business sector**

	31/12/2019	31/12/2018
a) Public Administrations	258,230	259,645
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 companies	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	322,536	257,786
- Consumer and producer households	322,536	257,786
- 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"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
A) On Treasury Bonds and other financial instruments eligible for refinancing purposes at central banks	0	0	0	0%
A1. Treasury Bonds and other similar instruments	0	0	0	0%
A2. Other financial instruments eligible for refinancing purposes at central banks	0	0	0	0%
B) On loans to credit institutions	-92,441	208,859	-301,300	-144.26%

B1. Current accounts with a credit balance	-92,245	-574,495	482,250	83.94%
B2. Deposits	-196	0	-196	n.a.
B3. Other loans	0	783,354	-783,354	-100%
<i>of which on leasing transactions</i>	0	0	0	0%
C) On loans to customers	1,084,523	631,371	453,152	71.77%
C1. Current accounts with a credit balance	990,045	524,050	465,995	88.92%
C2. Deposits	0	0	0	0%
C3. Other loans	94,478	107,321	-12,843	-11.97%
<i>of which on leasing transactions</i>	0	0	0	0%
D) On debt securities issued by credit institutions	461,317	241,153	220,164	91.30%
D1. Certificates of deposit	0	0	0	0%
D2. Bonds	461,317	241,153	220,164	91.30%
D3. Other financial instruments	0	0	0	0%
E) On debt securities from customers (issued by other issuers)	946,219	1,540,434	-594,215	-38.57%
E1. Bonds	946,219	1,540,434	-591,215	-38.57%
E2. Other financial instruments	0	0	0	0%
<b>Total</b>	<b>2,399,618</b>	<b>2,621,817</b>	<b>-222,199</b>	<b>-8.48%</b>

As shown in table 22.1 above, compared to 2018 the overall decrease in interest received, totalling EUR 222,199 (-8.48%) was chiefly due to a decrease in interest accrued on loans to credit institutions (down EUR 301,300) and on debt securities (down EUR 374,051).

With respect to the former, compared to 2018, the absence of repurchase agreements led to a decrease in interest received that was not sufficiently offset by the increase in interest received on current accounts.

Interest on debt securities decreased by EUR 374,051. This change was due to a decrease in interest received on the investment portfolio, which was subject to early disposal in its entirety during 2019).

On the other hand, interest received on loans to customers increased by EUR 465,995, due to a change in interest rates on existing loans.

**Table 22.2: Breakdown of item 20 "Interest paid and other costs"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
A) On debts with credit institutions	123,120	620,700	-497,580	-80.16%

A1. Current accounts with a debit balance	82,376	91,983	-9,607	-10.44%
A2. Deposits	40,744	83,730	-42,986	-51.34%
A3. Other debts	0	444,987	-444,987	-100%
<b>B) On debts with customers</b>	<b>66,173</b>	<b>519,752</b>	<b>-453,579</b>	<b>-87.27%</b>
B1. Current accounts with a debit balance	37,974	83,852	-45,878	-54.71%
B2. Deposits	0	398,014	-398,014	-100%
B3. Other debts	28,199	37,886	-9,687	-25.57%
<b>C) On debts represented by financial instruments to credit institutions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
- of which on certificates of deposit	0	0	0	0%
<b>D) On debts represented by financial instruments to customers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
- of which on certificates of deposit	0	0	0	0%
<b>E) On subordinated debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
- of which on hybrid capitalisation instruments	0	0	0	0%
<b>Total</b>	<b>189,293</b>	<b>1,140,452</b>	<b>-951,159</b>	<b>-83.40%</b>

As shown in table 22.2 above, in 2019 interest paid decreased considerably (-83.40%), as a result of a decrease in interest accrued on debts with credit institutions and with customers.

In particular, with reference to the latter interest, it should be noted that in 2018 a number of forward hedging transactions were carried out, causing interest to reflect a margin between the forward exchange rate set out in the contract and the spot exchange rate applicable at the time the contract was executed (EUR 444,987), such margin not occurring in 2019.

With reference, on the other hand, to interest on debts with customers, it should be noted that the decrease was mainly due to the lack of term deposits made by Fondiss (supplementary welfare fund of the Republic of San Marino) in 2018.

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

No "Dividends and other proceeds" were recognised either as at 31 December 2019 or 31 December 2018.

**Table 24.1: Breakdown of item 40 "Commissions earned"**

	31/12/2019	31/12/2018	Absolute changes and %	
			Amount	%
Commissions earned:				
a) Guarantees issued	3,183	2,433	750	30.83%
b) Credit derivatives	0	0	0	0%
c) Advice on financial instruments	0	0	0	0%
d) Collection and payment services	1,566,328	814,358	751,970	92.34%
e) Custodian bank services	7,200	7,200	0	0%
f) Financial instruments custody and management	0	0	0	0%
g) Other services	692,567	336,018	356,549	106.11%
<b>Total</b>	<b>2,269,278</b>	<b>1,160,009</b>	<b>1,109,269</b>	<b>95.63%</b>

"Collection and payment services" and "Other services" include revenues associated with services provided to the Broader Public Administration.

In this connection, it should be noted that an agreement for the remuneration of services to be provided to the Public Administration in the 2019-2021 three-year period was being finalised. A draft was approved by the Governing Council of CBSM on 6 May and was recently approved by the State Congress. All the internal procedures within the Public Administration were yet to be discharged in order that such agreement may be executed. However, it was felt that the fundamental approval steps to consider it virtually executed had been taken. Having said this, revenues totalling EUR 2,240,000 pertaining to 2019 were accounted for, such amount confirming the statutory reductions already made in the previous three years.

The EUR 1.11 million increase booked in 2019 was due to these commissions. In 2018, they stood at EUR 1,130,000, as statutory reductions pertaining to the 2016-2017 two-year period were also applied on the recognised amount.

Commissions for services provided to the Public Administration in 2019 are shown in table 24.1 above using the same criterion for allocation across the different items as the one used in 2018. By contrast, "Custodian bank services" include the commissions received by the Central Bank for the custodian bank service carried out on behalf of FONDISS (supplementary welfare fund of the Republic of San Marino).

**Table 24.2: Breakdown of item 50 "Commissions paid"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Commissions paid:				
a) Guarantees received	0	0	0	0%
b) Credit derivatives	0	0	0	0%
c) Management of portfolios of financial instruments:	41,480	24,891	16,589	66.65%
- own portfolio;	38,470	21,846	16,624	76.10%
- third-party portfolio	3,010	3,045	-35	-1.15%
d) Collection and payment services	54,165	26,953	27,212	100.96%
e) Other services	47,181	65,666	-18,485	-28.15%
<b>Total</b>	<b>142,826</b>	<b>117,510</b>	<b>25,316</b>	<b>21.54%</b>

The commissions for "Other services" also include the annual commission totalling EUR 13,151 (EUR 40,000 in 2018) and quarterly commissions totalling EUR 669 (EUR 591 in 2018) paid to the Italian correspondent in respect of cash procurement services, such commissions being settled up to April 2019.

Subsequently, on 15 November 2019, the Central Bank signed a memorandum of understanding with the Bank of Italy, which allowed the Central Bank, among other things, to procure banknotes and coins directly.

As in the previous year, the remaining commissions pertained to different commissions sought by banks on current accounts.

On the other hand, it should be noted that the increase in commission paid related to collection and payment services (+100.96%) pertains to charges on the POS service, which increased largely as a result of greater reliance on these devices.

## 25 Profits (losses) on financial transactions (item 60 of the profit and loss account)

**Table 25.1: breakdown of item 60 "Profits (losses) on financial transactions"**

As at 31/12/2019				
Items/Transactions	Transactions on financial instruments	Foreign currency transactions	Transactions on precious metals	Other transactions
A1. Revaluations	2,478,975	0	0	0
A2. Devaluations	-234,059	0	0	0

B. Other profits/losses	3,628,612	15,369	0	0
<b>Total</b>	<b>5,873,528</b>	<b>15,369</b>	<b>0</b>	<b>0</b>
1. Government bonds	0			
2. Other debt financial instruments	5,873,298			
3. Capital financial instruments	230			
4. Derivative contracts on financial instruments	0			
<b>Total</b>	<b>5,873,528</b>			

#### Item A.1: revaluations

They account for the aggregate value of the capital gains recognised on the portfolio of debt and capital securities as at 31 December 2019.

#### Item A.2: devaluations

They account for the aggregate value of the capital losses recognised on the trading securities portfolio as at 31 December 2019.

#### Item B.: other profits/losses

This item refers to profits and losses resulting from securities trading, including those realised/incurred at the time of redemption at maturity; the second column shows proceeds (trading/valuation) from currencies.

Profits from financial transactions increased by EUR 9.9 million over 2018:

1. Securities management resulted in a EUR 2.24 million balance between capital gains and capital losses from valuation as at 31 December 2019 (EUR 4.17 million loss as at 31 December 2018) and trading gains totalling EUR 3.63 million (up EUR 3.48 million over 2018).
2. EUR 15,369 gains on foreign currency valuation/trading were reflected as at 31 December 2019 (a EUR 6.143 million loss was posted as at 31 December 2018).

