

BANCA CENTRALE
DELLA REPUBBLICA DI SAN MARINO



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

ANNO 2020



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Year 2020



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A Publicly and privately owned entity

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

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June 2021

COMPOSITION OF THE STATUTORY BODIES*

Governing Council

Catia Tomasetti - Chairman
Francesco Mancini - Vice Chairman
Francesco Ielpo
Martina Mazza
Antonella Mularoni
Giacomo Volpinari

Board of Statutory Auditors

Pier Angela Gasperoni - Chairman
Valentina Di Francesco
Monica Zafferani

Directorate General

Giuseppe Ucci - Acting Deputy Director
Daniele Bernardi - Deputy Director

Supervision Committee

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

The Central Bank Statutes (Law No. 96 dated 29 June 2005 and subsequent amendments) provides that the Bank is responsible for reporting the achievement of its own objectives to the Great and General Council, which appoints the Chairman, the members of the Governing Council and the Chairman of the Board of Statutory Auditors. Consistent with the duties assigned to it under the Statutes, the Bank prepared the Annual Report containing a report on the operations carried out during the previous year and information about the performance of the financial system. Pursuant to the Law, the Annual Report must be approved by the General Meeting of the Shareholders and then submitted to the Great and General Council through the Finance and Budgetary State Secretariat.

* as at 29 June 2021

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LIST OF ABBREVIATIONS

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

NOTICE

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

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

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

1 THE FINANCIAL SYSTEM

As at 31 December 2020, 12 companies were registered in the Register of Authorised Entities. In detail, the San Marino financial system was composed of 5 banks, one of which is under resolution procedure (pursuant to Law 102/2019), one finance company, 3 management companies, one payment institution and 2 insurance undertakings (authorised to exercise the activities under letter G of Annex 1 of the LISF). Compared to 2019, the number of authorised entities decreased by one as the only fiduciary company present renounced, during 2020, the reserved activities, pursuant to articles 8 and 47 of the LISF.

Completing the picture of the financial system are insurance and reinsurance intermediaries registered in the relative Public Register. At the end of 2020, there were 32 intermediaries conducting business, of which one was suspended. In 2020, one new intermediary was registered and six were deleted. It should also be noted that 46 persons responsible for insurance mediation active were registered in Section A of the same Register. The list of foreign insurance undertakings, authorised to carry out insurance business in the Republic of San Marino under the regime for the provision of services without any establishment through intermediaries, included 40 insurance undertakings, of which 21 were Italian and 19 from other States.

Below, starting in 2018 is indicated the number of authorised entities.

Table 1 - Authorised entities and insurance intermediaries

Authorised entities	2018	2019	2020	31 March 2021
Banks	7*	5**	5**	5**
Financial/fiduciary companies	3	2	1	1
Investment companies	0	0	0	0
Management companies	3	3	3	3
Insurance undertakings	2	2	2	2
Payment institutions	1	1	1	1
Total	16	13	12	12
Insurance and reinsurance intermediaries	37	37	32	33***

Notes:

* One bank, although still registered in the Register of Authorised Parties, was not active.

** A bank is subject to resolution proceedings initiated on 22 July 2019, pursuant to Article 4 of Law No. 102 dated 14 June 2019.

*** This number includes entities listed in the Register of insurance and reinsurance intermediaries that conduct business and, in particular, 6 natural persons, 24 legal persons in the form of non-financial companies, 3 financial undertakings also engaging in insurance mediation. Of the 33 intermediaries, 2 entity had been suspended from operations. It should be noted that Section A no. 48 included natural persons as Managers of insurance intermediation activities not exercising any economic activity, one of which is inoperative.

In the first quarter of 2021, the San Marino financial system did not change, confirming the numbers highlighted above (5 banks, 1 finance company, 3 management companies, 1 payment institution and 2 insurance undertakings).

In the first three months of 2021, with regard to insurance intermediaries who carried out economic activities, there were one new suspension, one new registration and no cancellations. Furthermore, with regard to the persons in charge of the business registered in section A of the aforementioned Register, there were 2 new registrations while one person was inactive. As at 31 March 2021, there were no changes in the list of foreign companies.

With reference to other registers and lists maintained by the Central Bank, the following is noted.

In 2020, there were no changes in the Parent Company Register compared to the previous year, confirming the registration of 3 banks and 1 insurance undertaking as at 31 December 2020.

The Register of Professional Trustees of the Republic of San Marino recorded, in the period under review, an increase in the number of registered trustees by 3 units, for a total of 15 entities,

also following the issuance of Regulation 2020-02, amending Regulation 2010-01, which provided for the registration, with the indication of the wording "inactive", of professional trustees if they meet the requirements set forth in Article 11(4) of the aforementioned Regulation 2020-02, but with the possibility of exercising this "Office" in the future. As of 31 December 2020, there were 3 inactive professional trustees belonging to the category of self-employed professionals.

Table 2 shows the number of operators on the Registers and Rolls maintained by CBSM as at 31 December 2020.

Table 2 - Operators registered in CBSM Registers as at 31 December 2020

Authorised entities	2020
Register of authorised entities	12
Register of parent companies	4
Register of insurance and reinsurance intermediaries	32
Register of Financial Promoters*	32
Register of professional trustees in the Republic of San Marino**	15
Total	95

Notes: * As at 31 December 2020, the number of members was related entirely to the section "Employees of authorised entities engaging in cold-calling";
 **As at 31 December 2020 the Register of Authorised Trustees of the Republic of San Marino included 4 banks, 6 self-employed professionals, out of which 3 were "inactive", and 5 non-financial companies.

It should be noted that during 2020, following the issuance of Regulation no. 2020-03, the Public Register of Independent Advisors was established, while in the first quarter of 2021 the Register of Payment Service Providers was established following the entry into force of Regulation no. 2020-04 implementing the PSD2 Directive. For more information on these Registers, please refer to paragraphs 1.2.7 and 1.2.8 below.

1.1 The Banking System

1.1.1 Ownership structure and actual beneficiaries

As at 31 December 2020, taking into account the banks registered in the Register of Authorised Entities only one had a shareholding structure composed, for the most part, of non-resident entities, mainly trust companies or holding companies, while the remaining 4 had a shareholding structure comprised of resident entities, natural and legal persons, thus indicating the same situation as in 2019. Among the latter, a bank presented the State as 100% shareholder and a bank, subject to resolution proceedings, presented the Central Bank as shareholder.

Since 1 March 2017, pursuant to Article 43 of Law no. 144/2016, which introduced the obligation to publish the names of the actual beneficiaries 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, the actual beneficiaries have been included in said Register.

1.1.2 Size and structure of the system

The period under review was, among other things, heavily influenced by the exceptional circumstances brought about by the spread of the COVID-19 pandemic.

Significant events occurred during the year included the following:

- with respect to Banca Nazionale Sammarinese S.p.A.:
 - the completion of the transfer of protected liabilities from Banca Nazionale Sammarinese to the 3 transferee banks, in accordance with the resolution programme of Banca CIS, already under extraordinary administration;

- accounting for the complete removal of the residual capital deficit¹ of the bank in question;
- the issuance of the bonds by Banca Nazionale Sammarinese, in application of the aforementioned resolution programme and in accordance with the provisions of Laws No. 102/2019 and No. 115/2019;
- with reference to Cassa di Risparmio della Repubblica di San Marino:
 - the repayment of the bonds issued by Cassa di Risparmio della Repubblica di San Marino pursuant to Article 3 of Law Decree 89/2017 following the transfer of assets and liabilities of Asset Banca S.p.A. administrative compulsory winding-up proceedings en bloc;
 - the issuance of subordinated bonds by Cassa di Risparmio della Repubblica di San Marino due after 3, 5 and 7 years, in compliance with article 44 of Law no. 113/2020;
 - taking into account the provisions of Law 223/2020, the issuance of irredeemable public debt securities for a nominal amount of EUR 455 million has been arranged, reserved for Cassa di Risparmio della Repubblica di San Marino for converting 5-ter item provided for by Law Decree no. 93/2017, as amended by Law Decrees no. 101/2017 and no. 122/2017².

At the end of 2020, the system's total assets decreased by EUR 53 million compared to the previous year (-1.3%) amounting to EUR 4,165 million.

Total gross loans, equal to EUR 2,472 million, were down 5.2% (EUR -136 million) compared to 2019. Total funding rose by EUR 63 million reaching EUR 5,311 million (+1.2%) as a result of the increase in both direct funding (comprising interbank funding and collection of savings) and indirect funding, which amounted to EUR 3,643 million and EUR 1,668 million respectively. Interbank funding amounted to EUR 14 million, down EUR 6 million compared to 2019. Net equity went from EUR 253 million to EUR 243 million (EUR -10 million). The number of employees in the banking sector, equal to 440 at the end of 2020, was down by 48 compared to the previous year. The impact on the total number of employees in the country was 2.2%.

Off-balance sheet exposures are not included in loans.

Table 3 - Main size indicators of the banking system

Indicators	2018	2019	2020
Size indicators			
Total assets	4,576	4,219	4,165
Loans to credit institutions*	344	388	518
Gross loans to customers**	2,829	2,609	2,472
Total funding	5,557	5,248	5,311
Direct funding	3,929	3,631	3,643
Collection of savings***	3,861	3,611	3,628
Interbank funding	69	20	14
Indirect funding****	1,627	1,617	1,668
Net equity	309	253	243

¹ As at 31 December 2019, the annual report of Banca Nazionale Sammarinese, an institution resulting from the resolution of Banca CIS under extraordinary administration still included a portion of the latter's capital deficit to be removed under the resolution programme and in accordance with the provisions of Laws No. 102/2019 and No. 115/2019. This portion of the capital deficit, amounting to EUR 27.2 million, was composed of EUR 15.8 million referring to the reduction of the nominal value of the liabilities provided for under Article 10 of Law No. 102/2019 (a.k.a. "abatement") and EUR 11.4 million relating to the capital deficit to be transferred to the public vehicle after the benefit of such abatement. The data referred to 2019 contained in this report reflect the effects of the aforementioned removal of capital deficit portion, which occurred in the second half of 2020. The figures at the end of 2020, as well as those at the end of 2019, reflect the transfer of receivables to the Pension Fund Segregation Public Vehicle to the extent of EUR 27.4 million gross and EUR 1.3 million net, although this has not yet occurred.

