

SUMMARY REPORT ON ACTIVITIES PERFORMED AND
ON THE PERFORMANCE OF THE FINANCIAL SYSTEM

YEAR 2018



Summary Report

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

2018



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A Publicly and privately owned entity

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

tel. +39 0549 882325 fax +39 0549 882328

country code (+) 378 swift code: icsmsmsm

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May 2019.

COMPOSITION OF THE STATUTORY BODIES*

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Francesco Mancini – Vice Chairman
Gian Luca Amici
Martina Mazza
Antonella Mularoni
Giacomo Volpinari

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Valentina Di Francesco
Luca Marcucci

Directorate General

Giuseppe Ucci - Acting Deputy Director
Daniele Bernardi - Deputy Director

Supervision Committee

Giuseppe Ucci – Chairman
Giuliano Battistini
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Marco Giulianelli
Milena Guidi
Andrea Vivoli

The Central Bank Statutes (Law no. 96 of 29 June 2005, as amended and supplemented) require the Bank to report to the Great and General Council regarding the attainment of its objectives. The Chair, the members of the Governing Council, and the Chair of the Board of Statutory Auditors are appointed by the Great and General Council; consistently with the duties assigned thereto by the Statutes, the Bank prepared the Summary Report containing the summary of the activities performed during the previous year, and the performance of the financial system. Pursuant to the Law, this Report must be approved by the General Meeting of the Shareholders and then forwarded to the Great and General Council through the office of the Secretary of State for Finance.

* as at 31 May 2019

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LIST OF ABBREVIATIONS

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

NOTICE

Unless specified otherwise, data was processed by the Central Bank. Variations are calculated on the original values (not rounded up/down); similarly, the sum of the values rounded up/down may not be the same as the aggregate values provided. The values presented, unless indicated otherwise, are expressed in euro.

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

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



1 THE FINANCIAL SYSTEM

As at 31 December 2018, the Register of Authorised Entities was comprised of 16 companies. In detail, the financial system of San Marino comprised 7 banks, 1 of which is no longer operational⁽¹⁾, 3 financial/fiduciary companies, 3 management companies, 2 insurance companies (duly authorised pursuant to letter G of Annex 1 of the Law on companies and banking, financial and insurance services, the so-called LISF), and 1 payment institution. With regard to Investment Companies, no company was registered as at 31/12/2018. Of the entities mentioned above, 5 were also authorised to exercise the Office of Professional Trustee.

In detail, in 2018, 1 management company was recorded in the Register of Authorised Entities whereas 2 financial companies were cancelled from the Register. In particular, with regard to the cancelled companies, 1 financial company was cancelled following the issue of the certificate of the conditions for the regular execution of the ordinary winding-up proceeding, pursuant to Article 99 of Law 165/2005 as amended and supplemented, 1 was cancelled following the renunciation of the exercise of the reserved activities, pursuant to Article 8 and Article 47 of Law 165/2005 as amended and supplemented.

As regards the Register of Parent Companies, there were no changes in 2018 with respect to the preceding year; therefore, as at 31/12/2018, 4 banks and 1 insurance company were registered.

In Q1 2019, no changes in the number of operators registered in the Register of Authorised Entities were recorded in the financial system. Nevertheless, in January a bank was placed under extraordinary administration proceedings as well as in suspension of payments regime.

Below, starting in 2016 is the Table indicating the number of authorised entities.

Table 1 - Authorised entities and insurance intermediaries

Authorised entities	2016	2017	2018	31/03/2019
Banks	9**	7*	7*	7*
Financial/fiduciary companies	7***	5	3	3
Investment companies	0	0	0	0
Management companies	2	2	3	3
Insurance companies	2	2	2	2
Payment institutions	1	1	1	1
Total	21	17	16	16
Insurance and reinsurance intermediaries	43	44	37****	39

Notes:

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

** Two banks, although still registered in the Register of Authorised Entities, were not operational.

*** One financial company, although still registered in the Register of Authorised Entities, was not operational.

**** The number includes the parties registered in the Register of insurance and reinsurance intermediaries which conduct financial activity and, in particular, 6 natural persons, 25 legal persons in the form of non-financial companies, 6 financial undertakings also performing insurance mediation activities; of the 37 intermediaries, 4 entities had been

¹Banca Partner S.p.A. was the non-operational bank.



suspended or were inoperative. It must also be stated that at 31/12/2018, an additional 42 natural persons who do not exercise financial activities were registered in Section A as Managers of the insurance mediation activities.

The insurance and reinsurance intermediaries registered in the relative Public Register complete the picture with respect to the financial system. At the end of 2018, 37 intermediaries performed financial activity, 4 of which were suspended/not operational. In 2018, 3 new intermediaries were registered whereas 10 were cancelled. We also note that 42 managers of insurance mediation activities were registered in Section A of that same Register. The list of foreign insurance companies authorised to conduct insurance activities in the Republic of San Marino in a regime for the provision of services without any establishment, through intermediaries included 45 companies, of which 25 Italian and 20 belonging to other States.

During the first three months of 2019, with reference to the insurance intermediaries that conducted financial activities, there were 2 new registrations but no suspensions or cancellations. Furthermore, we note an additional 3 persons managers of the activity were listed in section A of that same Register. As at 31 March 2019, 3 insurance companies were cancelled from the list of foreign insurance companies qualified to operate in San Marino through intermediaries, 2 of which through mergers.

The table below details the breakdown of operators as at 31 December 2018 based on the existing authorisations, pursuant to Law no. 165 of 17 November 2005 and No. 42 of 1 March 2010.

Table 2 - Operators Entered in the Register of Authorised Entities as a 31/12/2018

Authorisations	Banks	Other financial companies	Total
Number of operators	7	9	16
<i>of which authorised to exercise the reserved activities pursuant to Law no. 165 of 17 November 2005</i>			
A) Banking activities	7		7
B) Loan granting activities	7	2	9
C) Fiduciary activities	7	3	10
D) Investment services	7	5	12
E) Collective investment services		3	3
F) Non-traditional collective investment services		3	3
G) Insurance activities		2	2
H) Reinsurance activities			
I) Payment services	7	1	8
J) Electronic money issuing services	7		7
K) Foreign exchange mediation activities	7	2	9
L) Investment in equity interests	7	2	9
<i>of which authorised to exercise the Office of Professional Trustee pursuant to Law no. 42 of 1 March 2010</i>			
Office of Professional Trustee *	4	1	5

Notes:

*As at 31/12/2018, 3 self-employed professionals and one non-financial company were also entered in the Register of Authorised Trustees of the Republic of San Marino.

1.1 The Banking System

1.1.1 Ownership structure and actual beneficiaries

As at 31 December 2018, taking into account the active banks registered in the Register of Authorised Entities which, as at the reference date, amounted to 6, of which 1 non-operational, 1 with a shareholding structure composed, for the most part, of non-resident subjects, mainly trust



companies or holding companies, while the remaining 5 with a shareholding structure comprised of resident subjects, natural and legal persons, thus indicating the same situation as in 2017.

In this regard, we note that Article 43 of Law no. 144/2016 introduced the obligation to publish the names of the beneficial owners who "own" or "control" an authorised entity "by possessing or controlling, directly or indirectly, a percentage of no less than 2%" in the Register of Authorised Entities. Therefore, beginning on 1 March 2017, the corresponding beneficial owners, as defined by the Law mentioned above, were added to the aforesaid Public Register.

1.1.2 Size and structure of the system

The data listed and commented on in this chapter with reference to 31 December 2018 does not include one bank which, though entered in the Register of Authorised Entities, turned out to be not operational². Meanwhile, as regards the bank placed in extraordinary administration in January 2019 (see Box 1), it should be noted that the balance sheet and profit and loss account as at 31/12/2018 drafted by the Official Receiver and prepared to replace the financial statements, contains the acknowledgement of the bank's accounting evidence at the end of January 2019 and does not include the correction and adjustment entries typical of financial statements.

In 2018, with San Marino's economic situation still weak, the process of downsizing bank balance sheets continued: total assets show a contraction of 188 million (-3.9%) to reach a level of 4,576 million compared to the 4,764 million of 2017 (Table 3), in a backdrop of decreasing total funding and lending and worsening system losses.

Total gross loans, amounting to 2,829 million, registered a drop of 10% (-314 million) compared to the end of FY 2017. The decrease was influenced, among other things, by prudent supply policies, weak demand, contributions one bank made to an closed-end alternative mutual investment fund, assisted by a tax credit, for impaired positions acquired from Asset Banca S.p.A. in administrative compulsory winding-up, repayments received from certain banks as creditors adhering to the Restructuring Agreement concerning debts of the Delta group as well as the completion of extraordinary operations by one banking group which, in light of a decrease in loans, led to an increase of tangible fixed assets from debt collection.

Total funding dropped Euro 326 million, to 5,557 million (-5.5%), following the reduction of direct funding (comprised of collection of savings and interbank funding) of Euro 150 million and indirect funding of Euro 177 million. Interbank funding had dropped 35 million compared to 2017.

With regard to the equity profile, we note a drop (of 27 million) in own assets that pass from 336 million to 309 million.

The number of employees in the banking sector, which came to 523 units at the end of 2018, show a decrease of 12 units compared to the preceding year. The impact on the total number of employees in the country is equal to 2.7%.

Table 3 - Main size indicators of the banking system

Indicators	2016	2017	2018
Size indicators			
Total assets	5,280	4,764	4,576
Interbank loans	448	331	344
Gross loans to customers*	3,310	3,143	2,829
Total funding	6,410	5,883	5,557

²This refers to Banca Partner S.p.A. The data as at 31 December 2016 does not include the information relative to the two banks not operational at the time (Banca Partner S.p.A. and Euro Commercial Bank S.p.A., the latter being cancelled from the Register of Authorised Entities on 3 March 2017 for administrative compulsory winding-up).



Indicators	2016	2017	2018
Direct funding	4,577	4,079	3,929
Collection of savings**	4,535	3,975	3,861
Interbank funding	42	104	69
Indirect funding***	1,833	1,804	1,627
Net equity	362	336	309
Structural indicators			
Number of operators	7	6	6
Number of branches	54	47	45
Number of employees	594	535	523
% Employees over total employees	3.2	2.9	2.7
Other statistical data			
GDP (nominal)	1,326	1,353	1,387
Resident population	33,196	33,328	33,419
Total number of employees	18,524	18,689	19,292
Population / Branches	615	709	743
Total assets / GDP	4.0	3.5	3
Total funding / GDP	4.8	4.3	4.0

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

Notes: The data regarding monetary amounts are expressed in millions. The size and structural indicators referring to 31 December 2016 were calculated by excluding the non-operating two banks and those referring to 31 December 2017 and 31 December 2018 do not include one non-operating bank.

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

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

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

1.1.3 Assets and Liabilities

Assets - In 2018, asset dynamics (Table 4 and Figure 1) mainly involved, on the asset side, loans to customers, the net values of which, including financial leasing transactions, fell by 258 million, coming in at 1,910 million (-11.9%). The decrease was predominantly due to the aforesaid repayments received from certain banks as creditors adhering to the Restructuring Agreement concerning debts of the Delta group as well as the corrections and cancellations made to said exposures following the sale of part of the portfolio through Società Gestione Crediti Delta S.p.A. (the so-called Arcade Portfolio), the transfer of positions attributable to Asset Banca S.p.A. in administrative compulsory winding-up to a non-performing loan fund, the aforesaid extraordinary transaction carried out by an intermediary, as well as the normal trend of repayments. Furthermore, the reduction in net exposures was influenced by the additional write-downs made following the adoption of the higher AQR adjustments by certain banks, though taking into account the opportunity, granted by current legislation to intermediaries (Article 40 of Law 173/2018), to postpone part of said adjustments related to the asset review process to the next four years (see Box 3). In total, the amount of adjustments not recognised in the profit and loss account and deferred to the following four years through recourse to Article 40 mentioned above was 19 million.

In the area of loans to customers, the financial leasing transactions (residual credit) registered an increase of 16 million mainly induced by the ordinary dynamics in the repayments and amortisations which exceeded the acquisition of new leasing contracts.



In view of the foregoing decrease in loans, an increase in the aggregate "Fixed assets and other asset items" of 56 million from 1,287 million to 1,343 million (+4.4%) was recorded, an increase in financial instruments held in portfolio of 11 million and interbank loans of 13 million, as well as a reduction in subscribed and unpaid share capital of 4 million, and a 3 million decrease in shareholdings were recorded in the balance sheet.

Capital instruments include about 96 million units of closed-end mutual investment funds - held only by banks of San Marino and composed mainly of bank-initiated non-performing loans - instituted pursuant to specific legislative measures in connection with system transactions and interventions made for savings-protection purposes.

The aggregate "Fixed assets and other asset items" essentially includes 264 million of tangible and intangible fixed assets (net of financial leasing), up by approximately 22 million taking into account the 28 million increase in assets available from credit recovery, essentially attributable to the aforesaid extraordinary transaction an intermediary had carried out as well as the item "Other assets", which increased by 18 million to 1,061 million compared to the 1,043 million of 2017. This latter aggregate includes, among other things, the accounting entry of the devaluation of the loans made by the Cassa di Risparmio della Repubblica di San Marino pursuant to Article 5 *ter* of Decree-Law no. 93/2017, as amended by Decree-Law no. 101/2017 and no. 122/2017 (465 million at the close of 2018), the portfolio of notes subject to collection, tax credits for assets with deferred taxation and tax credits connected to acquisition transactions on the assets and liabilities of bank intermediaries in crisis. Total tax credits on the asset side of the banks' balance sheets were 314 million. Accrued revenues and deferred expenses increased by 16 million compared with the figure at the end of 2017.

Liabilities and Net Equity - as regards liabilities, we note both the debts represented by financial instruments of 100 million, amounting to 1,570 million (-6%), and subordinated liabilities of 42 million, moving to 39 million, partially offset by debts with customers of 29 million and amounting to 2,253 million. Debts with credit institutions show a drop of 34 million passing from the 104 million of 2017 to 70 million.

The aggregate "Other liability items" shows a drop of 9 million essentially attributable to the liquidation of part of the retirement fund that affected one intermediary (-7 million) in particular, to the reduction of 2 million in "Other liabilities", a decrease of 1 million in the tax fund, a reduction of 1 million in the fund for credit risks, as well as a 2 million increase in other funds.

The system's 2018 operating results showed a net loss of 79 million, compared to a loss of 48 million for 2017. During the year under review, one bank recorded an operating profit, whereas the remaining five institutions closed the year at a loss.

Table 4 - Aggregate balance sheet of the banking sector

Assets	2017	2018	% Var.	Liabilities	2017	2018	% Var.
Cash and cash equivalents	32	29	-7.5%				
Interbank loans (including leasing)	331	344	3.9%	Debts with Credit Institutions	104	70	-32.9%
Loans to customers*	2,168	1,910	-11.9%	Debts with customers	2,224	2,253	1.3%
<i>of which Financial leasing</i>	237	221					
<i>of which assets pending financial leasing</i>	21	20		Debts represented by financial instruments	1,670	1,570	-6.0%
Financial instruments	817	828	1.4%				
<i>of which debt securities</i>	672	681		Subordinated liabilities	81	39	-51.7%



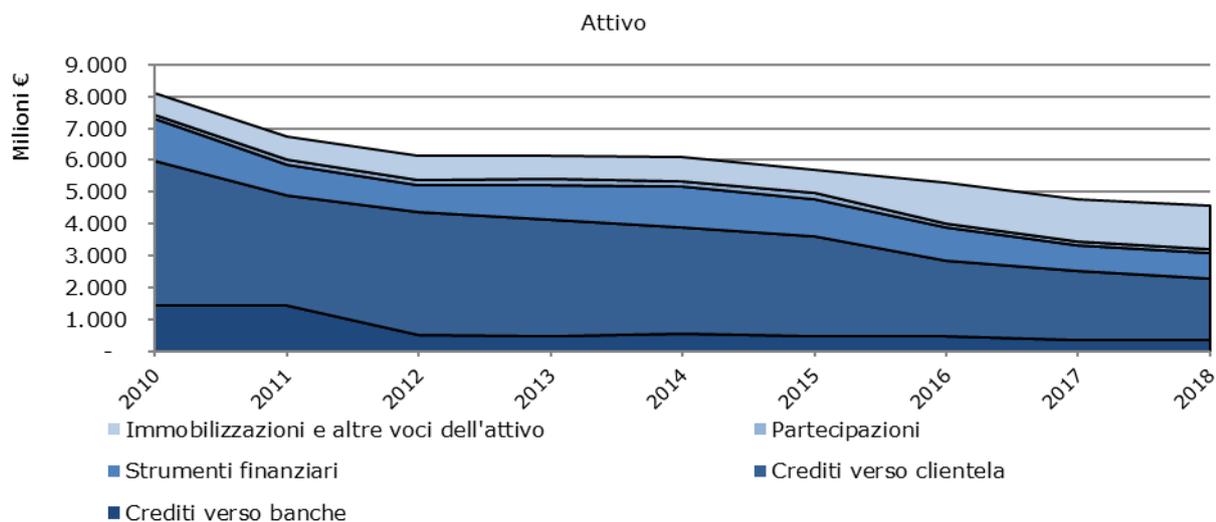
Assets	2017	2018	% Var.	Liabilities	2017	2018	% Var.
Shareholdings	125	122	-2.4%	Other liability items	344	336	-2.5%
Subscribed capital not paid in	4	0	-100%	Capital and reserves**	372	372	-0.1%
Own shares	1	1	-12.2%	Revaluation reserves	16	16	0.7%
Fixed assets and other asset items	1,287	1,343	4.3%	Operating results	-48	-79	-63.9%
Total assets	4,764	4,576	-3.9%	Total liabilities	4,764	4,576	-3.9%

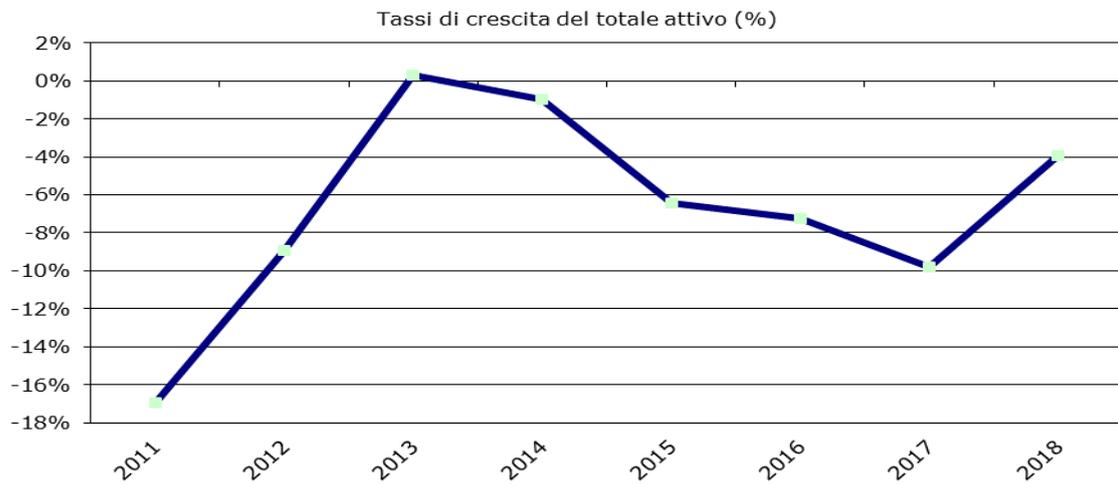
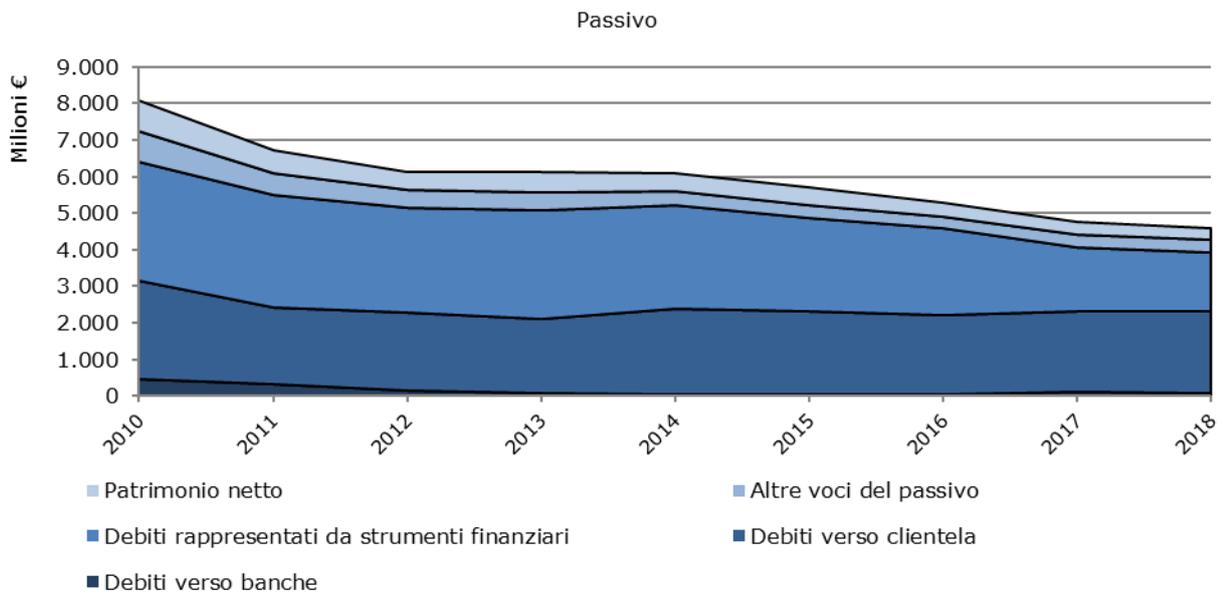
Notes: figures in millions of Euro. The Balance Sheet figures of the banking sector do not include one bank not operating in 2017 and 2018.

* Amounts net of value adjustments. The item includes the amounts related to the financial leasing transactions included in the items "Financial Leasing" and "Assets pending financial leasing for termination of leasing agreement". These latter two items do not include overdue instalment payments, which are included in "Loans to customers".

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

Figure 1 - Assets and liabilities





1.1.4 Review of Loans to Customers

Loans – As already noted, in 2018, the net loans granted to customers decreased, compared to 2017, both in absolute terms (-258 million Euro, amounting to 1,910 million) and in relation to the assets, down from 45.5% to 41.7%. These loans accounted for 49.5% of the collection of savings, down from the 54.5% of 2017. The amount of net loans takes into account the adjustments not yet recorded in the profit and loss account pursuant to Article 5 ter of Decree-Law no. 93/2017 as amended and Article 40 of Law no. 173/2018 mentioned above.

Credit exposures by technical form (Figure 2)³ show the following trends: on-demand and revocable loans fell by 193 million to 611 million, while the item "Other loans" indicate a reduction of 47 million and stand at 921 million. The remaining categories, comprised of "current accounts (other

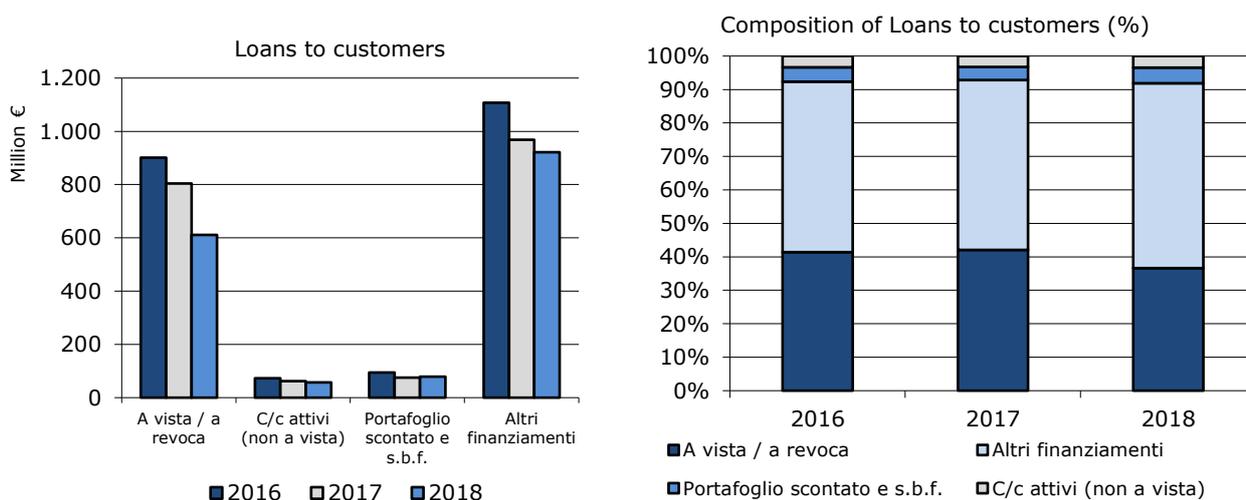
³These values do not include the amounts related to the residual credit on the financial leasing transactions to customers, which amounted to 241 million, in its two components: leased fixed assets (at 221 million) and fixed assets pending leasing (at 20 million).



than on-demand)" and "portfolio discounted and subject to collection" show reduction of 5 million and an increase of 4 million, amounting to 57 million and 79 million, respectively.

As regards the composition of the technical forms mentioned above, it should be noted that the category "on-demand / until revoked" accounts for 36.6% of the total, the category "current accounts in credit (other than on-demand)" accounts for 3.4%, "Portfolio discounted and subject to collection" represents 4.7% of the aggregate in question, while the "Other loans" account for the remaining 55.2%.

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



The analysis of the breakdown of net loans to customer by business sector with the inclusion of financial leasing (Figure 3) shows the reduction in exposures towards all borrower categories. In particular, the foregoing contraction regarded: non-financial companies (-168 million, equal to -12.4%), financial companies other than credit institutions (-43 million, or -25.8%), households and not-for-profit institutions servicing households (-43 million, or -7%), and Public Administrations (-4 million, or 12.5%). The residual category "Others" was cancelled.

The distribution of the net loans to customers by residual life (amounts including financial leasing transactions) shows that the on-demand category amounted to 400 million (21% of the total loans), the category between 1 day and 18 months, inclusive, came to 399 million (20.9%), while medium to long-term loans (which include exposures with residual maturity exceeding 18 months) amounted to 854 million and comprised 44.7% of total lending. The residual part (257 million, equal to 13.4%) represents exposures without maturity (including bad loans).

The concentration of loans, measured by the ratio, for each intermediary, between the value of net exposures towards the 30 primary borrowers (including credit institutions and excluding subsidiary financial companies) and the corresponding sum of the net loans, shows values between 30.3% and 63.3%⁴; the average, unweighted value of the index is equal to 43.1%.

⁴The calculation of the loan concentration ratios does not include the system's smallest bank which is subsidiary of another banking intermediary.

Figure 3- Breakdown of net loans to customer by business sector (including leasing)

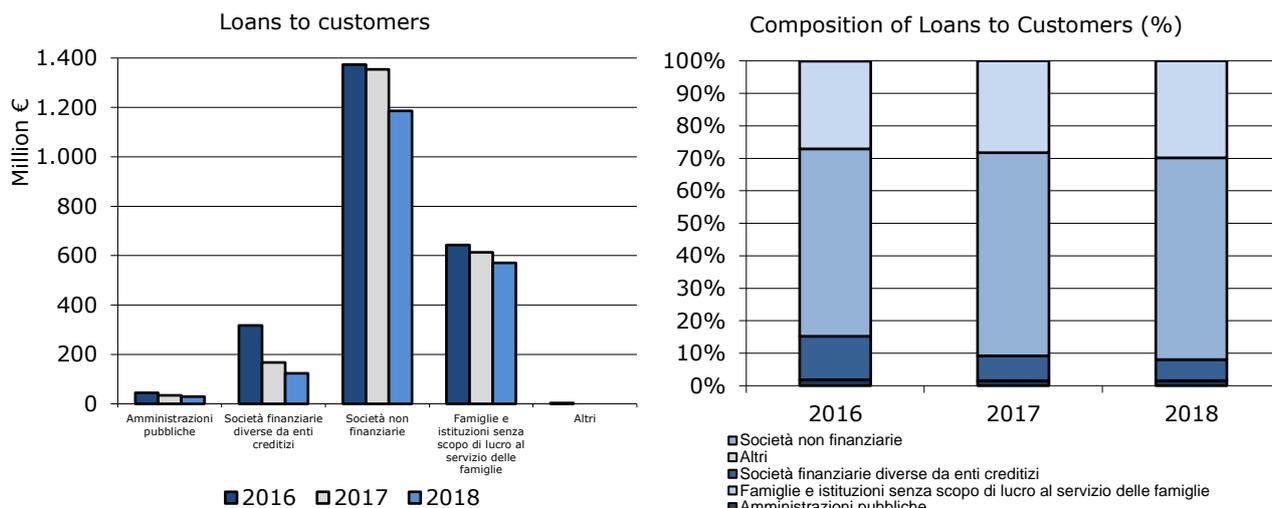
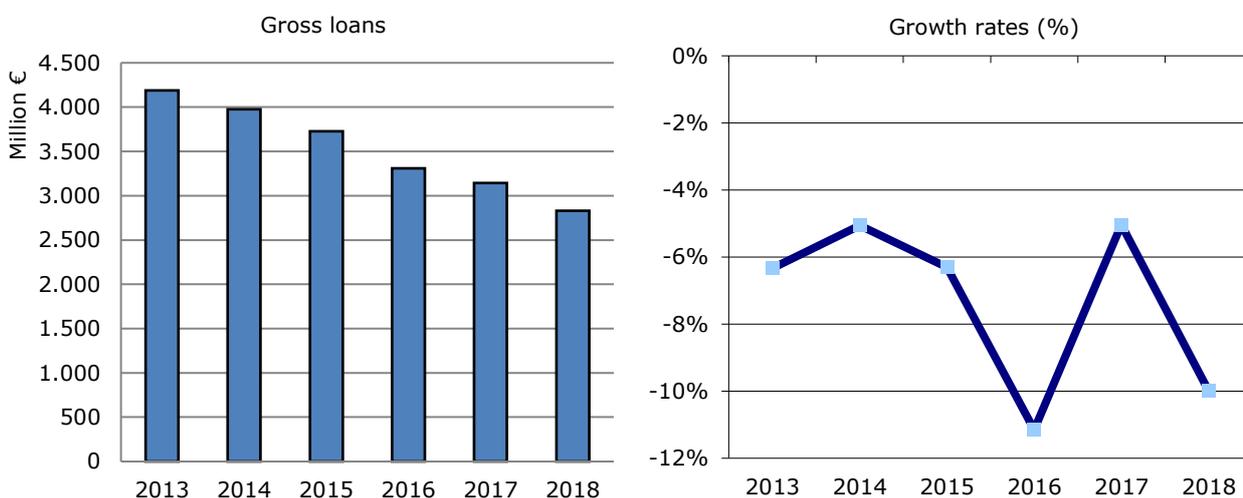


Figure 4- Gross loans of the banking system



Loan Quality – In 2018, bank loans to customers (at gross values) were down by 314 million (-10%) influenced by the appreciable reduction in non-performing loans (see below), which moved total gross loans to customers to 53% from the 54% of 2017. Correspondingly, the weight of gross performing loans over total gross loans to customers grew from 46% in 2017 to 47% in 2018. The aggregate of gross non-performing loans amounted to 1,500 million (Table 5), down by 199 million (-11.7%) with respect to the previous year, with said decrease regarding all key components of the aggregate in question.

Non-performing loans net of value adjustments amounted to 601 million, down by 146 million with respect to the previous year. The difference between the reduction in gross non-performing loans compared to the reduction in the respective net values (53 million) is essentially due to the decrease in adjustments correlated with the abovementioned disposal of non-performing loans made by an intermediary to a management company for the establishment of a closed-end fund and the use by another intermediary of adjustments for the derecognition of assets classified as non-performing loans. These decreases were offset by increases in value adjustments predominantly attributable to two intermediaries.

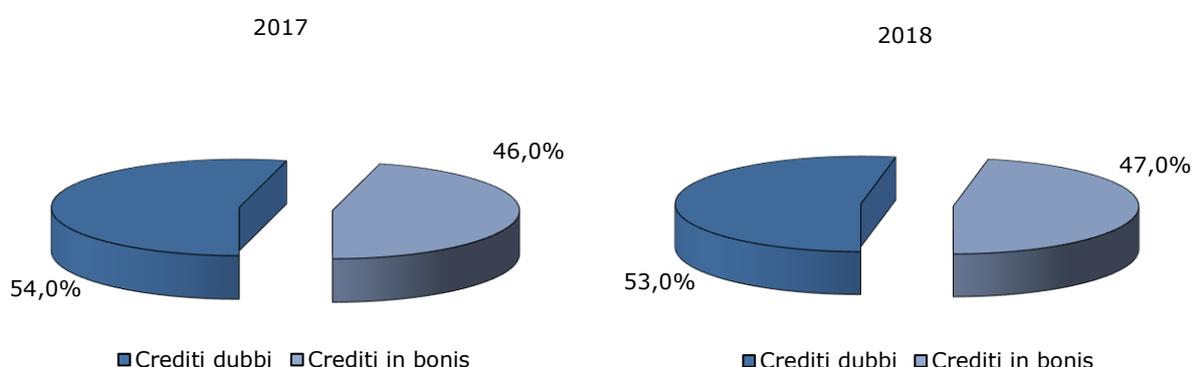


Figure 6 shows the trend of non-performing loans to customers during the three-years 2016-2018, highlighting the breakdown into the components of net non-performing loans and value adjustments, as well as the impact of the gross non-performing exposures on total gross loans.

In the category "gross non-performing loans", there was a significant decrease in gross restructured loans (deriving mainly from the Restructuring Agreement concerning debts of the Delta group) of 72 million arriving at 695 million, which also represent the most significant component of gross non-performing loans in 2018, accounting for 46.4% of the cited aggregate (45.2% in the previous year).