## 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: Breakdown of items 70 - 80 "Other operating proceeds", "Other operating costs"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
<b>Other operating proceeds:</b>				
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	2,174,631	2,906,707	-732,076	-25.19%
d) Credit notes, allowances and positive rounding-off of figures	28	33	-5	-15.15%

e) Proceeds from Overdue Tax Collection Services	37,665	56,682	-19,017	-33.55%
f) Recovery of costs for Central Credit Register	209,773	246,069	-36,296	-14.75%
g) Recovery of costs associated with procurement services for banknotes and coins	200,238	218,537	-18,299	-8.37%
h) Annual maintenance costs of the RIS for SEPA payment instruments	18,244	18,085	159	0.88%
i) Insurance settlements	0	197,069	-197,069	-100.00%
l) Recovery of POS-related costs	47,746	0	47,746	n.a.
m) Miscellaneous proceeds	4,839	24,730	-19,891	-80.43%
<b>Total</b>	<b>2,714,726</b>	<b>3,689,474</b>	<b>-974,748</b>	<b>-26.42%</b>
<b>Other operating costs:</b>			<b>Amount</b>	<b>%</b>
a) Expenses related to the centralised management of cash	99,401	98,246	1,155	1.18%
b) Allowances and various rounding-off of figures	73	120	-47	-39.17%
c) Costs for extraordinary proceedings on supervised entities	10,000	80,000	-70,000	-87.50%
d) Miscellaneous costs	1,136	2,068	-932	-45.07%
<b>Total</b>	<b>110,610</b>	<b>180,434</b>	<b>-69,824</b>	<b>-38.70%</b>

"Other operating proceeds" include, as their most significant economic component, the portion of the total costs arising from the discharge of supervisory duties on other financial, insurance and lending activities, charged to supervised parties for financial year 2019. The remainder of these costs is not recovered and the Central Bank bears these expenses. As explained previously in the section dealing with Assets concerning "Other Assets", no extraordinary expenses were incurred in 2019, with recovery pertaining only to ordinary costs. Compared to the previous year, this recovery decreased by EUR 732,076.

"Recovery of costs for Central Credit Register" refers to the recognition of the recovery of costs pertaining to financial year 2019 carried out by the Central Bank pursuant to Circular No. 2015-02.

"Recovery of costs associated with procurement services for banknotes and coins" refers to the recoveries made in 2019 with the relevant amount for the period.

"Recovery of POS-related costs" refers to the recovery of costs sought from the Broader Public Administration in 2019 for the POS service provided to them.

"Other operating costs" mainly include "Expenses related to the centralised management of cash" and "Costs for extraordinary proceedings on supervised entities" in respect 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 and labour costs**

	Average as at 31/12/2019	Labour costs as at 31/12/2019	Headcount as at 31/12/2019	Average as at 31/12/2018	Headcount as at 31/12/2018	Labour costs as at 31/12/2018
a) Senior Officers	1.00	73,181	1	1.08%	107,859	1
b) Managers	11.92	1,262,342	12	11.75	1,483,445	12
c) Other staff	80.58	4,589,219	81	80.33	5,226,597	80
1. front office managers/clerks	76.83	4,495,681	77	76.58	5,064,533	77
2. support staff	3.75	93,538	4	3.75	162,064	3
<b>Total</b>	<b>93.50</b>	<b>5,924,742</b>	<b>94</b>	<b>93.16</b>	<b>6,817,901</b>	<b>93</b>

In the 2019 financial statements, travel expenses incurred for attending training courses (reflected under Labour costs - Other labour costs) were separated from travel expenses incurred for other reasons (reflected under Other administrative costs). In 2018, these costs were fully recognised under Other administrative costs. No restatement was made in this respect as the amounts in question were not significant.

**Table 27.2: Breakdown of sub-item b) "Other administrative costs"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Remuneration of the Audit Firm for auditing the Central Bank and the Guarantee Fund for Depositors	19,026	25,179	-6,153	-24.44%
- of which: for services other than the auditing of the financial statements	0	0	0	0%
Graphic art work and advertising	7,002	6,742	260	3.86%
Insurance premiums	393,863	296,161	97,702	32.99%
Miscellaneous utilities and cleaning of premises	109,725	130,770	-21,045	-16.09%
Forms, stationery and newspapers	30,938	39,268	-8,330	-21.21%
Postage and telephone	205,245	213,793	-8,548	-4.00%
Consumables and spare parts	10,697	16,342	-5,645	-34.54%
Professional consultancy fees	747,779	1,475,683	-727,904	-49.33%
Reimbursement of travel costs	37,709	76,515	-38,806	-50.72%

Travel	57,670	91,322	-33,652	-36.85%
Rentals, technical assistance, repairs and various services	1,371,409	1,538,148	-166,739	-10.84%
Association memberships and similar fees	9,501	31,000	-21,499	-69.35%
Rents paid	95,830	123,705	-27,875	-22.53%
Import taxes	1,098	1,759	-661	-37.58%
Armed security	14,878	29,933	-15,055	-50.30%
Translations	10,260	17,932	-7,672	-42.78%
Miscellaneous transport	15,998	20,590	-4,592	-22.30%
Lawyer's fee reimbursement	0	71,884	-71,884	-100.00%
Property tax	0	219,067	-219,067	-100.00%
Miscellaneous and sundry expenses	40,326	70,080	-29,754	-42.46%
<b>Total</b>	<b>3,178,954</b>	<b>4,495,873</b>	<b>-1,316,919</b>	<b>-29.29%</b>

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

The table shows an overall reduction in administrative costs. This reduction resulted from the implementation of a project to rationalise management costs, approved by the Governing Council pursuant to Article 52 of Law No. 173 dated 24 December 2018, seeking a reduction of management costs by cutting back on labour costs, consultancy fees and overheads (at least 20%).

**Table 27.3: Remuneration**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Directors	176,320	218,276	-41,956	-19.22%
Statutory Auditors	46,462	51,325	-4,863	-9.47%
Management	231,405	333,738	-102,333	-30.66%
<b>Total</b>	<b>454,187</b>	<b>603,339</b>	<b>-149,152</b>	<b>-24.72%</b>

No commitments were in place regarding retirement benefits for members of the administrative, management or governance bodies who were no longer in office.

As shown in the table, the overall cost reduction scheme implemented by the bank was also extended to the management, steering and governing bodies.

## 28 Adjustments, recoveries and provisions (items 100-110-120-130-140-150-160-170 of the profit and loss account)

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

	31/12/2019	31/12/2018	Changes	
			Amount	%
a) Intangible fixed assets	128,066	537,780	-409,714	-76.19%
- Software	123,933	154,461	-30,528	-19.76%
- multi-year costs	0	379,816	-379,816	-100.00%
- multi-year costs on third party assets	4,133	3,503	630	17.98%
b) Tangible fixed assets	236,557	244,556	-7,999	-3.27%
- real property	189,146	189,146	0	0%
- systems and fittings	11,221	14,824	-3,603	-24.31%
- other tangible fixed assets	36,190	40,586	-4,396	-10.83%
<b>Total</b>	<b>364,623</b>	<b>782,336</b>	<b>-417,713</b>	<b>-53.39%</b>

The change in this item over 2018 is to be found in a significant decrease in the adjustments made, chiefly with regard to multi-year costs.

In this regard, it should be noted that in 2018 residual multi-year costs related to the overall strategic review project of the Central Bank (EUR 379,816) were fully charged to the profit and loss account, inasmuch as capitalisation thereof was no longer required.

In 2019, no multi-year costs were accounted for.

**Table 28.2: Breakdown of item 120 "Provisions for risks and charges"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
a) Retirement funds	0	0	0	0%
b) Tax funds	0	0	0	0%
c) Other funds:	2,369,345	312,334	2,057,011	658.59%

<i>of which: fund for legal proceedings;</i>	200,295	247,500	-47,205	-19.07%
<i>of which: fund for costs for extraordinary proceedings</i>	217,250	61,250	156,000	254.69%
<i>of which: fund for losses on subsidiaries</i>	1,900,000	0	1,900,000	n.a.
<i>of which: fund for miscellaneous costs</i>	51,800	3,584	48,216	1,345.31%
<b>Total</b>	<b>2,369,345</b>	<b>312,334</b>	<b>2,057,011</b>	<b>658.59%</b>

As specified in the section of Liabilities related to "Risk and cost funds", provisions were mainly allocated to the:

1. Fund for costs for extraordinary proceedings (EUR 217,250) in view of the financial support to be provided in respect of administrative compulsory winding-up procedures;
2. Fund for legal proceedings (EUR 200,295) in view of the estimated costs that could arise from proceedings started before the Court in previous years and during 2019;
3. Provisions for losses on equity investments (EUR 1,900,00) to cover losses that may arise from Banca Nazionale Sammarinese S.p.A. following the application of recent Law No. 113 dated 7 July 2020 and Delegated Decree No. 107 dated 30 June 2020. The extent of the provisions allocated has been illustrated in the Report of the Governing Council – Post-balance sheet events;
4. Fund for miscellaneous costs (EUR 51,800). This fund reflects costs that were agreed by contract but not yet invoiced by the supplier, in relation to which negotiations would take place in 2020 to define the final amount due.

#### **Table 28.3: Item 130 "Provisions for loan losses"**

In 2019 and 2018, no provisions were allocated to the fund for credit risks.

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

	31/12/2019	31/12/2018	Changes	
			Amount	%
a) Value adjustments on credits	112,553	47,488	65,065	137.01%
b) Provisions for guarantees and commitments	0	0	0	0%
<b>Total</b>	<b>112,553</b>	<b>47,488</b>	<b>65,065</b>	<b>137.01%</b>

These refer to value adjustments made to credits in 2019 for the recovery of sundry charges held under "other assets", as shown in the breakdown of this latter item.

No value adjustments on credits either with clients or banks were accounted for in 2018 and 2019.