² The irredeemable security was issued with a settlement date of 30 December 2020 and entitlement date from 1 January 2021.

Indicators	2018	2019	2020
Structural indicators			
Number of operators	6	5	5
Number of branches	45	36	34
Number of employees	523	488	440
% employees over total employees	2.7%	2.4%	2.2%
Other statistical data			
GDP (nominal)	1,402	1,444	1,318
Resident population	33,419	33,574	33,627
Total number of employees	19,292	19,962	19,631
Population / Branches	743	933	989
Total assets / GDP	3.3	2.9	3.2
Total funding / GDP	4.0	3.6	4.0

Source: IT, Technology, Data and Statistics/Processing Office International Monetary Fund (Resident population, total number of employees, GDP).
 Notes: Figures regarding monetary amounts are shown in millions. Size and structural indicators as at 31 December 2018 did not include a non-operating bank.

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

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

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

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

1.1.3 Assets and Liabilities

Assets - Banking assets in 2020, down by 53 million (**Table 4 and Figure 1**), highlight the decrease in "Fixed assets and other assets" by EUR 476 million and net loans to customers³ by EUR 133 million, as well as an increase in financial instruments in portfolio (EUR +439 million) and net loans to credit institutions (EUR +130 million).

The contraction of the item "Loans to customers" was affected, among other things, by the repayment of loans, the adjustments to loans made by banks and the allocation of analytical write-downs on loans using the Fund for credit risks previously replenished following the communication of the results of the AQR. In this regard, current regulations allowed intermediaries (Article 40 of Law 173/2018) to defer part of these AQR adjustments to the next four financial years, except for any changes in the deadline authorised by the Central Bank and provided for in paragraph 2 of the aforementioned Law. In total, the amount of the adjustments not recognised in the profit and loss account and deferred to the following years amounts to EUR 47 million at the end of 2020. Financial leasing transactions (in relation to capital residual credits) decreased by EUR 16 million, mainly due to the ordinary dynamics of repayments and depreciations.

The financial instruments in the portfolio, amounting to 1,206 million, showed an increase of 439 million, mainly due to the issue, pursuant to Law 223/2020, of irredeemable public debt securities for a nominal amount of 455 million, reserved for Cassa di Risparmio della Repubblica di San Marino for converting the accounting item recorded in the balance sheet assets of the said bank (Article 5-ter of Law Decree No. 93 dated 7 August 2017, as amended by Article 1 of Law Decree No. 101 dated 30 August 2017)⁴.

In view of the exceptional situation of uncertainty in financial markets in the first quarter of 2020, which led to sharp downward corrections in equities and a generalised increase in credit

³ This item includes financial leasing transactions: rentals past due and principal residual credits.

⁴ It should be noted that in the 2016 Annual Report, Cassa di Risparmio della Repubblica di San Marino made use of the method of recognition of loan write-downs as an exception to the primary and secondary regulations in force, pursuant to the aforementioned regulation (Article 5 ter) with a distribution over time of loan write-downs, amounting to EUR 485 million, over 25 years. In particular, loans were adjusted and their value was written down to reflect the recognition of an asset which was expected to be amortised by EUR 5 million over the first two years, EUR 10 million over the next three years (from 2018 to 2020) and EUR 22.3 million annually until 2040. At 31 December 2019, the accounting item still to be amortised was EUR 455 million, converted, as described above, into the irredeemable security issued by the State with the same nominal value.

spreads, the Central Bank decided to mitigate the penalties on banks' balance sheets by allowing, among others, debt securities to be transferred from the portfolio held for trading to the investment portfolio on the basis of their market value as at 31 January 2020. Subsequently, at the end of 2020, taking into account the continuation of the exceptional circumstances caused by the health emergency, the Central Bank allowed, on an extraordinary basis, within the first half of 2021, the transfer of financial instruments from the investment portfolio to the portfolio held for trading or the sale of securities held for investment on the market, providing that the net capital gains resulting from the aforementioned transfer or early sale must be assigned to a non-distributable reserve, which can be used exclusively to increase share capital.

Loans to credit institutions amounted to EUR 518 million, up by EUR 130 million. Shareholdings in the annual report fell from EUR 82 million to EUR 80 million. Cash and cash equivalents, amounting to EUR 22 million, decreased by EUR 10 million, mainly due to the remittance of high-denomination banknotes to the Central Bank.

Capital instruments, equal to EUR 116 million, included EUR 76 million (decrease of 7 million compared to 2019) of units of closed-end mutual investment funds -- held only by banks of San Marino and consisted chiefly of financial instruments, non-performing loans and assets resulting from terminated agreements due to breach of the lessee -- established pursuant to specific legislative measures in connection with system transactions and interventions for savings-protection purposes⁵.

The aggregate "Fixed assets and other assets" decreased by EUR 476 million, from EUR 1,359 million to EUR 882 million (-35.1%). This aggregate essentially includes tangible and intangible fixed assets (net of principal residual credits relating to financial leasing transactions) amounting to EUR 291 million (EUR -3 million), as well as the item "Other assets", which decreased by EUR 471 million totalling EUR 580 million compared to EUR 1,051 million in 2019 (the change is essentially due to the aforementioned conversion of the accounting item 5 ter, already under "Other assets" with irredeemable securities issued by the State). The latter aggregate includes, among others, the portfolio of notes subject to collection (EUR 180 million), amounts due from inland revenue for deferred tax assets (EUR 112 million), tax credits connected to transactions for the acquisition of assets and liabilities of bank intermediaries in distress as of 2011 (224 million) and accrued revenues and deferred expenses totalling 11 million.

Liabilities and Equity - On the liabilities side, debts with customers increased by EUR 182 million to EUR 2,306 million (+8.6%) and debts represented by financial instruments decreased by EUR 157 million to EUR 1,298 million (-10.8%). The positive change in debts with customers was influenced, among other things, by the transfer of deposits of an institutional entity from the Central Bank to the banking system and the repayment of bonds and certificates of deposit issued by certain banks, only partially offset by the bonds issued by Banca Nazionale Sammarinese pursuant to the resolution programme of Banca CIS under extraordinary administration. With regard to the aforementioned repayment of bonds, it should be noted that in July 2020 the bonds issued by Cassa di Risparmio della Repubblica di San Marino pursuant to Law no. 89/2017 matured as part of the transfer en-bloc of the legal relationships of Asset Banca S.p.A. under administrative compulsory winding-up to the aforementioned "Cassa di Risparmio". Article 45 of Law No. 113/2020 provided the possibility for the issuer to postpone the repayment of the bonds in question, even partially, to 30 September 2020. The bank repaid part of the bonds in July 2020 and the remainder in September of the same year.

⁵ Credit-contributed closed-end mutual funds were established in 2012, 2013 and 2018 during four banking crises. In order to allow the resolution of these banks to be implemented and the depositors to be protected, decrees were issued whereby institutions that acquired the assets and liabilities of banks in distress, undergoing winding-up proceedings, were allowed to benefit from tax credits to the extent of imbalance between assets and liabilities acquired and to segregate the NPLs acquired in the aforementioned credit funds. The value of the tax credit is therefore essentially adjusted according to the value of the NPLs reflected in the funds. Article 7 of Law No. 223/2020 set forth that the maximum amount of the benefits referred to in Decree-Laws No. 174/2011, No. 72/2013, 88/2017 and Delegated Decree 61/2012 is definitively established on the basis of the statements of operations of the mutual funds as at 31 December 2020 ascertained by the Supervisory Committee on the same date, the amount of which is definitively acquired by the Tax Office by 31 March 2021. Article 12, paragraph 5^{sexies} of Delegated Decree No. 60/2021 extended the deadline for the assessment and acquisition of tax credits to 30 June 2021.



Subordinated debts amounted to EUR 31 million, down by EUR 2 million (-4.9%). In this regard, we highlight the issue of subordinated bonds by Cassa di Risparmio della Repubblica di San Marino maturing within 3, 5 and 7 years, in compliance with Article 44 of Law no. 113/2020, as well as new issues by other institutions, which were more than offset by the repayment of subordinated liabilities during the year.

"Other liabilities" showed a decrease of EUR 53 million, mainly due to a reduction in other liabilities by EUR 48 million (standing at EUR 225 million) and the Fund for credit risks by EUR 17 million (now standing at EUR 1 million), partially offset by the increase of EUR 12 million in the Risks and costs fund, totalling EUR 51 million.

The 2020 operating results showed a net loss of 44 million compared to a negative result of 194 million in 2019. In the year under review, two banks posted an operating profit, while the remaining three institutions ended the year with a loss.