The above decrease was mainly influenced by the repayments received from certain intermediaries as creditors participating in the Delta Agreement recorded subsequent the completion of the process to dispose of part of the credit portfolio (the so-called Arcade Portfolio), as well as by write-offs made to said exposures, partly offset by entries from other loan categories.

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



Of the remaining non-performing loans, we note the drop in gross bad loans of Euro 68 million, amounting to Euro 576 million. This decline was decisively influenced by the aforementioned contribution of a portfolio of non-performing loans, acquired by a credit institution as a result of the deed of transfer of a block of legal relationships of Asset Bank in l.c.a. to a closed-end mutual investment fund, and, to a lesser extent, the cancellation, by an intermediary, of certain exposures classified as bad loans. The drop in the aggregate induced by the aforesaid transactions was partially offset by new inflows from other loan categories.

Gross problem loans amounted to 209 million (252 million in 2017), recording a decrease of 43 million for the most part due to the transfer of said loans to other categories of non-performing loans, to a lesser extent to the transfer to performing loans, as well as to collections. Gross past due and/or overdue loans amounting to 19 million are down by 16 million due mainly to the collection and transfer to performing loans and other categories of non-performing loans. Gross unsecured loans to countries at risk are almost zero, as already recorded in 2017.

Net of value adjustments, non-performing loans represent 31.5% of the total amount of net loans, compared with the 34.5% recorded at the end of 2017.

Net non-performing loans, amounting to 601 million, are divided into 218 million of bad loans (down by 17 million compared to the previous year), 159 million of problem loans (down by 39 million), 206 million of restructured loans (down by 75 million), and 18 million of past due and/or overdue loans (down by 15 million).

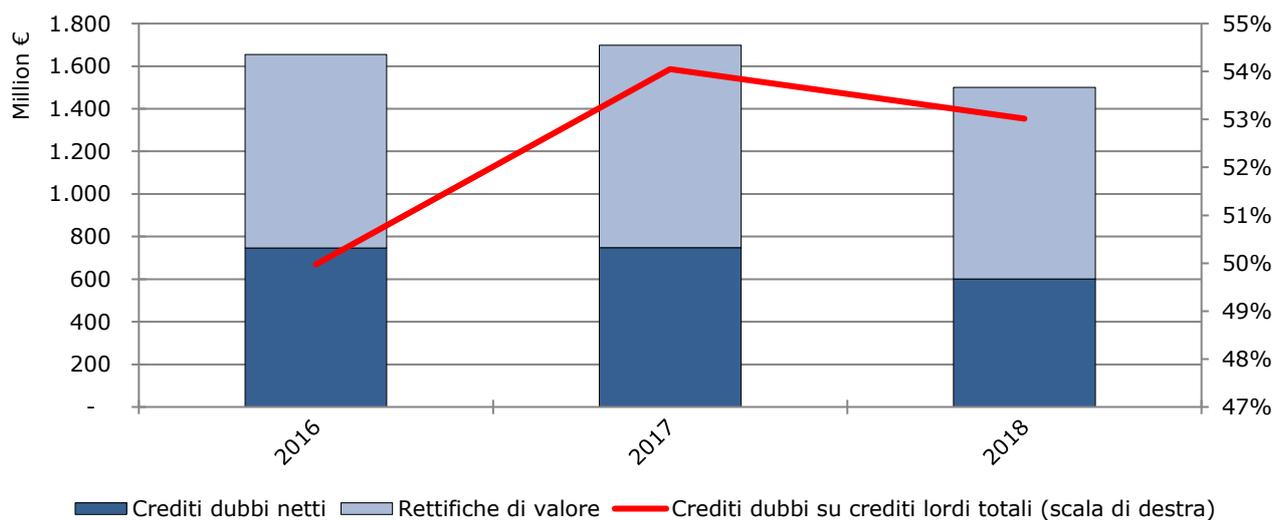
Table 5 - Loan quality

	Loans gross of value adjustments				Hedging rate*		Portion over total loans net of value adjustments	
	2017	%	2018	%	2017	2018	2017	2018
Loans to customers**	3,143	100.0%	2,829	100.0%	31.0%	32.5%	100.0%	100.0%
Performing loans	1,444	46.0%	1,329	47.0%	1.6%	1.5%	65.5%	68.5%
Non-performing loans	1,699	54.0%	1,500	53.0%	56.0%	59.9%	34.5%	31.5%
<i>Bad loans</i>	644	20.5%	576	20.4%	63.6%	62.2%	10.8%	11.4%
<i>Problem loans</i>	252	8.0%	209	7.4%	21.2%	23.8%	9.2%	8.3%
<i>Restructured loans</i>	767	24.4%	695	24.6%	63.3%	70.3%	13.0%	10.8%
<i>Expired and/or past due</i>	35	1.1%	19	0.7%	7.7%	8.0%	1.5%	0.9%
<i>Loans to countries at risk</i>	0	0.0%	0	0.0%	0.4%	0.4%	0.0%	0.0%

Notes: The data on "Loans gross of value adjustments" relating to the years 2017 and 2018 is expressed in millions.

* The hedging rate is given by the amount of value adjustments in relation to the corresponding gross exposure.

** Includes the amounts relative to the financial leasing transactions net of any residual credit referred to leasing transactions to credit institutions.

Figure 6 - Non-performing loans

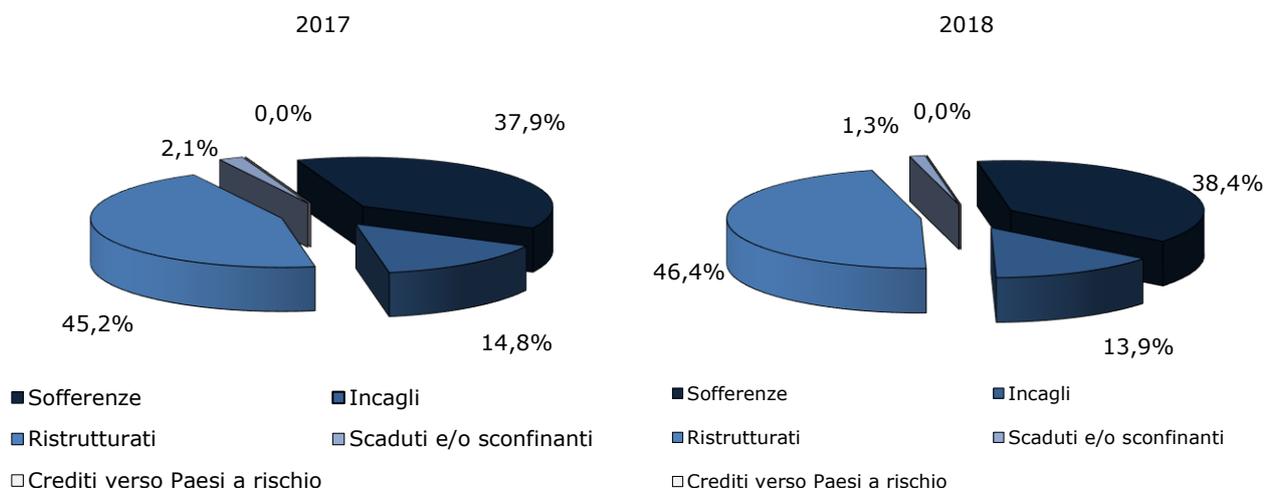
The weight of net bad loans over regulatory capital was 90.6% (78.6% in 2017), the ratio's further worsening was essentially due to the significant decline in regulatory capital as explained further on.

With reference to the hedging rate for non-performing loans, measured by the ratio between the value adjustments and the gross amount of non-performing exposures, an increase from 56% at the close of 2017 to 59.9% (Table 5) was recorded, mainly due to the significant reduction in gross non-performing loans as already pointed out in the previous paragraphs.

Within the above non-performing loans category, the hedging rate referring to bad loans dropped to 62.2% from the previous 63.6%, and that for problem loans grew from the previous 21.2% to 23.8%. The hedging rate for restructured loans was 70.3% (up from 63.3%).



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

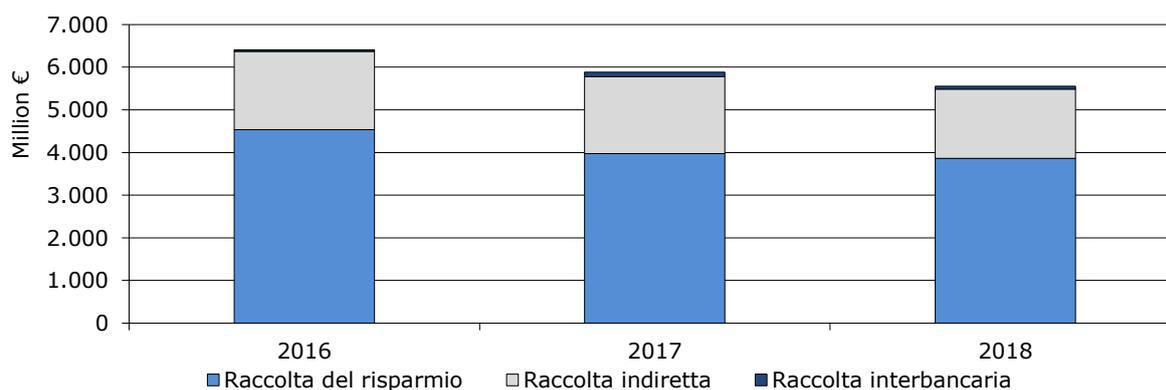


1.1.5 Funding

Total funding - In 2018, total funding⁵ in the banking system contracted by 326 million to 5,557 million (-5.5% compared to 2017).

An examination of the components of total funding shows a decrease of 150 million (-3.7%) of direct funding, amounting to 3,929 million, mainly due to the drop by 115 million (-2.9%) in the collection of savings amounting to 3,861 million, accompanied by the drop in interbank funding⁶ (-33.7%), amounting to 69 million. Indirect funding, amounting to 1,627 million, also fell by 177 million (-9.8%) with respect to 2017 (Figure 8).

Figure 8 - Total funding for the banking system



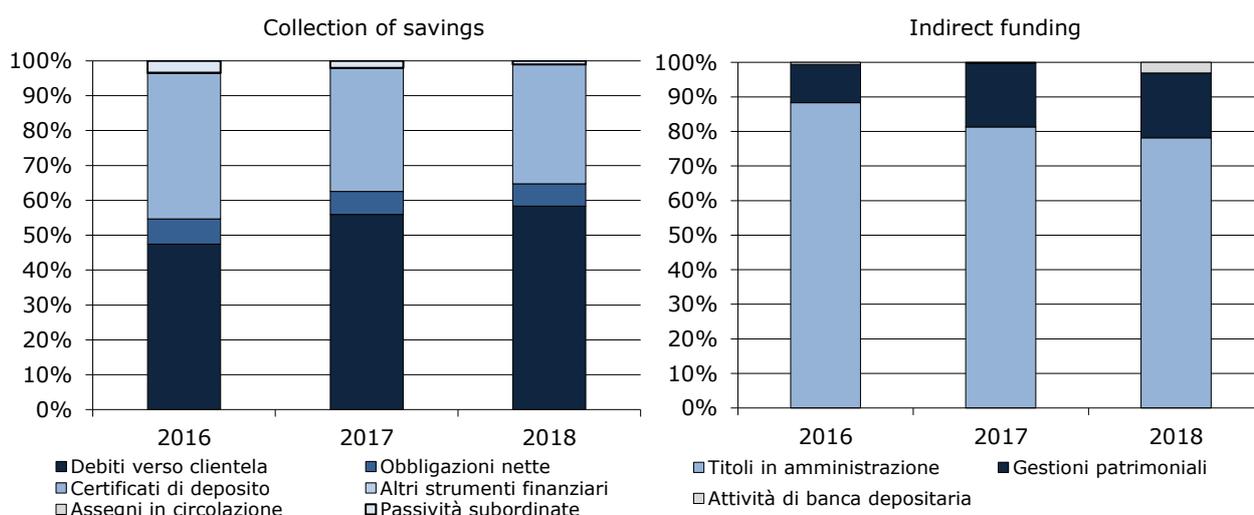
⁵Total funding is obtained from the sum of direct and indirect funding. Direct funding is composed of the collection of savings with the general public and interbank funding. Indirect funding consists of the amount for financial instruments and cash and cash equivalents for customers administered and/or managed on their behalf, net of the amounts already included in the direct funding (see Article I.I.2 of Regulation no. 2007-07).

⁶Interbank funding no longer includes the debt balances on the mutual accounts opened for services rendered, in compliance with the definition of the aforementioned funding set in Regulation no.2007-07. This aggregate includes any bonds (including subordinated liabilities) and certificates of deposit held by credit institutions.

Collection of savings – Except for debts with customers, other of collection-of savings components contracted. In detail, debts represented by financial instruments fell in 2018 by 100 million (-6%) standing at 1,566 million. This aforesaid aggregate is composed essentially of 1,320 million in certificates of deposit, down by 83 million (-5.9%) and bonds (net of any bonds held by credit institutions), amounting to 246 million, down by 17 million (-6.6%) compared to 2017. On the other hand, as anticipated, there was an increase in debts with customers (deposits), mainly on-demand, up by 29 million (1.3%) and standing at 2,253 million, bearing witness to customers' preference for forms of savings having immediate liquidity. Of the remaining components of the collection of savings, the most significant is comprised of subordinated liabilities (net of any securities held by credit institutions) amounting to 39 million, down by 42 million compared to 2017, essentially due to the early extinction of a bond loan⁷ issued by Cassa di Risparmio della Repubblica di San Marino, amounting to 35 million, used to cover the loss for the year, which is residual in the 2016 financial statements and partial in 2017. The additional component "Cheques in circulation and other securities" amounted to 3 million. Down by 1 million (-25.5%).

After reviewing Figure 9, it can be noted that in 2018 the composition of the collection of savings changed slightly with respect to 2017; the impact of the debts with customers on the total amount of the collection of savings came to 58.3% compared to the previous 55.9%, the weight of the certificates of deposit was 34.2.9% compared to previous 35.3%, bonds contributed 6.4% compared to the previous 6.6% and, lastly, subordinated liabilities came to 1% of the collection of savings compared to 2% in 2017.

Figure 9 – Breakdown of collection of savings and indirect funding



Indirect Funding – In 2018, indirect funding showed a year-on-year decrease of 177 million (-9.8%) standing at 1,627 million. The above outflows substantially reflect the drop in securities under administration, down by 195 million to 1,272 million (-13.3%) and to a lesser degree the drop in asset management (-28 million). On the contrary, the component represented by financial instruments and cash related to the depositary banking activities is up by 47 million to 50 million. This above growth is mainly attributable to the new depositary banking business carried out by an intermediary on behalf of a management company registered in the Register of Authorised Entities on 30 April 2018.

⁷ Resolutions of the State Congress no. 139 of 29.12.2017 and no. 15 of 18.06.2018.

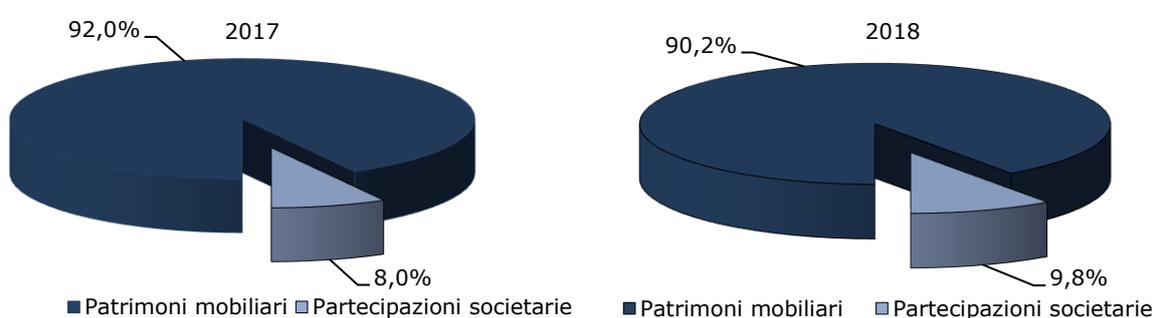


1.1.6 Fiduciary activities in the banking sector

As at 31 December 2018, 6 banks were authorised to conduct fiduciary activities, but only 4 intermediaries were exercising that activity, managing 98.4 million as fiduciaries, a decrease of 24.9 million compared to the corresponding figure at the end of 2017. This above sum of 98.4 million represents 56.9% of total fiduciary activities, up from 54.7% previously recorded, taking into account that the financial-fiduciary company sector manages the remainder (43.1%) (see paragraph 1.2).

The analysis of the fiduciary activities broken down by technical form (Figure 10), evidences that the fiduciary administration of movable assets (type 1) decreased by approx. 24.7 million compared to previous financial year, totalling 88.7 million (with an impact of 90.2% on the total) and that the fiduciary administration of equity investments (type 2), equal to 9.7 million, shows a drop of 0.2 million (corresponding to 9.8%).

Figure 10 – Composition of fiduciary activities by technical form



1.1.7 Capital

Net equity - At the end of 2018, the banking system's capital (Table 6) came to 309 million, a decrease of 27 million compared to the previous year (-8%).

Net equity includes positive components of 419 million (subscribed capital of 330 million, reserves of 68 million, revaluation reserve of 16 million, general financial risks fund of 5 million) and negative components of 110 million (losses carried forward of 31 million, net operating losses of 79 million).

The ratio between net equity and total assets is 6.7%.

*Regulatory capital*⁸ - At the end of 2018, total system regulatory capital (RC)⁹ was 240 million, a drop of 58 million compared to the preceding year (-19.5%).

In particular, the Tier 1 capital of 286 million decreased by 26 million (-8.2%) as a result, mainly, of the greater operating losses (+26 million), losses carried forward (+14 million), lower operating profits (-4 million), negative changes in the general financial risk fund (-2 million); variations partly offset by the positive change in subscribed capital (+13 million), the decrease of subscribed capital not paid up (-4 million), the increase in reserves (+2 million), and lower intangible fixed assets (-400 thousand).

Tier 2 capital shows a reduction of 39 million, standing at Euro 30 million (-56.8%), mainly as a result of the reduction in the recognition and amortisation of its subordinated liabilities (-34

⁸The regulatory capital represents the benchmark capital aggregate in the area of prudential supervisory provisions, as a financial resource able to absorb any losses caused by the bank's exposure to the risks typical of its activities, acting as a guarantee for depositors and creditors. Regulatory capital is obtained adding the Tier 1 capital (which represents the primary quality component) to the Tier 2 capital and then subtracting the deductions envisaged by supervisory regulations (for example, for disbursements granted by intermediaries to their shareholders).

⁹ The following equity and prudent indicators are calculated on 6 banks relative to FY 2018 and 2017, and on 7 banks relative to FY 2016, excluding the regulatory indicators the banks not operating from the calculation relative to 2018, 2017, and 2016.

million), the increase in capital losses on securities (+4 million euro), and the decrease in the non-adjusting fund for credit risks (-1 million euro).

The deduction from the total share capital (sum of Tier 1 capital and Tier 2 capital) decreased by approx. 6 million, ending at 75 million as a result of the decrease in deductions relative to investee entity's shareholdings greater than 10% (-5 million) and the lower risk positions relative to shareholders (-1 million).

Weighted assets - In 2018, risk-weighted assets (indicated net of value adjustments) amounted to 1,959 million, contracting by 229 million compared to the previous year (-10.5%), mainly due to lower risk positions relating to loans (including financial leasing transactions and bad loans) and the own portfolio. The weighted average of cash assets (excluding off-balance-sheet assets), measured by the ratio between credit-risk-weighted assets and non-weighted assets (calculated at book value) is equal to 47.2%, below the 50.6% registered the previous year.

Solvency ratio and other capitalisation indicators- The system's solvency ratio¹⁰ decreased from 13.7% to 12.3%. In this regard, it should be noted that two of the active banks had solvency below the minimum regulatory ratio. The impact of Tier 1 capital on total credit risk-weighted assets is equal to 14.6%, up from the 14.2% at the end of 2017.

The difference between the regulatory capital and the aggregate minimum capital requirement (AMCR), the latter being equal to the sum of the individual needs expected for credit risks and operational risks, represents the available capital margin (MPD). This margin increased from 48 million in 2017 to 16 million during the year under review, mainly due to the aforementioned decrease in regulatory capital.

The financial structure margin (FSM), calculated as the difference between regulatory capital and the asset-side components held as investment (constituted by durable capital goods and shareholdings not deducted from the regulatory capital) showed, at the end of 2018, a negative value of -94 million, worse than the 11 million registered the preceding year, as a result of the aforementioned contraction in the regulatory capital of 58 million and the increase in durable capital goods (+22 million) attributable mainly to an intermediary.

Finally, the system's financial leverage, calculated as the ratio between the total assets, net of intangible assets, and the Tier 1 capital, increased to 16 from the 15.3 registered at the end of 2017.

Table 6 - Capital adequacy of the banking system

Capital adequacy (end-of-period data)*	2016	2017	2018
Net equity (millions)**	362	336	309
Regulatory capital (millions)	333	299	240
Solvency ratio (percentage values)	11.5	13.7	12.3
Tier 1 capital/risk-weighted assets (percentage values)	11.5	14.2	14.6
Available capital margin (MPD) (millions)	4	48	16
Financial structure margin (FSM) (millions)	19	-11	-94
Financial leverage	15.9	15.3	16.0

Notes:

* In 2017 and 2018, for all items, the data refer to 6 banks excluding 1 non-operational intermediary; in 2016, for all items, the data refer to 7 banks excluding 2 non-operational intermediaries.

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

¹⁰ The solvency ratio is the ratio between the bank's regulatory capital and total risk assets, weighted for the risk of loss due to debtor default.



1.1.8 Profitability and efficiency

The net system operating results were down 79 million as a result of overall losses of 80 million registered mainly by two banks, only partly compensated by the profits of approx. 1 million earned by an institution; the net loss for FY 2018 was greater than that of 48 million recorded the previous year.

The interest received and interest paid items, although less significantly than in 2018, continued to downsize, influenced by the erosion of the intermediate volumes: the interest received and other proceeds decreased 5%, ending at 81 million, interest paid and other costs, amounting to 37 million, registered a contraction of 16%. The interest margin thus ended at 44 million, an increase of around 3 million compared to the value at the end of 2017.

Table 8 shows the performance of the average interest rate on loans to customers net of adjustments and the average interest rate on the collection of savings: against a reduction in the average interest rate on the collection of savings, which went from 1.06% to 0.91%, a slight increase was noted in the interest rate on net loans at 3.16%, compared to the 3.09% of the preceding year¹¹, which was impacted, among other things, by the devaluations made to the loans. The difference between the two average rates, therefore, increased compared to the last year's value, amounting to 2.25% compared to the previous 2.03%.

The ratio between interest-bearing assets and interest-paying liabilities¹² at the end of 2018 amounted to 74.6% (77.7% at the end of 2017). The average return on interest-bearing assets reached 2.64%, (2.54 in the previous year); in the same period, the average cost of interest-paying liabilities dropped by 14 basis points, to 0.92%¹³.

Income from services, amounting to 58 million, increased by 7 million, mainly due to the recognition by an intermediary of the higher capital portions of the lease instalments recorded under the item "other operating proceeds".

The mediation margin decreased by approximately 9 million compared to the previous year, standing at 87 million, compared to the 96 million recorded in 2017 (-9.4%). This result was significantly impacted by net losses on financial transactions which, at the end of 2018, amounted to -15 million (at the end of 2017 net profits on financial transactions amounted to 4 million), feeling the negative trends of the financial markets.

Operating costs, amounting to 109 million, increased by approximately 5 million. This change is essentially attributable to the increase in the item "Value adjustments on intangible and tangible fixed assets", correlated, with regard to the recognition of the capital portion of the lease instalments, to the above mentioned item "other operating proceeds".

Given that operating costs are greater than the mediation margin, the gross operating margin of the system for 2018 is in the red by 22 million, compared to -8 million registered in 2017.

¹¹ The average interest rate on loans at time t is calculated considering, in the numerator, the interest received on loans to customers derived from the balance sheets transmitted by the banks at time t in the numerator, and, in the denominator, the arithmetic average of the loans, calculated net of adjustments, at time t and $t-1$ (including accruals), referring to the same banks reporting for the numerator. The average interest rate on the collection of savings at time t is obtained considering, in the numerator, the interest paid on debts with customers and on debts represented by financial instruments (including subordinated liabilities) obtained from the financial statements transmitted by the banks at time t , and, in the denominator, the arithmetic average of the collection of savings at time t and $t-1$ (including accruals) referring to the same banks reporting for the numerator.

¹² Interest-bearing assets consist of net loans to customers, net interbank loans, and debt securities, while interest-paying liabilities include debts with customers, debts with credit institutions, and debts represented by financial instruments (including subordinated liabilities).

¹³ The average yield of interest-bearing assets at time t is calculated by comparing the sum of interest received on loans to customers, interbank loans, and debt financial instruments, referring to time t , with the arithmetic average of the interest-paying assets at time t and $t-1$ (including accruals) and considering, in the denominator, the same banks reporting for the numerator. The average cost of interest-paying liabilities calculated by comparing the sum of the interest paid on debts with customers, debts with credit institutions, and debts represented by financial instruments (including subordinated liabilities), referring to time t , with the arithmetic average of the interest-paying liabilities at time t and $t-1$ (including accruals) and considering, in the denominator, the same banks reporting for the numerator.



The Cost-Income Ratio (operating costs and mediation margin ratio), due to the increase in the operating costs and the decrease in the mediation margin (see above), grew to 125% from the previous 108%.

The net operating results of -81 million (down from the -46 million of 2017), is mainly the result of the items "value adjustments on credits and provisions for guarantees and commitments", value adjustments on financial fixed assets", and "provisions for risks and costs" which, net of the item "value recoveries of credits and provisions for guarantees and commitments", sum to 58 million, 20 million more than what had been recognised during the preceding financial year. The net operating income for the year in question, relative to the 2017 year's end figure, shows a decrease of 34 million. The increase in value adjustments on credits and provisions for guarantees and commitments, net of write-backs, was also impacted by the recognition of part of the adjustments resulting from the Asset Quality Review, while the increase in provisions for risks and costs (+ 7 million compared to the end of 2017) was essentially attributable to an intermediary.

The balance of extraordinary transactions amounted to -6 million, while income taxes for the year, positive, amounted to Euro 5 million (mainly attributable to an intermediary for the recognition of prepaid taxes).

Lastly, we wish to point out the variation of the general financial risks fund of 2 million, in view of the usage by an institution, which lead to the aforementioned operating results of -79 million.

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

Reclassified profit and loss account	2016	2017	2018	Absolute var. (2018-2017)	% Var. (2018-2017)*
1 - Interest received and other proceeds	103	85	81	-4	-4.8%
2 - Interest paid and other costs	-65	-44	-37	7	16.0%
A - Interest margin	37	41	44	3	7.3%
3 - Commissions earned	23	21	22	1	2.7%
4 - Commissions paid	-4	-4	-5	-1	-14.9%
5 - Other operating proceeds	35	35	42	7	20.0%
6 - Other operating costs	0	-1	-1	0	-0.3%
B - Service revenues	53	51	58	7	13.7%
7 - Dividends and other proceeds	2	1	1	0	18.3%
8 - Profits (losses) from financial operations	3	4	-15	-19	-483.8%
C - Mediation margin	95	96	87	-9	-9.4%
9 - Administrative costs	-70	-65	-65	0	-0.3%
10 - Value adjustments on intangible and tangible fixed assets	-38	-39	-44	-5	-12.3%
D - Operating costs	-109	-104	-109	-5	-4.9%
E - Gross operating margin	-13	-8	-22	-14	-173.4%
11 - Provisions for risks and costs	-2	0	-8	-7	-1654.5%
12 - Provisions to the credit risk funds	-2	0	0	0	
13 - Value adjustments on credits and provisions for guarantees and commitments	-47	-31	-49	-18	-59.1%
14 - Value recoveries on credits and provisions for guarantees and commitments	4	10	14	3	31.3%
15 - Value adjustments on financial fixed assets	-41	-17	-15	2	10.9%
16 - Value recoveries on financial fixed assets	0	0	0	0	
F - Net operating income	-101	-46	-81	-34	-74.0%
17 - Extraordinary proceeds	17	9	8	0	-4.3%
18 - Extraordinary costs	-7	-9	-14	-5	-57.1%
G - Gross operating margin from extraordinary operations	10	0	-6	-5	-4660.2%
H - Gross margin	-91	-46	-86	-40	-85.4%
19 - Income taxes for the financial year	2	-1	5	6	558.8%



Reclassified profit and loss account	2016	2017	2018	Absolute var. (2018-2017)	% Var. (2018-2017)*
I - Net result**	-89	-48	-81	-33	-69.9%
20 - Variation to the general financial risks fund	-3	-1	2	3	500.0%
Operating results	-92	-48	-79	-31	-63.9%

Notes: figures in millions.

* The percentage variations take into consideration the algebraic sign of the amounts to which they refer.

** Gross of the variations to the fund for general financial risks.

Table 8 - Average interest rates on loans and collection

	2016	2017	2018
Average interest rate on loans*	2.91%	3.09%	3.16%
Average interest rate on collection of savings	1.40%	1.06%	0.91%
Spread	1.51%	2.03%	2.25%

Notes:

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

To calculate average interest rates, the amount of interest derived from the balance sheets transmitted by the banks in the reporting year will be considered in the numerator and, the average value of the stocks of the last two financial years relating to the same banks reporting for the numerator will be considered in the denominator.

Figure 11 - Contribution of the main profit and loss account items to the variation of the operating results between 2017 and 2018

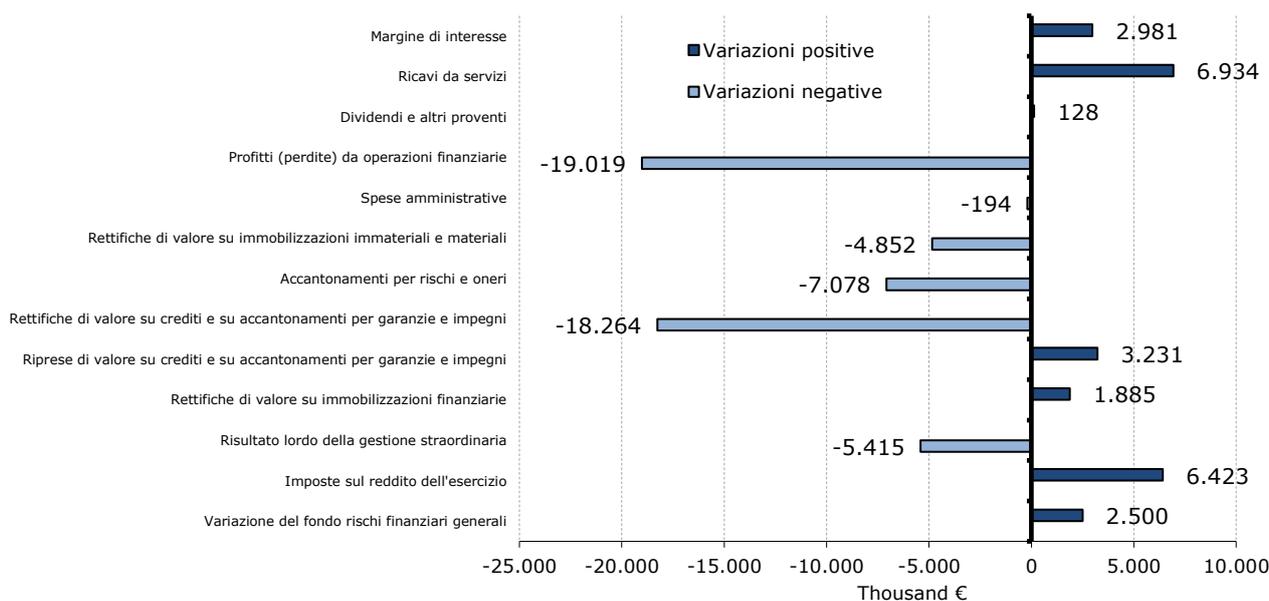


Figure 12 highlights the trend of the system operating results of the last 5 years.



Figure 12 – Operating losses

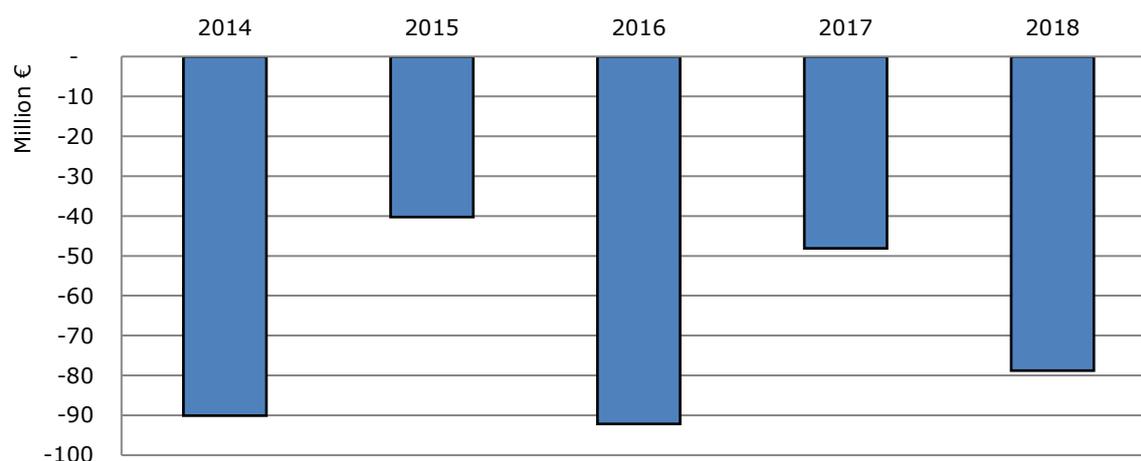


Table 9 shows the key profitability, cost and efficiency indicators of the banking system, calculated for the three years 2016-2018. In this respect, return on assets (ROA) amounted to -1.7% (-1.0% in 2017), whereas the return on the share capital pertaining to shareholders (equity), represented by ROE amounted to -24.5% (from -14.4% in 2017); this change is caused by the worsening of the operating results at the end of 2018. The ratio between interest margin and mediation margin, as an indicator of the contribution made by traditional activities to banking income, increased to 50.2% from the previous 42.4%, influenced by the aforementioned decrease in mediation margin. The ratio between interest margin and average assets stands at 0.9% (from 0.8% in 2017). The impact of the mediation margin on average total assets increased to 1.9% from the preceding 2.0%, while the impact of the gross operating margin on that same aggregate is equal to -0.5% (from the -0.2% of 2017).