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

	31/12/2019	31/12/2018	Changes	
			Amount	%
Value recoveries	0	437	-437	-100%
<b>Total</b>	<b>0</b>	<b>437</b>	<b>-437</b>	<b>-100%</b>

In 2019, no value recoveries were made in respect of credits for recovery of sundry charges held under "other assets".

No value recoveries on credits either with clients or banks were accounted for in 2018 and 2019.

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

	31/12/2019	31/12/2018	Changes	
			Amount	%
Value adjustments	0	1,536,747	-1,536,747	-100%.
- of which on other debt financial instruments	0	1,536,747	-1,536,747	-100%
<b>Total</b>	<b>0</b>	<b>1,536,747</b>	<b>-1,536,747</b>	<b>-100%</b>

As at 31 December 2019, no value adjustments on financial fixed assets were recognised.

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

In 2019 and 2018, no value recoveries on financial fixed assets were made.

**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: Breakdown of items 190 and 200 "Extraordinary proceeds" and "Extraordinary costs"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Extraordinary proceeds				

a) Windfall proceeds	16,420	86,472	-70,052	-81.01%
b) Contingent assets	148,821	68,926	79,895	115.91%
c) Capital gains	0	0	0	0%
<b>Total</b>	<b>165,241</b>	<b>155,398</b>	<b>9,843</b>	<b>6.33%</b>
<b>Extraordinary costs</b>				
a) Windfall costs	17,229	5,698	11,531	202.37%
b) Contingent liabilities	4,414	5,868	-1,454	-24.78%
c) Capital losses	46	569	-523	-91.92%
d) Other extraordinary costs	281,387	0	281,387	n.a.
e) Rounding offs in Euro (EUR) units	2	1	1	100%
<b>Total</b>	<b>303,078</b>	<b>12,136</b>	<b>290,942</b>	<b>2,397.35%</b>

As shown in the table above, there was no substantial change in extraordinary proceeds compared to 2018. However, contingent assets increased considerably (up 115.91%), including the effect of a settlement agreement with a supplier.

Extraordinary income expenses, on the other hand, were significantly higher than in 2018, mainly due to the capital losses arising from the sale of investment securities, already commented on in the relevant Section.

### 30 Change in the Fund for general banking risks (Item 230 of the profit and loss account)

**Table 30.1: Breakdown of item 230 "Change in the Fund for general banking risks"**

	31/12/2019	31/12/2018	Changes	
			Amount	%
Change in the Fund for general banking risks	-500,457	12,223,572	-12,724,029	-104.09%
<b>Total</b>	<b>-500,457</b>	<b>12,223,572</b>	<b>-12,724,029</b>	<b>-104.09%</b>

As previously illustrated in the corresponding liability item, provisions were allocated to the Fund for general banking risks by resolution of the Governing Council with the aim of replenishing, through the operating surplus recorded in 2019, this capital reserve, which had been used up in previous years to cover the deficits that had occurred.

More details concerning movements in the Fund for general banking risks are provided in the previous Section 19, table 19.1.

## Part D - Other Information

### 31 Statement of Cash Flows

Generated and collected funds	2019	2018
<b>Funds generated from operations</b>		
Operating loss	0	0
Provisions for risks and charges	2,369,345	312,334
Provisions to the fund for general banking risks	500,457	0
Value adjustments on fixed assets	364,623	2,319,083
	<b>3,234,425</b>	<b>2,631,417</b>
<b>Increase in funds collected:</b>		
Other liabilities	0	0
Debts with credit institutions	46,664,649	33,380,587
Debts with customers	68,798,435	0
Debts represented by financial instruments	0	0
Provisions for staff retirement allowances	490,040	499,736
Other changes	0	0
Accrued expenses and deferred revenues	0	0
	<b>115,953,124</b>	<b>33,880,323</b>
<b>Decrease in funds used</b>		
Other assets	5,489,925	3,929,186
Shares, quotas and other capital financial instruments	0	0
Cash and available funds	0	1,683,759
Intangible fixed assets	0	0
Tangible fixed assets	46	1,169
Accrued revenues and deferred expenses	10,194	2,374
Loans to banks	30,369,009	45,271,882
Bonds and other debt financial instruments	0	0
Loans to customers	5,506,744	0
Shareholdings	0	0
	<b>41,375,918</b>	<b>50,888,370</b>
<b>Total generated and collected funds</b>	<b>160,563,467</b>	<b>87,400,110</b>

<b>Funds used and spent</b>	<b>2019</b>	<b>2018</b>
<b>Value recoveries and use of funds generated from operations:</b>		
Value recoveries (on "other funds")	177,500	303,000
Utilisation of other funds	0	12,223,572
Dividends paid out	0	0
Other reserves (unavailable reserves)	0	0
	<b>177,500</b>	<b>12,526,572</b>
<b>Increase in funds spent:</b>		
Other assets	0	0
Other changes	0	0
Cash and available funds	1,040,739	0
Loans to credit institutions	0	0
Loans to customers	0	24,400,257
Intangible fixed assets	87,010	75,003
Tangible fixed assets	15,111	68,193
Shares, quotas and other capital financial instruments	230	495
Bonds and other debt financial instruments	139,397,876	19,559,582
Shareholdings	19,000,000	0
Accrued revenues and deferred expenses	0	0
	<b>159,540,966</b>	<b>44,103,530</b>
<b>Decrease in funds collected:</b>		
Other liabilities	293,195	2,711,832
Debts with banks	0	0
Debts with customers	0	27,430,873
Use of staff retirement allowances	507,618	501,529
Debts represented by financial instruments	0	0
Accrued expenses and deferred revenues	44,188	125,774
	<b>845,001</b>	<b>30,770,008</b>
<b>Total funds used and spent</b>	<b>160,563,467</b>	<b>87,400,110</b>

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Board of Statutory Auditors'  
Report on the Financial  
Statements for the year ended  
31 December 2019

Dear Shareholders,

The draft financial statements for the year ended 31 December 2019 — which the Governing Council has submitted for your perusal in order to gain approval from the Central Bank of the Republic of San Marino (hereinafter also referred to as the “Bank” or “Supervisory Authority”) — were prepared in accordance with the laws currently in force (Law No. 96 dated 29 June 2005, as amended from time to time - Central Bank Statutes; Law No. 165 dated 17 November 2005 - Law on Companies and Banking, Financial and Insurance Services; Law No. 47 dated 23 February 2006, as amended from time to time - Company Law) and with due account being taken of the standards of conduct recommended by the Professional Associations. The financial statements consist of the Balance Sheet, Profit and Loss Account, Notes to the financial statements and the Report of the Governing Council.

This report is provided in response to the statutory duty whereby auditors are required to perform their tasks based on the experience and diligence requirements underlying their assignment, inasmuch as they are responsible for the truthfulness of their statements and must maintain the secrecy on facts and documents of which they become aware in the discharge of their duties. At the same time, this report proves to be a useful tool for exchanging information with the General Meeting of the Shareholders, a corporate body, on the general performance of the company's business and on the administration and control systems. The substantive legality control carried out by the Board of Statutory Auditors was performed in compliance with the rules that protect not only the interests of the Bank and its shareholders but also those of its stakeholders, whose contribution is essential to the achievement of a specific objective of the Bank. The scope of this activity did not consist of a purely external audit, i.e. providing feedback on formal compliance with the law, although it could not possibly also cover the choices made by the Governing Council in its capacity as the administrative body responsible for the appropriateness, cost-effectiveness and prudence of management-related decisions.

With this annual report, therefore, the Auditors report to the General Meeting of the Shareholders on the findings of the audit tasks performed as regards both the results for the financial year and the outcome of the relevant audit on the compliance of the financial statements, thereby providing the General Meeting of the Shareholders with a useful tool for assessing the report on operations, so that it may express its opinion thereon. In 2019, the

Bank operated against an exceptionally complex background, which continued during the current year. During the period, the persisting critical issues affecting the profit and loss account, causing it to fail to underpin institutional activities, was compounded by the onset of a further banking crisis, overhaul of financial support to the central administration — using its own reserves — and an increasing involvement in legal proceedings.

The figures shown in relation to the underlying transactions, which were reflected statically in these financial statements, were adequately evidenced in the report on operations required under the Statutes and which the Board, following its review, considers to be consistent with the financial statements. More specifically, attention is drawn to the following circumstances:

- Supervision over the stability of the financial system performed by the Bank's bodies — such bodies being strengthened within the supervisory function at the end of 2018 — was also possible through continuous support provided to the institutions as well as constant adjustment to the needs of intermediaries, while taking into account the constraints arising from the harmonisation to the Community *acquis*. The many discussions within the Great and General Council and Board Committees and the interpellations received allowed an institutional link to be established as expected, while enabling the Governing Council to provide a clear view from a disclosure transparency perspective, considering the particular banking secrecy requirements. As part of the assessments underlying the publication of statistical data on the financial system, which at year end showed a virtual stabilisation of the downward trend of the sector over the past three years, the Bank witnessed the adoption of a strict procedure against an insolvent banking intermediary of San Marino. Strong and consistent support was provided to the legislative body for systemic assessments, to the extent that the current regulatory framework was supplemented with the resolution procedure. The Central Bank's efforts — technical and otherwise — also extended to the Bank's own reserves in relation to the "Demeter securities" affair, which was settled on a final basis and without further repercussions on the Bank itself. In this regard, we would like to point out that the technical advisory service provided in 2019 to San Marino institutions on issues related to the banking and financial sector, also in respect of international issues, requires the use of qualified resources for long periods of time, slowing down progress towards the Central Bank's own objectives in line with the statutory aims of protecting savings and promoting systemic stability.