Table 4 - Aggregate balance sheet of the banking sector

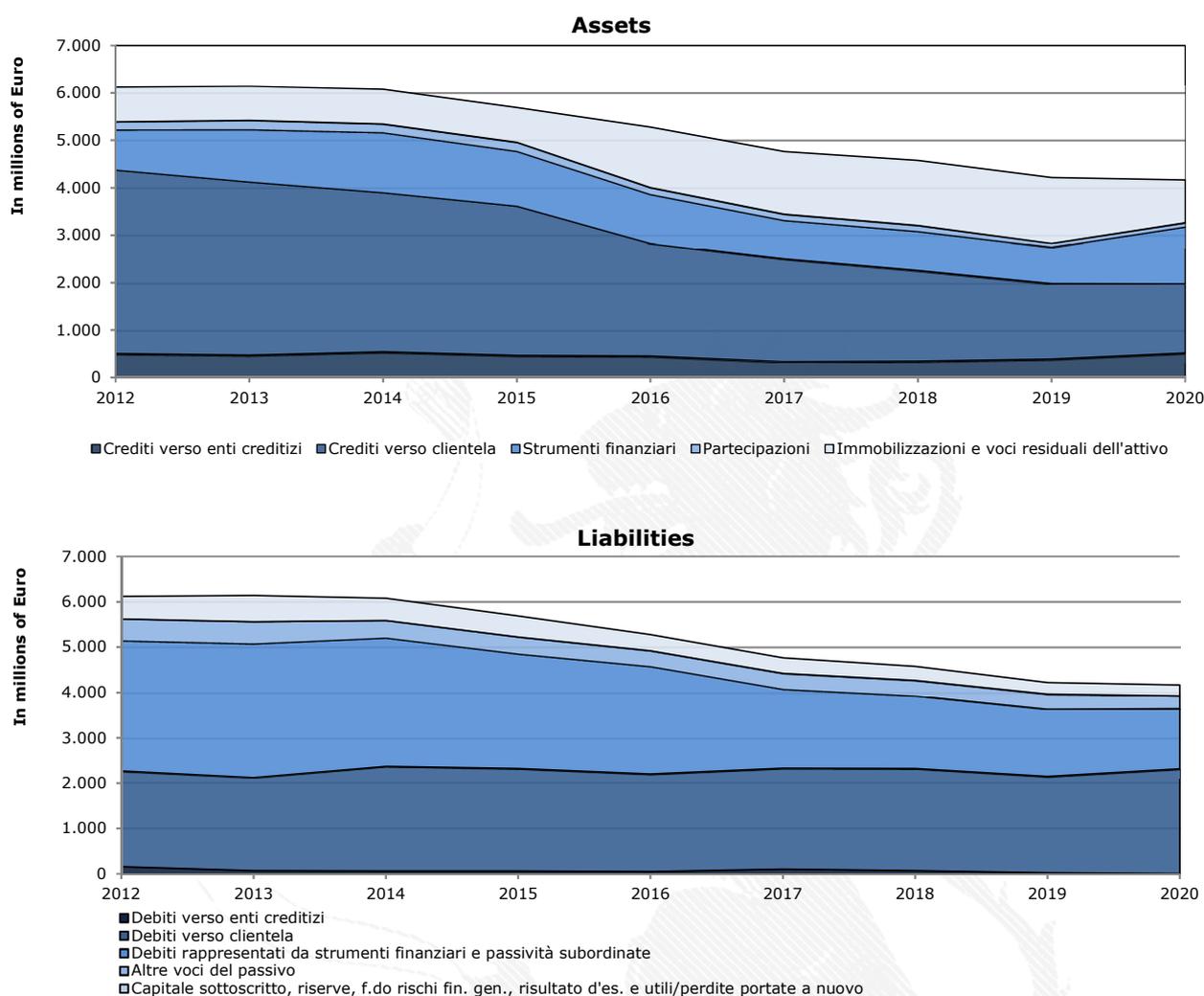
Assets	2019	2020	% Change	Liabilities	2019	2020	% Change
Cash and cash equivalents	32	22	-30.8%				
Loans to credit institutions* (including leases)	388	518	33.5%	Debts with credit institutions	22	8	-64.1%
Loans to customers*	1,591	1,458	-8.4%	Debts with customers	2,124	2,306	8.6%
<i>of which Financial leasing</i>	213	198					
<i>of which assets pending financial leasing</i>	45	43		Debts represented by financial instruments	1,455	1,298	-10.8%
Financial instruments	767	1,206	57.3%	Subordinated debt	33	31	-4.9%
<i>of which debt securities</i>	637	1,090		Other liabilities	332	279	-15.9%
Shareholdings	82	80	-3.0%	Capital and reserves**	432	266	-38.5%
Subscribed capital not paid in	0	0	-	Revaluation reserves	15	21	39.2%
Own shares	0	0	-	Operating results	-194	-44	77.3%
Fixed assets and other assets	1,359	882	-35.1%				
Total assets	4,219	4,165	-1.3%	Total liabilities	4,219	4,165	-1.3%

Notes: figures shown in millions of Euro.

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

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

Figure 1 - Assets and liabilities



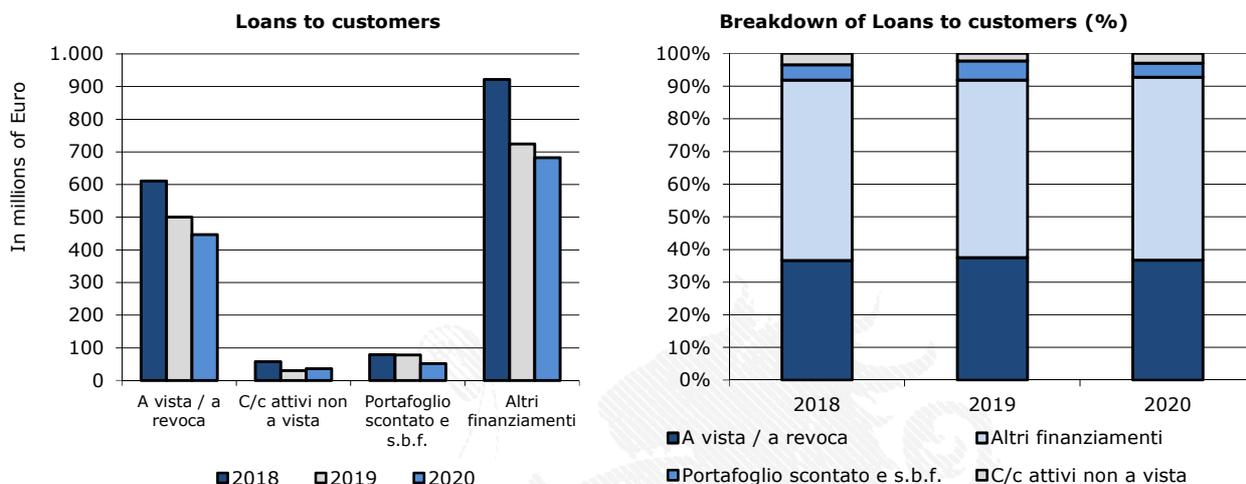
1.1.4 Review of Loans to Customers

Loans - As previously noted, net loans granted to customers decreased in 2020 as compared to 2019, both in absolute terms (down EUR 133 million, standing at EUR 1,458 million) and in relation to assets (decreasing from 37.7% in 2018 to 35% in 2020) and accounted for 40.2% of collection of savings (44.1% at the end of 2019). The amount of net loans takes into account the already mentioned adjustments not yet registered in the profit and loss account pursuant to Article 40 of Law no. 173/2018.

Credit exposures by technical form (**Figure 2**)⁶ show the following trends: "On demand/until revoked" loans decreased by EUR 54 million to EUR 447 million, while "Other loans" decreased by EUR 43 million to EUR 682 million. The remaining categories, consisting of "Current accounts with a credit balance other than on demand" and "Portfolio discounted and subject to collection", increased by EUR 6 million and decreased by EUR 26 million to EUR 36 million and EUR 52 million respectively. With regard to the composition of these technical forms, the "On demand/until revoked" category accounts for 36.7% of the total, the "Current accounts with a credit balance other than on demand" category for 3%, the "Portfolio discounted and subject to collection" represents 4.3% of the aggregate, while "Other loans" make up the remaining 56.1%.

⁶ These values do not include the amounts related to the residual credit on financial leasing transactions with customers, which amounted to EUR 241 million, consisting of two items: leased fixed assets (EUR 198 million) and fixed assets pending leasing (EUR 43 million).

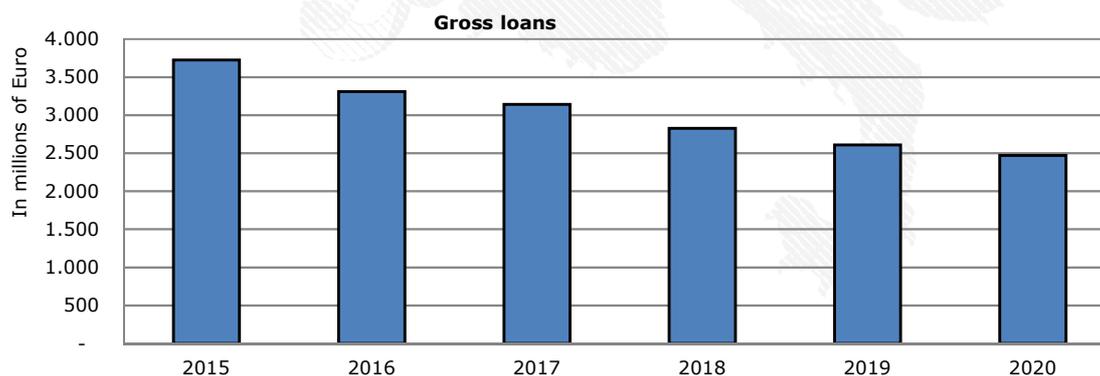
Figure 2 - Breakdown of net loans to customers by technical form (excluding residual leasing credit)



An examination of the breakdown of net loans to customers by sector of economic activity, including financial leasing transactions, shows a decrease in exposures to all categories of borrowers. In particular, the contraction concerned non financial companies (EUR -88 million, i.e. -8.6%), households and not-for profit institutions servicing households (EUR -37 million, i.e. -7.2%), Public administrations (EUR -5 million, i.e. -18.2%) and financial companies other than credit institutions and Central banking authorities (EUR -4 million, i.e. -10.3%).