As regards the cost and efficiency indicators, the average personnel costs and administrative costs per employee increased compared to the preceding year and stand at approx. 72 thousand¹⁴ and 122 thousand, respectively. Instead, the operating costs per employee increased from Euro 196 thousand to approx. 206 thousand, as a result of the higher value adjustments on tangible fixed assets a lower number of employees recorded at the end of 2018.

The mediation margin per employee decreased from Euro 180 thousand to 164 thousand. The gross operating margin per employee came to Euro -42 thousand, compared to the previous Euro -15 thousand. Total average funding per employee decreased from 11.2 million to 10.8 million while average net loans to customers per employee decreased from 4.1 million to 3.9 million at the end of 2018.

The ratio between the item "Value adjustments on credits and provisions for guarantees and commitments" and the gross loans went from 1.0% to 1.7%.

Table 9 - Main profitability, cost and efficiency indicators

	2016	2017	2018
Profitability indicators			
Return on Average Assets (ROA)*	-1.8%	-1.0%	-1.7%
Return on Average Equity (ROE)**	-23.1%	-14.4%	-24.5%
Interest received/Interest-bearing assets	2.46%	2.54%	2.64%
Interest paid/Interest-paying liabilities	1.39%	1.06%	0.92%

¹⁴ Labour costs do not include the directors' and auditors' fees.



	2016	2017	2018
Interest margin/Mediation margin	38.9%	42.4%	50.2%
Interest margin/Total assets	0.7%	0.8%	0.9%
Mediation margin/Total assets	1.7%	2.0%	1.9%
Gross operating margin/Total assets	-0.2%	-0.2%	0.5%
Cost and efficiency indicators			
Labour costs/number of employees (<i>Thousand €</i>)	69.8	68.8	71.7
Administrative costs per employee (<i>Thousand €</i>)	115.8	121.4	122.4
Operating costs per employee (<i>Thousand €</i>)	179.0	195.5	206.2
Mediation margin per employee (<i>Thousand €</i>)	157.0	180.3	164.4
Gross operating margin per employee (<i>Thousand €</i>)	-22.0	-15.2	-41.8
Total funding per employee (<i>Thousand €</i>) ****	10,871	11,239	10,811
Net loans to customers per employee (<i>Thousand €</i>) ****	4,553	4,129	3,854
Cost-Income Ratio (operating costs over mediation margin) ***	114.0%	108.4%	125.4%
Value adjustments on credits/Gross loans to customers ***	1.4%	1.0%	1.7%

Notes:

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

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

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

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

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

The indices referring to 2017, where calculated based on average values, have been revised with respect to what was published in the 2017 Annual Report, considering those same reporting banks in the numerator and denominator.

1.1.9 Liquidity

The Central Bank continuously monitors the San Marino banking system's liquidity risk¹⁵ via the use of specific reports submitted daily by the individual intermediaries.

The key indicator used to review the liquidity profile consists of the liquidity position at 7 days calculated as the sum of the assets that can be liquidated within 7 days (cash and free financial instruments) and interbank loans net of debts with banks (again, due and payable within 7 days). The cited indicator includes net seven-day loans to San Marino banks, including deposits with the Central Bank¹⁶.

The review of the liquidity situation was supplemented, starting in June 2018, by an analysis of the forward-looking "expected" liquidity of the individual banks, in which the inflow and outflow forecasts of the components that determine the liquidity position over the course of the subsequent calendar year are represented.

The 7-day liquidity position at the end of 2018 stood at Euro 546 million, recording a decrease of Euro 39 million (-6.7%) compared to the end of 2017. Although the aggregate shows a decreasing trend beginning on August 2015, the reduction recorded in 2018 was much more modest than that recorded in 2017 (-273 million euro).

The examination of Figure 13 reveals that in Q1 2019, the 7-day liquidity position was further reduced by Euro 41 million (-7.5%) standing at Euro 505 million, mainly as a consequence of the transfer of institutional customers' funds from the banking system to the Central Bank.

¹⁵Liquidity risk is articulated essentially into two forms: funding risk and liquidity risk. Funding risk is connected to the risk that the bank may not be able to cope in an efficient way, without jeopardising its activity and its financial balance, with unexpected outflows (for example sudden and high request for the repayment of deposits or disbursement of funds for credit lines granted); liquidity risk is the risk that a bank, in order to monetise a substantial position in financial assets, ends up influencing the price thereof significantly and unfavourably, due to the insufficient depth of the financial market in which those assets are traded.

¹⁶ Starting from 29/06/2018, the banks' deposit c/o the Central Bank for the purpose of Reserve requirement of the Article 142 of Law no. 165/2005 is classified in the "over 3 months" term bracket.



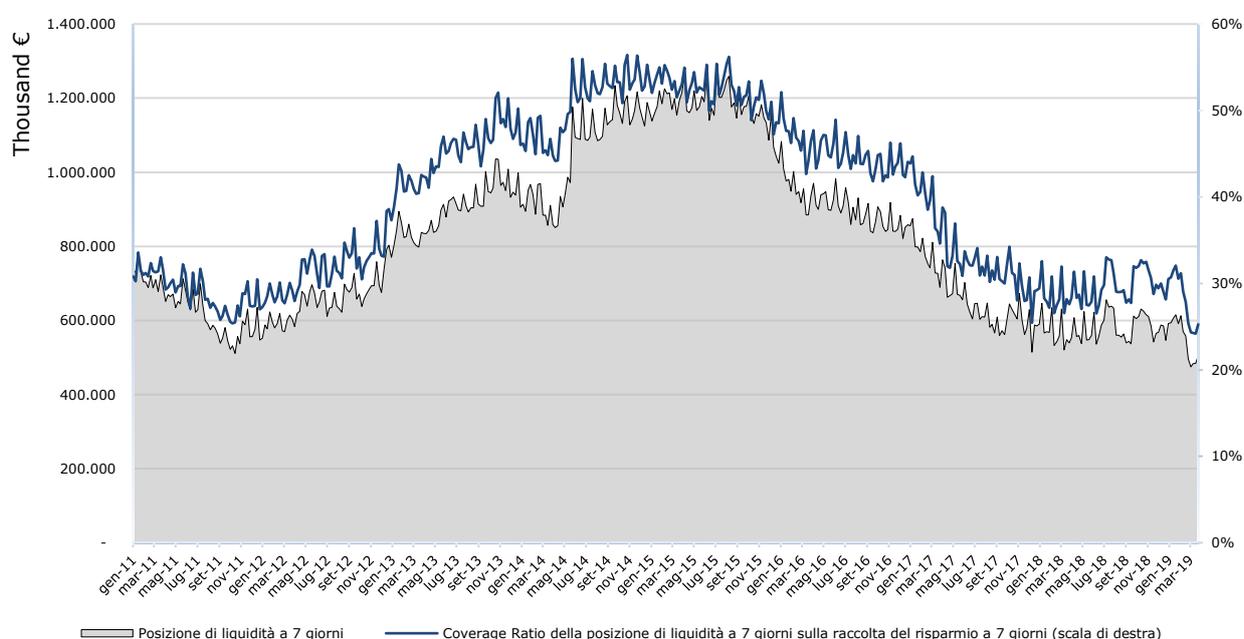
Observing the quarterly values of the 7-day liquidity position, negative changes were recorded in Q1 and Q4 2018, amounting to Euro 46 million and Euro 66 million, respectively, whereas positive changes can be observed in Q2 and Q3, amounting to Euro 48 million and Euro 24 million, respectively.

The decrease in the 7-day liquidity position is also confirmed in the average values of the period. In fact, in 2018, the aforementioned aggregate was 580 million, less than the corresponding average value of 2017 of 666 million. Q1 2019 showed an average value of the indicator in question dropping further to 552 million.

The 1-month liquidity position, which includes the assets payable within one month and the net loans to banks at 1 month (which include the term deposit relative to the reserve requirement of the Article 142 of Law no. 165/2005 having a residual life within a one-month bracket), standing at Euro 570 at the end of 2018 and Euro 521 million at the end of 2019, respectively.

The ratio between the 7-day liquidity position and the 7-day collection of savings (the so-called coverage ratio) at the end of 2018 and the end of Q1 2019, came to 27.9% and 25.2%, respectively.

Figure 13 - Trend in the system's liquidity available at 7 days



1.1.10 Data in the banking system regarding the use of cash

In the San Marino banking system, as already recorded in previous years, we confirm the reduction in customers' use of cash, albeit to a lesser extent compared to preceding years.

This reduction is confirmed by cash turnover indicator (obtained by comparing the quarterly average of the withdrawals at the counter, withdrawals from automatic tellers, and deposits at the counter compared to the quarterly average of the debts with customers, a figure that approximates the part of the collection that can be used with a monetary function), which shows values decreasing from 7.3% in 2017 to 6.7% in 2018. This phenomenon is explained by the reduction in the quarterly average of the cash withdrawals and deposits and by the increase in the quarterly average of debts with customers.



Table 10 - Cash movements

Withdrawals and deposits	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Withdrawals	75,961	80,645	80,878	84,807	70,930	77,582	77,544	78,715
<i>of which withdrawals at ATMs</i>	25,299	28,101	29,782	28,221	25,051	29,085	30,299	27,667
Deposits	69,773	73,060	77,977	74,829	64,898	72,446	77.319	72,415

Notes: figures in thousands of Euro.

Specifically, between 2017 and 2018, cash withdrawals (Table 10) decreased by 18 million (-5.4%), while cash deposits, during the same period, dropped by 9 million (-2.9%). In the year under review, total withdrawals amounted to Euro 305 million, 112 million of which were made through ATMs (virtually unchanged compared to last year), against deposits that, in the same period, amounted to Euro 287 million.

Figure 14 shows the trends in withdrawals at the counter, including those from ATMs and deposits at the counter registered quarterly during the 2012 - 2018 period. Observing the graph, we note that the aggregate of the withdrawals at the counter (excluding ATMs) went from 131 million in the Q1 2012 to 51 million in Q4 2018 with a reduction of 61.1%. The aggregate composed of the cash deposits went from Euro 111 million in the Q1 2012 to Euro 72 million in Q4 2018, registering a decrease of 35%.

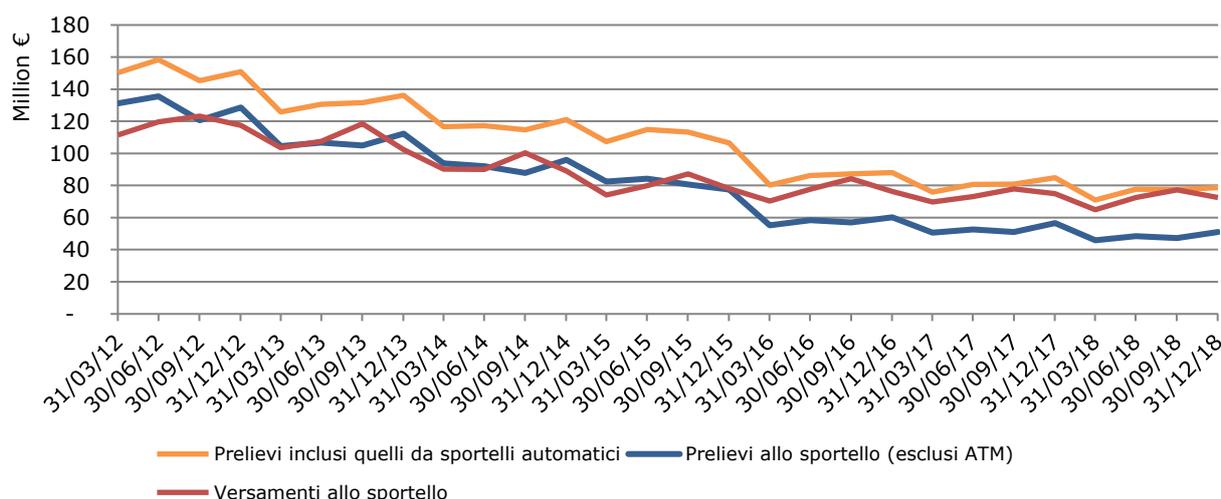
Figure 14 - Quarterly trend of withdrawals and deposits

Table 11 summarises the trend in cash withdrawals and deposits made at bank counters from 1 January 2017 to 31 December 2018 itemised by the customer's residence and business sector¹⁷. The analysis does not include transactions via ATMs as it is impossible to determine the residence and sector of affiliation for transactions made via cards issued by parties other than the reporting party.

¹⁷ When analysing the data broken down according to customers' residence, it should be noted that transactions carried out by San Marino fiduciary companies on behalf of non-resident parties were recorded as counterparties residing in San Marino.

Table 11 - Cash movements at bank counters (excluding ATMs)

Withdrawals according to residence	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Withdrawals at the counter	50,661	52,544	51,097	56,586	45,879	48,497	47,246	51,048
- of which resident in San Marino	43,376	45,879	44,321	48,989	39,707	42,263	41,190	45,259
- of which resident in Italy	6,271	5,653	5,684	6,443	5,190	5,313	5,081	5,036
- of which, resident in the EU Area excluding Italy	408	394	380	396	288	368	279	297
- of which resident in the Rest of the World	606	618	712	758	695	552	696	457

Notes: figures in thousands of Euro.

Withdrawals by business sector	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Withdrawals at the counter	50,661	52,544	51,097	56,586	45,879	48,497	47,246	51,048
- of which Public Administrations	23	41	20	36	18	33	19	28
- of which Non-banking financial companies	370	238	174	265	239	196	218	231
- of which Non-financial companies	7,357	6,913	6,429	7,487	6,601	6,572	5,760	6,461
- of which Households	42,646	45,105	44,191	48,447	38,762	41,413	40,969	44,059
- of which Other	265	247	281	352	260	283	280	270

Notes: figures in thousands of Euro.

Deposits according to residence	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Deposits at the counter	69,773	73,060	77,977	74,829	64,898	72,446	77,319	72,415
- of which resident in San Marino	66,158	69,840	74,793	71,133	61,996	69,192	74,454	69,567
- of which resident in Italy	3,309	2,977	2,967	3,474	2,678	3,056	2,680	2,636
- of which, resident in the EU Area excluding Italy	120	62	69	85	108	55	47	76
- of which resident in the Rest of the World	186	181	148	137	116	143	138	136

Notes: figures in thousands of Euro.

Deposits by business sector	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Deposits at the counter	69,773	73,060	77,977	74,829	64,898	72,446	77,319	72,415
- of which Public Administrations	2,411	3,045	3,448	2,518	2,372	2,847	3,061	2,399
- of which Non-banking financial companies	602	667	614	641	628	687	605	613
- of which Non-financial companies	47,123	49,212	51,770	51,658	43,986	49,797	52,819	50,191
- of which Households	18,872	19,522	21,316	19,388	17,205	18,501	20,086	18,608
- of which Other	765	614	831	624	707	614	748	605

Notes: figures in thousands of Euro.

Figure 15 shows the breakdown, in percentage by business sectors, of the withdrawals at the counter (excluding ATMs) which confirms the predominance of the households sector with 85.7% (85.5 in 2017) followed by the non-banking financial companies of 13.2% (13.4% in 2017). With regard to cash deposits (Figure 15), it should be noted that there was an increase in the portion allocated to non-financial companies from 67.6% to 68.6% and a decrease in the portion concerning households, which dropped from 26.8% to 25.9%, which confirms the repositioning of the business sectors already recorded in previous years.



Figure 15 - Breakdown of withdrawals by business sector (excluding ATMs)

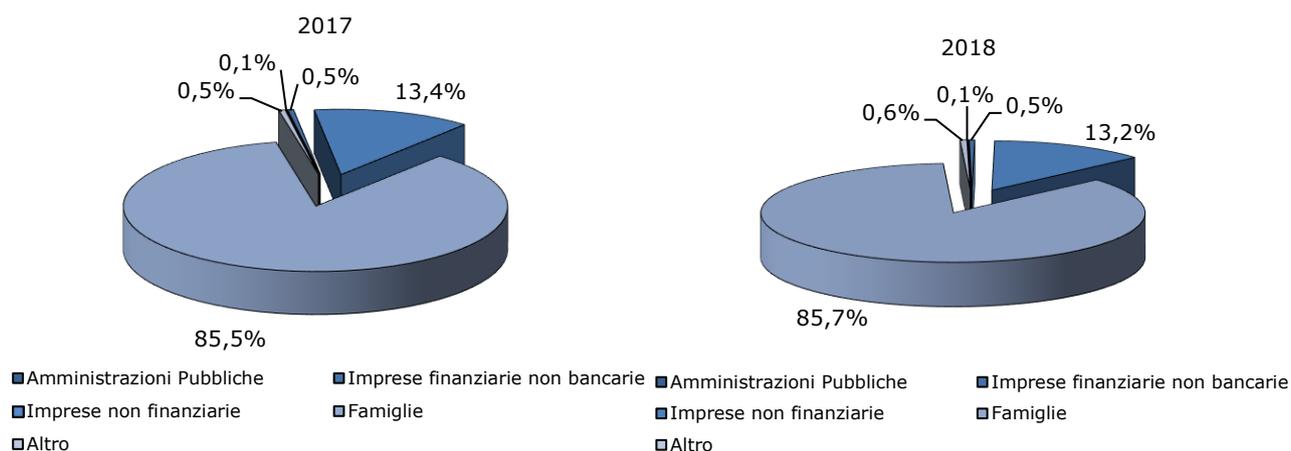
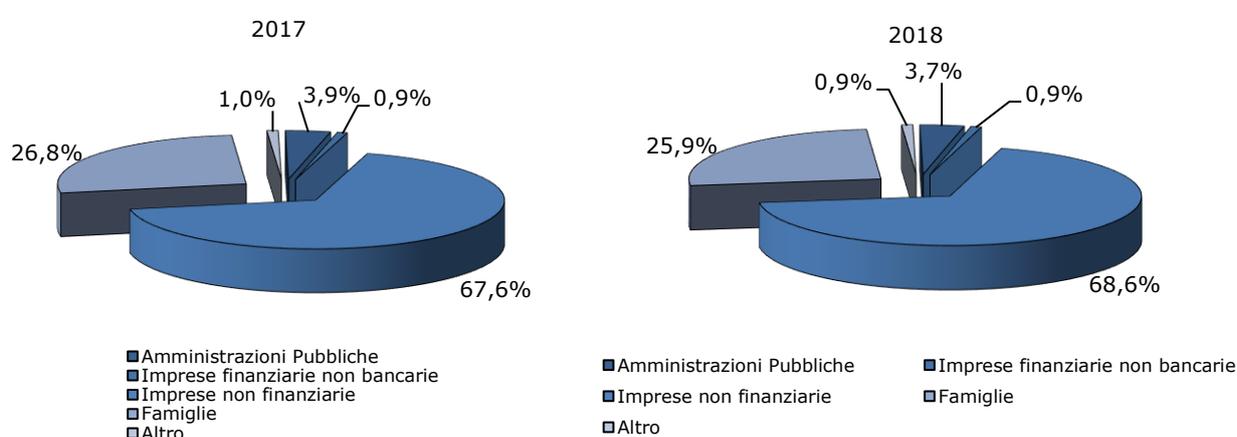


Figure 16 - Breakdown of deposits by business sector



A review of the breakdown by residence and business sectors (Table 12) confirms, also for 2018, the drop in cash withdrawals by households with residence in Italy which came to 20 million, compared to 23 million in 2017 (-14.9%) and households with residence in San Marino, amounting to 142 million (153 million at the end of 2017, -7.2%).

As regards cash deposits, a decrease in cash deposits was recorded by households with San Marino residence, amounting to 70 million, compared to 74 million in 2017 (-6.3%).

Table 12 - Breakdown of flows by residence and business sector (excluding ATMs)

Withdrawals by business sector and residence	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Withdrawals at the counter	50,661	52,544	51,097	56,586	45,879	48,497	47,246	51,048
- of which Households	42,646	45,105	44,191	48,447	38,762	41,413	40,969	44,059
- of which resident in San Marino	35,566	38,634	37,609	41,066	32,857	35,411	35,099	38,441
- of which resident in Italy	6,124	5,527	5,511	6,275	4,979	5,136	4,944	4,887
- of which, resident in the EU Area excluding Italy	388	376	375	386	280	347	272	282
- of which resident in the Rest of the World	569	568	697	719	646	519	654	449
- of which Non-financial companies	7,357	6,913	6,429	7,487	6,601	6,572	5,760	6,461

Withdrawals by business sector and residence	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- of which resident in San Marino	7,171	6,734	6,252	7,303	6,383	6,356	5,580	6,311

Notes: Figures in thousands of Euro.

Deposits by business sector and residence	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Deposits at the counter	69,773	73,060	77,977	74,829	64,898	72,446	77,319	72,415
- of which Households	18,872	19,522	21,316	19,388	17,205	18,501	20,086	18,608
- of which resident in San Marino	17,404	18,443	20,160	18,310	16,106	17,111	18,962	17,432
- of which resident in Italy	1,182	859	948	861	878	1,193	940	977
- of which, resident in the EU Area excluding Italy	118	60	69	85	105	55	46	62
- of which resident in the Rest of the World	168	160	138	131	116	142	138	136
- of which Non-financial companies	47,123	49,212	51,770	51,658	43,986	49,797	52,819	50,191
- of which resident in San Marino	45,116	47,202	49,862	49,132	42,313	48,049	51,185	48,586

Notes: Figures in thousands of Euro.

1.1.11 Credit and debit card payment volumes

The number of cards in circulation, the number of transactions, and the relative amount of transactions concerning payment cards issued by San Marino banks and payment institutions as at 31/12/2018 are summarized below.

Table 13 - credit and debit cards of the San Marino financial system as at 31/12/2018

Credit cards			Debit cards		
cards in circulation	transactions	amount of credit transactions	cards in circulation	transactions	amount of transactions
<i>number</i>	<i>number</i>	<i>Euro</i>	<i>number</i>	<i>number</i>	<i>Euro</i>
13,306	1,144,787	93,445,504	35,481	2,933,278	234,144,784

The number and amounts of POS/ATM acquisitions are summarised in the table below.

		Number	Amount
P.O.S.	Number di Points of Sale (P.O.S.)	1,673	
	of which virtual P.O.S.	126	
	Number of operators under agreement with the reporting entity	1,141	
	Payment transactions with operators under agreement with the reporting entity	355,382	31,704,308
	of which with credit cards	165,677	18,189,551
	of which issued by resident authorised entities	47,989	4,575,327
	of which issued by the reporting entity	18,647	1,732,522
	of which with debit cards	189,705	13,514,757



1.2 The Financial/Fiduciary Company Sector

1.2.1 Size and structure of the system

As at 31 December 2018, the financial/fiduciary company sector consisted of 3 operators, represented entirely by financial/fiduciary companies.

Compared to 31 December 2017, the number of operators decreased by 2 units. In particular, 1 financial company was cancelled from the Register of Authorised Entities following the issue of the certification of the prerequisites for correct implementation of the regular winding-up proceeding, while another company, waived the right to conduct any reserved activities (pursuant to Article 8 and 47 of the LISF).

During Q1 2019, the segment did not record changes in the number of operators.

A review of the aggregate data confirms the sector's trend towards a contraction in operating volumes and number of employees. In detail, the number of employees decreased by 18 to 9 compared to 27 in 2017. In operating terms, total assets came to Euro 133 million compared to Euro 166 million in 2017 (-19.8%), and the volume of loans amounted to Euro 103 million compared to Euro 131 million in 2017 (-21.4%)

Table 14 below presents the key size indicators for the sector.

Table 14 - Key size indicators of the financial sector

Indicators	2016	2017	2018
Number of operators	7	5	3
Total assets (<i>millions</i>)	281	166	133
Gross loans to customers* (<i>millions</i>)	290	131	103
Fiduciary activities (<i>millions</i>)	137	102	75
Number of employees	31	27	9
% Employees over total employees	0.2	0.1	0.0
Total assets / GDP**	0.2	0.1	0.1

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

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

** Cf. note in Table on updates to GDP data.

1.2.2 Assets and Liabilities

The sum of assets of the financial and fiduciary company sector as at 31 December 2018 came to 132.8 million and decreased, compared to 2017, by 32.8 million (-19.8%). The contraction mainly derives from the extraordinary transaction, already mentioned above, by a banking group and which entailed the spinning-off of leasing contracts referring to the subsidiary financial company in favour of the parent bank and, to a lesser extent, as already mentioned, the absence of operators being that they were cancelled in 2018.

In particular, the main change involves loan items (to customers and banks) which, net of value adjustments, registered a decrease of 29.6 million (-28%) going from 105.7 million to 76.1 million. In this regard, the decrease is mainly attributable to the contraction in leasing, which fell from 51.5 million to 24.5 million (-52.5%) (Table 15).

A review of the remaining asset components reveals that the financial instruments held in portfolio (including shares, quotas and other capital financial instruments) demonstrated a slight increase (+10.82%) ending at 6.7 million, and also tangible and intangible fixed assets, of 44.3 million, recorded a decrease compared to the preceding year (-3.2%). The other asset items



(including cash and cash equivalents, accrued revenues and deferred expenses, and other assets) show a slight increase (+13.6%) coming to 5.7 million.

As regards the balance sheet liabilities, a significant decrease in debts with credit institutions (-19.9%) associated with the spinning off of the leasing contracts in favour of the parent bank which resulted in a corresponding reduction in the debt with the latter, while other debts (including debts represented by financial instruments) remains unchanged at 4.5 million. The total debt came to 102.4 million, a decrease compared to the corresponding value of the preceding year at 126.7 million: in particular, the use of on-demand debts with credit institutions went from 91.6 million to 6.3 million and represents approx. 6.1% of total indebtedness, while the amount of term debt went from 35.1 million to 96.1 million and accounts for the remaining 93.8% of the total debt. The item "Other debts" is composed of the bonds issued, the amount of which remains unchanged at 4.5 million (Figure 18).

"Other liability items" (which include, among other things, the financial statement item "Other liabilities", prudential provisions for future charges and staff retirement allowances) experienced an overall downturn ending at Euro 2.6 million (-57.8%). The total amount of the funds to cover possible future charges went from 3 million to 0.9 million.

Net equity amounted to 27.8 million, recording a decrease of 5 million (-15.2%), attributable to the cancellation in 2018 of two financial companies and the net loss for the year.

Table 15 - Aggregate balance sheet of the financial/fiduciary companies sector

Assets	2017	2018	% Var.	Liabilities	2017	2018	% Var.
Interbank loans and loans to customers*	105.7	76.1	-28.0%	Debts with Credit Institutions	122.2	97.9	-19.9%
<i>of which: financial leasing</i>	<i>51.5</i>	<i>24.5</i>	<i>-52.5%</i>	<i>of which: on-demand</i>	<i>91.6</i>	<i>6.3</i>	<i>-93.1%</i>
<i>of which: assets pending financial leasing</i>	<i>28.4</i>	<i>27.9</i>	<i>-1.6%</i>	<i>of which: term</i>	<i>30.6</i>	<i>91.6</i>	<i>199.5%</i>
Financial instruments	7.5	6.7	-10.8%	Other debts	4.5	4.5	0.0%
Shareholdings	0.0	0.0		<i>of which: debts represented by financial instruments</i>	<i>4.5</i>	<i>4.5</i>	<i>0.0%</i>
Fixed assets	45.8	44.3	-3.2%	Other liability items	6.1	2.6	-57.8%
Other assets items	6.6	5.7	-13.6%	Net equity**	32.8	27.8	-15.2%
Total assets	165.6	-132.8	-19.8%	Total liabilities	165.6	-132.8	-19.8%

Notes: figures in millions.

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

** It includes, also, the profit/loss for the period and the general financial risk fund.



Figure 17 - Composition of net loans

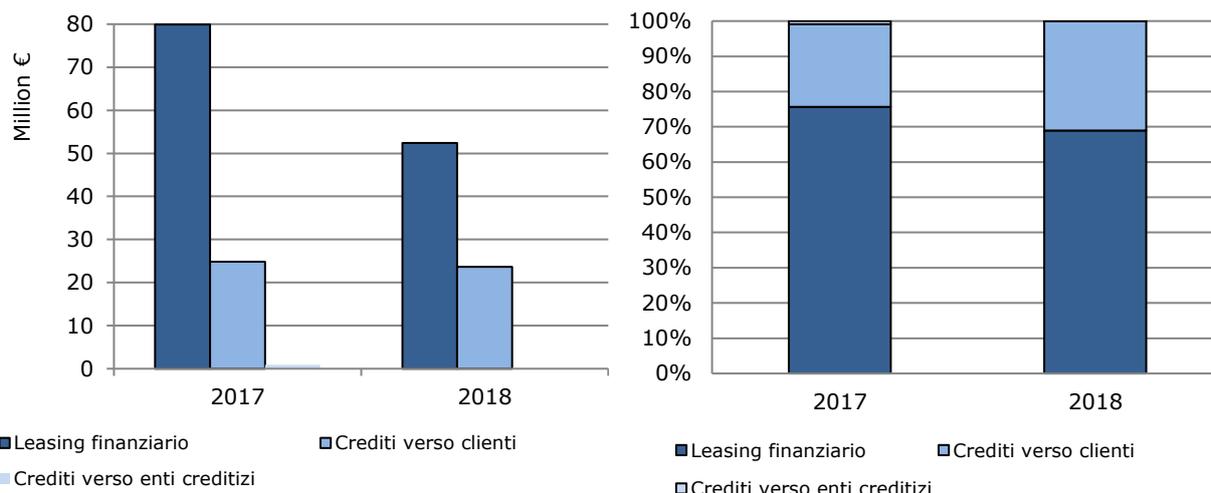
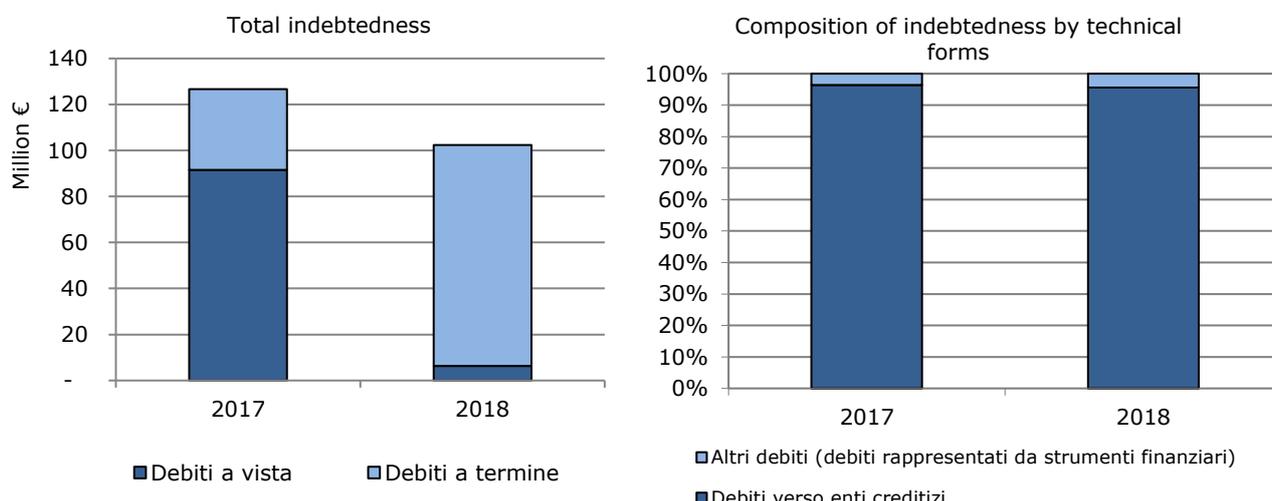


Figure 18 - Indebtedness and composition by technical form



1.2.3 Loans to Customers

Gross loans to customers, including financial leasing transactions, reach 103 million, registering a decrease of 28.1 million (-21.4%) mostly due to the above-mentioned dynamics of the financial leasing segment. This aggregate, at net values, came to 74.9 million (-28.6 million compared to the preceding year).

Gross non-performing loans to customers came to 94.7 million, a drop of 0.9 million compared to the preceding year, represented by bad loans of 83.3 million, problem loans of 5.8 million, restructured loans of 5.2 million, and past due and/or overdue loans of 0.4 million. The aforementioned aggregate, at net values, came to 66.7 million, of which 56.2 million in bad loans, 5.1 million in problem loans, 5.1 million in restructured loans and 0.3 in past due and/or overdue loans.

The impact of gross non-performing loans with customers over total loans rose from 72.9% to 91.9% (Table 16). Said increase is essentially due to the abovementioned extraordinary transaction which entailed an appreciable reduction in total receivables at gross values.

The total adjustments to the loans (equivalent to the difference between gross loans and net loans), totalled 28.1 million¹⁸, increasing by 0.5 million over the preceding year (+4.2%). The coverage ratio of the loans, represented by the ratio between the values of the adjustments and the gross loans to customers, increased from 21% to 27.3%.