- At the time of approving the 2019 financial statements, the Governing Council deemed it appropriate to allocate provisions regarding the equity interest held in BNS S.p.A. exceptionally attributed by law to the Supervisory Authority. Acting prudently and with a view to protecting the Bank's capital, the Governing Council expressly allocated an amount of EUR 1.9 million to "Risk and cost funds" (Other funds - Provisions for losses on equity investments) to quantify the specific risk ahead of the forthcoming sale of Banca Nazionale Sammarinese S.p.A.'s shares. Notwithstanding the large capacity of the "Fund for general banking risks", the definition of "Provisions for losses on equity investments" reflects the concept of substance over form, due to the specific legal provision deriving from the disposal of BNS' shares, and hence the need for separate measurement of items that could also be held under the same balance sheet entry, i.e. Fund for general banking risks. The figures reflected take into account the provisional nature of the information provided by the Special Administrator, as they neither allow a loss to be ruled out nor make it possible to establish the exact amount thereof.

- The general focus on the spending process and management efficiency has led to the adoption of an operating cost rationalisation project, which was implemented by curbing administrative costs and entering into a company agreement with employees geared towards labour cost reduction. Following a general 14% reduction in positive income components, the Central Bank has managed to achieve significant cost savings in the last three years, to the extent that it recorded cost savings in excess of 18% over 2013. In financial year 2019, the reduction in administrative costs — over 2018 — stood at about 20%, despite a non-proportional increase in revenues. There is reason to believe that despite the continued rigour adopted in the management of administrative expenses — to an extent virtually similar to that of 2013 — the expected balance in operating management will only become steady if labour costs are revised, such costs (i) exceeding twice the aforementioned administrative expenses and, unless reduction agreements are executed, (ii) accounting for approximately 70% of the bank's total costs.

During the financial year, the supervisory task assigned to the Board of Statutory Auditors in accordance with the Statutes and law requirements was carried out by performing 32 audits,

including on-site. The results of the audits carried out in several stages, sometimes with the support of the Heads of Function and by relying on the information provided by the Head of Internal Auditing, are reflected in the book of the Board of Statutory Auditors kept in accordance with law provisions. As at 31 December 2019, the transcribed minutes did not disclose any significant facts worth mentioning in this Report or any situations in breach of law provisions and/or objections to be brought to the attention of the Judicial Authority or the Financial Intelligence Agency. It should be noted that the Board of Statutory Auditors did not receive, either from the Shareholders or third parties, any reports of allegedly illegal facts or complaints of any kind pursuant to Article 65 of Law no. 47/2006.

In 2019, the Board of Statutory Auditors:

- Took part in 31 meetings of the Governing Council. With reference to such meetings, on the basis of the information obtained we can reasonably certify that the actions resolved upon were in compliance with the law and the Statutes; they were not (i) manifestly imprudent or hazardous, (ii) deemed to cause a potential conflict of interest or (iii) in contrast with the resolutions passed by the General Meeting of the Shareholders, nor were they such as to jeopardise the integrity of company assets;
- Took part in five General Meetings of the Shareholders, during which the information provided by the Chairman and the acting Deputy Director was found to be in accordance with the duties discharged by the Executive Board and reflect the facts actually occurred;
- Acknowledged the effectiveness of the working method adopted within the Governing Council, whose individual members, subject to express and limited powers, interacted with the organisational structure on work areas, to the extent that they identified areas requiring a functional revision with reference to both internal committees and processes and activities carried out, thereby facilitating the implementation of generally shared solutions;

- Obtained, during the audits carried out periodically as well as during the meetings of the Governing Council, information about the general operating performance and its outlook, as well as about the most significant economic, financial and asset transactions, such information being provided by the Bank's officers, directors and acting Deputy Director;
- Assessed the adequacy of the organisational structures from an administrative and accounting perspective, checking the appropriate operation and establishing the existence of a system capable of ensuring thoroughness and reliability of the accounting recognition of underlying transactions both on the basis of assessments conducted by the Board itself and on the absence of any concerns raised by the Audit Firm. The accounts were found to be kept in accordance with standards and regulations complying with the current legislation, on the basis of which the Governing Council was able to gain periodic insights and budget projections useful for the cost rationalisation project;
- Checked the accuracy of the information provided to the Most Excellent Chamber with regard to the outcome of the activities carried out by the Overdue Tax Collection Service responsible for tax collection on behalf of the State and of the Bodies of the Broader Public Administration, providing an opinion of conformity for the purposes of the State general report on cash holdings and values of the Overdue Tax Collection Service;
- Monitored compliance of management actions, including the lawfulness of governance processes, checking the (total/partial) implementation of the remedial measures that resulted from audit findings and acknowledging a fast-paced internal regulation updating process that was scheduled to be completed in the current financial year with regard to relations between the Governing Council and the Supervision Committee as under the Statutes; Checked the Governing Council's constant focus on establishing internal control structures with a view to ensuring both operational compliance and management efficiency, as evidenced by the results of operations achieved and the operational control implemented within subsidiary BNS, albeit in the initial phase only. In this regard, the update was provided to the Governing Council by way of a report submitted by the Special Administrator, who is expected to produce the B.N.S. financial statements for financial year 2019.

The lack of any other relevant information, notwithstanding the unquestionable complex

and burdensome nature of the procedure, led to the prudent increase of the specific reserve, as detailed above.

- Checked that appropriate anti-money laundering control procedures were in place and verified the adequacy of the Control Plan prepared by the designated officer. Found that requirements that are not relevant to the operations of the Central Bank were still in force, stressing therefore the need for regulatory adjustments aimed at favouring working methods that substantiate control over the (i) regularity of the procedures and activities adopted by the Bank and (ii) compliance with administrative formalities.

The report submitted for your perusal consists of the Balance Sheet, Profit and Loss Account, Notes to the financial statements and the Report of the Governing Council. The Balance Sheet and the Profit and Loss Account were prepared according to the statements defined by CBSM Regulation No. 2016/02; the Notes to the financial statements were prepared based on the provisions set out in the aforementioned Regulation and CBSM Circular No. 2017/03, with account also being taken however of the peculiarities typical of the business of a Central Bank. Furthermore, the Statement of Cash Flows (Part D - Other information) was attached to the Notes to the financial statements. The draft financial statements were approved by the Governing Council in its meeting of 8 May 2020 and today they were made available to the Board of Statutory Auditors, who waived the time limit set forth in Article 83(1) of Law No. 47 of 23 February 2006 (Company Law). The Board of Statutory Auditors reviewed the draft financial statements for the year ended 31 December 2019 and the Notes to the financial statements containing an explanation of the valuation criteria, adjustments and provisions, information on the balance sheet, on the profit and loss account and other information, as well as the report of the Governing Council. We have read the report prepared by Audit Firm AD&B spa on 9 July 2020 in accordance with the regulations in force regarding banking undertakings and companies. In this regard, we acknowledge that: (i) it was prepared in compliance with the international auditing standards in association with domestic regulations governing financial statements; (ii) an opinion was given on the conformity of the financial statements with the rules governing the preparation of financial statements, (iii) an unqualified opinion was given on the consistency of the Report on Operations with the financial statements, (iv) disclosures provided do not change or alter the auditor's judgment and appear to help to draw attention to certain significant events that occurred during the year.

The Board of Statutory Auditors therefore certifies that it did not detect any critical aspects arising from the aforesaid Independent Auditors' report, having moreover established that the financial statements are consistent with the facts and information of which the Board of Statutory Auditors is aware following the discharge of its duties and in the absence of any concern being raised.

As part of the legality check this Board is required to perform, the general approach to the draft financial statements under review and their overall compliance with the law were monitored. As the financial statements were found to have been prepared clearly and in compliance with current statutory and tax regulations, they also give a true and fair view of the state of affairs and of the profit and loss for the year.

In our opinion, the Report on operations and the Notes to the financial statements provide a fair view of the underlying transactions and an accurate presentation of the data, including in compliance with consistent application of the basis of preparation. The result for the year is broken down into the following classes of assets and liabilities (shown in EUR):

<b>Assets items</b>		<b>Liabilities items</b>	
10.CASH BALANCE AND FUNDS AVAILABLE AT CENTRAL BANKS AND POST OFFICES	13,498,523	10. DEBTS WITH CREDIT INSTITUTIONS	265,412,612
20. TREASURY BONDS AND OTHER SECURITIES	0	20. DEBTS WITH CUSTOMERS	181,501,611
30.LOANS TO CREDIT INSTITUTIONS:	81,209,659	30. DEBTS REPRESENTED BY FINANCIAL INSTRUMENTS	0
40.LOANS TO CUSTOMERS	92,246,651	40. OTHER LIABILITIES	5,674,904
50.BONDS AND DEBT FINANCIAL INSTRUMENTS	300,697,672	50. ACCRUED EXPENSES AND DEFERRED REVENUES	64,079
		60.STAFF RETIREMENT ALLOWANCES	505,170
		70.RISK AND COST FUNDS	2,694,179
		80.CREDIT RISK FUND	0
		90.GENERAL BANKING RISK FUND	37,486,594

The net equity of the bank (including the endowment fund) increased by EUR 500,457, such amount reflecting the net result for the year.

It should be noted that the gross operating margin is EUR 1,111,111.