The distribution of net loans to customers by residual life (amounts including financial leasing transactions) shows that the on demand category stood at EUR 212 million (14.6% of total loans), the category between 1 day and 18 months came in at EUR 292 million (20%), while medium to long-term loans (which include exposures with residual maturity exceeding 18 months) amounted to EUR 674 million and accounted for 46.3% of total loans. The residual portion (EUR 280 million, i.e. 19.2%) pertains to exposures without maturity (including bad loans).

Figure 3 - Gross loans of the banking system



Loan quality - In 2020, bank loans to customers (in gross terms) decreased by EUR 136 million (-5.2%) to EUR 2,472 million (**Figure 3**). The weight of non-performing loans (see below) on total gross loans to customers increased from 61.3% in 2019 to 63.1% in the year under review. Correspondingly, the weight of gross performing loans on total gross loans to customers decreased from 38.7% in 2019 to 36.9% in 2020 (**Figure 4**).

Gross non-performing loans totalled EUR 1,560 million, down EUR 38 million (-2.4%) from the previous year. This change was mainly due to a decrease in restructured and bad loans, partially offset by an increase in problem loans.

Non-performing loans net of value adjustments amounted to 553 million compared to 589 million at the end of 2019. These aggregates were affected, among other things, by the allocation of analytical devaluation losses on loans through the use of the Fund for credit risks and the write-off of loans considered no longer collectable by an intermediary.

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

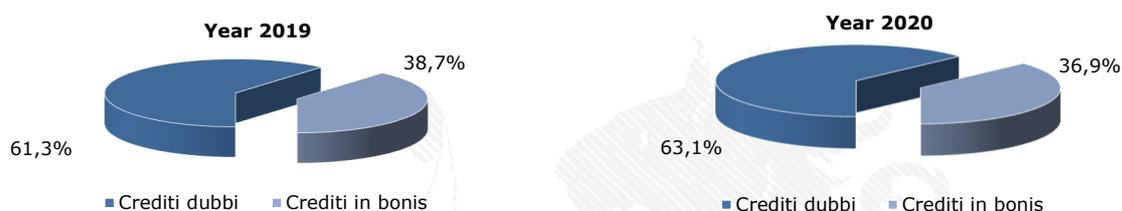


Figure 5 - Loan quality: performing loans and non-performing loans (net figures)



Gross performing loans amounted to EUR 912 million, while the net value was EUR 904 million, a decrease in both cases of around EUR 98 million.

Gross bad loans amounted to EUR 750 million, down by EUR 7 million, which was affected by the write-off of loans deemed no longer collectable by an intermediary. On a net basis, bad loans decreased by EUR 22 million, from EUR 271 million in 2019 to EUR 249 million at the end of 2020.

Gross problem loans stood at EUR 148 million (EUR 141 million in 2019), up by EUR 7 million, while in net terms they increased by EUR 5 million to EUR 110 million.

Gross restructured loans (consisting mainly of positions arising from the Restructuring Agreement concerning debts of the Delta group), amounting to EUR 661 million, decreased by EUR 37 million (EUR 193 million at net values, down by EUR 17 million), due essentially to the repayment of certain significant positions and the transfer of non-performing loans to other categories.

Among the remaining non-performing loans, there was a reduction of 1 million in gross past due and/or overdue loans to 2 million (1 million at net values, down by 1 million). Unsecured loans towards countries at risk are almost zero as already noted in 2019.

Net of value adjustments, non-performing loans accounted for 38% of the total amount of net loans to customer, compared to 37% at the end of 2019 (**Figure 5**).

The impact of bad loans on regulatory capital came in at 150.6% (165.8% in 2019).

The coverage ratio for non-performing loans, measured by the ratio between value adjustments and the gross amount of non-performing exposures, increased to 64.5% from 63.2% at the end of 2019 (**Table 5**).

Table 5 - Loan quality

	Loans gross of value adjustments				Coverage ratio*		Portion over total loans net of value adjustments	
	2019	%	2020	%	2019	2020	2019	2020
Loans to customers**	2,609	100.0%	2,472	100.0%	39.0%	41.0%	100.0%	100.0%
Performing loans	1,010	38.7%	912	36.9%	0.8%	0.9%	63.0%	62.0%
Non-performing loans	1,599	61.3%	1,560	63.1%	63.2%	64.5%	37.0%	38.0%
<i>Bad loans</i>	756	29.0%	750	30.3%	64.2%	66.7%	17.0%	17.1%
<i>Problem loans</i>	141	5.4%	148	6.0%	25.5%	25.7%	6.6%	7.5%
<i>Restructured loans</i>	699	26.8%	661	26.7%	69.9%	70.8%	13.2%	13.2%
<i>Past due and overdue loans</i>	3	0.1%	2	0.1%	8.4%	16.2%	0.2%	0.1%
<i>Unsecured loans to countries at risk</i>	0	0.0%	0	0.0%	29.7%	55.0%	0.0%	0.0%

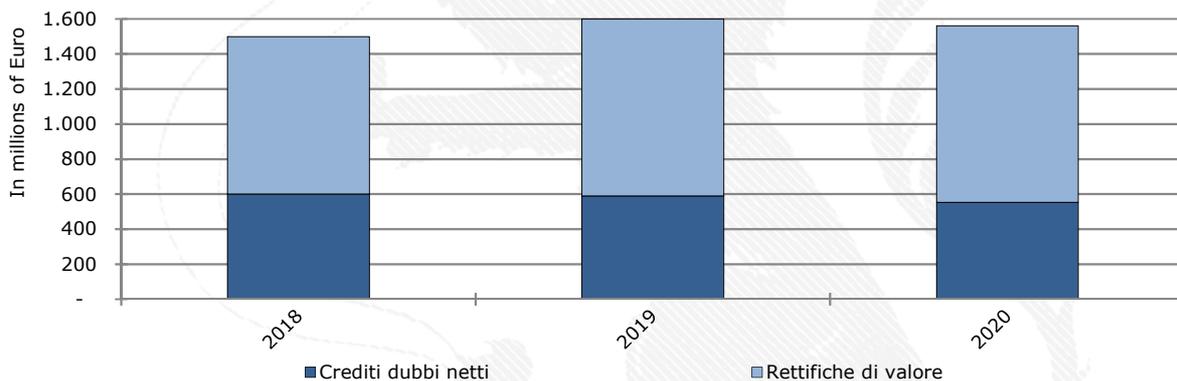
Notes: Figures relating to "Loans gross of value adjustments" relating to 2019 and 2020 are shown in millions.

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

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

Figure 6 shows the trend in non-performing loans to customers in the 2018-2020 three-year period, highlighting the components of net non-performing loans and value adjustments.

Figure 6 - Non-performing loans



Within the above non-performing loans category, the coverage ratio referring to bad loans rose from 64.2% in 2019 to 66.7% in 2020, while the coverage ratio for problem loans grew from 25.5% to 25.7%. The coverage ratio for restructured loans stands at 70.8%, increasing from the previous 69.9%.

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

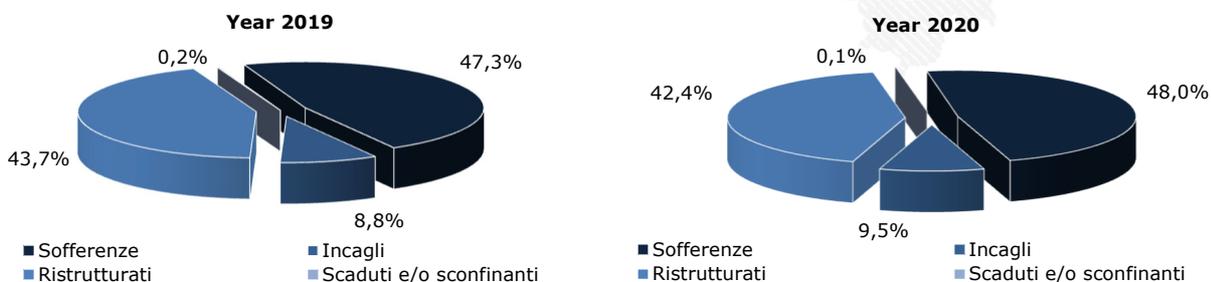
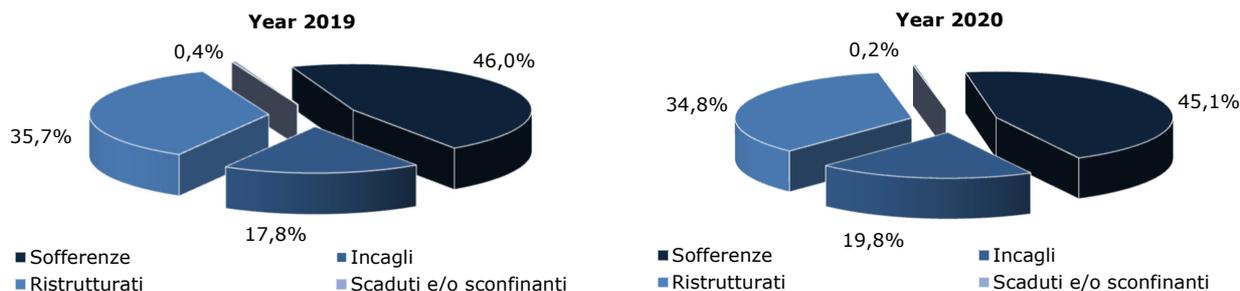


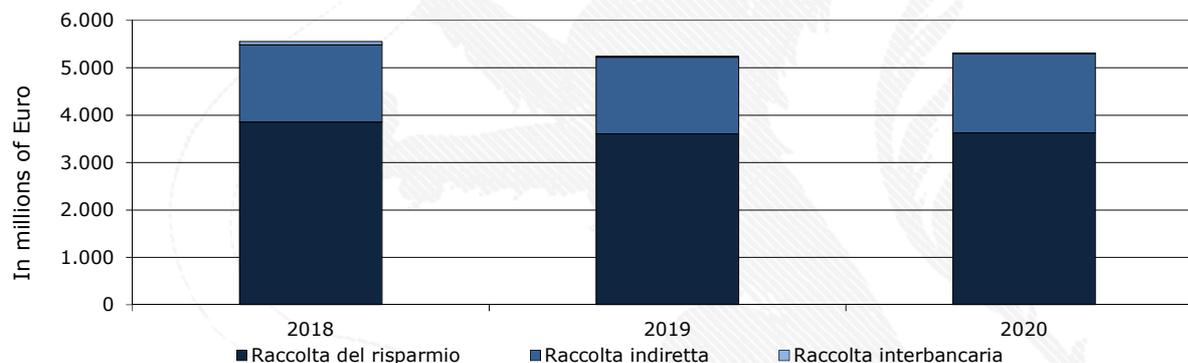
Figure 8 - Breakdown of non-performing loans (net figures)



1.1.5 Funding

Total funding - In 2020, total funding⁷ of the banking system increased by EUR 63 million to EUR 5,311 million (+1.2% compared to 2019). In this regard, there was an increase of 11 million (+0.3%) in direct funding, amounting to 3,643 million, mainly due to the increase in collection of savings of 18 million (+0.5%), which stood at 3,628 million and the drop in interbank funding⁸ by 6 million, thus amounting to 14 million. Indirect funding, amounting to 1,668 million, also recorded a positive change of 3.2% compared to 2019 (**Figure 9**).