Table 16 - Non-performing loans to customers/Loans to customers (gross values)

Indicators	2017	2018
Non-performing loans/Loans	72.9%	91.9%

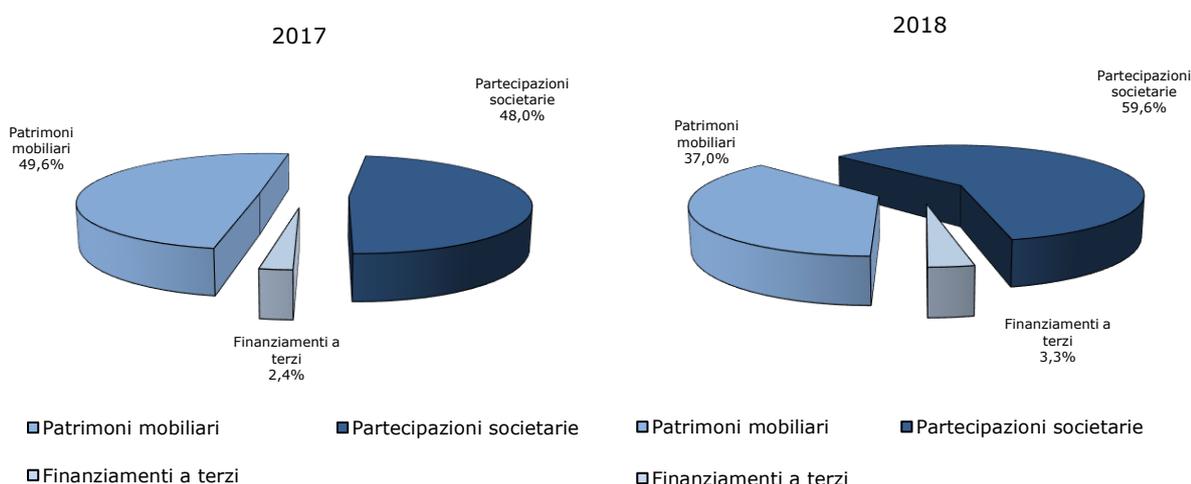
1.2.4 Fiduciary Activities

As at 31 December 2018, 3 companies were authorised to conduct fiduciary activities, but only 2 intermediaries had volumes of fiduciary activity, for a total of 74.7 million, a decrease of 27.6 million (-27%) compared to the 2017 year's end figure. Said change is essentially attributable to an intermediary in the sector and to an entity no longer registered in the Register of Authorised Entities.

The amount relative to the financial/fiduciary company sector represents 43.1% of total fiduciary activity, considering that remainder (56.9%) is managed by credit institutions.

As regards the breakdown of fiduciary activities by technical form (Figure 19), the most significant component regards the fiduciary administration of equity investments (type 2), which amounted to 44.5 million, with an impact of 59.6% over the total, down by 4.5 6 million compared to the previous year. The management of moveable assets (type 1), which amounted to Euro 27.7 million and accounted for 37% of the total, was instead down by Euro 23.1 million compared to the previous year. The remaining type (fiduciary loans to third parties) shows values of Euro 2.5 million (same value as 2017); as in the preceding financial year, even at the end of 2018, there are no mandates pertaining to the fiduciary administration of other movable or intangible assets (type 4).

Figure 19 - Composition of fiduciary activities by technical form



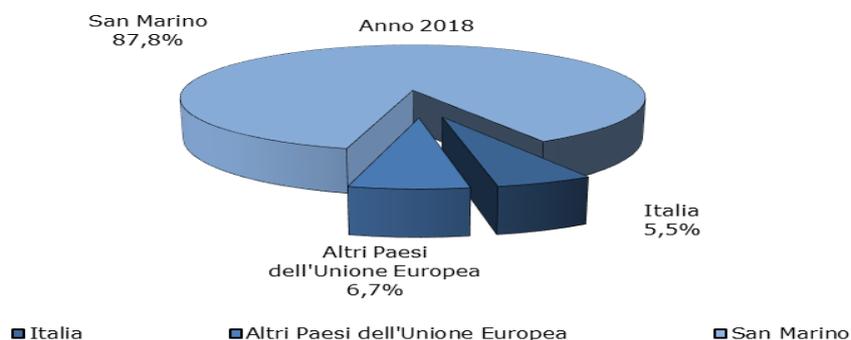
The reclassification of the figures concerning the type-2 mandates called "Fiduciary administration of equity investments" by country of residence of the investors shows a prevalence of

¹⁸ The value adjustments carried out on the exposures resulting from financial leasing transactions and on the loans are included in the calculation of the amending risks funds of the loans.



San Marino companies (87.8% of the total); Other Countries of the European Union (6.7%) and Italy (5.5%) follow as countries of establishment of the companies held on a fiduciary basis (Figure 20).

Figure 20 - Fiduciary administration of equity investments - breakdown of the value of the units by country



1.2.5 The Capital

The net equity of the system of financial and fiduciary companies at the end of 2018 amounted to 27.8 million, a decrease of 5 million compared to the previous year (-15.2%). Capital in the segment is constituted mainly of positive components amounting to Euro 29.5 million (Euro 24.5 million of subscribed capital, Euro 0.4 million of ordinary reserves, Euro 3.9 million of other reserves, Euro 0.6 million for the general financial risk fund), and of negative components amounting to Euro 1.7 million referring to operating losses for the year.

The drop in the aggregate in question is mainly explained, as already stated, by the absence of two intermediaries cancelled from the Register of Authorised Entities in 2018, whose net equity at the end of 2017 amounted to a total of 3.2 million, and by greater operating losses. Equity over total assets nevertheless increased from 19.8% in the previous year to 20.9%.

The system's regulatory capital¹⁹, at the end of 2018, amounted to Euro 26.8 million, down by -5.7 million (-17.5%) with respect to the previous year. In this regard, Tier 1 capital recorded a decrease of 4.8 million (-15%) standing at 27.1 million and Tier 2 capital stands at 0.2 million. The total elements to be deducted from the overall aggregate is Euro 0.4 million (0.6 million the preceding year).

Credit risk-weighted assets show an increase of 16 million, equal to 14.2%, standing at Euro 128.8 million.

The above-described dynamics caused a drop in the system solvency ratio, which passed from the 28.8% of 2017 to the 20.8% of 2018.

All financial companies individually show solvency values greater than the minimum requirements of current regulations²⁰. The ratios between regulatory capital/total assets and Tier 1 capital/total assets grew amounting to 20.2% and 20.4%, compared to the corresponding figures in 2017, amounting to 19.6% and 19.2%.

¹⁹ The regulatory capital is calculated relative to 2 intermediaries, considering that one company authorised to conduct only fiduciary activities is not required to fill out the prudential supervision report.

²⁰ The minimum limit of the solvency ratio for the financial companies, pursuant to Regulation no. 2011-03, is 8%.

Table 17 - Net equity data

Net equity data	2017	2018	% Var.
Regulatory capital	32.4	26.8	-17.5%
Tier 1 capital	31,8	27.1	-15.0%
Tier 2 capital	1.2	0.2	-87.4%
Risk-Weighted Assets	112.8	128.8	14.2%
Solvency*	28.8%	20.8%	
Regulatory Capital / Total Assets	19.6%	20.2%	
Tier 1 capital / Total assets	19.2%	20.4%	
Net equity / total assets	19.8%	20.9%	

Notes: figures in millions.

* Calculated as the ratio between regulatory capital and risk-weighted assets.

1.2.6 Profitability and efficiency

The net system operating results of the financial-fiduciary companies segment for 2018 shows a loss of 1.7 million compared to a loss of 3.1 million in 2017.

The profit-and-loss-account figures were influenced by the considerable contraction in "Other operating proceeds" and correspondingly in "Value adjustments on tangible fixed assets", mainly due to the sale of financial leasing agreements by a financial company to the respective parent company, a transaction completed at the end of 2017.

The review of the reclassified profit and loss account (Table 18) shows a substantial deterioration both in the mediation margin, passing from 23.3 million to 5.1 million (-77.9%), influenced mainly by the lower service revenues ("Other operating proceeds" in particular) standing at 3.8 million (-81.6%).

Operating costs registered a decrease of 18.9 million (-80.7%) and amounted to 4.5 million as a result, mainly, of the decrease in the value adjustments on intangible and tangible fixed assets, which include the amortisations on leased assets, which went from 19.9 million to 2.7 million (-86.3%).

The weight of the operating costs on the mediation margin (Cost-Income Ratio in Table 19) passed from the 100.6% recorded in 2017 to 87.7%, contributing to the improvement of the gross operating margin which went from a loss of 0.1 million to a gain of 0.6).

The appropriations and value adjustments, net of value recoveries, dropped by 2.3 million (-52.7%), ending at 2 million. In this regard, the provisions for risks and costs decreased by 0.5 million, the value adjustments on credits and provisions for guarantees and commitments dropped by 1.6 million, and the adjustments made on financial fixed assets dropped by 0.1 million.

The balance of extraordinary operations, amounting to 0.2 million, recording a drop of 1.1 million compared to 2017 (-83.8%).

As regards income taxes for the year, the liability item amounted to Euro 0.5 million.

No significant changes were recorded in the General Financial risks fund.



Table 18 - Reclassified profit and loss account for the financial/fiduciary companies sector

Reclassified profit and loss account	2017	2018	Absolute var.	% Var. *
1 - Interest received and other proceeds	5,528	2,038	-3,490	-63.1%
2 - Interest paid and other costs	-3,039	-18	3,021	99.4%
A - Interest margin	2,488	2,020	-469	-18.8%
3 - Commissions earned	1,417	1,472	54	-3.8%
4 - Commissions paid	-43	-46	-3	-6.8%
5 - Other operating proceeds	20,998	2,846	-18,151	-86.4%
6 - Other operating costs	-1,631	-463	1,169	71.6%
B - Service revenues	20,740	3,809	-16,931	-81.6%
7 - Dividends and other proceeds	9	1	-8	-90.7%
8 - Profits (losses) from financial operations	35	-693	-728	-2064%
C - Mediation margin (A+B+7+8)	23,273	5,137	-18,136	-77.9%
9 - Administrative costs	-3,520	-1,790	-1,730	49.1%
10 - Value adjustments on intangible and tangible fixed assets	-19,885	-2,715	17,169	86.3%
D - Operating costs	-23,405	-4,506	18,899	80.7%
E - Gross operating margin (C-D)	-132	632	764	579.1%
11 - Provisions for risks and costs	-804	-275	529	65.8%
12 - Provisions to the credit risk funds	-38	-24	14	37.3%
13 - Value adjustments on credits and provisions for guarantees and commitments	-4,097	-2,483	1,613	39.4%
14 - Value recoveries on credits and provisions for guarantees and commitments	739	748	10	1.3%
15 - Value adjustments on financial fixed assets	-100	0	100	
16 - Value recoveries on financial fixed assets	0	0	0	
F - Net operating income	-4,433	-1,402	3,031	68.4%
17 - Extraordinary proceeds	1,461	533	-928	-63.5%
18 - Extraordinary costs	-169	-324	-156	-92.1%
G - Gross operating margin from extraordinary operations	1,292	209	-1,084	-83.8%
H - Gross margin	-3,141	-1,193	-1,947	62%
19 - Income taxes for the financial year	217	-458	-675	-311.1%
I - Net result	-2,924	-1,652	-1,272	-43.5%
20 - Variation to the general financial risks fund	-127	0	127	-100%
Operating results	-3,050	-1,652	1,399	45.9%

Notes: Figures in thousands of Euro.

* The percentage variations take into consideration the algebraic sign of the amounts to which they refer.

The dynamics outlined above affected both the key profitability indicators and the efficiency profiles. In particular, ROA came to -1% and ROE went from -8.9% to -5.8%, while the Cost-Income Ratio decreased from 100.6% to 87.7% and administrative costs per employee decreased from 121,4 thousand to 112,3 thousand (Table 19).

Table 19 - Key profitability and efficiency indicators

Indicators	2017	2018
Return on Average Assets (ROA)*	-2.0%	-1.0%
Return on Average Equity (ROE)**	-8.9%	-5.8%
Cost-Income Ratio***	100.6%	87.7%
Administrative costs per employee****	121.4	112.3

Notes:

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

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

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

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

1.3 Rest of the System

1.3.1 Management companies (MCs)

In 2018, the sector expanded following the commencement of operations on the part of a new management company whose authorisation process, with the subsequent listing in the Register of Authorised Entities, was completed in the first few months of 2018. The new company then activated 5 funds in 2018 and, therefore, as at 31/12/2018 there were 3 MCs authorised to provide collective investment services.

Overall, at the end of 2018, the mutual funds established under San Marino law, active and managed by the three MCs, amounted to 20. In particular, the funds managed amounted to 7 alternative open-type reserved for professional clients, 8 open-type destined for the general public, 1 alternative closed-type reserved for professional clients, 4 established pursuant to specific Decree-Laws within the context of bank restructuring operations, closed and reserved exclusively for San Marino banks, the assets of which are mainly attributable to non-performing loans.

By the end of 2018, the net equity of the 20 cited funds amounted to a total of Euro 151.2 million, compared to the total Euro 98.7 million at the end of 2017. The increase in assets under management is, therefore, a direct consequence of the launching of 6 funds, 5 of which for retail customers and 1 reserved and dedicated to managing non-performing loans. Although the amount of funds dedicated to customers increased considerably compared to 2017, volumes continue to be predominantly attributable to the latter type of funds, the net equity of which stood in fact at 94.7 million at the end of 2018, representing approximately 63% of the volumes under examination. The assets under management referring to the remaining 16 funds at the end of 2018 amounted to a total of 56.5 million, compared to 13.3 million at the end of 2017.

With regard to the funds of loans, it should be noted that Article 41 of Law 144 of 21 December 2016 set up a Supervisory Committee which was assigned, among other things, the functions previously assigned to the Central Bank by Law 189 of 22 December 2015 Financial Administration, to verify and properly determine any tax credits referred to in the Decree-law no. 174 of 27 October 2011 - as extended in its scope by Article 8 of Decree-Law 61 of 28 March 2012 - and Decree-Law 72 of 27 June 2013.

1.3.2 Insurance Undertakings

In FY 2018, the domestic insurance undertakings continued their activities, working in synergy with the San Marino credit institutions and the other insurance intermediaries operating in the Republic. On this point, note that the collection of the relative insurance premiums are collected mainly through the San Marino banking channel.

The aggregate of gross premiums recorded⁽²¹⁾ came to approximately 12 million, down by approximately 22% compared to the amount collected in 2017. As regards settlements, the related

⁽²¹⁾ The corresponding definition is included in Annex F of Regulation no. 2009-01.

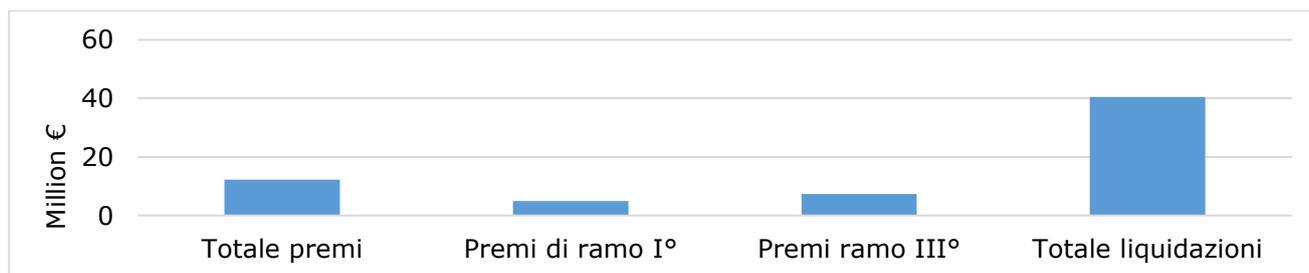


amount was approximately 40 million, down approximately 20% compared to the amount liquidated in 2017. In particular, significant requests were registered for early redemption, equal to approximately 92% of the total number of settlements, pertaining mainly to financial insurance policies with dedicated assets.

Net collection (the difference between premiums and settlements) therefore presents a negative balance of approximately Euro 28 million, up approximately 21% compared to 2017.

The composition of net domestic insurance production as at 31 December 2018 is provided below.

Figure 21 - Composition of the net domestic insurance production as at 31 December 2018



Source: supervisory report (figures in millions of Euro)

Table 20 - Composition of insurance collection as at 31 December 2018

	Class I	Class III	Total 2018	Total 2017	Annual change (%)
Gross premiums recorded	4,907	7,385	12,292	15,664	-22%
Number of new policies	285	78	363	684	-47%

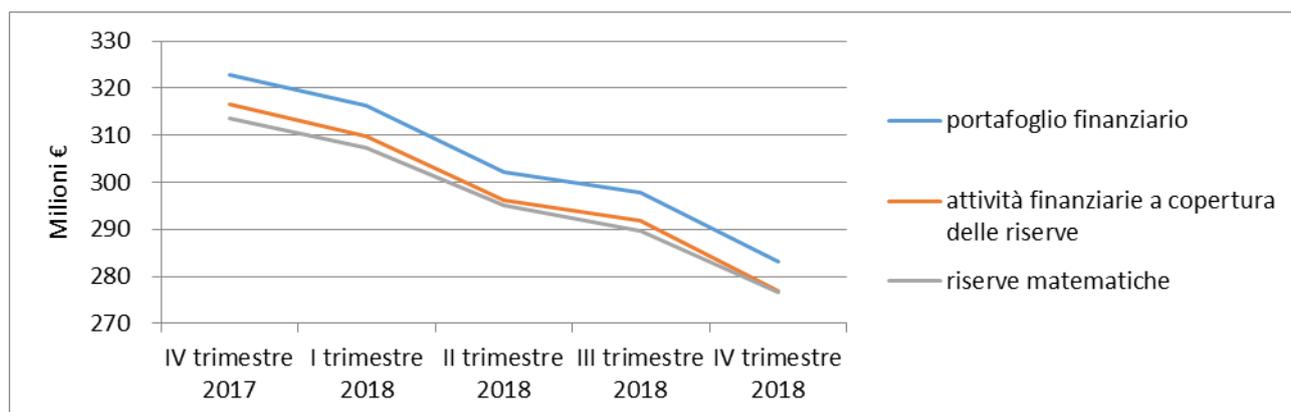
Source: supervisory report (amounts in thousands of Euro)

Premium income mainly consists of financial insurance products (class III premiums), which account for approximately 60% of total gross premiums recorded, a stable percentage compared to 2017. Premium income from class I insurance policies, amounting to approximately 40% of total premium income, is also constant in percentage terms compared to 2017.

As at 31 December 2018, the overall book value of the financial investments of the domestic insurance businesses came to approx. Euro 283 million, a decrease of around 13% compared to the amount as at 31 December 2017.

Presented below is the performance in 2018 of the volume of financial investments compared with the trend in the total assets covering the technical reserves, and the volume of the mathematical reserves.

Figure 22 - Volume of financial assets and reserves



Source: supervisory report (figures in millions of Euro)

Table 21 - Volume of financial assets and mathematical reserves

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Annual variation (%)
Financial portfolio	322,962	316,282	302,099	297,755	283,130	- 12%
Financial assets used to cover technical reserves	316,453	309,801	296,135	291,854	276,922	- 12%
Mathematical reserves	313,676	307,243	295,044	289,712	276,716	- 12%

Source: supervisory report (figures in thousands of Euro)

As regards the performance the financial portfolio (at book value in the financial statements, including accrued revenues on securities and receivables for transactions to be settled in respect of internal funds) and the mathematical reserves, a positive difference is observed between the overall financial assets held compared to the mathematical reserves. It should also be noted that the financial assets directly allocated to cover the technical reserves remain adequate, although steadily decreasing, with respect to the size of the mathematical reserves.

As regards the downward trend in assets under management and the mathematical reserves, it can be seen that this resulted in the negative net collection and is concentrated, mainly, on the financial insurance policies (Class III), the mathematical reserves of which represent approx. 76% of the total at the end of 2018.

A review of the composition of the held financial portfolio (market value as at 31 December 2018) shows a predominance of the investment is in bonds and units of mutual investment funds. The latter are basically used to structure and cover unit-linked type financial insurance products. Also note that the equity sector's impact is quite limited as regards the financial portfolio's composition as well as an "other" component mainly comprised of certificates of deposit.

1.3.3 Insurance and reinsurance intermediaries

At the end of 2018, a total of 37 persons who perform financial activities are registered in the Public Register of Insurance and Reinsurance Intermediaries, divided into natural persons and sole proprietorships (6 persons), legal persons in the form of non-financial companies (25 persons), and financial companies (6 persons). In 2018, there had been 10 cancellations from the Register and 3 new entries.



Table 22 - Number of parties registered in the Register of insurance and reinsurance intermediaries who conduct financial activities

	Section A Natural persons and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Active	6	23	4	33
Suspended/not operating	0	2	2	4
Total	6	25	6	37

Source: Register of insurance and reinsurance intermediaries

It must also be stated that, at 31 December 2018, an additional 42 natural persons who do not exercise financial activity were registered in Section A as Managers of the insurance mediation activities.

As regards the volume of the activities carried out by the registered intermediaries, the total amount of premiums collected in aggregate in 2018 in favour of foreign insurance companies was approximately Euro 36.7 million, of which approximately Euro 28.7 million related to the class of non-life insurance, and Euro 8 million related to the class of life insurance.

The breakdown of the amount of premiums collected by type of intermediary and insurance class in 2018 is summarised in the table below.

Table 23- Amount of premiums collected by type of insurance intermediary and insurance class

Figures in millions of Euro	Section A Natural persons and sole proprietorships	Section B Legal persons in the form of non-financial companies	Section C Financial companies	Total
Class of Life Insurance	4.9	3.1	0	8.0
Class of Non-life Insurance	8.1	20.4	0.2	28.7
Total	13.0	23.5	0.2	36.7

Source: Central Bank - Report on the activities performed by insurance and reinsurance intermediaries

It is worth noting that the mediation performed by financial companies for foreign insurance companies is absolutely negligible, given that these intermediaries are mostly active in mediation on behalf of San Marino insurance companies.

The breakdown of the amount of premiums collected by policyholder-type and insurance class in 2018 is outlined below.

Table 24 - Amount of premiums collected by policyholder-type and insurance class

Figures in millions of Euro	Policyholder Resident in San Marino	Policyholder Resident abroad	Total
Class of Life Insurance	7.6	0.4	8.0
Class of Non-life Insurance	27.1	1.6	28.7
Total	34.7	2.0	36.7

Source: Central Bank - Report on the activities performed by insurance and reinsurance intermediaries

1.3.4 Cold-Calling Parties

Regulation no. 2014-01 regarding financial promotion and cold-calling, which came into effect on 31 March 2014 and was amended in Q1 2019 by Regulation no. 2019-01, anticipated the establishment of the Public register of financial promoters, also including a special section devoted to employees of authorised entities which conduct cold-calling. This Register, for purposes of transparency and protection of the public, contains information on natural persons - financial promoters or employees of financial intermediaries - authorised to promote and place financial instruments and investment services outside of the registered office or branches of the financial intermediaries.

In 2018, the investigation concerning 9 employees of authorised entities was completed and also 2 new financial promoter applications were also examined, the procedures of which are still nearing completion. Likewise, the 2 financial promotor-applications submitted in 2017 have not been completed.

Note also that in 2018, the Central Bank accepted 9 cancellation applications submitted by several authorised entities concerning their employees. As at 31 March 2019, 38 employees of authorised entities that conduct cold-calling were registered.



2 INSTITUTIONAL FUNCTIONS

2.1 Supervision and Protection of Investors

2.1.1 Supervisory policy

In 2018, the Central Bank of the Republic of San Marino carried out its supervisory activity mainly to complete the update of the Asset Quality Review (AQR) as a statistical auditing exercise for prudential purposes, intended to verify the capital adequacy of the banks and financial institutions in relation to the implicit and explicit credit-portfolio risks.

The update to the AQR was carried out in early 2018, even though based on a credit portfolio as at 30 June 2016, but, initially, the results of these analyses were not disclosed to the intermediaries who had provided the data and information for their determination.

Only in Q4 2018 did the Supervisory Authority embark on a path of transparency and accountability, leading, among other things, to the full disclosure of the AQR results to banking intermediaries, achieved through a supervisory intervention carried out in the second half of December 2018.

The San Marino banks received the AQR results in terms of the higher adjustments needed to cover the implicit risks in the credit portfolio, but also the details regarding the positions (Credit File Review - CFR) used for the calculation, in accordance with international best practices. The AQR values were included in the off-site supervision activity, which also provided the banks themselves with findings in relation to areas of improvement in their technical profiles (Asset Quality, Capital Adequacy, Governance, Profitability, Liquidity, and Sensitivity to Risks).

In light of the results received, the intermediaries were involved in a prudential supervision process first resulting an audit on capital adequacy, calculating any shortfalls and then, in the first months of 2019, identifying the forms and methods for restoring capital adequacy, but also form delineating all interventions for the specific areas of improvement identified.

In the last part of 2018, the Central Bank's supervisory function was involved in a broad spectrum of operations regarding human resources, organisation, and instruments to restore effectiveness which had decreased over the past two years.

The Supervisory Strengthening Plan, as well as the prudential control activities and disclosure of AQR data, were periodically presented to the International Monetary Fund within the scope of the individual missions carried out, as components of the Financial Sector Strategy.

2.1.2 The Supervision Committee

The Supervision Committee, pursuant to Article 15 of the Statutes, is the collegial body tasked with managing the three components of the supervisory function - inspections, information, and regulations, as well as protecting investors.

The Supervision Committee meets periodically and examines the applications, submitted by the services competent in supervisory matters or independently identified by the Committee itself, for the resolutions within their competence.

In 2018, the body conducted its activity holding 51 meetings in which 232 resolutions were adopted. The resolutions adopted concerned various aspects, including the technical situation of the supervised entities, authorisations, documentary interventions, on-site inspections, and the imposition of administrative sanctions. Decisions were also made regarding supervisory regulations and relations with other Supervisory authorities. Several decisions had also been made regarding compulsory winding-up procedures already initiated in previous years.

Box 1: Status of disputes resulting from supervisory activity

Premise

The measures taken by the Supervisory Authority are subject to challenge before the Administrative Court. Ongoing litigation is presented below.

Disciplinary measures

During 2018, no measures were taken to commence extraordinary administrations or compulsory administrative winding-ups. It should be noted that an extraordinary administration measure was taken against a banking intermediary in January 2019.

Sanctioning procedures

In 2018, 9 sanction procedures were initiated and concluded (in the first part of 2019), while a further 17 sanction proceedings were initiated in the first few months of 2019.

Other disputes

In addition to the pending administrative appeals against disciplinary measures taken by the Supervisory Authority initiated in the years prior to 2018, at the end of that same year, the Central Bank is currently engaged in further litigation regarding (i) the temporary loss of the requirement of honourableness for a corporate official of a supervised party, (ii) the cancellation *ex officio* of an intermediary from the Register of Insurance and Reinsurance Intermediaries, (iii) one claim for damages, (iv) the removal from office of two corporate officials, (v) two severe measures taken against a supervised party, (vi) an appeal of a precautionary nature against an measure of the Central Bank, pending only with regard to the legal costs, the proceedings on the merits having already concluded.

2.1.3 The Activities of the Supervision Department

During 2018 and Q1 2019, the Department continued to carry out its supervisory activities with regard to monitoring the technical situation of intermediaries, proceeded by the examination and investigating of authorisation procedures received from authorised entities, as well as collecting data useful for preparing international statistics.

Moreover, the activity also concerned interventions aimed at the general reorganisation of the banking system. In this context, the Supervisory Authority began to request that the banks provide a general plan which, among other things, should contain an indication of the methods and timeframe for the disposal of non-performing loans to reduce their impact on the financial statements, and that should also simulate, through specific scenarios, the banks' ability to react to any of the various types of crisis situations (capital gap, liquidity, profitability, and asset quality).

Against this backdrop, the Supervisory Authority promoted corporate operation in which it formalised the Asset Quality Review (AQR) results for the banks. The communication of the AQR results was an integral part of the Financial Sector Strategy (FSS) to facilitate its development, integration on a European level, and subsequent internationalisation.

In 2018 and Q1 2019, a representative of the On-site Supervision Service and an Inspector of the Supervision Committee participated, pursuant to Article 15 *bis* of Law no. 92/2008, in the meetings and activities of the National Anti-Money Laundering Technical Commission, which is responsible, among other things, for coordinating the Authorities' anti-money laundering and anti-terrorism financing activities.



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

Extraordinary administrations and suspension of the administrative bodies

As already mentioned in the previous box, in 2018 the Central Bank did not order any measures regarding extraordinary administration or suspension of the administrative bodies of supervised entities, without prejudice to the initiation against a bank at the start of 2019, the pre-conditions having been met, of the extraordinary administration proceedings pursuant to Article 78 of the LISF.

Administrative compulsory winding-ups

During 2018, the Central Bank took no measures to initiate administrative compulsory winding-up proceedings against supervised entities.

Due to the non-initiation of administrative compulsory winding-up procedures and the failure to conclude those in course, the figures in the previous Report, consisting of 16 administrative compulsory winding-up procedures, of which 3 relating to banks and 13 relating to financial/fiduciary companies, are confirmed.

As part of its management activity for winding-up procedures, in 2018 the Central Bank issued, in some instances, authorisations for partial distribution and restitution of fiduciary mandates pursuant to Article 95(4) of the LISF, as well as the authorisations pursuant to Article 88(5) of the LISF for the exercise of the liability actions against dissolved corporate bodies, having first verified the legal grounds to do so exist.

Furthermore, pursuant to the provisions of Article 98 of the LISF, the Central Bank issued the requested opinions to the liquidating bodies regarding the presentation, to the Law Commissioner, of petitions to declare the respective entities undergoing administrative compulsory winding-up insolvent.

Several meetings were held, and various guidelines were expressed to the liquidating bodies regarding technical legal questions submitted to the attention of the Central Bank.

2.1.4 Regulatory Interventions

In 2018 and Q1 2019, the Central Bank's regulatory activity regarded the issuing of 3 Regulations and 1 Circular, of which it subsequently provided a brief illustration, and this of course includes the extensive technical regulatory consulting activity it provided to the Secretary of State for Finance and Budget in preparing the provisions for transposing certain legal instruments of the Monetary Agreement's, a description of which is provided in the relevant section 2.6.1.

As regards the Central Bank regulations issued in 2018, the first in order of time is Regulation no. 2018-01 named "*Miscellany of measures aimed at reviewing the supervisory provisions currently in force*", which went into effect on 31 March 2018 with which, - along the lines of that envisaged with similar namesake regulations issued in past years - a collection of targeted, though heterogeneous, review interventions of the existing supervisory provisions was carried out, predominantly dictated by the need to harmonise the respective disciplines contained in the various sectoral regulations, as well as by the need to update them in relation to the changed legislative framework of reference and the operational requirements identified in interpreting and applying the rules.

Subsequently, in August 2018, the Central Bank issued Regulation no. 2018-02 entitled "*Amending Regulation of Regulations no. 2006-03, no. 2007-07, no. 2011-03, no. 2014-04 and no. 2016-02*", which came into force on 31 August 2018, which, using the regulatory framework typical of so-called "miscellany", amended the regulatory framework on the surveillance necessary to transpose European Union Directive 89/117/EEC on the obligations relating to the disclosure of accounting documents of branches established in a Member State of credit and financial institutions



with head offices outside that Member State, including those that the Republic of San Marino is required to adopt pursuant to the Monetary Agreement.

With regard to the interventions ordered via the instrument of the Circular, we note the entry into force on 27 November 2018 of Circular no. 2018-01 entitled "*Updates to CVS Appendices*", with which the updated tables of country codes and currencies to be used to fill out the Statistical Currency Notification Forms (CVS) were published as required by Communication no. 2000/1 of 11 July 2000.

However, with regard to the Q1 2019, the Central Bank issued Regulation no. 2019-01 entitled "*Miscellany of measures aimed at reviewing the supervisory provisions currently in force*", which went into effect on 1 March 2019, and along the lines of preceding provisions with the namesake title, also included a series of targeted amendments and supplements to the supervisory provisions. In particular, of the most significant legislative interventions provided for in Regulation no. 2019-01 - which was also adopted in response to requests originating from the system - we note the faculty recognised for banks and financial companies to lease real estate acquired through debt collection, without prejudice to the objective to sell them and the clarification regarding the inapplicability, on the part of banks, of penalties or charges for closing accounts in case of termination by the customer. Also noteworthy are the request directed to the banks to produce a self-assessment document to be submitted to the Central Bank regarding the compliance of their governance with the most recent standards in matters of fit&proper cited in the so-called Basel 3 framework, also being adopted in San Marino.

2.1.5 Supervisory reporting and methodologies

The supervisory reporting and methodologies activity mainly consists in managing, processing, and controlling the information received from the supervised entities, in producing financial reports and statistics for the benefit of internal and external entities (including international organisations), as well as in preparing regulations for drafting the financial statements and for filling out the supervisory reports together with the issuing and updating the reporting forms and the relative operating manuals.

Pursuant to Article 18(3) of Regulation no. 2014-04 "Regulation on payment services and issuance of electronic money (payment institutions and electronic money institutions)", in January 2018, the "Information obligations pursuant to Article V.V.4(3) of Regulation 2014-04" reporting form was adopted together with the relative guide for compilation, pertaining to the shareholders of the payment institutions, indicating the number of shares each shareholder owns, the overall face value, and the percentage of share capital they represent.

In February 2018, considering that Regulation no. 2014-04 "Regulation on payment services and issuance of electronic money (payment institutions and electronic money institutions)" governs, among other things, in Part VII, the information obligations regarding prudential supervision, the reporting form "Information obligations regarding prudential supervision: Payment institutions and EMI" and the relative guide for compilation, was adopted.

Again in February 2018, in relation to certain amendments made with the issuing of Regulation no. 2015-01 "Regulation on information supervision for banks - Update III", the "Monitoring of liquidity" reporting form and the relative guide for compilation were updated again.

In March 2018, the "Disclosure obligations relative to capital movements (MC)" report was temporarily suspended.

With the issuing of Regulation no. 2018-01 "Miscellany of measures aimed at reviewing the supervisory provisions currently in force", amendments, among other things, were introduced to Regulation 2016-02 and Circulars 2017-03 and 2017-04. These amendments regarded certain tables in the notes to the financial statements. Accordingly, in April 2018, the "Statement of accounts (SC) - Circ. 2017-04" and "Financial Statement data - Reg. 2016-02" reporting forms and the respective operating manuals were updated.