,i.e. about 130% the figure posted in 2018, as shown in the table below:

Profit and Loss Account Item	2019	2018
10. INTEREST RECEIVED AND OTHER PROCEEDS	2,399,618	2,621,817
20. INTEREST PAID AND OTHER COSTS	-189,293	-1,140,452
30. DIVIDENDS AND OTHER PROCEEDS	0	0
40. COMMISSIONS EARNED	2,269,278	1,160,009
50. COMMISSIONS PAID	-142,826	-117,510
60. PROFIT (LOSS) ON FINANCIAL TRANSACTIONS	5,888,897	-4,026,194
70. OTHER OPERATING PROCEEDS	2,714,726	3,689,474
80. OTHER OPERATING COSTS	-110,610	-180,434
90. ADMINISTRATIVE COSTS	-	-
	9,344,975	11,695,076
100. VALUE ADJUSTMENTS ON INTANGIBLE FIXED ASSETS	-128,066	-537,780
110. VALUE ADJUSTMENTS ON TANGIBLE FIXED ASSETS	-236,557	-244,556
120. PROVISIONS FOR RISK AND CHARGES	-	-312,334
	2,369,345	
130. PROVISIONS FOR LOAN LOSSES	0	0
140. VALUE ADJUSTMENTS ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	-112,553	-47,488
150. VALUE RECOVERIES ON CREDITS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	0	437
160. VALUE ADJUSTMENTS ON FINANCIAL FIXED ASSETS	0	-1,536,747
170. VALUE RECOVERIES ON FINANCIAL FIXED ASSETS	0	0
180. PROFIT (LOSS) ON ORDINARY ACTIVITIES	638,294	-
		12,366,834
190. EXTRAORDINARY PROCEEDS	165,241	155,398
200. EXTRAORDINARY COSTS	-303,078	-12,136
210. EXTRAORDINARY PROFIT (LOSS)	-137,837	143,262
220. INCOME TAX FOR THE FINANCIAL YEAR	0	0
230. CHANGE IN THE FUND FOR GENERAL BANKING RISKS	-500,457	12,223,572
240. OPERATING PROFIT (LOSS)	0	0

With regard to memorandum accounts, emphasis is placed on commitments and guarantees as they decreased moderately overall, with commitments showing a considerable drop as a result of the absence of margins available on credit lines granted , which by converse totalled EUR 7.76 million as at 31 December 2018.

In addition, it should be noted that as at 31 December 2019 there were no commitments to disburse funds for margins available on credit lines, the figure shown relating to foreign exchange transactions (Forex).

	2019	2018
10. GUARANTEES ISSUED (other than acceptances)	2,004,748	1,854,748
20. COMMITMENTS	300,293	

		7,755,000
<b>TOTAL</b>	<b>2,305,041</b>	9,609,748

In our opinion, the financial statements as at 31 December 2019 comply with the accounting principles and valuation criteria set out in the notes to the financial statements, are consistent with current regulations and, in particular, reflect regulatory provisions and the technical nature of financial reporting. Reference is also made to the adequacy of the accounting estimates made by the directors based on the duty to protect the integrity of the company's capital with a view to allowing the company to continue as a going concern, in relation to the principle of prudent valuation, relevance and accrual basis accounting.

Having said this and having reviewed the contents of the auditor's opinion: *"The financial statements give a true and fair view of the state of affairs of the Central Bank of the Republic of San Marino as at 31 December 2019 and of the profit or loss for the financial year then ended"*, having acknowledged the certification issued by the Chairman of the Board of Directors and further in the light of the foregoing, the Board of Statutory Auditors — to the extent as lying within its province and to the best of its knowledge — represents that the financial statements were prepared in compliance with the relevant regulations, as they were drawn up with the required clarity in order to give a true and fair view of the state of affairs and of the profit or loss of the Central Bank.

Dear Shareholders,

We recommend you approve the draft financial statements for the period ended 31 December 2019. Our recommendation is based on both the foregoing facts and the exhaustive disclosures provided, allowing the stakeholders to gain a fair view of their investment and of the state of affairs and of the profit or loss of the Supervisory Authority against the background in which the Central Bank operates.

\* \* \*

The Board of Statutory Auditors, on its own responsibility and further pursuant to Article 6(10) of Decree Law No. 46 dated 24 February 2011, hereby represents that the subjective and objective conditions as applicable under current legislation to each of its members for the discharge of their duties continue to be met.

San Marino, 9 July 2020

THE BOARD OF STATUTORY AUDITORS

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Audit Firm's Report on the  
Financial Statements for the  
year ended 31 December 2019

# **INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 23(3) OF LAW NO. 96 DATED 29 JUNE 2005 (CENTRAL BANK STATUTES)**

*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 as the Bank or Central Bank), which comprise the Balance Sheet as at 31 December 2019, the Profit and loss account for the financial year then ended and the Notes to the financial statements.

## **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 Standards on Auditing. Our responsibilities pursuant to such principles are further described in the section "Responsibilities of the auditing firm as regards the auditing of the financial statements" included in this report. We act independently of the Bank, in compliance with the provisions and principles on ethics and independence applicable to the auditing of the Financial Statements, according to the legal framework of San Marino. We believe that we collected sufficient and appropriate evidence to support our opinion.

## **Other Aspects**

This report was issued pursuant to Article 23(3) of Law No. 96 dated 29 June 2005 (CENTRAL BANK STATUTES). Accounting control tasks were performed by an entity other than the undersigned audit firm.

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

The Directors are responsible for the (i) preparation of financial statements that give a true and fair view, in accordance with the laws and regulations of San Marino setting forth the basis of preparation of financial statements and, to the extent required by law, (ii) that part of the internal auditing of such financial statements considered as necessary in order to allow the preparation of financial statements that do not contain any material misstatement, whether due to fraud or error.

The Directors are responsible for (i) assessing Bank's ability to continue to operate as a going concern, (ii) establishing, with regard to the preparation of the financial statements, appropriate reliance on the going concern assumption, and (iii) providing adequate disclosures on the matter. In preparing the financial statements, the Directors rely on the going concern assumption, unless they believe that the conditions exist for the winding-up of the Bank or for the termination of business operations or have no feasible alternative to such decisions.

The Board of Statutory Auditors is responsible for supervising, consistent with law requirements, the Bank's financial reporting process.

## **Responsibilities of the auditing firm as regards the auditing of the financial statements**

Our objectives include obtaining reasonable assurance about whether the financial statements as a whole are free from any material misstatement, whether due to fraud or error, and issuing an auditor's report that includes our opinion. By reasonable assurance we mean a high level of assurance that, however, does not provide any guarantee that an auditing performed in accordance with the laws and regulations in force in the Republic of San Marino and, where applicable, with the International Standards on Auditing, would identify a significant error, if present. 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 the audit we performed in compliance with the regulations and laws in force in the Republic of San Marino and, where applicable, with the International Standards on Auditing, we relied upon our professional judgment and maintained professional scepticism throughout the audit. Moreover:

- We identified and assessed the risks of material misstatements in the financial statements, whether due to fraud or error; we defined and performed auditing procedures to respond to such risks; we acquired sufficient and appropriate evidence to support our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We gained a significant understanding of the internal control for the purposes of the audit with a view to defining

auditing procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the internal control of the Bank;

- We assessed the appropriateness of the accounting principles used and the adequacy of the accounting estimates made by the Directors, including the relevant disclosures;
- We reached a conclusion on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether significant uncertainty exists in relation to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- Insofar significant uncertainty is deemed to exist, in our auditor's report we are required to draw attention to the related disclosures or, if such disclosures are inadequate, to reflect such circumstance in our opinion. Our conclusions are based on evidence obtained up to the date of this report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- We assessed the presentation, structure and contents of the financial statements as a whole, including the disclosures, and whether the financial statements represent the underlying events and circumstances so as to provide a fair view.

We also informed governance officers, as identified at an appropriate level, regarding the planned scope and time horizon of the audit and significant audit findings, including any significant deficiencies in internal control identified during our audit.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the CENTRAL BANK OF THE REPUBLIC OF SAN MARINO as at 31 December 2019 and of the profit or loss of the Bank for that period.

## Emphasis of matter

Without qualifying our audit opinion, attention is drawn on the disclosures detailed in the Notes to the financial statements and in the "Governing Council's Report for financial year 2019" as regards the following financial highlights.

- "Shareholdings" only include the 100% interest held in Banca Nazionale Sammarinese S.p.A. (hereinafter referred to as "BNS") totalling EUR 19 million, the ownership of which did not result in the establishment of a Banking Group related to the Central Bank as laid down by Article 24(3) of Law No. 157 dated 19 November 2019, according to which shareholdings acquired following the application of Article 10(7) of Law No. 102 dated 14 June 2019 are excluded from the management and coordination activities of the Central Bank of the Republic of San Marino. The shareholding in BNS was booked at face value in accordance with Article 24(3) of the aforesaid Law No. 157/2019. By Delegated Decree No. 107 dated 30 June 2020, the new mission of Banca Nazionale Sammarinese S.p.A. was defined. According to Article 4(1) thereof, within thirty days of the date of publication of this Decree, all the shares of BNS will be transferred to the State at the value of the net equity shown in the financial statements as at 31 December 2019. According to subsequent Law No. 113 dated 7 July 2020, the State Congress is authorised to acquire the shares of BNS owned by the Central Bank at the net equity value — rather than face value as set out in the text of the draft law in its first reading — as reflected in the financial statements for the year ended 31 December 2019, which must be filed with the relevant office no later than 10 July 2020.