Figure - 9 Total funding of the banking system



Collection of savings - In 2020, debts with customers increased by EUR 182 million (+8.6%) to EUR 2,306 million, while debts represented by financial instruments fell by EUR 163 million (-11.3%) to EUR 1,287 million. The aforementioned aggregate essentially comprises EUR 1,035 million in certificates of deposit, down by EUR 46 million (-4.2%), and bonds (net of any bonds held by credit institutions), amounting to EUR 252 million, down by EUR 118 million (-31.9%) compared to 2019. Among the remaining components of collection of savings, the most significant one is represented by subordinated liabilities (net of any securities held by credit institutions) amounting to 31 million, down by 2 million compared to 2019.

The aforementioned dynamics were affected, among other things, by the repayment of the bonds issued by Cassa di Risparmio della Repubblica di San Marino pursuant to Article 3 of Decree-Law 89/2017 following the sale of assets and liabilities of Asset Banca S.p.A. under administrative compulsory winding-up en bloc and the repayment of bonds and subordinated liabilities of other credit institutions, partially offset by the bond issues of Banca Nazionale Sammarinese pursuant to the resolution programme of Banca CIS under extraordinary administration and the issuance of

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

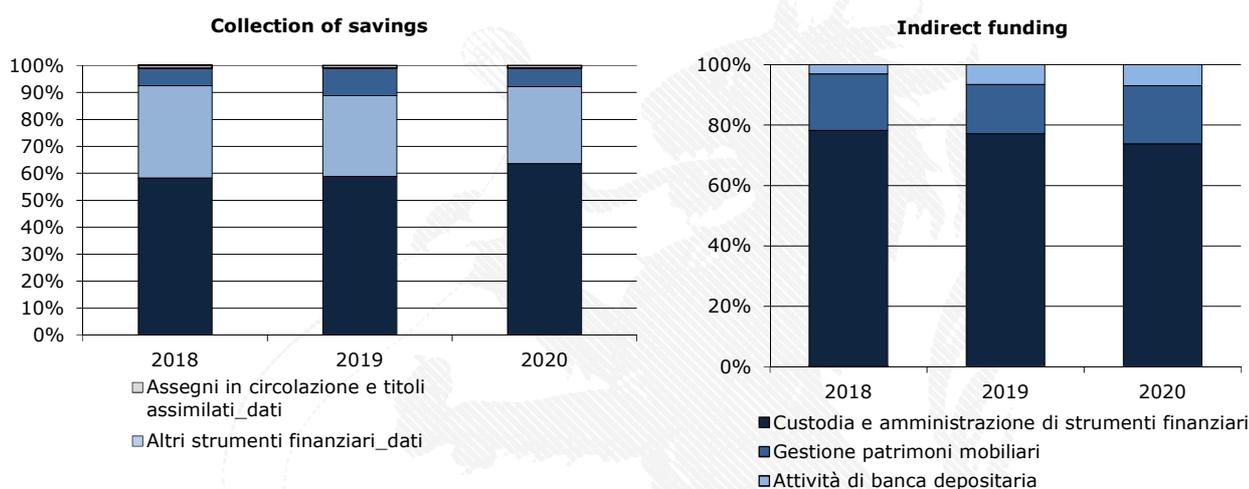
⁸ Interbank funding no longer includes the debt balances on the mutual accounts opened for services rendered, in compliance with the definition of the aforementioned funding set in Regulation No. 2007-07. This aggregate includes any bonds (including subordinated liabilities) and certificates of deposit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

subordinated bonds by Cassa di Risparmio della Repubblica di San Marino maturing within 3, 5 and 7 years, in compliance with Article 44 of Law no. 113/2020.

With regard to the increase in collection of savings, it should be noted the transfer of deposits of an institutional entity from the Central Bank to the banking system. In this regard, it should be noted that in the first quarter of 2021 the same entity transferred further deposits from the Central Bank to the banking system.

A breakdown of the collection of savings (**Figure 10**) shows that debts with customers accounted for 63.6%, certificates of deposit for 28.5%, bonds for 6.9% and, finally, subordinated debt for 0.9% and cheques in circulation and other securities account for 0.1%.

Figure 10 – Breakdown of collection of savings and indirect funding



Interbank funding - The aggregate decreased by EUR 6 million to EUR 14 million.

Indirect funding - In 2020, indirect funding increased by 3.2% year-on-year compared to 2019 (EUR +51 million), reaching EUR 1,668 million. This increase was due to the increase in asset management (EUR +58 million) to EUR 321 million (+22.3%) and, to a lesser extent, to the increase (EUR +11 million) in the activity as custodian bank, mainly due to the activities of an intermediary on behalf of a management company, which amounted to EUR 116 million. On the other hand, the component relating to the financial instruments custody and administration decreased by EUR 18 million to EUR 1,231 million.

The aggregate showed a fluctuating trend during 2020. In particular, in the first quarter of the year, the negative performance of the financial markets, mainly due to the COVID-19 pandemic, contributed to the decrease recorded in the period, which was then more than offset by the performance recorded in the following quarters, due, essentially, to the recovery of the financial markets and new investments.

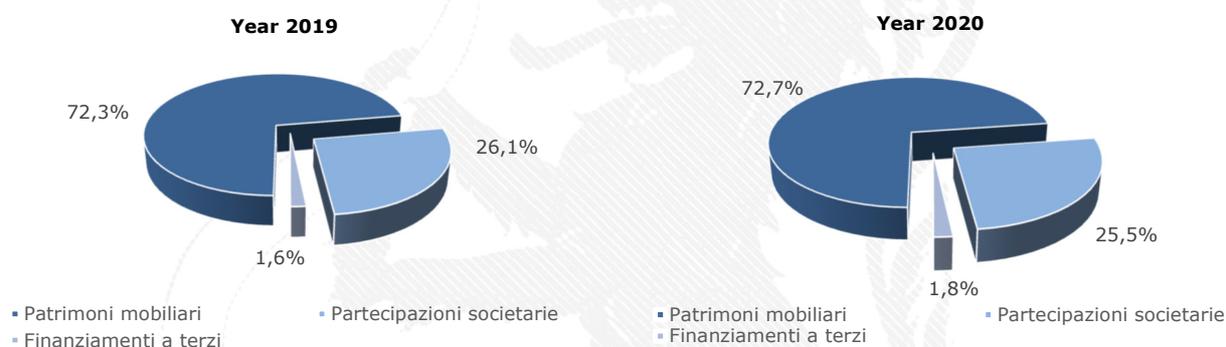
Finally, it should be noted that the amount of indirect funding is reduced by the amount of debt securities issued by credit institutions and deposited with other San Marino banks or already included in the latter's direct funding. As at 31 December 2020, the amount of these financial instruments is equal to EUR 131 million and includes, essentially, the bonds issued by Banca Nazionale Sammarinese in the securities portfolio of the customers of the remaining banks.

1.1.6 Fiduciary activities in the banking and financial sector

As at 31 December 2020, 6 authorised parties (5 banks and 1 financial company) were authorised to conduct fiduciary activities, by managing EUR 147 million, resulting in a year-over-year decrease of EUR 6 million.

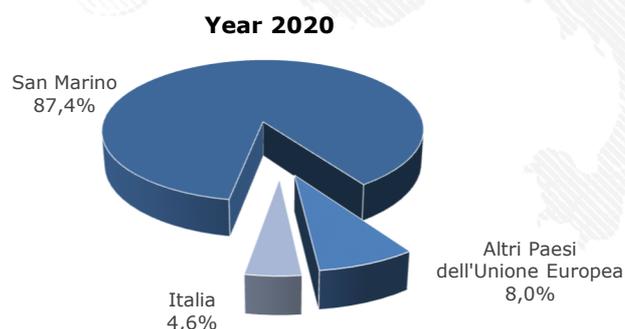
With regard to the breakdown of fiduciary activity by technical form (**Figure 11**), the most significant component concerns the fiduciary administration of movable assets (type 1), amounting to 107 million, accounting for 72.7% of the total, a decrease of 4 million compared to the previous year. The administration of equity investments (type 2) amounted to EUR 37 million, 25.5% of the total, a decrease of EUR 2 million compared to the previous year. The remainder relates to fiduciary loans to third parties (type 3), which amounted to EUR 3 million, an increase of EUR 0.1 million (accounting for 1.8%); at the end of 2020, there were no mandates relating to the fiduciary administration of other movable or intangible assets (type 4).