At the end of April 2018, the Central Bank extended the legal reserve rate at 5% up to maintenance period of 15/12/2018 – 14/01/2019.

Between July and August 2018, considering the need to acquire additional detailed periodic information regarding direct funding of the banks, the Central Bank adopted a new periodic report named "Analytical reporting on direct funding of the banks" with the respective guide for compilation. Said guide for compilation was updated in September 2018.

In August 2018, in order to include, among other things, additional information on the memorandum accounts, the "Statement of accounts (SC) - Circ. 2017-04" and "Financial Statement data - Reg. 2016-02" form and the respective operating manuals were updated.

Again in August 2018, subsequent to the conclusion of the public consultation procedure, Regulation no. 2018-02 "Amending Regulation of Regulations no. 2006-03, no. 2007-07, no. 2011-03 was issued. This measure made the amendments to the current regulatory framework on supervision necessary to update and supplement it with respect to the provisions of European Union Directive 89/117/EEC of 13 February 1989. The cited Directive governs the obligations relating to the disclosure of accounting documents of branches, established in a Member State, of credit institutions and financial institutions with head offices outside that Member State and takes into account the Monetary Agreement between the Republic of San Marino and the European Union executed on 27 March 2012.

In October 2018, the Central Bank updated its "Statement of accounts situation (SC) - Circ. 2017-04" report in order, among other things, to extend the legal reserve rate at 5% even in maintenance periods subsequent to 15.12.2018 - 14.01.2019, making use of the provisions of Article 142(7) of Law No. 165 of 17/11/2005 (LISF).

Considering the need to ensure strict and timely monitoring of the inflows and outflows of the main transactions impacting direct funding and therefore the banks' liquidity, in January 2019 the Central Bank adopted, through a special reporting system, the new daily report "Monitoring inflows and outflows of direct funding".

Again in January 2019, considering the need to acquire more detailed information regarding leases entered into with customers (including banks and financial companies), banks and financial companies were asked to complete a non-periodic reporting form named "Information on financial leasing as at 30/11/2018".

With the issuing of Regulation no. 2019-01 "Miscellany of measures aimed at reviewing the supervisory provisions currently in force", amendments, among other things, were introduced to Part VII "Prudential Supervision" of Regulations no. 2007-07 and no. 2011-03, Circulars no. 2012-03 and 2013-01, and Regulation no. 2014-04. Accordingly, in March 2019, the following reporting forms "Information requirements of banks as regards prudential supervision: Circular 2012-03", "Information requirements regarding financial prudential supervision: Circular 2013-01" and "Information requirements regarding prudential supervision: Payment institutions and EMI" and the respective guides for the compilation and forwarding reports were updated.

The paragraphs which follow describe the main activities carried out during 2018 and the first months of 2019 relative to the monitoring of the liquidity of the banks, the national and international statistics, and the Central Credit Register.

2.1.5.1 Monitoring the Liquidity Situations of Banks

In relation to the need to further enhance liquidity-risk monitoring of the banking system and recognising the need to acquire, among other things, additional periodic information regarding the liquidity of credit institutions, in June 2018 the Supervisory Authority updated the liquidity monitoring reporting form, providing for the introduction of new detailed information relating to the forward-looking liquidity situation, the collection of savings by residence, as well as the evidence of debt receivables from and payables to the Central Bank.



The information received is used to produce daily and weekly reports on the liquidity position of the individual intermediaries and the entire system. Please see paragraph 1.1.9 regarding this subject.

2.1.5.2 National and international statistics

Every quarter, in the dedicated section of its internet site, the Central Bank publishes the banking-system performance figures with regard to the main assets items (loans, securities portfolio, shareholdings, and total assets), collection (collection of savings and indirect funding), loan-quality indicators, payables, interbank credits, and net equity.

Periodically the return flow is also prepared and forwarded to the banks with regard to liquidity and the monthly accounting figures on the collection and loans.

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

The statistics which the Central Bank forwards to the International Monetary Fund (IMF) continued to be produced during 2018:

- Monetary and Financial Statistics (MFS): These essentially consist in the reclassification of the Central Bank's net equity data (1SR) and that of the San Marino banks (2SR), as well as the data relating to the main monetary aggregates (5SR) with regard to monetary financial institutions (MFIs) and interest rates (6SR) with regard to San Marino banks;
- Financial Soundness Indicators (FSIs): These statistics provide, among other things, net-equity, profit-and-loss-account, liquidity, and balance sheet, data and prudential indicators for the banking, financial, and insurance systems (FSI1, FSI2, FSID);
- Financial Access Survey (FAS): this regards the annual data concerning access to the financial services.

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

- Monetary Interest Rate statistics (MIR): These statistics refer to the interest rates the monetary financial institutions have applied (ref. Regulation (EU) no. 1072/2013 of 24 September 2013);
- Balance Sheet Items statistics (BSI): These are statistics on the Monetary Financial Institutions' financial statements regarding their assets and liabilities, distinguished by category, sectors, and residence (cf. Regulation (EU) no. 1071/2013 of 24 September 2013);
- Quarterly Financial Accounts (QFA): These are statistics on the quarterly financial accounts regarding the total the financial assets and liabilities divided by business sector (cf. Regulation (EU) no. 549/2013 of 21 May 2013).

2.1.5.3 Central Credit Register

The Central Credit Register is a risk centralisation service, governed by Article 50 of Law 165/2005 (LISF) and CBSM Circular no. 2015-02, managed by the Central Bank, into which the information on customer indebtedness forwarded by the participating San Marino intermediaries flows. As at 31/12/2018, 6 banks, 3 financial companies, 4 mutual investment funds²², and the Central Bank reported to the CCR.

The main purpose of the CCR is to provide information useful for improving the creditworthiness evaluation process, thereby favouring access to credit for the "worthy" clients and the adoption of prompt prudential measures against those clients who are "unworthy".

²² Pursuant to Circular 2015-02, participation in the risk centralisation service, pursuant to Article 50(2)(a) of the LISF, is mandatory for mutual investment funds authorised by CBSM, for which more than 50 percent of assets are invested in claims or assets arising from the termination of loan agreements.



During 2018, the aforementioned CBSM Circular no. 2015-02 was updated with the introduction of provisions aimed at clarifying certain information obligations that they contained.

Each participating intermediary is required to communicate the risk position of each existing customer²³ every month on the last day of the reference month, within the 25th day of the following month.

The intermediaries also forward the CCR the qualitative information on the customer's debt situation whenever a change of status occurs: classification of the subject as "non-performing" or when the "non-performing" report no longer applies. Such information must be reported within three business days following the day on which the competent decision-making bodies have established the non-performing status of the customer. Information on the failure to make the non-performing report must be submitted as soon as possible.

The CCR identifies all the subjects with risk positions and certain forms of co-obligation, in other words, legal relations between several subjects jointly responsible for fulfilling the obligations undertaken with the intermediaries. The database of entities is fed both with the information acquired from public registers (so-called "Official Source"), and with data communicated by the reporting intermediaries contributing to the census on the subjects in question (so-called "Cooperative source").

Every month, the CRR provides participating intermediaries a customised return flow reporting the personal details and overall debt with the San Marino credit system of the individual customers and those jointly and severally liable therewith, as reported by the intermediaries. For every name reported, the return flow includes, at the system level, the separate exposure by cash loans, including bad loans, credit commitments, guarantees received and the information section. For each of these categories, the type, original and residual term of the loan, the amount granted, the amount used, the value of the guarantee and the guaranteed amount are communicated, among other things. Additional information useful for the evaluation and control of customer risk are also provided, concerning, among other things, the amount of the overdraft positions and available margins, the number of reporting intermediaries, and in particular, those that report on the non-performing party, the number of first information requests made because of the initiation of an investigation preliminary to the creation of a credit relationship.

The parties concerned are allowed to know the information recorded in their name as well as have it updated, corrected, or supplemented by directly contacting the reporting intermediaries in the event of incorrect information found in the CCR.

The intermediaries, upon request, must deliver the party concerned information on said party's risk position, as resulting from the information flows received from the Central Bank.

The website www.bcsn.sm in, the section "Services to the Public - List of services - Access to the data of the Central Credit Register", contains the instructions and forms to file the request for access to the data as well as additional information on the Central Credit Register (FAQ, information sheet of the CCR and the debtor prospectus reading guide).

The Central Bank, upon request by the party concerned, provides a prospectus with the details of the risk reports produced by individual intermediaries over the last 24 accounting dates available²⁴. The aforementioned prospectus summarises the information the participating intermediaries reported to the CCR. The prospectus in question also lists the intra-month reports relative to the changes in status received since the last consolidated date at the processing date of the aforementioned prospectus. During 2018, 46 requests for access to data recorded in the CR archive were processed.

²³ The intermediaries are required to report the entire exposure with the individual subject if the amount equals or exceeds Euro 10,000, while the bad loans must be reported if the relative positions equal or exceed Euro 250, net of losses (see paragraph 3.5 of the CBSM Circular no. 2015-02).

²⁴ The first date available for requesting access to the CCR data is 30/09/2017.



Information in the CCR is nominative and confidential. Participating intermediaries shall observe the confidentiality obligation towards any person external to risk management.

The individual risk positions are communicated to the Central Credit Register based on a reporting form divided into four sections: Credit loans, Credit commitments, Guarantees received (issued by the intermediaries in favour of the subjects assigned by them) and Information section. Every section is divided into Data Entry Categories. Risk positions are further classified according to classification variables which provide a complete description of the characteristics and the risk level of existing transactions. The amounts relative to the individual transactions subject to data entry are recorded in the data classes that explain the measurement observed.

The Central Bank checks the data reported to the CCR in order to verify the conformity of the information transmitted with the required reporting statements, the consistency of the information within the report itself, and compliance with assigned reference parameters. In this regard, in a special communication, the intermediaries concerned are notified of the flows discarded in so far that they contain officially incorrect information, or the ascertained findings.

On its own initiative, the Central Bank may not modify the reports received; only participating intermediaries may correct the reported data, in so far as they hold the relationships with the customers and possess the relevant documentation.

At the reference date of 31/12/2018, about 16,500 subjects had been reported to the Central Credit Register, 67.1% of which were natural persons, 18.5% non-physical persons, and 14.4% joint accounts. On that same date, on the whole, cash loans for a drawn amount of approximately Euro 3,560 million, credit commitments for a drawn amount of approximately Euro 238 million, and guarantees received²⁵ for a guaranteed amount of approximately Euro 1,883 million and for a value of the guarantee of approximately Euro 3,406 million were transmitted.

The intermediaries participating in the CCR, through the first information service (paid service), may access risk information relating to the last twenty-four reports. The replies to the initial information requests include, among other things, the global risk position of the subject requested relative to the system and the details regarding jointly-liable persons. In the event of second-level requests, in addition to the information above, also included are, *inter alia*, risk positions relating to joint obligations, the personal data and global risk position of the guaranteed parties and the parties transferred by the named party requested.

In 2018, the Central Credit Register processed about 3,300 responses to requests for initial information sent by participating intermediaries with which approximately 21,800 accounting dates were investigated. In Q1 2019, about 900 requests for initial information were received with which approximately 10,000 accounting dates were investigated.

Pursuant to the CBSM Circular no. 2015-02, the intermediaries participating in the CCR are required to contribute to the reimbursement of costs incurred by the Central Bank for the institution, annual maintenance, and management of the risks centralisation services, in accordance with the criteria and procedures listed in paragraph 2.15.

2.1.5.4 Other Assets

The Central Bank cooperated, within the purview of Article IV, regarding the International Monetary Fund missions that took place during 2018 and at the start of 2019.

In May and November 2018, the Central Bank held meetings with the Fitch Agency regarding the updating of the Republic of San Marino rating.

In 2018, the Central Bank updated its analysis of the San Marino banking and financial system assets (AQR) as at the reference date of 30 June 2017. For greater detail, please see Box 3.

²⁵ Only the personal guarantees and the external collaterals are registered in the guarantees received data entry category. Moreover, the guarantees beyond the negotiating autonomy of the parties, such as sureties issued *ex lege* by the State, are not included.



Box 3: Asset Quality Review

During the first months of 2018, the Central Bank, with the support of a leading consulting firm, updated the Asset Quality Review (AQR) period, asking the intermediaries for figures as at 30 June 2017 with the goal of obtaining an overall updated picture of the quality of the San Marino banking system's assets. The methodology adopted for the period was based on that used the review for the period between the end of 2016 and the first few months of 2017.

In December 2018, the Central Bank forwarded the intermediaries concerned the results of the AQR performed, calculated according to San Marino and European criteria, as part of an overall evaluation of the intermediary (the so-called "Company Situation Letter"), as a off-site supervision operation to highlight, by and large, the critical issues those intermediaries have in relation to the individual technical profiles. The purpose of this intervention is to allow the administrative bodies and their shareholder groups to acquire a complete view of the critical issues and areas for improvement, in order to take timely action to remedy them.

The AQR results are represented by a volume of greater value adjustments needed by the intermediary to mitigate the portfolio's credit risks, and which therefore are in addition to those already made. The Central Bank calibrated those greater adjustments, not to be confused with any capital shortages which may arise therefrom, in accordance with San Marino criteria, in order to make the AQR process gradual, following a two-stage approach: compliance with San Marino criteria and then progressive evolution towards European criteria.

In consideration of the time elapsed between the period reference date (30 June 2017) and the results-disclosure phase, the Central Bank allowed the intermediaries to deduct the amount of write-offs, value adjustments and recoveries, already made to the credit portfolio as at 30 June 2017 (the subject matter of AQR) in the period 1 July 2017 - 31 December 2018 from the higher value adjustments resulting from the AQR.

As a result of the above deductions, the intermediaries proceeded to identify possible shortfalls by simulating regulatory capital, weighted assets, and minimum capital cover as at 31 December 2018, fully recognising the greater value adjustments required for AQR purposes with San Marino criteria, regardless of the possible use of the benefits granted by Article 40 of Law no. 173 of 24 December 2018.

Apropos, it must be noted that Article 40 of Law no. 173 of 24 December 2018 allowed the intermediaries concerned to recognise the results of the asset review (AQR) conducted by the Central Bank in the profit and loss account, for a maximum period of five years for annual instalments not amounting to less than one fifth.

For some credit institutions that availed themselves of these benefits, the application of the above-cited Article of Law led to recognition in the profit and loss account one fifth of the adjustments deriving from the Asset Quality Review and, on the asset side of the balance sheet (Other assets or Deferred expenses), the remaining four-fifths. The value of the respective loans was fully written off.

2.1.6 Controls over the banking and financial system

2.1.6.1 Documentary controls

In 2018 also, the Central Bank, within the purview of its supervisory functions, continued its document control activity based on the of the total patrimony of information available and, in particular, subsequent to the receipt of data and information acquired through supervisory reports.

Within the scope of its supervisory reporting and methodologies function, the Central Bank therefore carries, on a documentary level, controls on authorised entities based on the information the supervised entities themselves are required to transmit based on the specific powers granted to the Central Bank by the LISF in banking, financial, and insurance matters. The document control, based on the reports transmitted by the supervised entities themselves, and as such is characterised by the limitations inherent to a so-called control "at a distance".



The periodic transmission of supervisory reports, therefore, aims to keep the Central Bank constantly up-to-date with regard to the general business situation of authorised entities. The document-analysis activity, therefore, enables the early identification of any critical situations and is the point of reference for the actions to be taken to deal with any anomalies observed and, therefore, to exercise additional on-site supervisory and regulatory powers.

In particular, the off-site supervision activity is performed assessing the intermediary's various profiles, namely, capital adequacy and organisational adequacy, liquidity, and the profitability profile. In this purview, the inspections conducted on the part of the corporate structure and the corporate officials are also relevant.

The document analysis operations are therefore divided into two main areas. The first area regards the controls relating to the investigations subsequent to the requests submitted by the supervised entities to issue the authorizations provided for by the current supervisory provisions, in their various domains. The second, on the other hand, makes particular reference to the document control activity carried out by the supervisory authorities and aimed at controlling the risks associated with the exercise of reserved activities, with particular reference to those regarding prudential parameters.

Within the foregoing areas, the off-site supervision activity is characterised by various types interventions depending on the various situations observed. In general, any actions that may be adopted can be classified into authorisation processes ⁽²⁶⁾ and possible document interventions classified as follows:

- fact-finding, to expand the set of data and information available to the Supervisory Authority;
- preliminary, aimed at soliciting the adoption by the supervised party of interventions aimed at preventing the deterioration of the technical profiles;
- corrective, when the interventions are aimed at specific corrective actions that the supervised party is required to implement in order to remedy problems and anomalies related to the various technical profiles.

Overall, the securities activity conducted during 2018 vis-a-vis the authorised entities belonging to the banking, financial, insurance, managed savings and payment services sectors, therein including the other insurance intermediaries, financial promoters, and professional trustee entailed the production of 448 documents. The same activity conducted during Q1 2019 resulted in the preparation of 165 documents.

In particular, it should be noted that 107 fact-finding, preventive and corrective interventions were conducted for 2018, while 176 documents regarded authorisation procedures. Instead, the management of obligations concerning enforcement of the regulations entailed 73 copies. 55 interventions of the above three types were produced in Q1 2019, 18 documents concerning authorisation procedures and 27 documents concerned regulatory compliance.

2.1.6.2 Inspections

The 2018 inspection plan was prepared, in accordance with usual practice, with a risk-based approach based both on the indications from all supervisory services and on the elements gathered during previous on-site inspections. *Apropos*, it should be noted that, the implementation of the plan is nevertheless still subject to change during the year depending on the of the indications from the Supervision Committee, provided, for example, in light of possible developments of intermediaries or the emergence of elements that require urgent inspection, or for requests, for audits made by the Single Court pursuant to Article 104 of the LISF.

The inspection activity in 2018 was influenced by extraordinary circumstances that considerably constrained the resources available to the On-site Supervision Service, which had already been reduced in the previous year. In fact, a portion of the Service's resources were involved

⁽²⁶⁾ The scope of the authorisation procedures also includes the issuances of clearances and/or approvals or other authorisation-related actions, regardless of their names.



in updating the AQR during H1 and, during H2 2018, 2 resources were dedicated to the project to transpose European directives. Moreover, the appointment of an On-site Supervision Service resource as a member of the Supervision Committee, which took place in October 2018, further influenced the Service's activities.

In this backdrop, the On-Site Supervision service carried out 3 focused inspections at banks and continued with 1 focused inspection c/o another supervised party not included in the inspection plan, which was initiated due to extraordinary needs that came up during the year. In general, inspections tend to verify the presence of efficient corporate governance, an adequate system of internal controls, and an adequate organisational structure corresponding with the characteristics of the activities carried out by the companies. 1 on-site inspection c/o an insurance intermediary and 1 c/o an insurance intermediary, in compliance with the both the cycle of targeted interventions with particular reference to the verification of compliance with the prescribed requirements of separation of the venues where the activity is carried out, maintaining bank accounts and, new elements subject to control, the internal organization, the professional updating and obligations inherent to the relationship with customers, and the auditing of the internal control system. Of these two on-site inspections, one was suspended in Q4 due to other, more complex and extensive investigations envisaged in the plan.

Finally, it should be noted that an inspection imputed to FY 2017, having been started during that year, was in fact completed in the Q1 2018.

As regards the inspection procedures, it should be noted that follow-ups were carried out on the inspection reports, which also concluded prior to FY 2018, and on the counterclaims of the supervised entities, in so far that the On-Site Supervision Service is still responsible for the preparatory activity needed to begin the sanctioning procedure falling within the remit of Regulatory Supervision.

In conformity with the Memorandum of Understanding entered into with the Financial Intelligence Agency, we note that in FY 2018 the On-Site Supervision Service carried out two exchanges of information by way of cooperation in anti-money laundering activities (2 banks).

Table 25 summarises the on-site inspections performed during the three years 2016-2018. Therefore, 6 on-site inspections were conducted in 2018.

Table 25 - On-site Supervision Inspections

	2016			2017			2018		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	16	2	5	3	0	1	3	0	3
of which spread-spectrum	1	0	0	0	0	0	0	0	0
of which aimed	14	1	4	1	0	1	3	0	3
of which specific	1	1	1	2	0	0	0	0	0
Total	23			4			6		

The Head of Service is a member of the National Technical Coordination Commission on money laundering and terrorist financing (pursuant to Article 15 *bis* of Law 92/2008).

2.1.6.3 *Protest Information Service*

The Central Bank provides the Protest Information Service pursuant to Article 51 of Law no. 165 of 17 November 2005, governed by Circular no. 2014-01. This service is managed through the



IT procedure named "Protest Information Service", created within the scope of the RIS technical infrastructure, with the purpose of guaranteeing adequate levels of confidentiality in the exchange of information pertaining to subjects who are drawees of protested cheques, and also for the purpose of processing data efficiently, correctly, and completely.

The San Marino banks and Poste San Marino S.p.A., as entities required to report protested names, transmit, on a monthly basis, the data related to the cheques protested in the month of reference, availing themselves of the above mentioned IT procedure; the Central Bank, consequently, acquires and aggregates the data received for the purpose of transmitting the report, at the same frequency, to the recipient parties (banks of San Marino, financial companies and Poste San Marino S.p.A.).

The following graphs show the number of names relative to the protested cheques and the total amount, in millions, recorded during the 2014-2018 period.

Figure 23 - Number of names related to the protested cheques

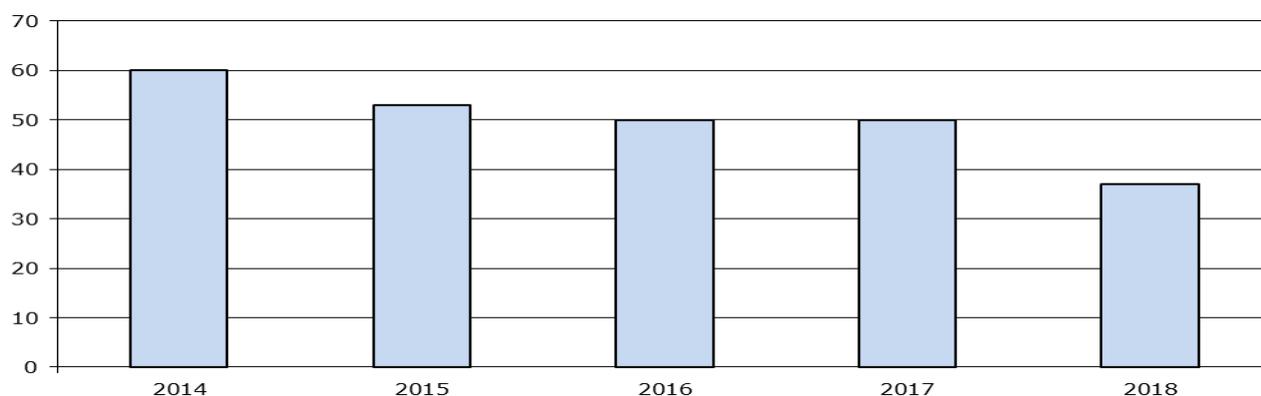
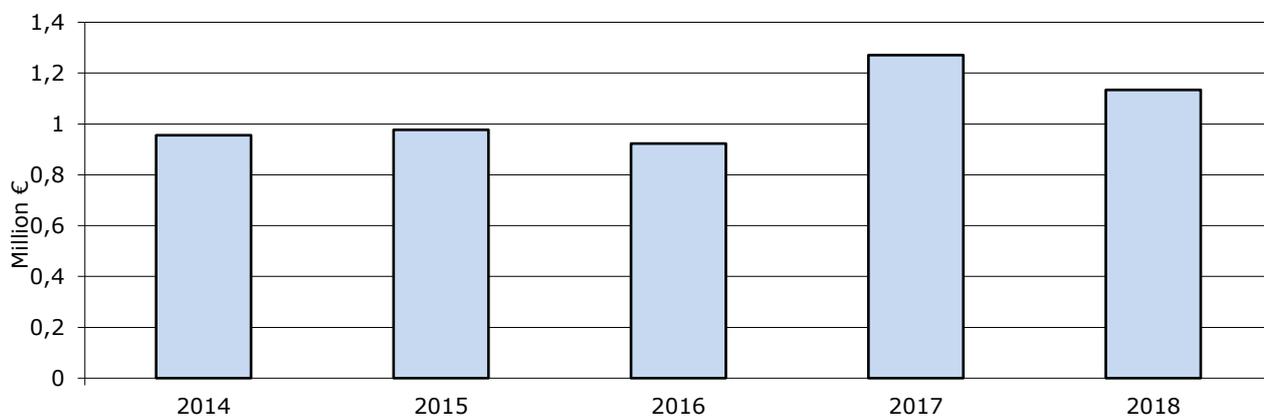


Figure 24 - Protested amounts



2.2 The Role of the Institutional Representative in Relation to International Financial Organisations, Central Banks and Supervisory Authorities

As provided for by its own Statutes in Article 40(f), the Central Bank plays the role of "institutional reference, consistently with its own objectives and functions, vis-a-vis International Financial Organisations and foreign Central Banks and Supervisory Authorities, or similar foreign Authorities" cooperating with the San Marino authorities in international relations relative to every aspect directly or indirectly regarding the banking and financial system.



International Monetary Fund - IMF

The data and information exchange activity with the IMF regarding the banking and financial system has been constant and has involved numerous Central Bank functions as is customary, regarding the periodic forwarding of statistical data (Financial Access Survey, Financial Soundness Indicators, Monetary and Financial Statistics), data relative to the equity, income, and cash flow profiles of the system, as well as to the Central Bank, and its reserves in particular, both from a current and forward-looking perspective, to improve the monitoring thereof, including via the technical assistance of IMF experts.

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

During the year, IMF delegations made 4 visits: one in January 2018, which represented the annual assessment mission pursuant to Article IV of the Fund's Articles of Association, two in May and July to more carefully examine the collection of data and statistics regarding the San Marino's economy in general and the financial sector in particular, and one in November to prepare the next mission for the 2019 pursuant to Article IV. During the November visit, the Central Bank also availed itself of qualified technical assistance from IMF experts regarding system liquidity management.

Finally, in January 2019, the annual evaluation mission regarding the San Marino economy took place held in accordance with Article IV of the Fund's Articles of Association. This assessment is based, in addition to the review of the San Marino economy's key data and indicators, on all matters of significance for the Country's economy and for this purpose it also anticipates a structured process of consulting with institutional authorities as well as the key points of reference in business sectors.

The 2019 report (Country Staff Report) approved by the Fund's Executive Board this past 22 March provides a picture of San Marino's financial situation formulated based on the data and indicators relative to 2018 and the lines of action explained by the authorities and the Central Bank.

Relationship with the Supervisory Authority

In H2 2018, the Central Bank obtained the willing disposition from the Bank of Italy to reopen relations between the two Authorities, after a period of interruption caused subsequent to the Central Bank's decision to suspend all cooperation on the matter of connecting the San Marino Risk Central Credit Register with the Italian counterpart (September 2016).

The consolidation of relations with the Bank of Italy and the launch of forms of technical assistance in various areas (supervision, regulation, systemic stability, and staff training) as well as the continuation of relations for the purpose of establishing a special MoU is a strategic objective of the Central Bank of the Republic of San Marino, which considers maintaining positive relations with the Italian Supervisory Authority to be a priority.

Relationships with other International Organisations

During 2018, round III of evaluation of the Republic of San Marino conformity with the OECD standards regarding the exchange of information upon request (EOIR) as part of the Global Forum on the exchange of fiscal information continued. The Central Bank took part in this process, participating in a specific working group composed of a variety of authorities and administrative offices of the Republic of San Marino, providing its technical contribution on the various aspects being examined and in particular on those relative to the San Marino financial system. The evaluation process was satisfactorily concluded in 2018, with the approval by the Global Forum of a report, which saw the raising of San Marino's overall rating from "Largely Compliant" to the maximum rating of "Compliant".

Relations with the World Association of Guarantee Funds for Depositors (IADI) and with the corresponding European association (EFDI), of which the Central Bank is a member, continued during 2018 as well. After the incorporation of the European rules regarding guarantees on deposits, relations



between the Central Bank and those organisations proceeded with the purpose of exchanging experience and acquiring knowledge, aimed at putting best practices into effect within the Republic of San Marino system. To this end, in 2018, the Central Bank acquired the observer-country status in the Affiliation of Micro-European States (AMES), which represents a specific EFDI working group.

2.3 Management of Counterfeit Banknotes and Coins in Euro

Pursuant to Regulation no. 2013-04 entitled "Regulation on euro banknotes and coins", the Central Bank, in its capacity as the competent national authority, manages, among other things, the Euro banknotes and coins suspected of being counterfeit identified by the cash operators, arranging also to forward them to the corresponding Italian analysis organisations for the resulting verification and outcome activities.

The reports relative to the suspected counterfeit Euro banknotes and coins are sent electronically by the Central Bank on behalf of the cash operators, using the procedure named the Euro Paper Monitoring System - Si.M.E.C., made available by the Central Anti-fraud Payment Methods' Office - UCAMP with offices at the Ministry of Economy and Finance - MEF, pursuant to memoranda of understanding signed with the Italian counterparts.

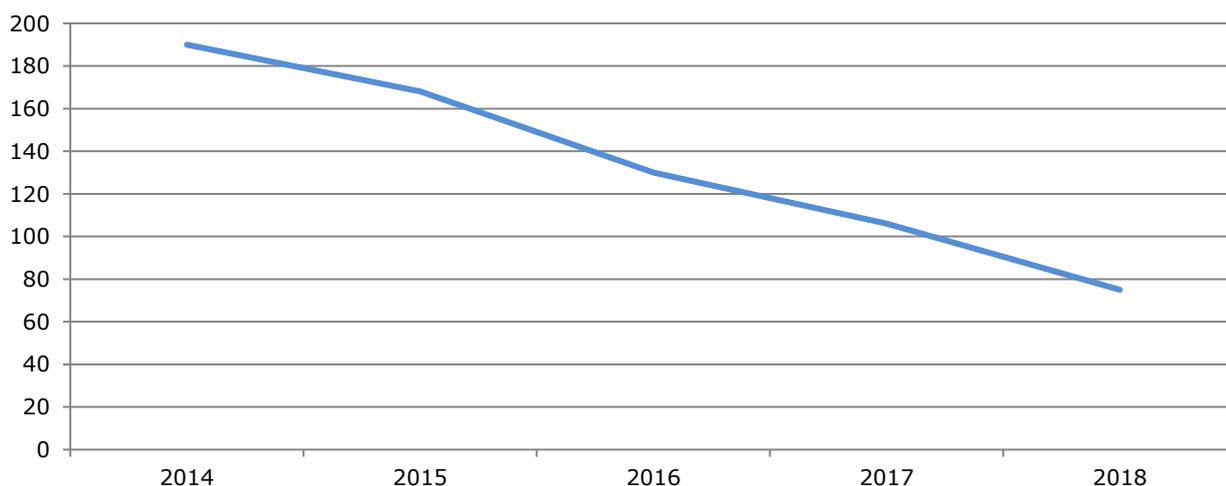
In case of a possible identification of suspected counterfeit banknotes and coins in currencies other than the Euro, since they are not part of the application of Regulation no. 2013-04, they are sent directly by the cash operators to the Anti-Counterfeiting Central Office (UCFM) established at the Interpol National Central Bureau of the Republic of San Marino.

The following graphs show the comparison in the values found from 2014 to 2018, highlighting the most significant figures for the activity performed in 2018.

The banknotes taken out of circulation and recognised as being counterfeit in 2018 totalled 75 units, thus decreasing by 29.2% compared to the previous year (in 2017 the banknotes recognised as counterfeit totalled 106 units).

The counterfeit coins found during 2018 highlighted a decrease of 33.3% compared to the previous year (6 Euro 0.50 coins, 2 1 Euro coins, and 4 2 Euro coins for a total of 12 coins withdrawn compared to the 18 of the preceding year).

Figure 25 - Number of counterfeit banknotes: comparison with annual data for the period 2014-2018

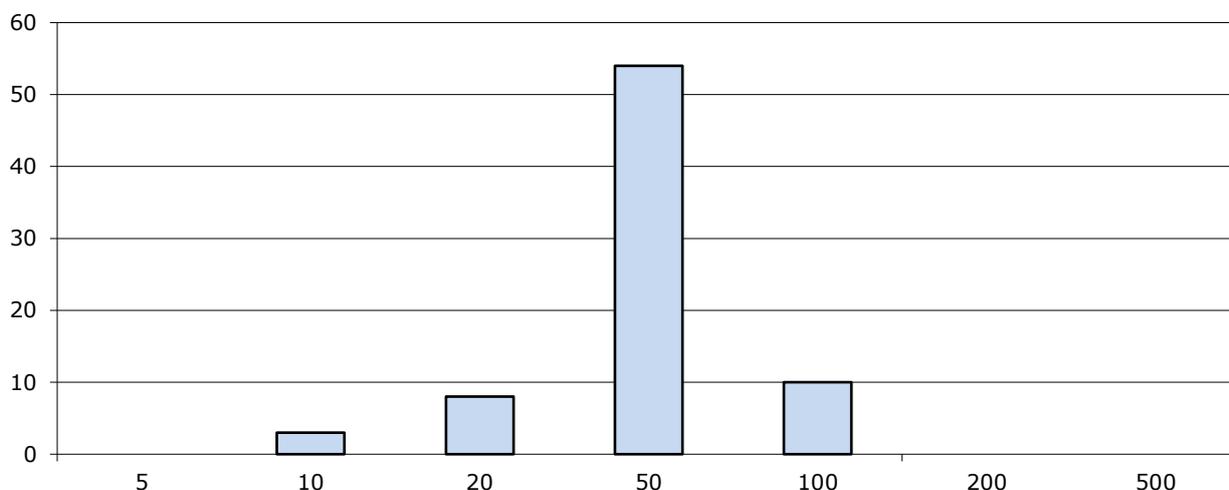


The cases of banknotes withdrawn from circulation and acknowledged as being counterfeit in 2018 involved 4% of the total for Euro 10 banknotes (3 pieces), 10.7% of the total for Euro 20 banknotes (8 pieces), 72% for Euro 50 banknotes (54 pieces), and 13.3% for the 100 euro banknote (10 pieces).