In this regard, given the sudden change in the legislative provisions regarding the transfer of BNS shares, the Central Bank was, at the time of writing this report, unable to reflect the effects on the balance sheet and profit and loss account of the proposed transfer at net equity as early as in its 2019 financial statements. This was due to the fact that at the time of approval of these financial statements, the effects of the aforesaid transfer could not be assessed with certainty. The (still) preliminary information provided by the Special Administrator of BNS neither allows a loss to be ruled out nor makes it possible to establish the exact amount thereof. Therefore, consistent with the reasonable and prudent person approach, the Bank deemed it appropriate to allocate provisions to the extent of EUR 1.9 million under item 70 "Risk and cost fund", representing that this was the best possible estimate of the potential loss on the disposal of such investment taking into account the data currently available. In addition, given the unpredictability of the event, in its Report the Bank made reference to the Fund for general banking risks, which stood at EUR 37.5 million and, therefore, proved adequate enough to cover potential risks arising from the transfer transaction described above.

- The Bank provided information about the actions and measures taken as a result of the Covid-19 pandemic, leading to believe that the conditions for business operations to continue were met, as detailed in the section on "Operating outlook".
- In pursuance of the applicable legislation, the Bank increased the Fund for general banking risks by EUR 0.5 million with a view to strengthening its capital by relying on the operating surplus recorded in 2019. At 31 December 2019, the Fund for general banking risks showed a total balance of EUR 37.5 million.

- During financial year 2019, the Bank opted for the early disposal of two structured unlisted bonds — both issued by the Special Purpose Vehicle (SPV) “Argentum Netherlands BV” (formerly “Demeter Investments BV”) — held in the Bank’s investment portfolio. The reasons for early disposal and its effects on the financial statements are described in the notes to the financial statements under “Financial instruments held for investment”. As a result of the events described above, the Bank’s investment portfolio was written off as at 31 December 2019.

#### **Other aspects**

It should be noted that while the Bank holds a controlling interest it does not prepare consolidated financial statements, both pursuant to Article 24(3) of Law No. 157 dated 19 November 2019 and because the current regulatory framework does not yet so require.

San Marino, 9 July 2020

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

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## **Guarantee Fund for Depositors**

## TABLE OF CONTENTS

<b>Governing Bodies of the Central Bank of the Republic of San Marino</b> .....	<b>5</b>
<b>Governing Council's Report on Operations - FY 2019</b> .....	<b>7</b>
<b>2019 Annual Report</b> .....	<b>15</b>
<b>Notes to the financial statements</b> .....	<b>8</b>
<b>1 Cash balance and available funds at central banks and post offices (item 10 of Assets)</b>	<b>14</b>
<b>Table 1.1: detailed breakdown of item 10 "Cash balance and available funds at central banks and post offices"</b> .....	<b>14</b>
<b>The vault cash consisted of euro-denominated notes and coins totalling EUR 13,494,790, including cash available at the company used to discharge centralised cash management duties and cash on hand (EUR 99) maintained with the Single Court of San Marino for legal notification expenses. It also included foreign currencies for an equivalent of EUR 3,733.</b> .....	<b>14</b>
<b>2 Treasury bonds and other financial instruments eligible for refinancing purposes at central banks (item 20 of Assets)</b> .....	<b>14</b>
<b>Table 2.1: detailed breakdown of item 20 "Treasury bonds and other financial instruments eligible for refinancing purposes at central banks"</b> .....	<b>14</b>
<b>3 Loans to credit institutions (item 30 of Assets)</b> .....	<b>14</b>
<b>Table 3.1: detailed breakdown of item 30 "Loans to credit institutions"</b> .....	<b>14</b>
<b>Table 3.2: Situation of cash loans to credit institutions.</b> .....	<b>15</b>
<b>Table 3.3: Trends in non-performing loans to credit institutions</b> .....	<b>16</b>
<b>Table 3.4: Trend in total value adjustments of "Loans to credit institutions"</b> .....	<b>16</b>
<b>Table 3.5: Breakdown of "Loans to credit institutions" based on residual life</b> .....	<b>16</b>
<b>4 Loans to customers (item 40 of Assets)</b> .....	<b>17</b>
<b>Table 4.1: Detailed breakdown of item 40 "Loans to customers"</b> .....	<b>17</b>
<b>5 Bonds and other debt financial instruments and shares, quotas and other capital financial instruments (items 50 - 60 of Assets)</b> .....	<b>21</b>
<b>Table 5.1: breakdown of financial instruments held for investment and held for trading</b>	<b>21</b>
<b>6 Shareholdings (items 70 - 80 of Assets)</b> .....	<b>26</b>
<b>7 Intangible fixed assets (item 90 of Assets)</b> .....	<b>30</b>
<b>8 Tangible fixed assets (item 100 of Assets)</b> .....	<b>32</b>
<b>9 Subscribed capital not paid in (item 110 of Assets)</b> .....	<b>33</b>
<b>10 Transactions on own shares (item 120 of Assets)</b> .....	<b>33</b>
<b>11 Other assets (item 130 of Assets)</b> .....	<b>33</b>
<b>Table 11.1: Breakdown of item 130 "Other assets"</b> .....	<b>33</b>
<b>12 Accrued revenues and deferred expenses (item 140 of Assets)</b> .....	<b>35</b>
<b>Table 12.1: Breakdown of item 140 "Accrued revenues and deferred expenses".</b> ...	<b>35</b>
<b>13 Debts with credit institutions (item 10 of Liabilities)</b> .....	<b>35</b>
<b>Table 13.1: Breakdown of item 10 "Debts with credit institutions"</b> .....	<b>35</b>
<b>14 Debts with customers (item 20 of Liabilities)</b> .....	<b>37</b>
<b>Table 14.1: detailed breakdown of item 20 "Debts with customers"</b> .....	<b>37</b>

<b>15</b>	<b>Debts represented by financial instruments (item 30 of Liabilities)</b> .....	<b>38</b>
<b>16</b>	<b>Other liabilities (item 40 of Liabilities)</b> .....	<b>38</b>
	<b>Table 16.1: breakdown of item 40 "Other liabilities"</b> .....	<b>38</b>
<b>17</b>	<b>Accrued expenses and deferred revenues (item 50 of Liabilities)</b> .....	<b>40</b>
	<b>Table 17.1: Breakdown of item 50 "Accrued expenses and deferred revenues"</b> .....	<b>40</b>
<b>18</b>	<b>Funds (items 60-70-80 of Liabilities)</b> .....	<b>40</b>
	<b>Table 18.1: Movements in item 60 "Staff retirement allowances"</b> .....	<b>40</b>
<b>19</b>	<b>Fund for general banking risks, Subordinated debt, Subscribed capital, Share premiums; Reserves; Revaluation reserves; Profits (losses) carried forward and Operating profit (loss) (items 90-100-110-120-130-140-150-160 of liabilities)</b> .....	<b>42</b>
	<b>Table 19.1: breakdown of item 90 "Fund for general banking risks"</b> .....	<b>42</b>
<b>20</b>	<b>Guarantees and commitments</b> .....	<b>46</b>
	<b>Table 20.1: Breakdown of "guarantees issued"</b> .....	<b>46</b>
	<b>Table 20.2: Breakdown of credit commitments</b> .....	<b>46</b>
<b>21</b>	<b>Memorandum accounts</b> .....	<b>50</b>
	<b>Table 21.1: Memorandum accounts</b> .....	<b>50</b>
<b>22</b>	<b>Interest (items 10 - 20 of the profit and loss account)</b> .....	<b>52</b>
	<b>Table 22.1: detailed breakdown of item 10 "Interest received and other proceeds"</b> .....	<b>52</b>
<b>23</b>	<b>Dividends and other proceeds (item 30 of the profit and loss account)</b> .....	<b>54</b>
<b>24</b>	<b>Commissions (items 40 - 50 of the profit and loss account)</b> .....	<b>55</b>
	<b>Table 24.1: Breakdown of item 40 "Commissions earned"</b> .....	<b>55</b>
<b>25</b>	<b>Profits (losses) on financial transactions (item 60 of the profit and loss account)</b>	<b>56</b>
	<b>Table 25.1: breakdown of item 60 "Profits (losses) on financial transactions"</b> .....	<b>56</b>
<b>26</b>	<b>Other operating proceeds (item 70 of the profit and loss account) and other operating costs (item 80 of the profit and loss account)</b> .....	<b>57</b>
	<b>Table 26.1: Breakdown of items 70 - 80 "Other operating proceeds", "Other operating costs"</b>	<b>57</b>
<b>27</b>	<b>Administrative costs (item 90 of the profit and loss account)</b> .....	<b>59</b>
	<b>Table 27.1: Number of employees by category and labour costs</b> .....	<b>59</b>
	<b>No commitments were in place regarding retirement benefits for members of the administrative, management or governance bodies who were no longer in office</b> .....	<b>61</b>
	<b>As shown in the table, the overall cost reduction scheme implemented by the bank was also extended to the management, steering and governing bodies</b> .....	<b>61</b>
<b>28</b>	<b>Adjustments, recoveries and provisions (items 100-110-120-130-140-150-160-170 of the profit and loss account)</b> .....	<b>61</b>
	<b>Table 28.1: breakdown of items 100-110 "Value adjustments on intangible and tangible fixed assets"</b> .....	<b>61</b>
<b>29</b>	<b>Extraordinary proceeds (item 190 of the profit and loss account) and Extraordinary costs (item 200 of the profit and loss account)</b> .....	<b>63</b>
<b>30</b>	<b>Change in the Fund for general banking risks (Item 230 of the profit and loss account)</b>	<b>64</b>
<b>31</b>	<b>Statement of Cash Flows</b> .....	<b>65</b>