Figure 11 - Breakdown of fiduciary activities by technical form



The reclassification of the figures concerning the type-2 mandates known as "Fiduciary administration of equity investments" by country of residence of the investors showed a prevalence of San Marino companies (87.4% of the total amount). Other Countries of the European Union (8%) and Italy (4.6%) follow as countries of establishment of the companies held on a fiduciary basis (**Figure 12**).

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



1.1.7 Equity

Net equity - At the end of 2020, the banking system's equity (**Table 6**) stood at EUR 243 million, down EUR 10 million over the previous period (EUR 253 million).

The system's net equity consists of positive components amounting to EUR 308 million and negative components amounting to EUR 65 million. In particular, the positive components represented by subscribed capital for EUR 215 million, reserves for EUR 66 million and the fund for general financial risks for EUR 7 million remained unchanged, while the revaluation reserve increased

by EUR 6 million to EUR 21 million. The negative components are represented by the system's net operating losses amounting to EUR 44 million and losses carried forward for EUR 21 million.

The ratio between net equity and total assets is 5.8 against the previous 6%.

*Regulatory capital*⁹ - At the end of 2020, the system's regulatory capital amounted to EUR 166 million, up by EUR 2 million compared to the previous year (+1.3%). Tier 1 and Tier 2 capital amounted to EUR 168 million and EUR 44 million respectively. Deductions amounted to EUR 47 million.

The positive change in regulatory capital is due to the increase in Tier 2 capital (EUR +24 million), offset by the decrease in Tier 1 capital (EUR -11 million) and the increase in deductions of EUR 11 million.

With regard to the components of Tier 1 capital, it should be noted that operating losses went from 51 million at the end of 2019¹⁰ to 50 million at the end of 2020; the additional deductions, required by the Supervisory Authority, of the components referring to AQR adjustments deferred to subsequent years in accordance with Article 40 of Law 173/2018, recorded in the banks' assets, amounted to 47 million at the end of the 2020 financial year compared to 53 million recorded at the end of 2019. These changes are offset by the increase in losses carried forward, which rose from EUR 4 million to EUR 21 million (EUR +17 million).

The change in Tier 2 capital (+115.6%) is mainly due to the increase of EUR 18 million in calculable subordinated liabilities, which amounted to EUR 26 million, and the EUR 6 million increase in revaluation reserves, which amounted to EUR 21 million at the end of the 2020 financial year.

Deductions from total share capital, being the sum of Tier 1 and Tier 2 capital, increased from EUR 36 million at the end of 2019 to EUR 47 million, an increase of EUR 11 million, mainly due to higher risk positions towards shareholders (EUR +12 million) amounting to EUR 15 million, partially offset by lower deductions related to shareholdings in financial companies (EUR -1 million) and amounting to EUR 29 million. Additional deductions relating to hybrid capitalisation instruments and subordinated assets issued by financial companies were substantially unchanged totalling EUR 2 million.

Risk-weighted assets - At the end of 2020, the system's risk-weighted assets (shown net of adjustments) amounted to EUR 1,550 million, down EUR 173 million year-on-year (-10.1%), mainly due to lower risk positions in loans (including financial leasing transactions), including bad loans, and the own security portfolio. The weighted average of cash assets (excluding off-balance sheet assets), measured by the ratio of credit risk-weighted assets to their book value, was 41.3%, down from the previous 45.3% recorded at the end of 2019.

Solvency ratio and other capitalisation indicators - The system solvency ratio, consisting of the ratio of regulatory capital to total risk-weighted assets pertaining to the risk of loss due to default of debtors, was 10.7% at the end of 2020 (9.5% at the end of 2019). In this regard, 2 intermediaries have a solvency ratio above the minimum regulatory ratio, equal to 11% and 3 banks have a solvency ratio below the aforementioned threshold. The ratio of Tier 1 capital to total credit risk-weighted assets rose from 10.4% at the end of 2019 to 10.8%.

At the end of 2020, the regulatory capital is EUR 13 million lower than the minimum aggregate capital requirement, calculated as the algebraic sum of the single capital needs/surplus

⁹ Regulatory capital is the capital aggregate of reference in the framework of prudential supervision provisions, since it is a financial resource capable of absorbing the possible losses produced by the bank's exposure to the risks typical of its activities, while assuming a guarantee role towards depositors and creditors. Regulatory capital is obtained by summing Tier 1 capital (the primary quality component) and Tier 2 capital and then subtracting deductions required by supervisory regulations (e.g. for disbursements made by intermediaries to their shareholders).

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

expected for credit and operational risks. Excluding the bank under resolution, which is about to be transformed into a non-bank entity, the aggregate capital shortfall would be zero.

Finally, the system's financial leverage, calculated as the ratio between the total assets, net of intangible assets, and the Tier 1 capital, increased from 23.6 to 24.8 in 2020.

Table 6 - Capital adequacy of the banking system

Capital adequacy (end-of-period data)*	2018	2019	2020
Net equity (in millions of Euro)**	309	253	243
Net equity / total assets (percentage values)	6.7	6.0	5.8
Regulatory capital (in millions of Euro)	240	163	166
Solvency ratio (percentage values)	12.3	9.5	10.7
Tier 1 capital/risk-weighted assets (percentage values)	14.6	10.4	10.8
Financial leverage	16.0	23.6	24.8

Notes:

* In 2018, for all items, data refer to 6 banks excluding 1 non-operating intermediary.

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

1.1.8 Profitability and efficiency

At the end of 2020, gross operating income was negative at EUR 8 million, slightly changed from EUR -7 million the previous year. In particular, the reduction in net interest and other banking income to EUR 84 million from EUR 105 million at the end of 2019 (EUR -21 million) was almost entirely offset by the contraction in operating costs from EUR 112 million in 2019 to EUR 92 million (EUR -20 million). The net operating result was negative by EUR 44 million (**Table 7**) due to total losses posted by three institutions totalling approximately EUR 50 million, partially offset by profits of EUR 5 million posted by two institutions in total. The system's interest margin decreased from EUR 37 million at the end of 2019 to EUR 34 million (-8.2%). In particular, interest received and other proceeds, which amounted to EUR 56 million at the end of 2020, fell by 18.2% and interest paid and other costs, which amounted to EUR 21 million, fell by 30.5%.

Table 8 shows the development of the average interest rate on loans to customers before adjustments and the average interest rate on collection of savings. Between 2019 and 2020 there is a contraction of both indicators and of the spread between them: the average interest rate on gross loans goes from 2.04% to 1.73%, the average interest rate on collection of savings goes from 0.80% to 0.57%¹¹ and the spread between the two average rates is therefore 1.15% from the previous 1.24%.

The ratio of interest-bearing assets to interest-paying liabilities¹² stood at 71.5% from 71.9% recorded at the end of 2019. The average return on interest-bearing assets decreased to 2.13% from 2.46%. The average cost of interest-paying liabilities decreased by 23 basis points to 0.58%¹³ (see **Table 9**).

¹¹ The average interest rate on loans at time t is calculated using the interest received on loans to customers as the numerator from the year-end annual reports of banks at time t and, as the denominator, the arithmetic average of loans, calculated as year-end values before value adjustments, at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) for the same reporting banks in the numerator. The average interest rate on collection of savings at time t is calculated using interest paid on debts with customers and on debts represented by financial instruments (including subordinated liabilities) from banks' year-end annual reports at time t as the numerator and, as the denominator, the arithmetic average of the year-end collection of savings at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) for the same reporting banks as the numerator.

¹² Interest-bearing assets consist of net loans to customers, net loans to credit institutions and debt securities (excluding accruals derived from regulatory report on the statement of accounts), while interest-paying liabilities include debts with customers, debts with credit institutions and debts represented by financial instruments (including subordinated debt and excluding accruals derived from regulatory report on the statement of accounts). For the year 2020, the irredeemable bond issued by the State at the end of December 2020 with a nominal value of EUR 455 million, held in the portfolio of a bank, was excluded from the interest-bearing assets, as it bears interest from 1 January 2021.

¹³ The average return on interest-bearing assets at time t is calculated by relating the sum of interest received on loans to customers, loans to credit institutions and debt financial instruments from the year-end annual reports of banks at time t with the arithmetic average of interest-bearing assets at year-end time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) and considering at the denominator the same reporting banks as in the numerator. The average cost of interest-paying liabilities is calculated by relating the sum of interest paid on debts with customers, debts with credit institutions and debts represented by financial

Service revenues at the end of 2020 amounted to EUR 51 million, down EUR 13 million compared to the previous year, mainly due to lower principal of finance lease instalments, which are recognised under "other operating proceeds". This amount at year-end 2020 totalled EUR 35 million, down EUR 12 million from the previous year.

The gross income amounts to EUR 84 million, down EUR 21 million on the previous year (-20.1%). This negative change was affected by the aforementioned decreases in service revenues (EUR -13 million) and interest margin (EUR -3 million) as well as the negative net result of the item "profits and losses from financial transactions", which recorded an overall negative value of EUR 4 million at the end of 2020 compared with net profits of EUR 3 million at the end of 2019. Finally, within the gross income, "Dividends and other proceeds" of EUR 2 million showed an increase of approximately EUR 2 million compared to the previous year.

Operating costs, totalling EUR 92 million, were EUR 20 million lower than the previous year (-18%). In this respect, compared to the previous year, both administrative costs decreased (-7 million) to 53 million and "value adjustments on intangible and tangible fixed assets" (-13 million), related to the aforementioned item "other operating proceeds" with reference to the recognition of principal portions of lease instalment, whose amount at the end of 2020 was 39 million. Gross operating income at the end of 2020, given by the difference between gross income and other operating costs, was negative by 8 million (-7 million at the end of 2019). The system's Cost-Income Ratio (ratio of operating costs to gross income) rose from 106.9%, recorded at the end of 2019, to 109.6%.