As for the Euro 5, Euro 200, Euro 500 and banknotes, no banknotes were taken out of circulation and acknowledged as counterfeit.

Figure 26 - Counterfeit banknotes withdrawn from circulation in 2018: breakdown by denomination

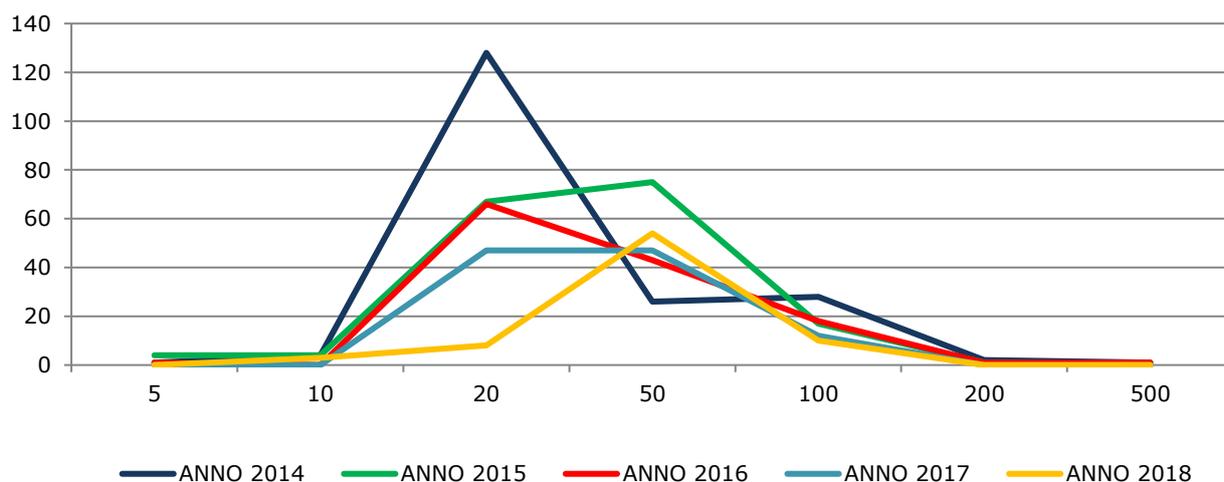


It can be seen in the following graph how the Euro 50 banknotes represented most of the counterfeit cases. Compared to the preceding year, the Euro 10 banknotes registered an increase (from 0 in 2017 to 3 in 2018), the Euro 20 banknotes registered a decrease (from 47 in 2017 to 8 in 2018), the Euro 50 banknotes increased (from 47 in 2017 to 54 in 2018), vice versa the Euro 100 banknotes decreased (from 12 in 2017 to 10 in 2018).

Overall, the Euro 10, Euro 20, Euro 50, and Euro 100 notes represented 100% of the counterfeit banknotes withdrawn by the cash operators in 2018.

The following graph shows the comparison of the changes which took place from 2014 to 2018 by denomination.

Figure 27 - Denomination of counterfeit banknotes: comparison with annual data for the 2014-2018 period



The general decrease in counterfeit banknotes found during 2018 in San Marino is in line with the trend found in Italy.

The data published by the Bank of Italy showed a 32.9% decrease compared to 2017 (108,469 counterfeit banknotes withdrawn compared to 161,572 in the preceding year). It is observed that in Italy, as in San Marino, the denominations most counterfeited and withdrawn from circulation involved the Euro 20 banknotes (25.9% of the total), Euro 50 banknotes (55.6% of the total) and Euro 100 banknotes (13.7% of the total).

The European Central Bank publications reported that in 2018, Euro banknotes withdrawn from circulation decreased by 18.9% compared to 2017 (563,000 compared to 694,000 pieces withdrawn last year). In 2018, the denominations that registered the highest number of falsifications involved the Euro 20 and Euro 50 banknotes which, representing overall more than 80% of the counterfeits. The European Central Bank also announced that most of the counterfeit banknotes (96.7%) were reported in Eurozone publications; approx. 2.2% of the counterfeits come from the member states of the EU not belonging to the Eurozone, while 1.1% originate in other parts of the world.

2.4 Cash Handling

The Central Bank, in order to satisfy the demand for cash originated from the San Marino bank system, has since 2008 been handling the administration of banknotes in Euro using, among other things, a special wholesale procurement service from Italy as well as, more recently, availing itself likewise of the excess cash poured occasionally by some San Marino banks.

The Central Bank performs said procurement service in accordance with the methods identified with the competent Italian Authorities and in compliance with internal and European regulations pro-tempore in force on the subject.

The administration of the cash to the San Marino banking system takes place according to operational processes governed by specific internal legislation, issued by the Central Bank, in order to ensure efficient service and reduce operating risks to guarantee high levels of safety, including through the cooperation of the Police Force.

Pursuant to EC Regulation 1889/2005, as well as Delegated Decree no. 74 of 19 June 2009 as amended, for every procurement of cash from Italy, as well as for every transfer to Italy of banknotes not suitable for circulation, the formalities required by the legislation of the respective countries involved are observed, in particular the cash transport declarations of amounts equal to or greater than the counter value of Euro 10,000, provided by specialised carriers in charge of the transport.

The Central Bank informs the Bank of Italy of every request relative to the procurement of cash from Italy and at the same time appoints the corresponding Italian bank that it is using, which is moreover informed regarding the amounts relative to the cash amounts reserved by each San Marino bank. Lastly, each month, the Central Bank forwards the corresponding Italian bank a final communication with which the amounts relative to the cash distributed to each bank are reported.

The operational communications regarding cash are handled through the computer procedure named Cash Management, made available by the Central Bank to the San Marino banking system. This aforesaid procedure allows, among other things, the management of the authorisations, the printing of the relative reports, the supply and distribution of cash, and the internal transfers between banks and/or transfers between organisational units of the same bank.

In 2018, the Central Bank was supplied cash by its Italian correspondent 4 times and arranged for the distribution to the San Marino banking system with 54 cash subsidies. The requests received from the San Marino banking system registered a further decrease of 24.5% in the amounts distributed compared to the preceding year. Lastly, we report that the Central Bank does not provide the San Marino banking system with Euro 200 and 500 denominations.

Law no. 101/2013 "Collection of provisions on banknotes and coins", appoints the Central Bank with the duties relative to cash handling, consequentially the Central Bank issued Regulation no. 2013-04 called "Regulations on Euro banknotes and coins", the "Guide for compilation of cash



handler statistical reports” as well as the operational instructions to cash handlers the cash were issued.

The above legislation, adopted in line with the European reference legislation and pursuant to the Monetary Agreement, also governs the role of cash handler as a subject who, among other things, is required to transmit statistical reports within the purview of cash-recirculation activities. In fulfilment of the legislation, in 2018, the cash handlers sent the Central Bank the six-month statistical reports on the recirculation of the cash, as well as the reports pertaining to the equipment relative to the banknotes and the coins in compliance with the ECB and EC (European Commission) lists, which are provided to the cash handlers, all managed through dedicated functions present in the computer procedure called Cash Management.

The Central Bank carried out constant supervision, for the purpose of conducting document checks on the cash handlers, with particular reference to the compliance with the regulatory obligations for which they are responsible, specifically the need to check the conformity of the equipment supplied to process the banknotes and coins, as well as the accuracy of the reports on the cash handling activities pursuant to Regulation no. 2013-04.

The processing of the cash in Euro is regulated, *inter alia*, by the memorandum of understanding signed between the Central Bank and the Bank of Italy on 15 September 2016. The purpose of the aforementioned memorandum is the presentation to the Bank of Italy of the banknotes suspected of being counterfeit, the deposit of the banknotes not suitable for circulation at the Forlì Branch of the Bank of Italy, the sending of the statistical reports on the recirculation of the banknotes from the Central Bank of the Republic of San Marino to the Bank of Italy, through the use of the cash portal, for the purpose of entering the information in the Currency Information System 2 (CIS2), and the sending, by the Central Bank of the Republic of San Marino to the Bank of Italy, of statistical information on the Euro coins issued by the Republic of San Marino.

With particular reference to the Euro coins, we note that they are regulated by the memorandum of understanding signed between the Central Bank and the Treasury Department of the Ministry of Economy and Finance (MEF) on 15 November 2016. The purpose of this memorandum is the governing of activities pertaining to the authentication of the Euro coins and the processing of the coins not suitable for circulation for which the Republic of San Marino uses the Italian National Centre of Analysis of Coins (Centro nazionale di analisi delle monete italiano - CNAC).

The obligations anticipated by the memoranda of understanding mentioned above, in particular the handling of the banknotes not suitable for circulation, the banknotes and coins suspected of being counterfeit and the statistical reports on recirculation (CIS2), were carried out as required also thanks to the fruitful cooperation with the Bank of Italy, the State Institute of Printing and Minting and the cash handlers.

2.5 The Trust Register

The number of trusts entered in the Register as at 31/12/2018, net of those cancelled, came to 131 (of which 1 foreign trust) with a growth of 9.17% compared to the corresponding number (number of active trusts) at the end of 2017 (120).

In particular, during 2018, the Office entered in the Register:

- 18 new trusts;
- 7 cancellations of trusts formerly registered;
- 12 amendments to the information included in the Register;

with the resulting issue and/or withdrawal of the Certificate of the Trust.

As at 31/03/2019, the number of active trusts came to 136. During Q1 2019, 6 new trusts were registered, 1 cancellation was carried out, and 7 changes were made to the data included in the Register.



As part of the aforementioned operating processes, in 2018 the Office did not file any administration sanctions for violation whereas in Q1 2019, it filed one administrative sanction for violation of Article 7(1) of Law 42/2010 in the amount of Euro 15,000, collecting, on behalf of the Most Excellent Chamber²⁷, half of the amount imposed under the voluntary settlement regime.

Furthermore, in 2018 the Office issued 2 certifications pursuant to Article 5 of the Delegated Decree 50/2010 as a matter of course at the request of the trustees.

In Q1 2019 also, 2 certificates were routinely issued pursuant to aforementioned Article 5 of the Delegated Decree 50/2010 of which one upon request of the resident agent and one upon request of the trustee.

In 2018, 2 requests for information from the Single Court were processed, while in the Q1 2019, no requests for information were received from the authorities responsible.

During 2018, at the request of the Manager in charge of the Central Bank, 27 verifications were conducted on names subject to restrictive measures in the implementation of UN resolutions in the fight against the financing of terrorism. In Q1 2019, there were 3 such requests and the Office responded promptly.

In 2018, upon its initiative, the Office also sent 3 communications to the Financial Intelligence Agency pursuant to Article 37 of Law no. 92/2008 and submitted 2 particular cases to the Court for Trust and Fiduciary Relationships. As at 31 March 2019, no communication had been made to the Financial Intelligence Agency and no particular case had been submitted to the Court for Trust.

In addition to the typical activities described above, the Office, also during 2018, cooperated in the annual training activity for professional trustee candidates and for the retention of the obligatory training requirements, organised by the Uniform Consortium and the University of the Republic of San Marino. In particular, the refresher courses laid out the issues regarding the Trust Register.

Moreover, in 2018 the Office was engaged in the preparatory activities to create a new Register of the Trust's Beneficial Owners, as provided for by Article 23 *quater* of Law 92/2008, introduced by Article 37 of Decree-Law no. 139 of 11 December 2017 relating to the adaptation of national legislation to the so-called "IV European Directive on the prevention and combating of money laundering and terrorist financing". Activities continued in Q1 2019 also with the aim of introducing the above Register as soon as possible.

Below please find the statistical data relative to the trust institution in San Marino as at 31 December 2018 provided in graph form.

²⁷ This sanction was added to those imposed during previous years, starting in 2010 (the year when the Central Bank was assigned the Office), taking the total value of the payments made by the Most Excellent Chamber for sanctions imposed, to Euro 27,338.97.



Figure 28 - Type of trustee

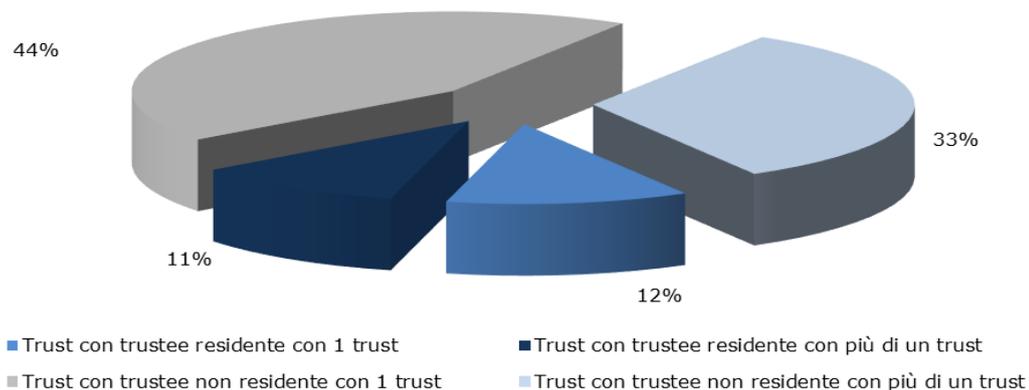


Figure 29 - The origin of the participants

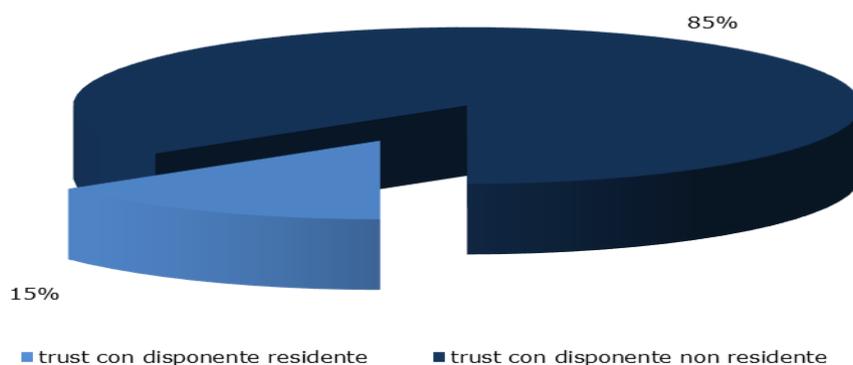


Figure 30 - Type of trust

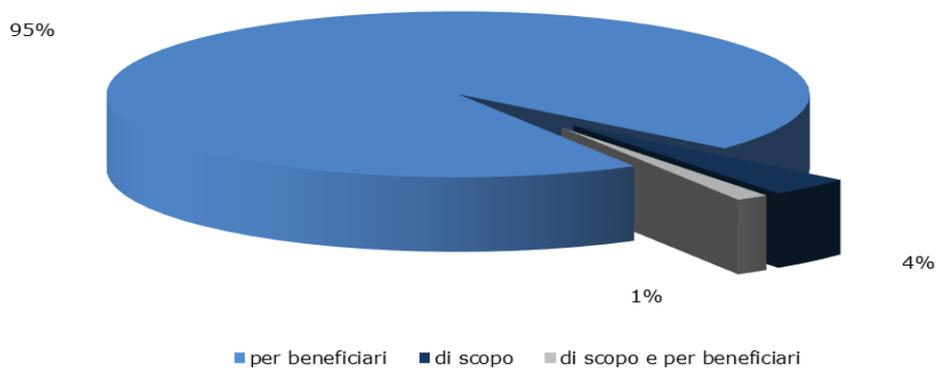


Figure 31 - Current rights of the beneficiaries

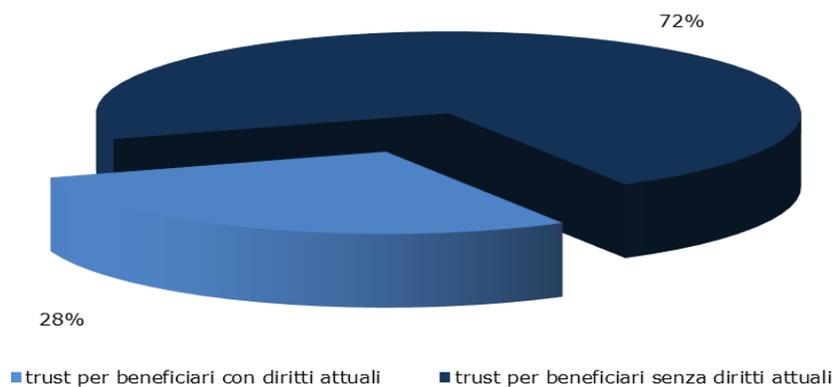


Figure 32 - Type of resident agents

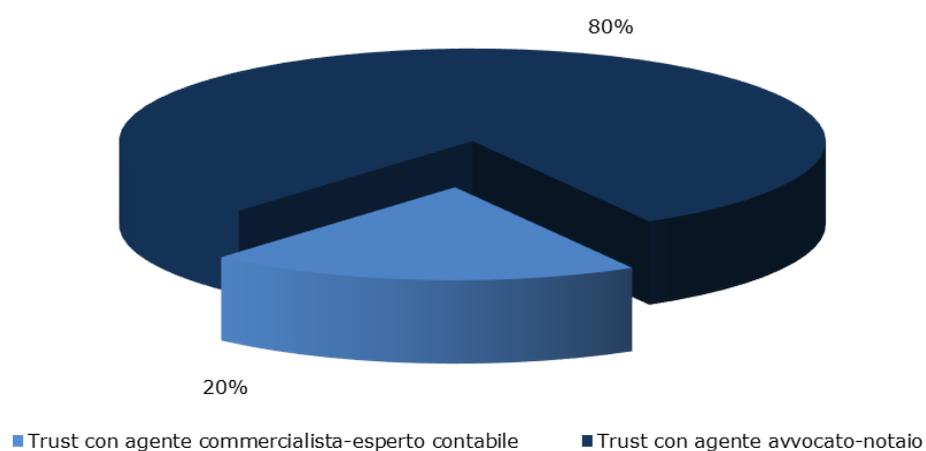
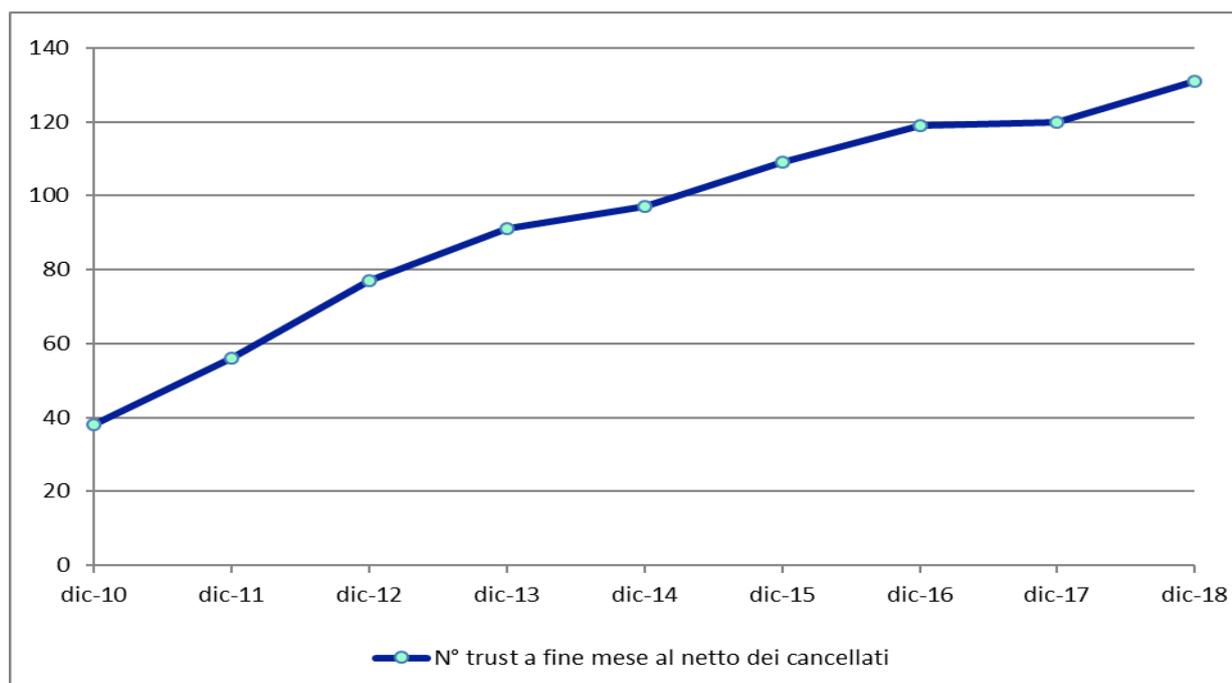


Figure 33 - Registration trends



2.6 Advice and Cooperation Activity

Again in 2018, the Central Bank provided advice and cooperation to certain institutions of the Republic, participating with its own personnel in various projects and workgroups. The sectors with most of this activity are indicated in the following sections and Box 4, with particular reference to regulatory advice (2.6.1.) and that provided to the Single Court (2.6.2.).

2.6.1 Regulatory Advice

During 2018, the Central Bank was engaged in an important technical advisory activity for the San Marino institutions on issues pertinent to the banking and financial sector with reference to the Monetary Agreement signed by the Republic of San Marino with the European Union in 2012 and the ongoing negotiations on the Association Agreement between San Marino and the European Union.

As already represented in the Central Bank's 2017 Summary Report, the aforesaid Monetary Agreement of 2012, in addition to granting San Marino the right to use the euro as the official currency and to issue euro coins in compliance with specific ceilings, also establishes the obligation to transpose and implement certain legal instruments of the European Union in the Republic's internal legal system within specific predetermined deadlines. A significant portion of these European Union legal instruments concerns the banking and financial legislation of the European Union itself.

With regard to the latter sphere of legislation, we note that the Central Bank supported the San Marino Institutions in preparing a well-articulated plan for implementing that legislation, which was also the subject of assessment during the most recent Joint Committee held in September 2018, that is, a Joint Committee composed of a San Marino delegation and a European Union delegation, established under the Monetary Agreement itself, which also includes among its functions that of examining the progress in implementing, on the part of San Marino, European Union provisions provided for by the Monetary Agreement itself.

The Central Bank, which assisted the San Marino institutions also in participating in the aforementioned Joint Committee, has in particular conducted evaluations and technical-legal analyses of the instruments already included within the aforementioned Agreement which have not yet been transposed, namely, the legal instruments updating the Agreement itself, as most recently indicated by the European Commission, also drafting specific in-depth analyses.

With regard to the specific advice provided by the Central Bank in preparing the bills transposing the banking and financial provisions in question, it should be noted that in H2 2018 and Q1 2019, the Central Bank carried out an intense activity in this area.

In particular, as regards H2 2018, this technical support activity to the Secretary of State for Finance and Budget for preparing draft delegated decrees concerned a wide variety of European Union legal instruments in financial matters, such as:

- Directive 2002/47/EC (the so-called FCD) on financial collateral arrangements;
- Directive 97/9/EC (the so-called ICD) on investor-compensation schemes;
- amendments to Directive 98/26/EC (the so-called SFD) on settlement finality in payment and securities settlement systems;
- Directive 2001/24/EC on the reorganisation and winding-up of credit institutions;
- Directive (EU) 2015/2366 (the so-called PSD II) on payment services in the internal market;
- Directive 2013/36/EU (the so-called CRD IV) on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) 575/2013 (the so-called CRR) on prudential requirements for credit institutions and investment firms;

- Directive 2002/87/EC (the so-called FICOD) on the supplementary supervision of credit institutions, insurance companies and investment firms in a financial conglomerate.

With regard to the Q1 2019, this Central Bank advisory activity was instead focused on preparing draft delegated decrees aimed at transposing the following provisions of the European Union into national law on a primary level:

- Directive 2014/65/EU (the so-called MiFID II) and Regulation (EU) 600/2014 (the so-called MiFIR) on markets in financial instruments;
- Directive 2014/57/EU (the so-called MAD) and Regulation (EU) 596/2014 the (so-called MAR) on market abuse.

In relation to certain of the above European Union legal instruments transposed by San Marino at the level of primary legislation, it should be noted that to implement them completely, the Central Bank will have to issue specific regulations, especially regarding profiles characterised by greater technicality, in implementing the regulatory powers granted to the Central Bank itself and provided for by law.

With regard to the cooperation provided by the Central Bank with reference to the ongoing negotiations regarding the Association Agreement between San Marino and the European Union, we note during of 2018 and Q1 2019, the Central Bank continued to provide said technical support to the San Marino Institutions in matters pertinent to the financial sector, also taking part in the negotiating sessions in Brussels where aspects relating to the banking and financial system itself were discussed.

The contribution the Central Bank provided to the San Marino Institutions having competence in negotiations within this remit ranged from preparing the analysis documents and drafting special studies on specific issues related to the EU *acquis* in matters of freedom of movement of capital and financial services, subject to evaluation each time within the scope of the negotiations, to preparing questionnaires regarding San Marino's financial system, and producing reports regarding the objectives the overall financial system expects to achieve from the negotiations in question.

At the end of this section we likewise add that in September 2018, technical assistance was provided in San Marino, c/o the Central Bank's head office, under the European Union programme entitled TAIEX (Technical Assistance and Information Exchange Instrument), concerning the European Union's banking and financial legislation. The two experts responsible for this technical assistance, which lasted five days, illustrated the EU's key provisions on financial matters, already provided for in the Monetary Agreement, including the CRD-IV/CRR framework, PSD II, BRRD, MiFID II-MiFIR, the MAD-MAR framework, and EMIR.

2.6.2 Cooperation with the Single Court

Regulations or agreements between the parties envisage several areas of Cooperation with the Single Court. Considering that additional forms of support to the Court are described in the specific parts of the Report, the most relevant, in terms of effort also are presented below.

- *Preparation of expert reports.*

Since 2007, the Central Bank has carried out, in its role as Court-appointed technical expert (CTU) and on appointment from the Single Court of the Republic of San Marino, technical support activities regarding the economic-financial aspects of civil actions and conciliation proceedings. During 2018, the Central Bank carried out 4 expert activities, 2 of which already assigned in 2015 and 4 in 2018. Even considering the institutional relevance, performing the aforementioned function entails overlapping of the role as CTU with that as Supervisory Authority, especially in proceedings involving parties supervised by the Central Bank itself.

- *Judicial-Police activities pursuant to Article 104 of the LISF.*



During 2018, On-site Supervision participated, by appointment of the Judicial Authority, in conducting investigations c/o authorised entities resulting in 2 on-site inspections. One Service resource is a member of the National Anti-Money Laundering Technical Commission pursuant to Article 15 *bis* of Law no. 92/2008.

2.6.3 Summary of other forms of advice and cooperation activity

Participation in international and national Technical Committees and Working Groups

As already mentioned in the previous Summary Report, since the first months of 2018, the Central Bank has participated, together with the Statistics Office and the Foreign Affairs Department, in the activities of the cross-sector working group on the preparation and processing of San Marino balance-of-payment statistics coordinated by the Secretary of State for Finance and Budget.

During 2018, the working group carried out an intense activity to set up the databases and methodology for the recurrent processing of San Marino statistics regarding the balance of payments and the international investment position, also benefiting, in September 2018, from focused technical assistance of the International Monetary Fund.

In particular, we note that within the purview of the International Monetary Fund's technical assistance, the working group produced San Marino's first complete balance of payments for 2017. The previous statistics the working group produced with reference to 2016 and 2017 are characterised by a narrower level of analysis.

After its technical assistance, the International Monetary Fund also expressed its recommendations for San Marino to make further progress in the ordinary and constant elaboration of statistics regarding the balance of payments and the international investment position, also taking into account the importance of said statistics as a tool for conducting overall assessments of San Marino's economic and financial system.

In addition to all that has been explained in detail in the preceding sections, it would be useful to summarise, in the Box below, all the types of advice and cooperation activities the Central Bank provided in the various areas of competence with particular reference to the national and international working groups and technical committees, other Institutions of the Republic, as well as participation in projects of strategic significance to the San Marino banking and financial system.

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

Participation in international and national technical committees and working groups

- San Marino - European Union Monetary Agreement and relative regulatory adaptations;
- San Marino - European Union Association Agreement relative to the profiles pertaining to the financial sector;
- National Anti-Money Laundering Technical Commission;
- cooperation with the San Marino tax authorities regarding the assessment of the transparency and exchange of information based on OECD standards;
- working group for the preparation of San Marino statistics on the Balance of Payments.

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

- cooperation with the Central Liaison Office and the Control and Supervision Office on Economic Affairs;
- cooperation with the Financial Intelligence Agency;
- support to the Broader Public Administration for the compilation of questionnaires and statistics requested by international organisations and related to economic, tax and financial issues;
- assistance within the purview of international or bilateral meetings with foreign delegations.



2.7 The Currency Authority

The Central Bank, pursuant to Law no. 96 of 29 June 2005 as amended, is authorised to control currency-related provisions and carry out currency and foreign exchange transactions being that it serves as the San Marino Currency Authority of the Republic of San Marino.

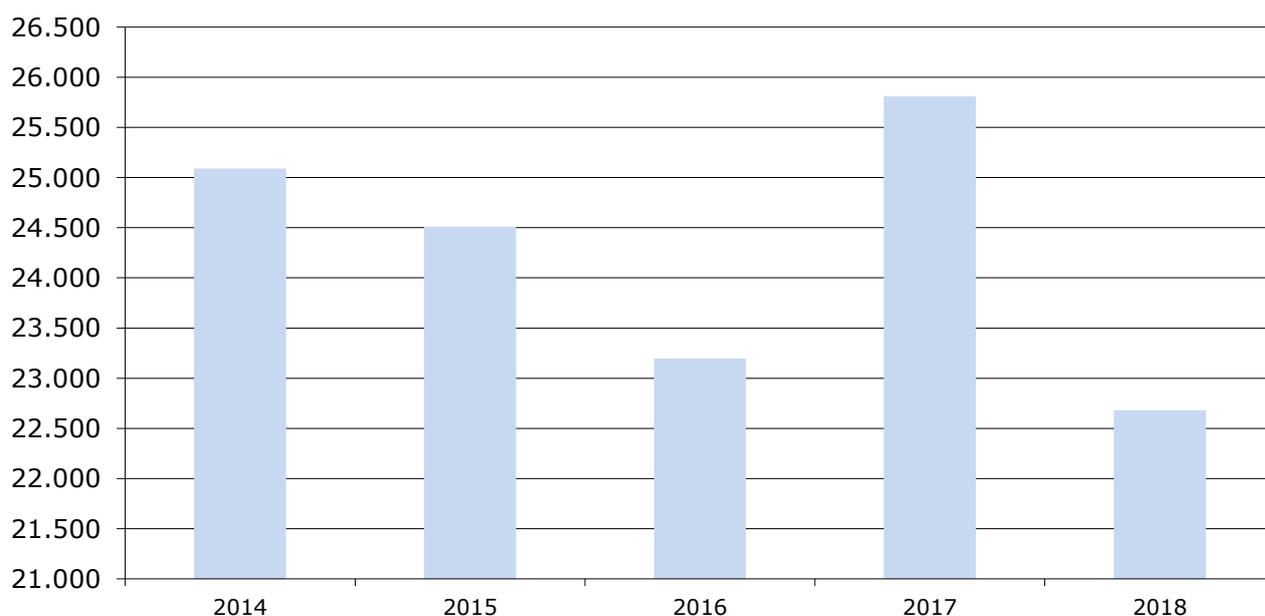
Pursuant to the aforementioned law and Article III.V.12 of Regulation no. 2007-07 "Regulations governing the collection of savings and banking activities" as amended, the Central Bank authorises San Marino banks to conduct currency and/or foreign exchange transactions; 5 banks have been authorised to operate directly with foreign countries.

In 2018, the Central Bank arranged to gather, on a monthly basis, the statistical information regarding cross-border settlements made by the banks of San Marino, for their own account or for the account of their resident customers, for transactions with a value in excess of or equal to Euro 15,500, through the model provided for in the reference regulations, named Statistical Currency Notification Forms (CVS).

The CVS are sent by the banking system to the Central Bank through the Sammarinese Interbank Network and then undergo a validation phase using a special procedure, for the detection of possible reporting errors.

The figures provided below represent the CVS flows sent to the Central Bank and the respective values during a period that goes from 2014 to 2018.

Figure 34 - Total flows (number of CVS)

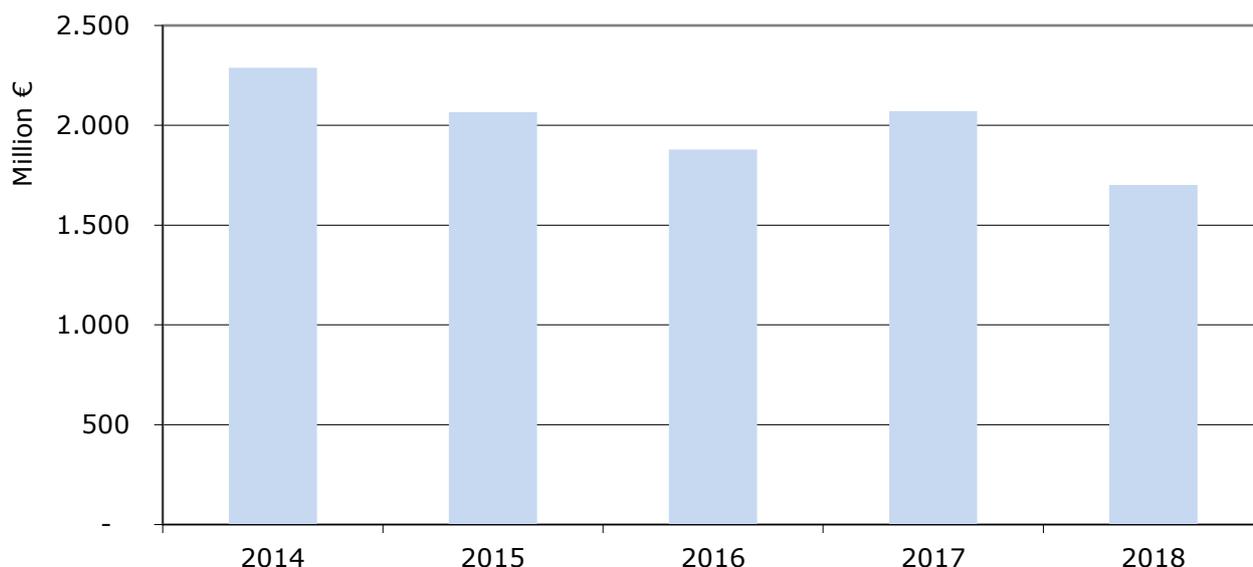


In 2018, 22,680 CVS were received from the banks, a decrease compared to the preceding year of 12.1% (in 2017, 25,810 CVS were received).