<b>Board of Statutory Auditors' Report on the Financial Statements for the year ended 31 December 2019</b> .....	<b>67</b>
<b>Audit Firm's Report on the Financial Statements for the year ended 31 December 2019</b>	<b>78</b>
<b>Guarantee Fund for Depositors</b> .....	<b>82</b>
<b>Statement of operations for financial year 2019: Assets and liabilities statements.</b>	<b>86</b>
<b>Statement of operations for financial year 2019: Income position</b> .....	<b>87</b>

Statement of operations for financial year 2019: Assets and liabilities statements

ASSETS	31/12/2019		31/12/2018	
	Total value	As a percentage of assets	Total value	As a percentage of assets
<b>A. FINANCIAL INSTRUMENTS</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
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>B. CREDITS</b>	<b>5,256,111</b>	<b>63%</b>	<b>7,297,304</b>	<b>99%</b>
B.1. Repurchase agreements	5,256,111	63%	7,297,304	99%
B.2. Others	0	0%	0	0%
<b>C. CASH AT BANKS</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
C.1 On demand	0	0%	0	0%
C.2 Others	0	0%	0	0%
<b>D. LIQUIDITY</b>	<b>3,116,263</b>	<b>37%</b>	<b>51,251</b>	<b>1%</b>
<b>E. OTHER ASSETS</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>TOTAL ASSETS</b>	<b>8,372,374</b>	<b>100%</b>	<b>7,348,555</b>	<b>100%</b>

LIABILITIES	31/12/2019		31/12/2018	
	Total value		Total value	
<b>F. FUNDING RECEIVED</b>	<b>0</b>		<b>0</b>	
<b>G. DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>0</b>		<b>0</b>	
<b>H. OTHER LIABILITIES</b>	<b>0</b>		<b>0</b>	
<b>TOTAL LIABILITIES</b>	<b>0</b>		<b>0</b>	

NET	31/12/2019		31/12/2018	
	Total value		Total value	
<b>NET ASSET VALUE OF THE FUND</b>	<b>8,372,374</b>		<b>7,348,555</b>	

**Statement of operations for financial year 2019: Income position**

	<b>31/12/2019</b>	<b>31/12/2018</b>
	Total value	Total value
<b>FINANCIAL INSTRUMENTS</b>	<b>0</b>	<b>0</b>
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 ON DISPOSALS	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
CAPITAL GAINS/LOSSES	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
HEDGING TRANSACTIONS MARGIN OF LISTED FINANCIAL INSTRUMENTS	0	0
<b>Operating margin of listed financial instruments</b>	<b>0</b>	<b>0</b>
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 ON DISPOSALS	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
CAPITAL GAINS/LOSSES	0	0
Debt securities	0	0
Capital securities	0	0
CIS parts	0	0
HEDGING TRANSACTIONS MARGIN OF UNLISTED FINANCIAL INSTRUMENTS	0	0
<b>Operating margin on unlisted financial instruments</b>	<b>0</b>	<b>0</b>
NON-HEDGING DERIVATIVE FINANCIAL INSTRUMENTS	0	0
<b>Operating margin on non-hedging derivative financial instruments</b>	<b>0</b>	<b>0</b>
<b>CREDITS</b>	<b>28,199</b>	<b>37,886</b>
Interest received and other proceeds	28,199	37,886
Value increases/decreases	0	0
Profit/loss on disposals	0	0
<b>Operating margin on loans</b>	<b>28,199</b>	<b>37,886</b>
<b>CASH AT BANKS</b>	<b>0</b>	<b>0</b>
Interest received and other proceeds	0	0
<b>Operating margin on cash at banks</b>	<b>0</b>	<b>0</b>
<b>OTHER ASSETS</b>	<b>0</b>	<b>0</b>
<b>Operating margin on investment in other assets</b>	<b>0</b>	<b>0</b>
<b>FOREIGN CURRENCY MANAGEMENT</b>	<b>0</b>	<b>0</b>

<b>Operating margin on foreign currency management</b>	<b>0</b>	<b>0</b>
<b>OTHER OPERATING TRANSACTIONS</b>	<b>0</b>	<b>0</b>
<b>Operating margin on other transactions</b>	<b>0</b>	<b>0</b>
<b><u>GROSS OPERATING MARGIN OF OPERATING ACTIVITIES</u></b>	<b>28,199</b>	<b>37,886</b>
<b>FINANCIAL COSTS</b>	<b>0</b>	<b>0</b>
Interest paid on funding received	0	0
Other financial costs	0	0
<b><u>NET OPERATING MARGIN OF OPERATING ACTIVITIES</u></b>	<b>28,199</b>	<b>37,886</b>
<b>OPERATING COSTS</b>	<b>0</b>	<b>0</b>
Commissions	0	0
Administrative costs	0	0
Other operating costs	0	0
<b>OTHER REVENUES AND COSTS</b>	<b>1,024</b>	<b>41</b>
Other revenues	1,024	41
Other costs	0	0
<b><u>OPERATING PROFIT/(LOSS)</u></b>	<b>29,223</b>	<b>37,927</b>

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Statement of operations for financial year  
2019: Notes to the financial statements

Pursuant to the provisions of Article III.III.2, paragraph 2, of the “Regulations on the Guarantee Fund for Depositors” (Reg. 2016-01, as amended from time to time), the reporting format of the Statement of operations of the Guarantee Fund for Depositors was based on the provisions of Regulation 2007-06 of the Central Bank currently in force and on the schedules and statements annexed thereto, to the extent as compatible.

More specifically, (i) the format of the statement of operations applicable to the so called “Open-end” Funds was used as a basis, with the items typical of mutual investment funds being eliminated; (ii) the level of details of the items that, under the laws currently in force, may not result in any movement for the Guarantee Fund for Depositors was reduced; and (iii) some sub-items were adjusted due to the peculiarities of the Fund itself.

The statement of operations is comprised of the Assets and Liabilities Statements, the Income Position and the Notes to the financial statements, and is accompanied by the Board of Statutory Auditors’ Report and by the Audit Firm’s Report. Indeed, the statement of operations is meant to explain, as regards each financial year, the assets and liabilities mix of the Fund, the profit/loss 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, attached to the Annual Report of the Central Bank to the Great and General Council.

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## **Part A - Assets and liabilities and net equity of Fund**

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### **Section 1 - Illustration of valuation criteria**

In preparing this statement of operations, reliance was made on the accounting principles and valuation criteria generally applied by mutual investment funds, according to the laws and regulations currently in force. Figures are shown in Euro (EUR) units.

Liquidity and credits were measured at face value, which corresponds to the estimated realisable value thereof.

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

As regards the valuation of financial instruments as at 31 December 2019, it is worth noting that on such date no such instruments were included in the portfolio.

### **Section 2 - Assets**

#### **A. FINANCIAL INSTRUMENTS**

##### **A.1. Listed financial instruments**

As at the reporting date of this statement of operations, the Fund did not hold any listed financial instruments in its portfolio.

##### **A.2. Unlisted financial instruments**

As at the reporting date of this statement of operations, the Fund did not hold any unlisted financial instruments in its portfolio.

##### **A.3. Derivative financial instruments**

As at the reporting date of this statement of operations, the Fund did not hold any derivative financial instruments in its portfolio.

## **B. CREDITS**

<b>Credits</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Repurchase agreements	5,256,111	7,297,304
Others	0	0
<b>Total</b>	<b>5,256,111</b>	<b>7,297,304</b>

"Credits - Repurchase agreements" refer to repurchase agreement transactions with the Central Bank of the Republic of San Marino carried out according to the investment policy defined by the Governing Council of CBSM itself during the meetings held on 12 April 2017 and 27 November 2019.

Interest accrued at year end on these transactions totalled EUR 4,154 and was held under this item.

The decrease over the year ended 31 December 2018 was due to choices in the allocation of the fund's assets whereby — given the higher remuneration of the current account deposit compared to that paid for repurchase agreements and further in view of the aforementioned Governing Council's resolution dated 27 November 2019, resulting in a reduction of such remuneration — a decision was made to maintain available funds on the liquidity support account, pending the definition of new investment strategies.

## **C. CASH AT BANKS**

As at the reporting date of this statement of operations, no cash at banks was held other than the current account maintained with the Central Bank and held under "Liquidity".

## **D. LIQUIDITY**

<b>Liquidity</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Liquidity	3,116,263	51,251
<b>Total</b>	<b>3,116,263</b>	<b>51,251</b>

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

Interest to be received accrued as at the end of the financial year with reference to such current account, totalling EUR 166, was held under this item.

The increase over 2018 was due to the reasons as explained previously under "Credits".

## **E. OTHER ASSETS**

As at the reporting date of this statement of operations, the Fund did not hold any other assets.

## **Section 3 - Liabilities**

## **F. FUNDING RECEIVED**

As at the reporting date of this statement of operations, the Fund did not receive any funding.

## **G. DERIVATIVE FINANCIAL INSTRUMENTS**

As at the reporting date of this statement of operations, the Fund did not have any holdings in derivative financial instruments.

#### **H. OTHER LIABILITIES**

As at the reporting date of this statement of operations, the Fund did not hold any other liabilities.

#### **Section 4 - Net Asset Value**

<b>Net Asset Value of the Fund</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Net equity at the beginning of the period</b>	<b>7,348,555</b>	<b>6,239,716</b>
Increases	994,596	1,070,912
Decreases	0	0
Result for the period	29,223	37,927
<b>Net equity at the end of the period</b>	<b>8,372,374</b>	<b>7,348,555</b>

With reference to the data disclosed in the table, it should be noted that:

a. Increases (EUR 0.99 million) pertain to ordinary contributions for the purpose of reaching the coverage level of 0.54% in 2019 as set by the Management Body with reference to the minimum European target level of 0.8% to be reached by 2024;

b. The result for the period (EUR 29,223) was tax exempt due to the institutional peculiarities of the Fund.