The net operating income goes from EUR -181 million in 2019 to EUR -53 million, taking into account that the previous year's figure was strongly affected by the adjustments to loans made by the extraordinary administration proceedings of Banca Cis. The aforementioned result for the 2020 financial year is nevertheless burdened by value adjustments on credits and provisions for guarantees and commitments for EUR 47 million, provisions for risks and charges and credit risk funds for EUR 5 million, value adjustments on financial fixed assets for EUR 2 million, partly offset by value recoveries on credits and provisions for guarantees and commitments for EUR 9 million.

The balance of extraordinary operations was positive and amounted to EUR 10 million, mainly due to the release of provisions previously set aside as well as to the result achieved by one bank following extraordinary transactions on its own portfolio.

Income tax expense for the year stood at EUR 1 million, while there was no change in the fund for general financial risks compared to the EUR 2 million prudentially set aside in the previous year.

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

Reclassified profit and loss account	2018	2019	2020	Absolute change (2020-2019)	% change (2020-2019)*
1 - Interest received and other proceeds	81	68	56	-12	-18.2%
2 - Interest paid and other costs	-37	-31	-21	9	30.5%
A - Interest margin	44	37	34	-3	-8.2%
3 - Commissions earned	22	24	22	-1	-5.4%
4 - Commissions paid	-5	-6	-5	1	11.3%
5 - Other operating proceeds	42	47	35	-12	-26.4%
6 - Other operating costs	-1	-1	0	0	19.0%
B - Service revenues	58	64	51	-13	-20.2%
7 - Dividends and other proceeds	1	1	2	2	329.6%
8 - Profits (losses) on financial transactions	-15	3	-4	-7	-232.9%

instruments (including subordinated liabilities), referred to year-end at time t , with the arithmetic average of interest-paying liabilities at year-end at time t and $t-1$ (excluding accruals derived from regulatory report on the statement of accounts) and considering at the denominator the same reporting banks as in the numerator.

Reclassified profit and loss account	2018	2019	2020	Absolute change (2020-2019)	% change (2020-2019)*
C - Gross income	87	105	84	-21	-20.1%
9 - Administrative costs	-65	-61	-53	7	11.8%
10 - Value adjustments on intangible and tangible fixed assets	-44	-52	-39	13	25.3%
D - Operating costs	-109	-112	-92	20	18.0%
E - Gross operating income	-22	-7	-8	-1	-11.2%
11 - Provisions for risks and charges	-8	-11	-4	6	58.4%
12 - Provisions for loan losses	0	-1	-1	-0	-75.0%
13 - Value adjustments on credits and provisions for guarantees and commitments	-49	-163	-47	115	70.9%
14 - Value recoveries on credits and provisions for guarantees and commitments	14	13	9	-4	-28.7%
15 - Value adjustments on financial fixed assets	-15	-12	-2	11	87.2%
16 - Value recoveries on financial fixed assets	0	0	0	0	-100.0%
F - Net operating income	-81	-181	-53	127	70.4%
17 - Extraordinary proceeds	8	7	12	6	82.4%
18 - Extraordinary costs	-14	-17	-2	15	86.7%
G - Gross operating income of extraordinary operations	-6	-11	10	21	195.6%
H - Gross margin	-86	-191	-43	148	77.4%
19 - Income taxes for the financial year	5	-1	-1	0	21.7%
I - Net result**	-81	-192	-44	148	77.0%
20 - Change in the Fund for general financial risks	2	-2	0	2	-100.0%
Operating results	-79	-194	-44	150	77.3%

Notes: figures in millions.

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

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

Table 8 - Average interest rates on loans and collection

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

Notes:

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

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

Figure 13 - Contribution of the main profit and loss account items to the change in the operating results between 2019 and 2020

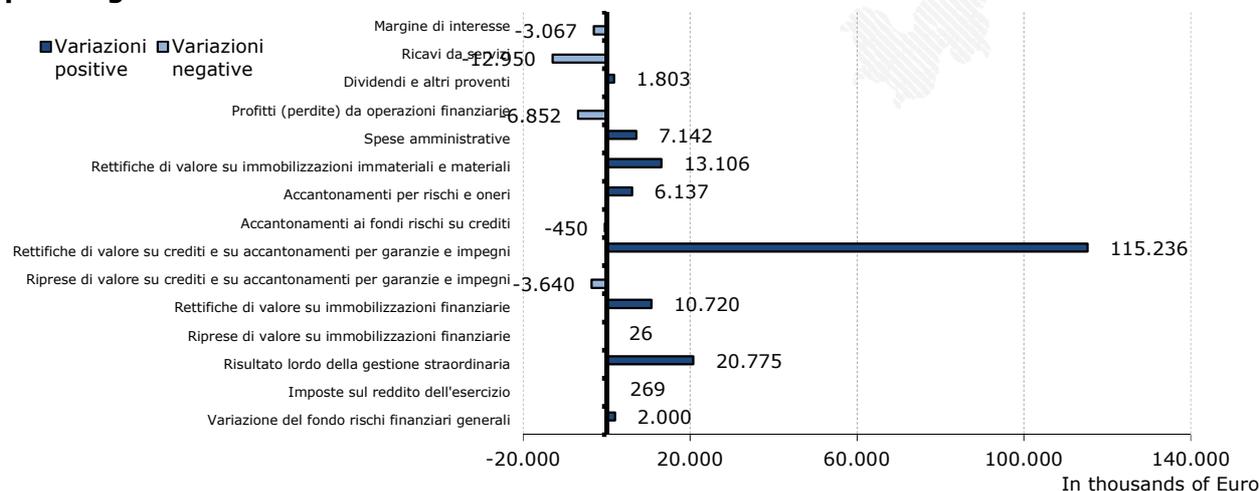


Figure 14 highlights the trend in system-wide operating results over the past 5 years.

Figure 14 – Operating losses

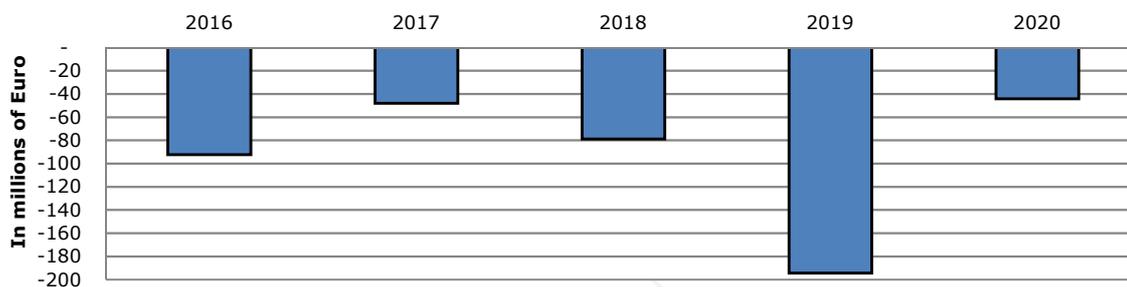


Table 9 shows the main profitability, cost and efficiency indicators of the banking system, calculated for the three-year period 2018-2020. With regard to the ROA and ROE indicators, negative values are recorded, although they have improved compared to 2019, the latter affected by the significant operating loss of the system mainly due to the result of the extraordinary administration of Banca Cis, and to 2018. As regards the cost and efficiency indicators, the average labour costs and administrative costs per employee decreased compared to the previous period and stood at approximately EUR 68,000¹⁴ (EUR 69,000 in 2019) and EUR 115,000 (EUR 120,000 in 2019), respectively. The average total funding per employee increased compared to the previous year from 10.7 million to 11.4 million.

Table 9 - Main profitability, cost and efficiency indicators

	2018	2019	2020
Profitability indicators			
Return on Average Assets (ROA)*	-1.7%	-4.1%	-1.3%
Return on Average Equity (ROE)**	-24.5%	-69.2%	-17.8%
Interest received/Interest-bearing assets	2.66%	2.46%	2.13%
Interest paid/Interest-paying liabilities	0.93%	0.81%	0.58%
Interest-bearing assets / interest-paying liabilities***	74.5%	71.9%	71.5%
Interest margin/Gross income****	50.2%	35.6%	40.9%
Interest margin/Total assets	0.9%	0.9%	0.8%
Gross income/Total assets	1.9%	2.4%	2.0%
Gross operating income/Total assets	0.5%	-0.2%	-0.2%
Cost and efficiency indicators			
Labour costs/number of employees (in thousands of Euro)	71.7	68.8	68.4
Administrative costs per employee (in thousands of Euro)	122.4	119.7	115.0
Gross income per employee (in thousands of Euro)	164.4	207.7	180.9
Gross operating income per employee (in thousands of Euro)	-41.8	14.4	17.4
Total funding per employee (in thousands of Euro) ****	10,811	10,686	11,377
Net loans to customers per employee (in thousands of Euro) ****	3,854	3,462	3,285
Cost-Income Ratio (operating costs on net interest and other banking income) ***	125.4%	106.9%	109.6%
Value adjustments on credits/Gross loans to customers	1.6%	6.0%	1.9%

Notes:

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

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

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

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

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

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

1.1.9 Liquidity

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

The 7-day liquidity position at the end of 2020¹⁵ stood at EUR 779 million, an increase of EUR 153 million (+24.5%) compared to the end of 2019. This increase was influenced, among others, by the transfer of deposits of an institutional entity from the Central Bank to the banking system as well as the coverage of 2019 operating losses by a bank shareholder at the end of 2020.

At the end of May 2021, the same aggregate further increased by EUR 68 million (+8.7%) compared to the end of 2020, reaching EUR 847 million (**Figure 15**), benefiting, among others, from the early repayment, on 30 April 2021, of the bond "Repubblica di San Marino, zero coupon, 29 December 2023" owned by a bank of San Marino, as well as further transfers of deposits of an institutional entity from the Central Bank to the banking system.