Also the amounts settled registered a decrease of 17.9% going from 2,071 million in 2017 to 1,701 million in 2018.



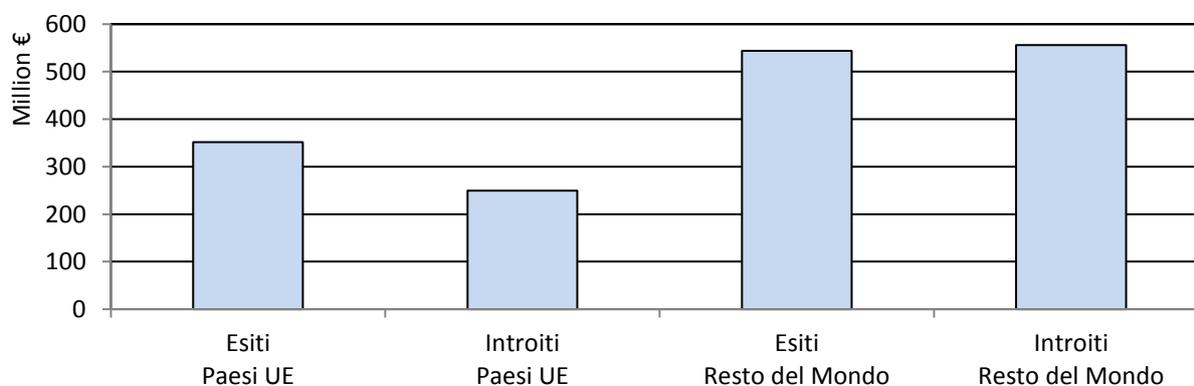
Figure 35 - Amounts settled by the San Marinese banking system



The “incoming transactions” relative to the CVS operations in 2018 showed a total value of 805 million, of which 31% related to countries belonging to the European Union with a value of 249 million, and 69% or 556 million relative to the rest of the world.

The “outgoing transactions” relative to the CVS operations in 2018 registered a total value of 895 million of which 39.3% related to countries belonging to the European Union with a value of 351 million, and 60.7% or 544 million relative to the rest of the world.

Figure 36 - Incoming and outgoing transactions broken down by geographical areas



In 2018 also, the Central Bank arranged, *inter alia*, to transmit every quarter the reports on the statistical data of the Currency Composition of Foreign Exchange Reserves (COFER) in compliance with the obligations resulting from the Republic of San Marino joining the International Monetary Fund.

2.8 The Payment System

The payment system is composed of the set of instruments, infrastructures, entities and rules which permit the transfer of the money from one operator to another.

Central Bank Statutes, Articles 37 and 38 of Law no. 96 of 29 June 2005 as amended, assign the Central Bank itself the functions of managing, regulating and supervising the Republic of San Marino’s payment system. The Central Bank, within the purview of its management of the national payment system, allows the channelling of payment instruments such as wire transfers, direct debits

of the Broader Public Administration and cheques, as well as collections and payments from the State Treasury and collections from the Overdue Tax Collection Department. Said channelling is made possible by using the interbank communication guaranteed by the use of the Sammarinese Interbank Network - (RIS) and thanks to the domestic contact-details exchange service conducted at the headquarters of the bank itself.

The wire transfers (or Sepa Credit Transfers - SCTs) and direct debits (or Sepa Direct Debits - SDDs) managed by San Marino banks, including those channelled into the national payment system, comply with the SEPA regulations, pursuant to Regulation no. 2013-05 "Entry into the Single Euro Payments Area (Sepa)", associated with Regulation no. 2014-04 "Regulation on payment services and issuance of electronic money (payment institutions and electronic money institutions)".

With reference to the set of payment instruments channelled to the RIS (SCTs, SDDs, and cheques), the national payment system recorded an increase of 3.8% in the number of transactions, against a drop by 2.5% in the global value of the amounts settled.

In 2018, the banking system transmitted 491 thousand national wire transfers for a sum of approximately 1,142 million. The breakdown in percentages and amounts settled, divided between the Central Bank and the banks of San Marino are shown in the following graphs.

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

Figure 37 - Breakdown of the number of national wire transfers transmitted

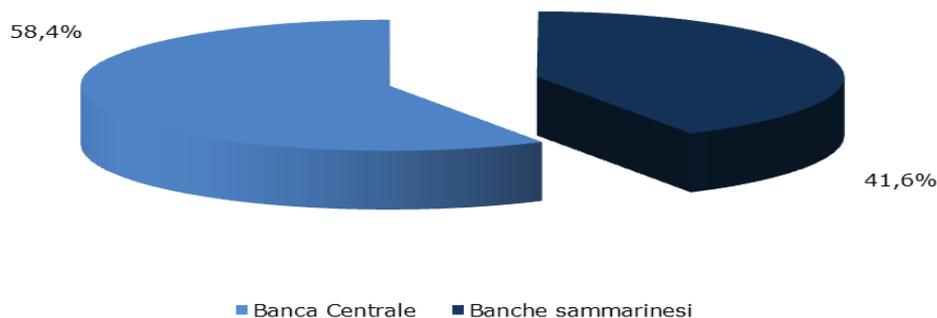


Figure 38 - Amounts settled through national wire transfers



With respect to 2017, the wire transfers sent over the national network increased by 3.3% while the amounts concerned registered an increase of 3.8%.



Direct debits, in other words, the payment instrument with which the creditor asks to debit the debtor's current account, registered approx. 317 thousand orders in 2018 for a value of approx. 80 million. By comparing the figures with 2017, an increase in the number of Direct Debits sent by the Central Bank to the San Marino banks of 11.1% and an increase of 5.3% in the amount settled is observed.

The Central Bank manages the domestic contact-details exchange service (SRD) as an operator, pursuant to Regulation no. 2007-04 as amended. The SRD service sessions are held daily c/o Central Bank headquarter specifically fit-out for that purpose and the Central Bank participates as a member together with the other banks.

Through the SRD service, San Marino banks exchange national cheques, documents and correspondence in accordance with the duly regulated times and methods. In particular, in order to exchange national cheques, negotiated and drawn on San Marino banks, it is absolutely necessary that the materiality and relative accounting flows and images channelled through the RIS correspond perfectly.

Approx. 159 thousand national cheques for a value of around 370 million were exchanged during 2018 withing the scope of the SRD service. Compared to 2017, a numerical decrease of 7.2% and a decrease in value of 17.4% was observed.

The graphs below show the breakdown, in percentages, of the types of payment instruments channelled through RIS in 2018, divided by amount and number of orders, respectively.

Figure 39 - Amounts settled by wire transfers, direct debits, and cheques

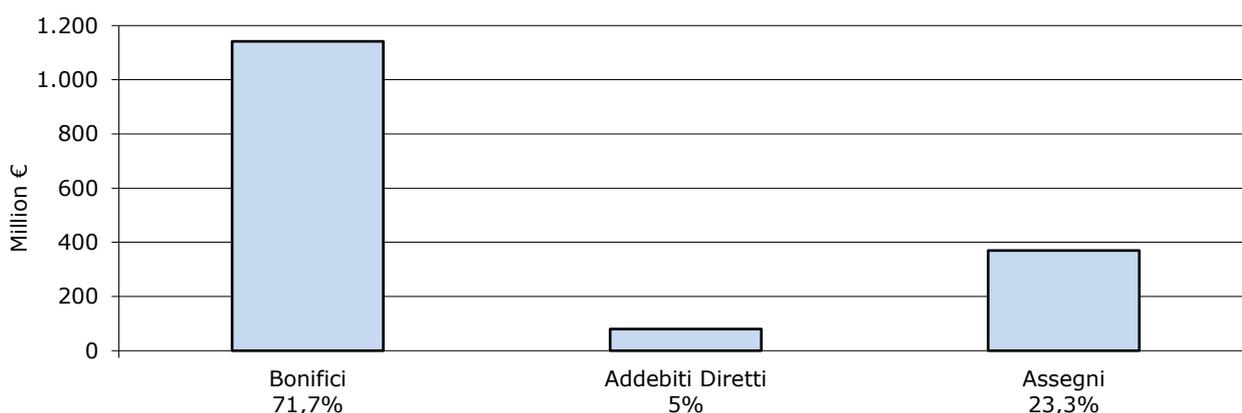
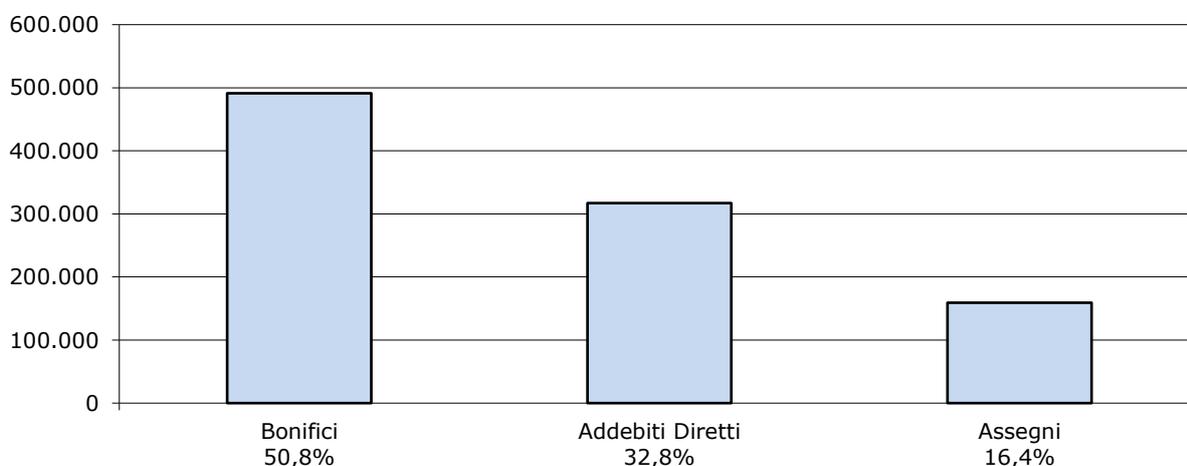


Figure 40 - Number of orders settled by wire transfers, direct debits, and cheques



Given that the management of the cheques drawn on San Marino banks and negotiated in San Marino continues as in the past, through the method of paper management of securities completed by the electronic exchange of the computer flows via RIS, it should be noted that pursuant to Decree-Law no. 123 of 27 October 2017 and Regulation no. 2017-08, the Central Bank, in 2018, joined the Check Image Truncation procedure (CIT) both in the role of drawee bank and in the role of negotiating bank, in conformity with the technical documentation issued by the Bank of Italy and the Italian Banking Association (ABI).

This procedure defines, *inter alia*, the collection process for cheques drawn on Italian banks and negotiated in San Marino, as well as cheques drawn on San Marino banks and negotiated in Italy, and the entire Italian and San Marino banking system adheres thereto. The post-negotiation process phases anticipate that the computer copies of the cheques replace, to all legal intents and purposes, the hard copy originals, and the negotiating bank ensures their conformity through the use of its own digital signature, in compliance with the implementing provisions and the technical rules.

The Central Bank participates in the payment system named TARGET2, through the Bank of Italy. Said payment system is characterised by the gross settlement of transactions in real-time and uses the SWIFT network for interbank communications, thereby ensuring the ability to reach banks internationally.

The Central Bank's current operations are also carried out thanks to the correspondent banking relations with the leading central banks, such as the Federal Reserve, the Bank of England, the Bank for International Settlements, as well as other primary foreign banking counterparts.

We note that the computer-flow maintenance activities relative to the data acquired up to the Archive suspension date ended during the first months of 2018. Recall that the Data Bank - established in 2009 pursuant to Decree-Law no. 65 of 14 May 2009 and Regulation no. 2009-03 regarding the interbank transmission of data between San Marino and Italy, relative to payment transactions to and from the SEPA area - was suspended on 11 September 2015 as a result of the inclusion of the Republic of San Marino in the so-called White List of countries considered equivalent regarding anti-money laundering.

2.9 Register of Fiduciary Shareholdings

In 2018, as in the preceding years, the activities related to the Register of Fiduciary Shareholdings pursuant to Law 98/2010 continued to refer mainly to receiving reports from San Marino and foreign fiduciary companies, and the cooperation with the offices and authorities in charge of the exchange of information.

The regulatory framework of reference concerning the exchange of information regarding the Register of Fiduciary Shareholdings did not register additional changes in 2018 compared to the previous framework of reference. Please make note, nevertheless, of the introduction of the new Register of Beneficial Owners, pursuant to Article 37 of Decree-Law no. 139/2017, maintained c/o the Industry, Trade and Crafts Office of the Republic of San Marino, which collects and stores information on legal persons who are beneficial owners of companies, associations, foundations, and similar entities with legal personality. Subsequent to the institution of this register, the Central Bank then proposed that law-makers access the termination of the communication obligations provided for in Article 2(2) of 98/2010. The competent bodies are currently examining this assessment.

The table below contains the summary data for activities carried out, with reference to the FY 2018 and Q1 2019:

Table 26 - Activities carried out: requests and reports received

Reports/disclosures	2018	Q1 2019
Number of reports received from fiduciary companies and banks*	48	7



Number of requests for information received from responsible Offices and Authorities**	7	1
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Notes:

*The report management activities often also involve requesting and returning certain reports and the request for clarifications to the senders regarding the information submitted. In particular, there were 7 such requests by the Central Bank during 2017.

**Central Liaison Office; Industry, Trade and Crafts Office; Single Court; Civil Police Corps - Anti-fraud Unit.

A comparison with the previous year, 2017, shows that there had been a considerable drop in the number of reports submitted by San Marino and foreign trust companies in 2018. In this regard, this trend is attributable to the substantial decrease in recent years in the number of trustee agreements to register equity investments. During that period, there had also been a decrease in requests for information from the relevant Offices and Authorities, due to the greater amount of information already held and available to the said Offices from 2018 onwards c/o the Register of Beneficial Owners.

2.10 State Treasury

The service the Treasury Department provides is governed by Law no. 35 of 3 March 1993, by the State's Accounting System referred to in Law no. 30 of 18 February 1998, by the Accounting Regulation referred to in Decree no. 53 of 24 April 2003, in each case, as amended and supplemented, as well as by the Agreement entered into between the Public Administration and the Central Bank on 22 April 2004, with the relevant Economic Agreement, the latter expired on 31 December of last year.

As can be seen in Table 27, the transactions carried out in 2018 related to financial inflows for approximately Euro 1,229 million (up by 6.32% compared to the approximately 1,156 million of the previous financial year and by 9.91% compared to 2016; as regards the financial outflows, transactions amounting to approximately 1,157 million were executed, up by 4.5% compared to the approximately 1,107 million of 2017 and the 8.07% with respect to 2016).

Table 27 - Volumes processed expressed in relation to total orders

Entity	2016		2017		2018	
	In-coming	Out-going	In-coming	Out-going	In-coming	Out-going
C.O.N.S.	4,662,912.10	4,506,948.11	6,340,419.55	6,224,109.27	5,335,475.85	5,143,932.06
University	6,703,464.51	6,026,607.83	6,217,648.35	5,571,086.80	7,448,292.29	6,862,411.77
A.A.S.L.P.	26,618,235.04	25,303,038.67	24,383,020.38	23,148,327.50	25,900,612.09	24,515,119.97
State Board of the Games	300,705.29	208,212.56	323,004.50	223,200.75	327,304.07	226,083.91
A.A.C.N.M.	1,469,038.57	452,806.55	1,969,727.13	994,472.86	2,296,077.11	1,004,255.34
I.S.S.	331,552,673.65	321,905,835.78	334,358,856.71	329,702,161.14	365,659,608.49	356,364,812.35
FONDISS	16,249,703.24	14,391,589.62	18,370,921.67	16,687,457.66	23,300,414.77	20,928,768.08
Most Excellent Chamber	566,557,504.36	541,181,597.45	607,434,587.44	584,577,099.52	656,864,166.15	614,403,773.60
A.A.S.S.	164,077,349.31	156,261,076.48	156,614,291.43	139,686,685.52	141,899,318.77	127,186,297.64
Total	1,118,191,586.07	1,070,237,713.05	1,156,012,477.16	1,106,814,601.02	1,229,031,269.59	1,156,635,454.72

Source: Central Bank (data updated as at 31/03/2019).

In numbers, there were 83,835 transactions carried out on account of the Public Administration in FY 2018, divided into 42,530 payment orders, 16,648 collection orders, 1,032 pending outgoing items, and 23,625 pending incoming items.



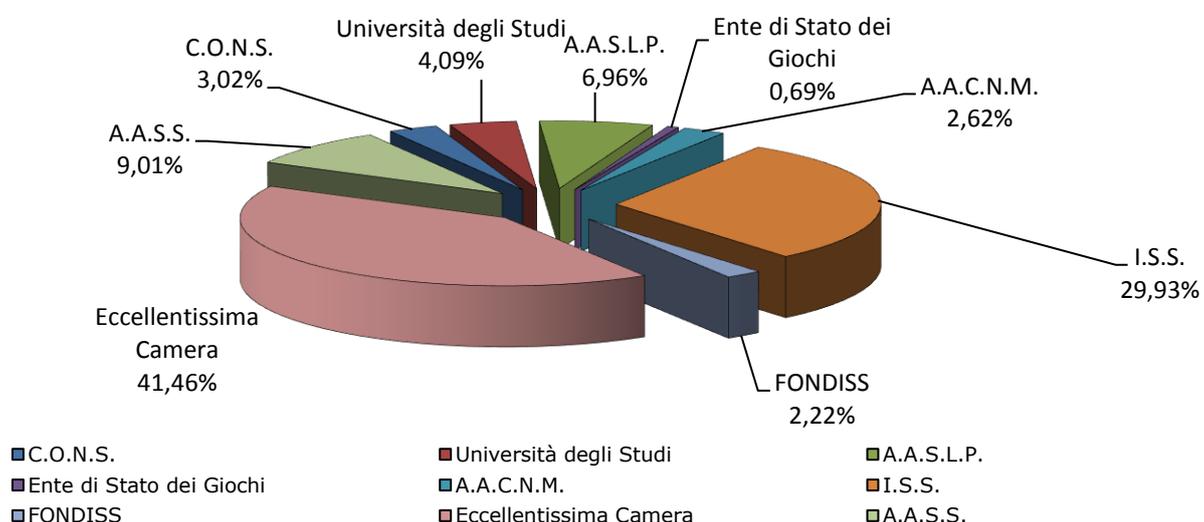
Table 28 - Volumes processed expressed in relation to the number of provisions

Entity	2016					2017					2018				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	374	102	1,858	30	2,364	395	118	1,929	56	2,498	370	120	2,003	35	2,528
University	250	74	2,868	37	3,229	319	77	2,650	39	3,085	409	78	2,912	33	3,432
A.A.S.L.P.	553	302	4,784	124	5,763	570	310	4,950	102	5,932	595	316	4,818	102	5,831
State Board of the Games	253	133	190	53	629	228	117	194	51	590	183	100	258	41	582
A.A.C.N.M.	976	339	201	40	1,556	1,141	277	212	37	1,667	1,569	345	238	41	2,193
I.S.S.	3,463	5,172	15,590	199	24,424	3,521	5,127	16,141	244	25,033	3,849	5,011	16,042	192	25,094
FONDISS	7	1,632	113	13	1,765	6	1,701	59	24	1,790	6	1,771	58	24	1,859
Most Excellent Chamber	5,850	14,149	10,825	257	31,081	7,907	14,177	10,515	261	32,860	8,852	15,016	10,558	333	34,759
A.A.S.S.	653	602	6,068	196	7,519	976	760	5,905	214	7,855	815	868	5,643	231	7,557
Total	12,379	22,505	42,497	949	78,330	15,063	22,664	42,555	1,028	81,310	16,648	23,625	42,530	1,032	83,835

Notes: REV = Collection orders PPE = Pending Incoming Items MAN =Payment Orders PPU = Pending Outgoing Items
Source: Central Bank (data updated as at 31/03/2019).

The collection of incoming funds, in accordance with usual procedures, took place mainly through the branches of the banks present in the territory of San Marino, as governed by a specific Agreement entered into on 24 February 2005 between the Central Bank and the commercial banks, and, to a lesser degree, through the branches of the Central Bank's Treasury Department. For both methods, the Treasury Department credited the amounts collected to management accounts of the Entities, creating pending incoming items on the areas of relevance of the individual offices of the Public Administration; subsequently it transmitted the relevant accounting vouchers, the hard-copy documents, and the reporting to said offices.

Figure 41 - Percentage volumes for collection and payment transactions executed by the Treasury Department in 2018



The figure shows how most of the transactions, expressed in percentage terms, were carried out on behalf of the Most Excellent Chamber (41.46%) and the Social Security Institution (29.93%); followed by the Autonomous State Authority for Public Services (9.01%), the Autonomous State Authority for Public Works (6.96%), the University (4.09%), the National Olympic Committee of San



Marino (3.02%), the Authority for Civil Aviation and Maritime Navigation (2.62%), FONDISS (2.22%), and the State Board of the Games (0.69%).

In 2018, the Treasury Department worked to facilitate growth in collections through the instrument of the direct debit. This method is used mainly for the utilities of the Autonomous State Authority for Public Services, for school meal services, services performed by the Social Security Institution, management of the SMAC (both as discounts applied and as monthly top-ups).

In 2018, the Treasury Department, in addition to the Treasury-related collections for which it is responsible, also managed during 2018, on behalf of the Overdue Tax Collection Department, the collections related to the tax collection notice and the collections made by the Collection Officers. Pursuant to Law no. 44 of 23 March 2007, 772 credit offsetting practices relating to payment orders in favour of parties in arrears with the Public Administration were also processed.

As regards the payments, during FY 2018, the use of bank transfers prevailed over cheques for postal orders and receipts: however, the use of the latter instrument is still adopted for certain types of payment. In particular, in 2018, there was still considerable use of the cheque (7,565) for pension payments. Nevertheless, it is expected that the use of the drawing and receipt cheques will decrease significantly, also due to Article 24 of Law no. 146 of 19 September 2014 where, under paragraph 4, it envisaged that taxpayers must report their current account for settling their credit positions

Finally, as usual, it periodically prepared and transmitted the reporting required by current regulations and agreements between the parties to the Broader Public Administration. Specifically, on a daily basis, it transmitted cash ledgers with the summary of incoming and outgoing movements for each Entity; on a monthly basis, it transmitted the statements of account, cash audits and the reconciliation statements required for balancing financial flows and the balances of the current accounts on which the amounts of the Entities are paid; as with every year, the Financial Statements were prepared and transmitted, as provided for in Article 3 of Law no. 35 of 3 March 1993 "Establishment of the Sole Treasury Service" (as amended by Article 51 of Law no. 96 of 29 June 2005), and in the provisions pursuant to Law no. 30 of 18 February 1998 "General Rules on the Accounting Legislation of the State" as amended and supplemented.

In addition to the ordinary Treasury service, since last year the Department collaborated together with other Departments of the Bank to collect and process statistical data relating to the liquidity position of the Most Excellent Chamber and other Entities²⁸. The reports received include current balances and forecasts up to 12 months regarding inflows/outflows and the consequentially expected stocks and have been included, together with similar values forwarded by the banks and data relating to the central bank itself, in a model created in collaboration with the International Monetary Fund; the model's purpose is to make liquidity forecasts for the Public Administration, the banking system, and the Central Bank.

2.11 Overdue Tax Collection Department

The Overdue Tax Collection Department of the Central Bank performs the tax collection service and other task absorbed on behalf of the State and the Authorities and Entities of the Public Sector, as well as the sanctions of the Central Bank and the FIA, pursuant to Law 70/2004, additional rules on the matter and the specific agreement stipulated with the Most Excellent Chamber.

The collection activity concerns the revenues that Tax Authorities have not collected within the regular deadlines and for which enforced collection must be initiated. The taxes relative to the so-called "Single tax bill" are an exception and are collected directly via the overdue tax listing.

The Overdue Tax Collection Department is entrusted to collect taxes via the overdue tax listing issued by the Tax Authority, based on which the tax collection notice is created and notified to

²⁸ In particular, the AASS, the ISS, the Consiglio di Previdenza (management body of the State Pension fund), Fondiss.



the debtor. The ensuing collection activity is organised different processes which run from those relative to managing collections down to the compulsory enforcement and sale at auction of the attached assets.

The following data and analyses illustrate the work which the Overdue Tax Collection Department carried out in 2018, employing an average of 6 resources.

During the reporting year, a number of legislative measures, mainly implemented under Law 147/2017, changed the regulatory framework governing the provision of the service. Of the changes made, those with the most significant impact on the Department's processes are reported below.

The launching of the two facilitated settlement procedures (the so-called *rottamazioni* (scrapping)) has allowed taxpayers to arrange for their compliance with the Overdue Tax Collection Department obtaining relief in terms of penalties and interest related to taxes subject to entry in the overdue tax listing against full payment of the debt within 15 November 2018. These procedures involved a considerable effort by the Department in managing the individual investigations and the related recovery plans but allowed the settlement of long-standing problem cases ensuring timely collection by the state of the debt actually collectable and redefined via facilitated settlement procedures (*rottamazioni* [scrapping]). In particular, the procedure led to the collection of approximately Euro 4.5 million, involving a total of 270 debtors.

An amendment to Article 197 of the Criminal Code, on the other hand, extended the criminal sanctions already envisaged for the crime of embezzlement (Article 197 (1), (2), and (3) of the Criminal Code) to the legal representative of debtor companies for non-payment of social security contributions. This provision introduced a new process incumbent upon the Department, for reporting, to the Judicial Authority, parties who have incurred in non-payment of social security contributions when said contributions, recorded in tax collection notice with a due date on or after 30/6/2018, attain a sum of Euro 10,000.00 divided into three or more items. In implementing this measure, already in 2018, the Department made several reports for a total sum exceeding Euro 300,000.00.

The compensation for the collection activity performed by the Overdue Tax Collection Department was determined, for the previous years, on a flat-rate basis as part of the three-year remuneration agreement stipulated between the Bank and the State Congress pursuant to Article 22 of Law no. 96 of 29 June 2005.

2.11.1 Entries in the Overdue Tax Listing for 2018

Entries in the Overdue Tax Listing totalling 44 million relative to 37,045 items were made in 2018.

Table 29 - Entries in and cancellations from the Overdue Tax Listing

Items	2016		2017		2018	
	Amount	Number of items	Amount	Number of items	Amount	Number of items
Managed	48,586,324.91	36,322	47,286,469.43	39,134	44,035,213.60	37,045
Cancelled	9,512,904.99	2,594	16,352,014.11	3,670	5,239,681.27	4,071
% Cancelled	19.6%	7.1%	34.60%	9.40%	11.90%	11%

The entries in the overdue tax listing of 2018 decreased by about Euro 3.3 million compared with those of 2017 (-6.9%). During 2018 the number of cancellations carried out also increased considerably (approx. 6.8 million more than 2017).

The average value of the items entered in the overdue tax listing came to around Euro 1,200.00. However, the amount of debt at which the various Entities proceed to make entries in the overdue tax listing is quite variable.



Comparing the 2018 and 2017 entries in the overdue tax listing divided between the various Entities does not reveal significant differences considering the aforementioned general reduction in numbers in the overdue tax listing both in terms of amount and number of items.

Table 30 - Overdue tax listings in 2017-2018 broken down by Entity

Entity	2017			2018		
	Amount	Overdue Tax Listings	Number of items	Amount	Overdue Tax Listings	Number of items
Most Excellent Chamber	37,418,770.43	104	30,589	35,873,815.76	82	29,195
Social Security Institution	7,355,877.83	96	4,697	5,725,104.11	103	3,906
Fondiss	722,362.70	27	3,415	683,102.64	23	2,612
Autonomous State Authority for Public Services	1,674,792.54	34	415	1,615,163.08	106	1,322
Central Bank	84,665.93	4	17	138,028.01	4	10
Financial Intelligence Agency	30,000.00	1	1	-	-	-
Autonomous State Authority for Public Works	-	-	-	-	-	-
Total	47,286,469.43		39,134	44,035,213.60		37,045

The entries in the overdue tax listing made by the Most Excellent Chamber correspond, as in the previous year, to approx. 80% of the total (both in terms of amount and items). Of the remaining Entities, the ISS entries shrank slightly passing from 16% for 2017 to 13% for 2018, those of AASS remain at 4%, whereas those relative to the Central Bank and FIA involve amount on the whole less than 1% of the total.

Table 31 - Entries in the Overdue Tax Listing in 2018 of the offices of the Most Excellent Chamber

Office	Entry in the Overdue Tax Listing		Cancellations from the Overdue Tax Listing	
	Amount	Number of items	Amount	Number of items
Indirect taxation section of the Tax Office	20,299,601.69	7,052	3,249,687.30	1,924
Direct taxation section of the Tax Office	10,720,454.22	1,362	489,890.56	139
Registry	4,187,722.71	19,864	36,865.91	172
Civil Police	271,964.22	681	30,293.51	126
Gendarmerie	30,376.00	31	12,610.29	12
Guardia di Rocca	12,388.00	14	2,644.18	7
Administrative Control Office	310,300.00	50	151,008.00	11
Vehicles Register	17,597.00	101	923.41	4
Inspectorate for the Control of the Territory	1,000.00	1	716.60	1
Elementary Schools Directorate	18,231.92	38	336.00	1
Land Registry Technical Office	4,180.00	1	-	-
Total	35,873,815.76	29,195	3,974,975.77	2,397

Within the Most Excellent Chamber, the Tax Office makes the most entries in the overdue tax listing, in terms of amount: those of the indirect taxes section correspond to 56.60% of the total, while those of the direct taxes section constitute 29.90% of the total (overall they amount to 86.5% of the total, unchanged from the previous year). On the other hand, the 11.70% came from the Office of the Registry and referred, almost completely, to the 2018 single tax bill.

The Tax Office generally records the highest amount of taxes due in relation to companies winding-up or, in particular, to companies in difficulty, following IGR or Single Phase assessments that result in significant adjustments to the taxes declared and self-liquidated by the taxpayer. Collecting these taxes is often more complex both in terms of enforcement proceedings (often insufficient) and in terms of litigation generated on the tax and consequently on the generation of the overdue tax listing.

Table 32 - Entries in the Overdue Tax Listing in 2018 offices of the Social Security Institution

Office	Entry in the Overdue Tax Listing		Cancellations from the Overdue Tax Listing	
	Amount	Number of items	Amount	Number of items
Contributions office	5,643,900.96	3,498	891,314.81	1,329
Public Healthcare Department	22,835.92	24	8,508.39	15
External healthcare benefits office	23,500.00	17	-	-
Accounting Office	34,867.23	367	19,736.15	39
Fondiss	683,102.64	2,612	75,475.34	218
Total	6,408,206.75	6,518	995,034.69	1,601

The entries in the Overdue Taxes Listing by ISS and Fondiss' mainly concern contributions both from employees and self-employed workers and administrators.

As regards the debt entered in the overdue tax listing for social security contributions, handling the collection involves compliance with certain special provisions which allow, by authorisation of the Tax Authority, the total cancellation of penalties (equal to 10% of the actual claim), when the taxpayer pays the total amount in a lump sum, or a reduction of 75% if the taxpayer opts for the complete extension of the debt pursuant to Article 34 of Law 70/2004. As a result of these circumstances, also, the amount of the cancellations compared to the items originally entered in the overdue tax listing had an impact of 17%.

2.11.2 Collection activity since the start of the Service

From 2005 to 2018, **Euro 682.7 million** had been entrusted by the Creditor Entities to the Overdue Tax Collection Department for collection. Of these, about 20.50% were cancelled. Usually, most of the cancellations are made at the initiative of the Tax Authorities themselves following collection at its own counters which took place after having submitted the overdue tax listing, rulings undergoing internal review, or errors in the processing of the overdue tax listings. On the other hand, the cancellations made at the initiative of the Overdue Tax Collection Department mainly concern events relative to insolvency or winding-up proceedings. For several years, the figure relating to cancellations has been influenced by the increase in the cases of direct collections by Tax Authorities, also due to the more comprehensive possibilities to offset tax payables and tax receivables allowed by law.

The amount of the collections made by the Department, from the beginning of its activity on 31 December 2018, exceeded **Euro 209 million** overall, of which **approximately 19 million** in 2018 alone. Comparing the figure for collections made during 2018 (also relative to taxes from previous years) with that relative to the amount of the overdue tax listings net of cancellations in that same year, a recovery of around **48.40%** is observed. Comparing the total collections with the total overdue tax listings, net of cancellations, a recovery of around **38.50%** is observed. The evolution in collection trend for the Department over the last 5 years is provided below:



Table 33 – Evolution of Overdue Tax Collection Department (last five years)

Year	Total collection	Number of items	Additions to overdue tax listing net of cancellations	% collection
2014	16,720,734.87	23,807	33,936,750.22	49.27%
2015	15,370,416.64	24,071	40,306,393.72	38.13%
2016	16,963,453.72	25,592	39,073,382.40	43.41%
2017	17,575,670.26	27,141	30,934,455.32	56.82%
2018	18,777,638.07	25,997	38,795,532.33	48.40%

The data show an increasing trend in the amount collected in absolute terms, and concomitantly a more oscillatory recovery, nevertheless average about 47%. This trend shows a progressive increase in the effectiveness of the tax collection activity which, as explained further on, is characterised by the search for forms of recovery capable of allowing the greatest recover possible recovery for the Tax Authorities.