#### **Part B - Income position**

The year under review showed a positive result of EUR 29,223. This result was partly driven by the items shown in the tables provided in this section.

#### **Section 1 - Performance of financial instrument management**

In the period under review, the Fund did not carry out any transaction on financial instruments.

#### **Section 2 - Operating margin on loans**

<b>Credits</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Interest received and other proceeds	28,199	37,886
Value increases/decreases	0	0
Profit/loss on disposals	0	0
<b>Total</b>	<b>28,199</b>	<b>37,886</b>

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

### **Section 3 - Operating margin on cash at banks**

As at the reporting date of this statement of operations, no income entries resulting from cash at banks were accounted for.

### **Section 4 - Operating margin on investment in other assets**

In the period under review, the Fund did not carry out any transaction on other assets.

### **Section 5 - Operating margin of foreign currency management**

In the period under review, the Fund did carry out any foreign currency transaction.

### **Section 6 - Operating margin on other transactions**

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

### **Section 7 - Financial costs**

In the period under review no loans were raised.

### **Section 8 - Operating costs**

As was the case in the previous period, the costs for operating the Fund in 2019 were covered by the Central Bank, as established with resolution dated 6 April 2018 issued by the Governing Council of the Central Bank of the Republic of San Marino itself.

### **Section 9 - Other revenues and costs**

<b>Other revenues and costs</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Other revenues	1,024	41
Other costs	0	0
<b>Total</b>	<b>1,024</b>	<b>41</b>

"Other revenues" (EUR 1,024) pertain to interest accrued on the current account maintained with the Central Bank of the Republic of San Marino;

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### **Part C - Other information**

There was no other information to report.

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Board of Statutory Auditors' Report  
on the Statement of operations for  
financial year 2019

To the participants and guaranteed parties of the Guarantee Fund for Depositors,

The draft financial statements for the year ended 31 December 2019, which the Board of Directors has submitted for your approval, were prepared in accordance with the laws currently in force (Law No. 96 dated 29 June 2005, as amended from time to time - Central Bank Statutes; Law No. 165 dated 17 November 2005 - Law on Companies and Banking, Financial and Insurance Services; Law No. 47 dated 23 February 2006 - Company Law). The financial statements consist of the Assets and Liabilities Statements, Income Position, Notes to the Financial Statements, Board of Statutory Auditors' Report as well as Audit Firm's Report.

The Statement of operations for the financial year was approved by the Governing Council on 8 May 2020 and it was made available to the Board of Statutory Auditors today.

During the financial year ended 31 December 2019, we discharged our duties in accordance with law provisions and 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.

## **1.1 Activities of the Board of Statutory Auditors**

The Board of Statutory Auditors acknowledges that it has had informal contacts with the Audit Firm. Views were exchanged in respect of the respective activities and the Report of the Audit Firm will be filed and delivered to the Board of Statutory Auditors today for the purpose of sharing the opinion on the financial statements given by the Auditors.

We monitored compliance with the laws, the Regulations of the Guarantee Fund for Depositors and the principles of sound administration.

We collected information from the Management Body on the overall operating performance and outlook, as well as on the Fund's transactions deemed as most significant in terms of size and characteristics. Based on the information we collected, we have no observation to make.

We were able to establish that the actions resolved upon and carried through were in compliance with the law and the Regulation and that no conduct deemed as imprudent, hazardous or causing a potential conflict of interest was identified.

To the extent of the scope of our audit, we gained an insight into and monitored the adequacy and operation of the accounting and governance system, its reliability in providing a fair view of underlying transactions by collecting information from the Management Body officers and from the party responsible for auditing, and have no special observation to make in this regard.

Insofar as necessary, we hereby acknowledge that the Board of Statutory Auditors was not made aware of any decision made by the competent Bodies that were not consistent with the regulations of the Central Bank or with the laws.

Supervisory activities did not disclose any further significant facts worth mentioning in the following report.

## 1.2 STATEMENT OF OPERATIONS FOR FINANCIAL YEAR 2019:

We reviewed the Statement of operations for the year ended 31 December 2019, which was provided to us today — waiving the time limit set forth in Article 83(1) of Law No. 47/2006 - Company Law) — and in respect of which the following comments are provided.

We checked its general approach and its overall compliance with the laws regarding its basis of presentation, and have no special observation to make in this regard.

We checked compliance with the laws governing the preparation of the Statement of Operations and have no observation to make in this regard.

The Board of Statutory Auditors stayed in touch with the Audit Firm, and no major issues requiring further investigation were identified. We were not informed of any illegal acts existing in respect of the audits performed.

## 1.3 Conclusion

Based on the foregoing and further considering that no irregularities were identified and no reservations were raised, the Board of Statutory Auditors hereby represents that — to the extent of the scope of its audit and to the best of its knowledge — the Statement of Operations was prepared in compliance with the laws governing its preparation and basis of presentation. As a result, it provided a clear and fair view of the financial and income position.

Finally, the members of the Board of Statutory Auditors would like to express their appreciation to the Governing Council, the acting Deputy Director

and the staff as a whole, whose cooperation and support proved most helpful in gaining an understanding of the facts and performing our audit tasks.

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San Marino, 9 July 2020

THE BOARD OF STATUTORY AUDITORS

# Audit Firms' Report on the Statement of operations for financial year 2019

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

**To the Participants and to the guaranteed parties of the**

**Guarantee Fund for Depositors**

**Opinion**

We audited the Statement of operations of the Guarantee Fund for Depositors (hereinafter referred to as the "Fund"), which comprises the assets and liabilities statements as at 31 December 2019, the income position for the financial year then ended and the accompanying notes.

In our opinion, the Statement on operations gives a true and fair view of the state of affairs of the Fund as at 31 December 2019 and of the profit or loss of the Fund for that period, in accordance with Regulation No. 2007-06 issued by the Central Bank of the Republic of San Marino, setting forth the basis of preparation of statements on operations.

**Basis for opinion**

We conducted our audit in accordance with the regulations in force in the Republic of San Marino governing the criteria for the preparation of the statement of operations and, where applicable, with the International Standards on Auditing (San Marino has not adopted yet its own standards on auditing). Our responsibilities pursuant to such principles are further described in the section "Responsibilities of the auditing firm as regards the auditing of the statement of operation" included in this report. We act independently of the Fund, the Management Board appointed by the Central Bank of the Republic of San Marino and the directors of the latter, in accordance with the ethical and independence requirements applicable to the audit of financial statements under the legal framework of San Marino. We believe that we collected sufficient and appropriate evidence to support our opinion.

**Responsibilities of the Management Body of the Fund and the Board of Statutory Auditors for the statement of operations**

The Directors of the Central Bank of the Republic of San Marino are responsible for (i) preparing a statement of operations of the Fund that gives a true and fair view, in accordance with Regulation No. 2007-06 issued by the Central Bank of the Republic of San Marino, and, to the extent as required by law, (ii) such internal control as the Directors determine is necessary to allow a statement of operations to be prepared without any material misstatement, whether due to fraud or error.

The Directors are responsible for (i) assessing the Central Bank of the Republic of San Marino's ability to continue as a going concern, (ii) establishing, with regard to the preparation of the statement of operations, appropriate reliance on the going concern assumption, and (iii) providing adequate disclosures on the matter. In preparing the statement on operations, the Directors rely on the going concern assumption, unless they believe that the conditions exist for the winding-up of the Fund or for the termination of business operations or have no feasible alternative to such decisions.

The Board of Statutory Auditors of the Fund is responsible for supervising, consistent with law requirements, the Fund's financial reporting process.

**Responsibilities of the auditing firm as regards the auditing of the statement of operations**

Our objectives include obtaining reasonable assurance about whether the statement of operations as a whole is free from any material misstatement, whether due to fraud or error, and issuing an auditing report that includes our opinion. By reasonable assurance we mean a high level of assurance that, however, does not provide any guarantee that an auditing performed in accordance with the laws and regulations in force in the Republic of San Marino would always

identify a significant error, if present. 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 the audit we performed in compliance with the regulations and laws in force in the Republic of San Marino and, where applicable, with the International Standards on Auditing, we relied upon our professional judgment and maintained professional scepticism throughout the audit. Moreover:

- We identified and assessed the risks of material misstatements in the statement of operations, whether due to fraud or error;
- We defined and performed auditing procedures to respond to such risks; we acquired sufficient and appropriate evidence to support our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We gained a significant understanding of the internal control for the purposes of the audit with a view to defining auditing procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the internal control of the Fund and of the Central Bank of the Republic of San Marino;
- We assessed the appropriateness of the valuation criteria and procedures adopted and the adequacy of the accounting estimates made by the Directors, including the relevant information;
- We reached a conclusion on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether significant uncertainty exists in relation to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. Insofar significant uncertainty is deemed to exist, in our auditor's report we are required to draw attention to the related disclosures of the statement of operations or, if such disclosures are inadequate, to reflect such circumstance in our opinion. Our conclusions are based on evidence obtained up to the date of this report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- We assessed the presentation, structure and contents of the statement of operations as a whole, including the disclosures, and whether the statement of operations represents the underlying events and circumstances so as to provide a fair view.

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, 9 July 2020

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