The collections made during the year mainly took place via the banking system (collection slips, pre-authorised debits or wire transfers), while the remainder (about 18% for an overall value of approximately Euro 1 million) via direct management by Central Bank personnel (collections at the counters, during auctions, through attachment, or through attachment of debt owed to the State or other compensations).

With respect to the overall sum of the overdue tax listings taken up since the start of the activity (2005), the sum of the items being handled amounts to a total of approx. Euro 150 million (equal to approx. 27.7% of the overall total). These items are subject to enforcement proceedings or still need to be initiated, in compliance with the priority selection criteria for the interventions which take into account various factors such as the sum of the accumulated debt, recidivism, the taxpayer's reliability, the business' status (i.e. whether the licence is active or suspended), employee protections. Very often, the mere initiation of the enforcement proceedings is an effective deterrent which inducing taxpayers to clear their debt position or find solutions for a payment extension. The extensions granted pursuant to Article 34 of Law no. 70/2004, in effect on 31/12/2018, concern overdue tax listings of approx. Euro 13 million, of which the percentage to be collected based on the financial amortisation plans came to 78.30% overall. The aforementioned extensions are covered by suitable forms of guarantee in favour of the Central Bank (first demand bank guarantee or mortgage) and may have a maximum term of up to 5 years. In line with what was recently clarified also by Article 3 of Decree-Law no. 52/2018, the Overdue Tax Collection Department considers, among the criteria pointing to a low priority for initiating enforcement proceedings, the fact also that the debtor is committed to settling their debt position within a short period through scheduled payments (so-called "payment plan") which are paid promptly.

The amount of the items relative to subjects involved in insolvency proceedings came to 110.9 million as at 31 December 2018 (20.50% of the total) while those which could not be collected came to 63.3 million (11.70%).

The overdue tax listings assigned to the Department for collection also include those relating to taxes flowing into the Cartella Unica delle Tasse (Single tax bill) In 2018, the collection of said taxes entailed the issuing of 19,854 single tax bills for a total amount of approximately Euro 4.2 million.

As already reported several times over time, the process of collecting the Single Tax Bill requires corrective measures to streamline the service. The high number of bills, more than 70% of which entail a sum of Euro 20.00, suggests finding alternative forms of collection (as part of the tax return, for example), to avoid collection processes that entail management costs (mailing, the issue of duplicates, late collections, notifications) disproportional with respect to the amounts to be collected.

2.11.3 Enforcement proceedings, precautionary measures and auctions

If the tax collection notice issued by the Overdue Tax Collection Department is not paid within the due date, the Overdue Tax Collection Department is required to take action to collect the sums entered in the overdue tax listing, initiating the proceedings provided for by legislation in force. The procedures may be precautionary (statutory or conventional lien) or executive (attachment orders).

By analysing the total collections achieved in 2018, taking into account the management of the single tax bill and the cancellations, approx. 70% of the amounts confiscated involved notices paid after the due date and required an intervention of the Overdue Tax Collection personnel (through enforcement proceedings, auctions, applications for extension or simply through direct relations with the debtors).

Consistent with past years, the collection activity centred on the objective of maximizing revenue for the Tax Authority by implementing the instruments to recover the taxes comprising the debt and the relative ancillary charges. In particular Article 12 of the Agreement anticipates that *"the Tax Collector, when carrying out his activity receives the maximisation, also in not immediate terms of time, of the collection in favour of the Entity....the Tax Collector identifies, case by case, the best strategies for the collection of the receivable, taking into account the more or less cooperative and responsible behaviour of the debtor and the actual level of risk of diversion of his assets, in order to render the recovery action more fruitful and faster."*

Consistently with the foregoing submissions, the enforcement proceedings in the strict sense, i.e., referring to the material expropriation of the debtor's assets, did not, therefore, represent the only instrument available to the Department to collect the amounts entered in the overdue tax listing. Beyond cases granting debtor extensions pursuant to Article 34 of Law 70/2004 or the definition of repayment plans, the Department arranged for:

- the *ex-lege* compensation of payments made by the State and by the Entities of the Public Sector in favour of subjects with taxes payable for overdue tax bills;
- the collection by voluntary partial assignment of the debtor's or of third-parties' (in the interest of the debtor) salaries or pensions;
- the registration of legal or conventional mortgages on the real estate of the debtor (or of third parties in the interest of the debtor) in order to preserve the possibilities of executing enforcement proceedings and at the same time allowing the completion of procedures in place that may allow the debtor to pay the sums due (alienation of real estate, company restructuring, etc.).

Sadi instruments, in addition to those of deferment, have proven to be more effective than enforcement proceedings, leading to recoveries greater than the prospects of recover through the attachment and auctioning of expropriated assets.

As already stated in 2018, the recovery strategies were also based on the following principles:

- measures for the facilitated settlement of taxes payable (the so-called *rottamazioni* (scrapping));
- some new rules introducing criminal sanctions for failure to pay social security contributions;
- new rules that introduced the so-called "Debtors Register", which will be launched in 2019.

As regards the executive action in the strict sense, there were 260 security or real estate attachments, of which 38 were negative because the debtor could not be tracked or a lack of attachable assets. The enforcement proceedings were imposed, as in the past, based on periodic classifications of the taxpayers relative to the "recovery risk" indicators which provide a guide for determining the order of enforcement of the attachment activity and the choice of the most appropriate strategies (both in terms of prospective recovery and time). In some instances, the enforcement proceedings also originated from cooperation with tax authorities, police forces, or other enforcement agencies.



As a rule, the Department normally conducts two auctions per year, each composed of three different attempts to sell, approx. one month apart. In addition, some "special" reserved auctions are also organised for particular categories of potential buyers (sector operators, stockists, etc.) when the assets attached are not of general interest on account of their characteristics. In 2018, 2 ordinary auctions (with three attempts to sell each) and 6 special auctions were carried out.

In terms of amount, the sum of assets sold during the year (and the consequential recovery) was less than in previous years, but the figure did not influence the general trend in collections. As pointed out previously, collection activities during the year involved the use of collection instruments other than attachment (also due to the facilitated settlement procedures) with positive results in terms of effectiveness of the action (in fact, the amount of collections increased by about Euro 1 million compared to the previous year's figure).

Upon termination of the enforcement proceedings, when no further expropriation actions can be carried out and a debt situation remains, the Overdue Tax Collection Department, even sometimes on behalf of the Tax Authorities, has requested the opening of bankruptcy proceedings for those taxpayers in a state of insolvency.

2.11.4 Civil Actions

Pursuant to Article 5(5) of Law no. 70/2004 *"The Tax Collector is authorised to assume the defence, through his own attorney, of the Most Excellent Chamber, the Entities and the Autonomous Authorities, in the legal actions initiated due to the collection, at the Single Court. For the purposes of this point, the provisions of Decree no. 56 of 26 April 1995 apply to the employee of the Central Bank"*. It follows that up to today the Tax Authorities could have avoided recourse to Attorney General's Office or private attorneys for their defence in court and more in general within the scope of the dispute pertaining to taxes entered in the overdue tax listing.

In point of fact, the lawyer, an employee of the Central Bank assigned to the Overdue Tax Collection Department, appears in Court to defend and on behalf of the aforementioned subjects, both as the plaintiff and as the defendant. More often than not, these involve voluntary interventions in the civil-enforcement cases where the plaintiff asked the Law Commissioner to proceed with the sale at auction of a piece of real estate owned by the defendant and when there is an attachment on that asset carried out by the Collection Officials in their collection activities or a mortgage registered in favour of the Central Bank. Sometimes, however, it is the Overdue Tax Collection Department itself which takes the initiative of initiating a civil action, often of a precautionary nature (seizure, revocatory, etc.) to preserve the integrity of the debtor's assets in view of the enforcement proceedings.

As regards the voluntary-jurisdiction cases involving the acceptance of inheritance, the lawyer of the Overdue Tax Collection Department enters a statement in the records reporting the deceased's debts and thereby preferentially enforcing his credit.

With regard to the administrative cases, the subject matter of the appeal is the tax entered in the overdue tax listing and the resulting tax collection notice, so the lawyer of the Overdue Tax Collection Department defends the tax imposing authority.

In 2018, there were:

- one civil action for insolvency (recovery action) currently pending judgement;
- three administrative appeals in which the plaintiff raised a question of constitutional legitimacy regarding Article 36 of Law no. 70/2004;
- two administrative appeals awaiting judgement;
- to administrative actions on appeal;
- four cases of voluntary jurisdiction regarding the acceptance of inheritance and one case of voluntary jurisdiction for an estate in abeyance and one case of voluntary jurisdiction for mortgage fraud;
- participation in eight civil-enforcement cases;



- participation in an enforcement case for opposition to an attachment of debts for which we are awaiting the dismissal;
- one civil case regarding “corporate matters” and one civil case regarding “instrumental procedure”;
- a civil case regarding the enforcement of overdue tax collection notices;
- four *manu regia* procedures.

2.11.5 Areas of Intervention to Increase Service efficiency

The Central Bank has always played a proactive role in formulating regulatory and organisational proposals that allow the improvement over time of the effectiveness of tax-collection activity in the interests of tax authorities. The upward trend in receipts demonstrated that, since 2005, the Department's activities have continuously adapted to the economic backdrop of reference, also through the development of more effective tax collection instruments.

Consistent with this approach, during 2019, two important projects will be launched with the aim of streamlining the finalised Service:

- transferring the location of the Overdue Tax Collection Department’s offices and warehouse to more functional premises;
- developing a new IT procedure for managing tax-collection activities which will allow a reduction in the management times of the individual cases.

These interventions are preparatory steps in developing additional projects focused on expanding the Service of the Overdue Tax Collection Department and in particular those relating to the offer to the Judicial Authority regarding services for the removal, storage and sale of assets attached within the scope of bankruptcy proceedings or procedures.

Certain proposals regarding regulatory action are under development to allow more effective means to sell the attached assets. In particular, the introduction of the ability to conduct auctions electronically and more generally to carry out multiple attempts to sell over time may allow greater opportunities for recovery in the both the Tax authorities’ and the debtors’ interest.

2.12 Management of Liquidity and the Financial Portfolio

During 2018, the world economy recorded an increase of 3.7%, in line with the level attained in the previous year, 3.8%, but 0.2% lower than the estimates the IMF itself formulated in July 2018.

Notwithstanding the attenuation of certain worrisome factors that had characterised and influenced the previous year’s economic performance, such as, for example, the geopolitical tensions including that caused by the war in Syria which seems to be approaching a conclusion and by the presence of the so-called “Islamic State”, by now in the process of complete disintegration, all the same, the economic growth in H2 for the year had slowed as a result of the concerns and effects of the so-called “trade war” characterised by the imposition of tariffs making international trade more viscous.

The U.S.A., after having threatened its main trading partners with the imposition of import tariffs on numerous products, has effectively implemented these measures, but has concomitantly initiated negotiations aimed not only at the removing these tariffs, but of especially redefining the trade agreements with the most important countries, the main one, from a trade flow perspective, is China.

According to the IMF, economic growth in the US stood at 2.9% year-on-year. As regards the Eurozone, growth was 1.8%, while for Japan it was 1.1%. The economic growth of the emerging countries stood at 4.8%. As regards Italy, the signs were encouraging also. The figure on economic growth registered an annual increase of 1.2%.

The performance of the world economies was influenced in 2018 not only by the matter of trade wars and the imposition of reciprocal export tariffs among the most important countries but



also by certain previously present problems, which continued to represent factors of instability and concern for the financial markets.

In particular, the Brexit affair and how Great Britain will leave the EU, not having been resolved, despite the long and frequent talks between European and British authorities, have had both economic and social impact on all countries, however involved. The issue regarding the potential relocation of European agencies located in Great Britain and of financial and industrial institutions that had to or have preferred to move their offices to other countries, in order to continue to remain in and operate under the rules of the European Union, was important.

Moreover, the effect of the dollar's strength on the performance of the world economies should not be overlooked; those of the emerging countries were especially pressured by the increase in yields of government bond and the growth in the risk premium, which raised the cost and weight of debt for those countries.

The situation, of course, varies from country to country, but in general, the effect could be observed in all emerging economies.

Overall, according to IMF data, economic growth in emerging economies was 4.7% in 2018.

The economic slowdown had an impact on the performance of financial markets, this being most evident in H2, with falling yield and the credit spread widening decidedly for the major issuers. For example, the trend in the generic iTraxx index, which represents the trend in the creditworthiness of the leading European issuers over the five-year maturities, moved from just above 40 at the start of the year to 110 at the end of 2018.

As regards the interest rate trends, taking the 10-year Euro swap as a benchmark, it went from 0.91% at the start of the year, to close at 0.81% at the end of 2018, with peaks above 1% in the spring and autumn.

The price of oil, like the indices of the major stock markets, reflects these economic dynamics, which deteriorated in the final part of 2018, with prices which, after having had a growing trend for the first three quarters, suffered a drastic decline in the last three months of the year.

Examining the management of the Central Bank's bond portfolio, it felt the dynamics of credit spreads which grew substantially (widening) throughout 2018, with a steep acceleration in spread widening in the last quarter of the year.

The impact on the prices of the Central Bank's securities portfolio was considerable, despite the presence of bonds issues made by issuers that are solid from an economic and financial perspective and with short/medium-term maturities.

Looking at the Central Bank's financial statements, the Balance Sheet shows that the value of the Securities Portfolio at year's end was Euro 163 million, also taking into account long-term bonds, with an increase of approximately 14% compared to value of 2017, that amounted to Euro 143 million.

At the same time, loans to credit institutions came to about Euro 112 million, with a drop of 29% with respect to the 2017 figure at Euro 157 million. Examining the components of the figure, it can be seen that both the on-demand loans (by about 18%) and to a greater extent, the "other credits" decreased (dropping by about 59%).

Loans to customers, on the other hand, grew from Euro 73 million at the end of 2017 to almost Euro 98 million for 2018, with an increase of 34%, represented almost exclusively by the item "other loans".

An analysis of the liabilities shows an increase in debts with banks that passed to Euro 219 million at the end of 2018 compared to Euro 185 million for the previous year, with a rise of 18%, mainly attributable to the rise of about 41% in on-demand debts.



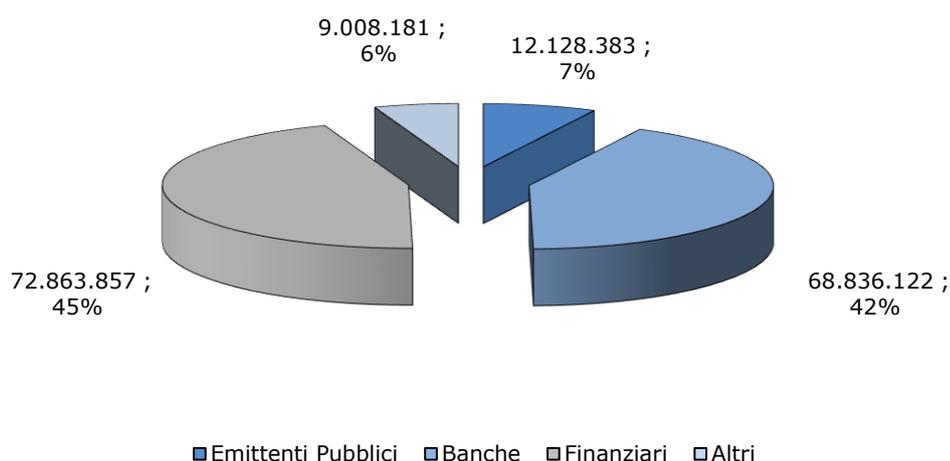
Debts with customers, on the other hand, decreased by about 20% with respect to the previous year, reaching Euro 113 million compared to 140 million in 2017. In this case, against an increase in on-demand debts of 34%, passing from 78 million to 105 million, a substantial decrease in term or notice debts, which dropped by 88%, was recorded.

The profit-and-loss-account figures show that that interest income grew 14% compared to the previous year, reaching Euro 2.6 million Euros compared to 2.3 million.

Interest expense increased 85%, with an overall cost of Euro 1.1 million compared with Euro 0.6 million at the end of 2017.

At the end of 2018, financial transactions recorded a loss of Euro 4 million compared with a profit of 1.9 million recorded at the end of 2017.

Figure 42 - Composition of the bond portfolio



Notes: Figures in Euro.

2.13 Second Social Security Pillar (FONDISS)

In 2018, social security contributions were invested on a monthly basis in time deposits with the Central Bank for H1 and with San Marino banks for H2.

The Central Bank, as a depositary bank of Fondiss, verified compliance with the investment limits, provided for the settlement of the funds for the deposit transactions carried out with the San Marino banks, as well as ascertained the correctness of the amounts reimbursed.

As in previous years, the Central Bank checked the data communicated to Fondiss regarding the monthly value of the units communicated by FONDISS, particularly, the equity and the number of units outstanding.

Table 34 - Financial instruments and other assets linked to the activities as depositary bank

Year	31 December 2017	31 December 2018
Liquidity deposited with the Central Bank	104	716
Other assets other than financial instruments and liquidity (term deposits)	55,280,000	76,638,564
Total	55,280,104	76,639,280

Notes: Figures in Euro, excluding accruals.



3 INTERNAL RESOURCES

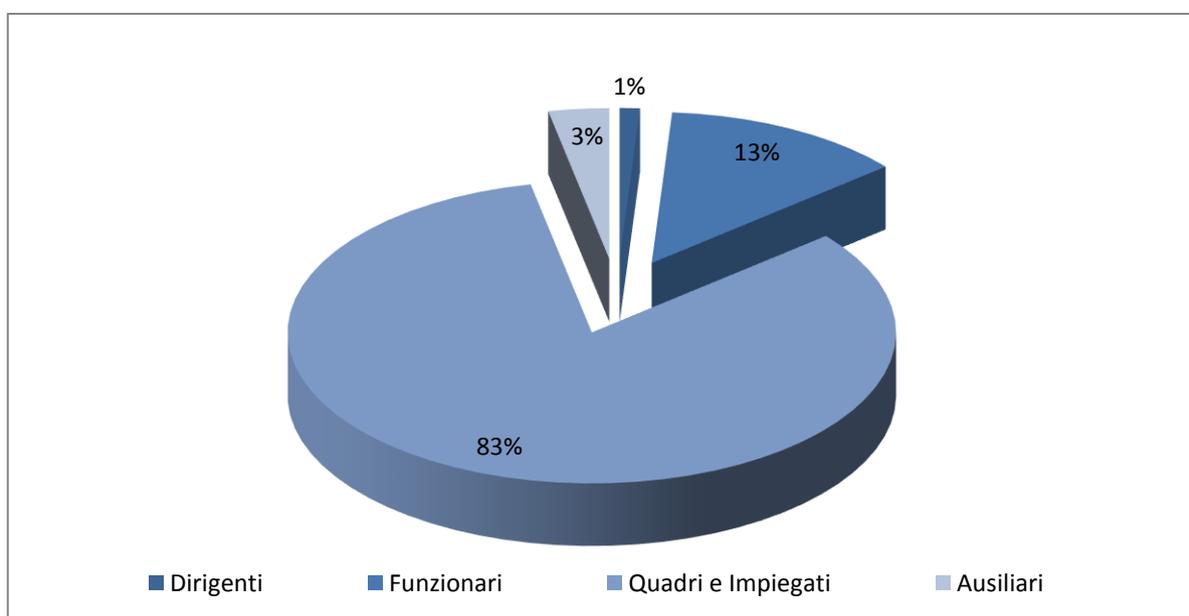
3.1 Human Resources and Corporate Staff

At the end of 2018, the number of employees of the Central Bank amounted to 93, 15 of which working at the Financial Intelligence Agency (FIA). The number of personnel decreased by 2 units compared to 31 December 2016. The average employees actually present at the bank, during the year, considering hires and terminations, part-time employees and those on extended leave, political assignments, etc., were around 83.

In year four people left the service and two were hired; moreover, there was the direct transfer to the Central Bank of the only staff member at the Fondazione Banca Centrale della Repubblica di San Marino [Central Bank of the Republic of San Marino Foundation], the transformation of a temporary employment contract into a permanent one, as well as the reinstatement of an employee in the workplace pursuant to a ruling pronounced by the Labour Court Magistrate. The new resources were mainly used to enhance the supervisory as well as the internal control departments.

Figure 43 details the breakdown of staff by category.

Figure 43 - Breakdown of the personnel of the Central Bank and of the FIA by contractual categories



Training received a major boost, with an average of 30 hours per capita compared to 7 in 2017, and concentrated especially on in-house courses. Among the most significant initiatives we note the initiation of various English language courses, involving about 35% of the employees, as well as a financial regulation and supervision training plan, also considering the commitments to implement a significant portion of the EU *acquis* in banking and finance, pursuant to the Monetary Agreement signed in 2012 between the European Union and the Republic of San Marino.

Changes and new appointments in Bank management occurred during the year.

At its 9 May 2018 meeting, the Great and General Council, pursuant to Article 13 of the Central Bank's Statutes, appointed Catia Tomasetti as Chair of the Governing Council.

After, at the meeting of 3 October 2018, the Governing Council appointed Giuseppe Ucci, lawyer, as Deputy Director acting as the Director General; at that same meeting, the coordination of Supervision Committee was further enhanced with the appointment of four Internal Inspectors.

In the first months of 2019, we note the appointment of Francesco Mancini as Vice Chairman of the Central Bank, starting on 5 March 2019, and of Nicola Muccioli as Director of the Financial Intelligence Agency, beginning on 11 March 2019.

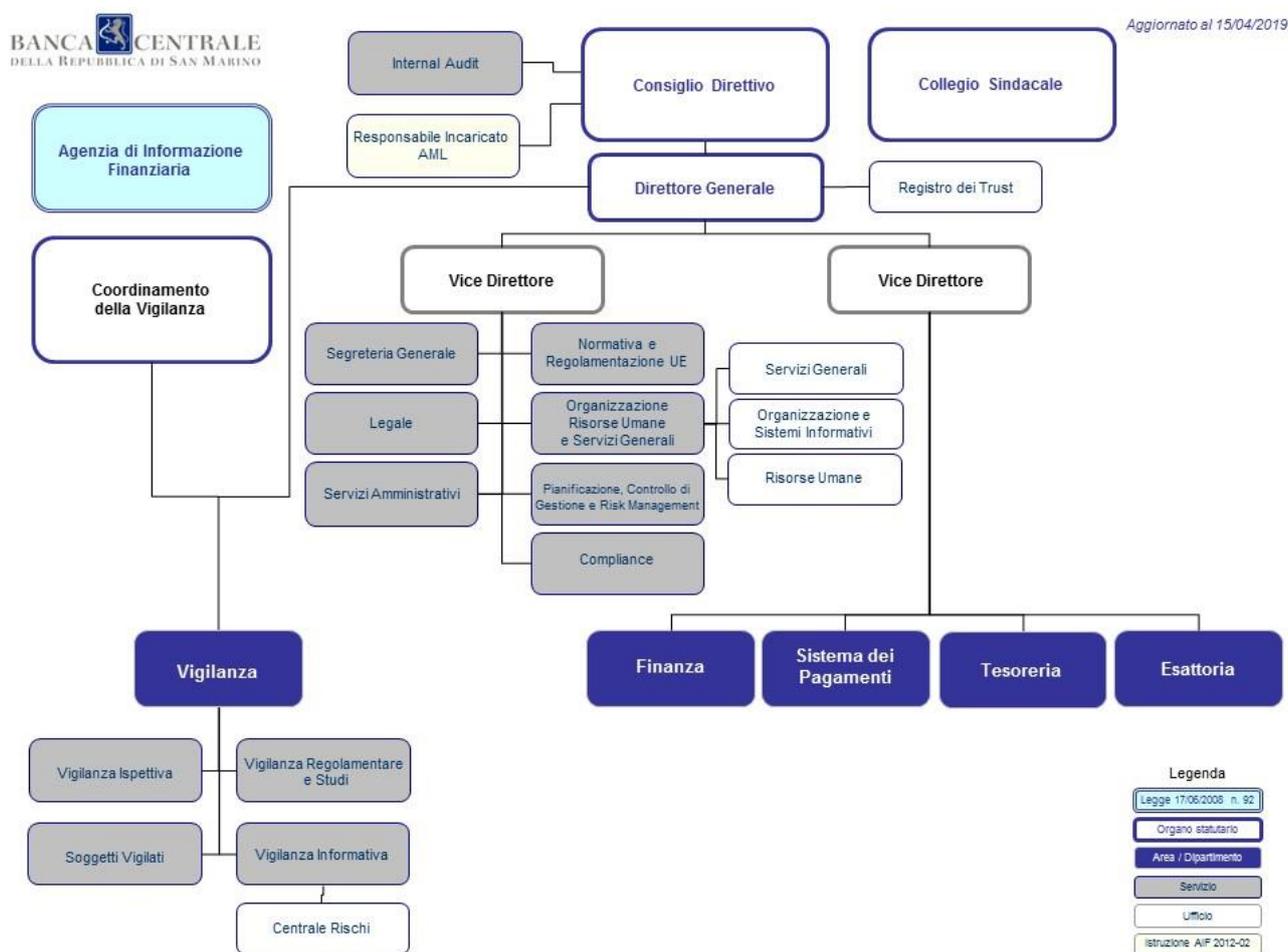
The new management will also have the task of completing a comprehensive reorganisation project, aimed at streamlining operating costs, as provided for in Article 52 of Law no. 173 of 24 December 2018.

3.2 Organisation Chart

During 2018, the Bank's organisational chart did not change significantly compared to the 31 December 2017 version.

During the first months of 2018, the Macro-economic and Financial Statistics Area was established with important duties regarding macro-economic analyses and studies, guidelines, advising government institutions on subjects connected to economic development, financial statistics, the balance of payments, consolidation of public accounts, etc.

Figure 44 - Organisation chart



3.3 Occupational Health and Safety

The current Law no. 31/1998 - occupational health and safety, the supervisory body of which is the Safety Department, anticipates continuous activities for which for constant updating and training will be provided. Especially for the risk assessment document (RAD) regarding necessary regulatory adaptations. The activity planning provided for by the regulation and Decrees was



performed to guarantee the safety levels and measures necessary for the risks inherent to the bank's activity.

Education and training activities were carried out in all areas (firefighting teams, emergency response personnel, and for bank officers and the various professionals anticipated), as well as the health monitoring conducted by the Occupational Health Physician.

Moreover, in accordance with Article 16(2) of Law no. 31/98 - Decree no. 94/99, the training course for specific risks was been carried out (Training for workers regarding specific risks present in workplaces with low-risk activities) and a new edition of the training course "Robbery, Theft or Extortion Risk Prevention" is scheduled for personnel who perform specific activities.



4 ANNUAL REPORT ON THE GUARANTEE FUND FOR DEPOSITORS

4.1 The Principal Management Events of 2018

In 2018, the Guarantee Fund for Depositors (hereinafter also the "Fund" or "GFD") made progress in enhancing its structure, both in terms of regulations and assets, also developing relations with the international organisations representing the Guarantee Fund for Depositors.

The main events that characterised the management in FY 2018 are described below.

The Fund's Management Body (hereinafter also the "Management Body") met with the Central Bank's Director General, Mr Roberto Moretti, at the beginning of the latter's term of office, former General Secretary of the FITD and Honorary Chairman of the EFDI, in order to represent the salient features of the Fund's management, the critical factors associated with the size of the San Marino banking system and the general depositors' guarantee scheme (safety net), and the actions necessary to support the Fund's costs in the first years of the start-up phase.

Subsequent to the foregoing information, in 2018 the Governing Council confirmed, until revocation, the assumption of the Fund's costs, already recognised in the previous two years of start-up, relating to its management and operation, thereby supporting the depositors' guarantee scheme to protect financial stability with its own "indirect contribution".

In April 2018, the Governing Council appointed, as new members of the Fund's Management Body, Silvia Cesarini to replace Fabio Mazza as Chair and Andrea Costa to replace Paolo Ugolini as a member, and likewise confirming Filippo Vella.

In Q1, the Fund underwent an internal audit during which the Management Body collaborated with the Internal Audit Service to provide the required documentation and feedback.

The Management Body continued to verify compliance with the member banks' obligation to generate an aggregate position per depositor (Single Customer View, hereinafter also "SCV") to help control the adequacy of internal information procedures in case of an administrative compulsory winding-up and consequent intervention of the Fund.

The member banks, therefore, provided the Management Body with the requested feedback regarding the implementation of the changes to the IT system necessary to extract the aforementioned SCV information flow.

In March 2018, the amendment to Article II.II.3(2) of Regulation 2016-01, brought into effect with Article 13 of Regulation 2018-01 ("Miscellany of measures aimed at reviewing the supervisory provisions currently in force"), which eliminated the incompatibility, for those who hold responsibilities within the organisational units or bodies responsible for exercising supervisory functions over the banks belonging to the Fund, to cover the office of member of the GFD Management Body, came into force.

On 25 April 2018, the Fund's Management Body examined, approving the contents thereof, the management report for FY 2017, prepared and submitted by Administrative Services in accordance with Regulation 2016-01.

The Fund also continued its collaboration for 2018 with the European Forum of Deposit Insurers (EFDI) as a full member for several years now. This purpose of this cooperation is to share experiences and acquire knowledge, also to implement international best practices within the Republic of San Marino's system.

To this end, in September 2018, the Central Bank participated in the annual conference and general meeting of the EFDI in Vienna, where it acquired the status of observer country in the Affiliation of Micro-European States (AMES), which represents a specific EFDI working group.



As part of this activity, the Central Bank, through its International Relations Service, also sought further information regarding the future hosting the EFDI General Meeting and International Conference.

Collaboration with the International Association of Deposit Insurers (IADI) also continued, participating, among other things, by filling out the Annual Survey; at present, the GFD is not currently a member of this association and a cost-benefit analysis is being made, taking into account the system's small size and vicinity to counterpart European bodies.

The Management Body, through the International Relations Service, also took part in the annual consultations with the International Monetary Fund experts within the scope of the audits pursuant to Article IV of the IMF Statute, providing its own contribution and the information necessary for a comparison useful for the overall assessment of the country system.

The Management Committee established the annual contribution share for the fund for 2018, on the part of participating members, to be 0.07% of the protected deposits, corresponding to a total of Euro 1,070,913, divided among the 6 member banks.

Following the contribution for 2018, the coverage level of 0.47% of protected deposits was reached; this is equivalent to Euro 7,348,555 compared to Euro 6,239,716 at the end of 2017. The increase in the fund is due not only to ordinary contributions but also to interest, amounting to Euro 37,886, on capital investments in repurchase agreements with the Central Bank, with underlying eligible securities; this figure increased compared to the previous year, which stood at Euro 21,748.

The target level, corresponding to the minimum level of financial resources that the GFD is required to attain based on current regulations, is set at 0.80% of the protected deposits, within 3 July 2024. The Management Body reserves the right to assess whether the aforementioned level of 0.80% has been exceeded, to obtain *ex ante* financial resources above the minimum European threshold, having taken into account the peculiar features of the San Marino system and the small number of banks capable of making *ex post* contributions.

As concerns the Guarantee Fund's Organisational Regulations, in November 2018 the Management Body forwarded the relevant Central Bank departments a proposal for a new description of the Management Body of the Guarantee Fund for Depositors, aimed at supplementing the "Central Bank's Internal Regulation no. 11: "Internal Organisation of the Central Bank". This new formulation, more streamlined and containing explicit references to the regulations governing the Fund, replaces the previous version, already approved on 17 February 2017 by the incumbent Management Body. The new text cites a separate internal regulation, which the Governing Council must approve to regulate how the Management Body operates (in terms of appointments, duration of appointments, frequency of meetings, quorums, calls, resolutions, minute taking, conflicts of interest, signatory powers, etc.).

For 2019, the MB planned:

- an analysis of the Single Customer View information flows of the participating banks, also for the purpose of conducting a near-term stress test in accordance with current regulations;
- the drafting of an analysis document, addressed to the Central Bank's competent bodies, relating to the deposit guarantee scheme, for the purpose of highlighting the equity and organisational aspects of the GFD, also with the aim of analysing possible measures to remedy the scheme's limitations.

In conclusion, it is safe to say that 2018 was a year during which the GFD Management Body was particularly busy:

- ordinarily, in periodic meetings to manage the current assets and the investment assets of the capital base;
- extraordinarily, in the renewal of the members of the Management Body and the relations maintained with International Organisations.



4.2 Fund Numbers as at 31 December 2018

Numbers	
6	participating banks (in alphabetical order Banca Agricola Commerciale – Istituto Bancario Sammarinese S.p.A.; Banca CIS S.p.A.; Banca di San Marino S.p.A.; Banca Impresa San Marino S.p.A.; Banca Sammarinese d'Investimento S.p.A.; Cassa di Risparmio della Repubblica di San Marino S.p.A.)
61,483	the total number of protected depositors of the GFD in the 6 member banks
1,545	million, the total value of the "deposits protected" by the GFD
7.3	million, the value of the GFD's "available financial means"
0.47%	approx. the percentage value of the initial endowment of the GFD
0.8%	the minimum level objective to be reached through ordinary contribution by 3/7/2024
20	business days, the ordinary deadline withing when the GFD is called to reimburse the depositors from the effective date of the administrative compulsory winding-up (starting on 01/01/2019, those days become 15)
3	the Central Bank employees who, as Management Body members are called to regularly see to the management of the GFD, even though not exclusively

4.3 2018 Statement

For a review of assets and liabilities as well as operating costs and revenues for 2018, please refer to the "Statement of Operations for FY 2018", prepared pursuant to Article III.III.2(2) of Regulation 2016-01, contained in the financial statements of the Central Bank, of which it is an integral part. This report includes the balance sheet, the profit and loss account, and notes to the financial statements and is accompanied by the reports by the Central Bank's Board of Statutory Auditors' and by the Auditing Firm thereby appointed



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