Looking at the average quarterly values of the weekly reports, in 2020 the aggregate was broadly stable in the first and second quarters at EUR 591 million and EUR 583 million, respectively, and then increased to EUR 630 million in the third quarter and EUR 661 million in the fourth quarter. In 2021 the average values of the seven-day liquidity position increased to EUR 742 million in the first quarter of 2021 and EUR 831 million in April and May.

The 1-month liquidity position, which includes assets that can be liquidated within one month and 1-month net loans to foreign banks and the Central Bank, stood at EUR 782 million and EUR 890 million at the end of 2020 and at the end of May 2021, respectively.

The ratio between the 7-day liquidity position and the 7-day collection of savings (a.k.a. coverage ratio) at the end of 2020 and the end of May 2021, stood at 37% and 40%, respectively¹⁶.

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



¹⁵ The figure refers to 1 January 2021. After that date, the data on the liquidity of the banking system shown in this paragraph do not include those relating to Banca Nazionale Sammarinese S.p.A.

¹⁶ Banks' term deposits with the Central Bank for reserve requirement of the Article 142 of Law No. 165/2005 are not included in the calculation of the *coverage ratio*.

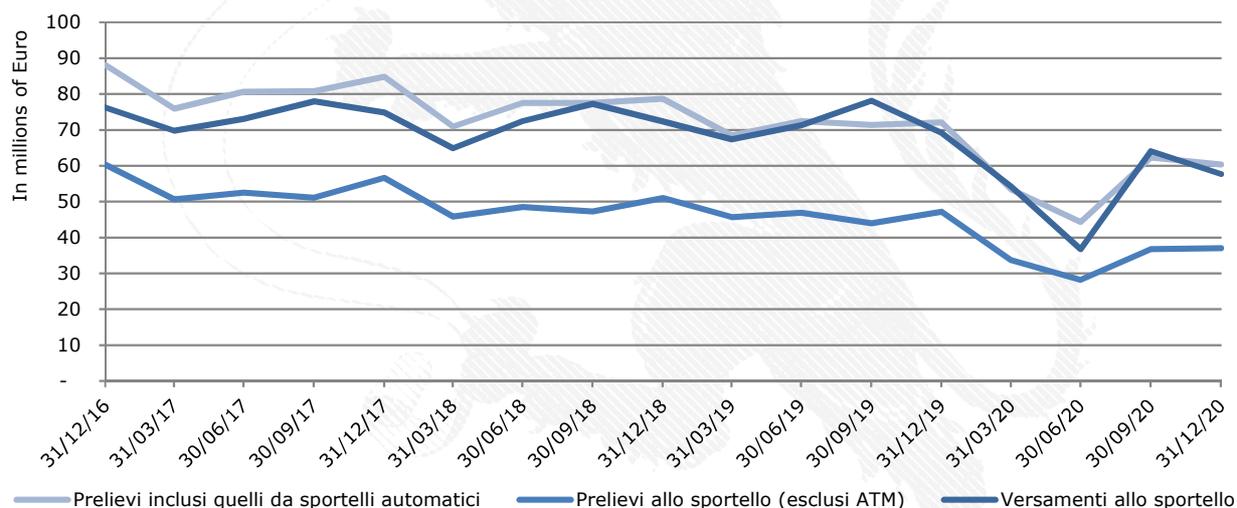
1.1.10 Data in the banking system regarding the use of cash

In 2020, the banking system of San Marino recorded a significant reduction in the use of cash by customers compared to the previous year, partly influenced by the effects of the spread of the Covid-19 pandemic and the containment measures adopted by the Government during the health emergency phase; in fact, in the aforementioned period, the amount of cash withdrawals excluding through ATM and deposits at the counter recorded a decrease of 26% compared to the same figure for 2019.

The cash turnover indicator (obtained by benchmarking the quarterly average of withdrawals at the counter, withdrawals from ATM and deposits at the counter against the quarterly average of debts with customers, a figure providing an approximate estimate of the portion of collection that can be used with a monetary function) dropped from 6.3% in 2019 to 5% in 2020.

Figure 16 shows the trends in withdrawals at the counter (excluding ATMs), withdrawals including those from ATMs and deposits at the counter recorded on a quarterly basis over the period 2017 - 2020. Looking at the graph, it can be noted that the aggregate of withdrawals at the counter (excluding ATMs) fell from EUR 60 million in Q4 2016 to EUR 37 million in Q4 2020, a reduction of 38%. The aggregate of cash deposits went from EUR 76 million in Q4 2016 to EUR 58 million in Q4 2020, a decrease of 24%.

Figure 16 - Quarterly trend in withdrawals and deposits



1.1.11 Credit and debit card payment volumes

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

During 2020, there was a reduction in the number of credit and debit card payment transactions and in the number of transactions, by approximately 33 million and 353,000, respectively. This reduction was due to the exceptional circumstances caused by the spread of the Covid-19 pandemic and the consequent measures implemented by the Government during the health emergency phase.

Table 10 - Credit and debit cards of the San Marino financial system as at 31 December 2020

	2019			2020		
	number of cards in circulation	number of transactions	amount of transactions	number of cards in circulation	number of transactions	amount of transactions
Credit cards	13,153	1,251,831	99,373,976	13,578	1,058,142	81,564,865
Debit cards	37,751	3,070,219	247,636,612	36,892	2,910,862	232,929,315

Notes: Amounts shown in EUR.

Table 11 shows the number and amount of acquiring POS¹⁷ transactions registered in 2020 regulated by San Marino banks and payment institutions, highlighting the type of card used. In the same period, ATM withdrawal transactions amounted to 88 million.

Table 11 - Payment transactions with (acquiring) merchants

	2020	
	number of transactions	amount of transactions
Points of Sale (P.O.S.)		
Payment transactions with operators under agreement	3,541,441	243,834,316
of which with credit cards	681,735	68,491,961
of which with debit cards	2,859,706	175,342,355

1.2 Rest of the System

1.2.1 Financial companies

During 2020, the financial/fiduciary company segment decreased by one unit due to one company giving up its fiduciary activity, therefore at 31 December 2020 the segment is composed of one financial company, which is also qualified to exercise fiduciary activity.

At the end of 2020, this financial company had total assets of EUR 10.3 million and net equity of EUR 5.4 million. Gross loans, including financial leasing transactions, amounted to EUR 7.1 million, while asset management totalled EUR 79.8 million and assets managed as fiduciaries amounted to EUR 5.9 million.

The number of employees working in the aforementioned financial company at the end of 2020 is 5 and the result for the year 2020 is positive by approximately EUR 100,000.

Regulatory capital as at 31 December 2020 stands at EUR 5.5 million.

1.2.2 Payment institutions

The Payment Institutions segment consists of a company authorised to provide the Payment Services referred to in point I of Annex 1 of the LISF, with the exclusion of the money remittance service referred to in point f) of the aforementioned point I. The company mainly issues payment instruments through the acquisition of licences with payment circuits and agreements with banks for the distribution of products.

In 2020, the Payment Institution managed *issuing* transactions amounting to approximately EUR 65 million and *acquiring* transactions amounting to approximately EUR 104 million, the latter being settled with operators under agreement and A.T.M.

¹⁷ The data refer to operators qualified to use acquiring licences operating on international and national circuits.

At the end of 2020, the aforementioned payment institution had total assets of EUR 5.4 million, net equity of EUR 715,000, regulatory capital of EUR 451,000 and 9 employees. The company closed the 2020 financial year with a loss of EUR 241,000.

1.2.3 Asset Management Companies (AMCs)

During 2020, the structure of the sector remained stable with 3 management companies authorised to provide collective investment services. In this regard, it should be noted that, in the context of an application for approval of regulatory changes to certain funds, the authorisation was granted at the same time, in favour of a MC, for replacing the custodian bank and the party in charge of calculating the value of the fund units.

Overall, at the end of 2020, 14 mutual funds under San Marino law were active and managed by the 3 MCs. In particular, the funds under management are broken down as follows: 9 open-ended funds reserved for the general public, 1 alternative closed- end fund intended for professional clients and 4 funds established pursuant to specific Decree-Laws as part of extraordinary operations, which involved banking intermediaries. These 4 funds, whose assets mainly pertain to non-performing assets, are closed-end funds reserved exclusively for San Marino banks.

It should be noted in particular that during 2020, 2 UCITS III type open-ended mutual funds intended for the general public were activated for which, in 2019, the Central Bank had granted approval of the 2 regulations in favour of a single MC.

At the end of 2020, the net equity of these 14 funds amounted to a total of EUR 204 million, approximately EUR 4 million more than the figure posted as at 31 December 2019 (EUR 200 million). Assets under management relating to funds intended for clients -- hence excluding those established under specific Decree-Laws and reserved for banks -- totalled EUR 128.4 million, showing an increase of EUR 11 million compared to the end of 2019 and accounting, therefore, for approximately 63% of the volumes being referred to.

With reference to the four non-performing loan funds, there continues to be a decrease in the volume of assets; in fact, the net equity at the end of 2020 stood at EUR 75.9 million compared to EUR 82.5 million in 2019. As a result, the proportion of these funds to total assets under management is decreasing, representing at the end of 2020 approximately 37% of the volumes in question compared to 41% in the previous year.

During 2020, Law no. 223/2020 "National and Public Entities Budgets for the 2021 financial year and Multi-Year Budgets for the period 2021/2023" was issued, whose Article 7 provided that for funds established pursuant to specific Decree-Laws in the context of banking restructuring operations, the maximum amount of the benefits recognised under the aforementioned Decree-Laws will be definitively established on the basis of the statements of account of the mutual funds as at 31 December 2020 as ascertained by the Supervisory Committee as at the same date, as well as the termination of the activities by the Supervisory Committee as at 1 April 2021.

1.2.4 Insurance Undertakings

In 2020, the two domestic insurance undertakings completed their twelfth year of operation as they continued to engage in risk-taking activities in class of life insurance, primarily by relying on the San Marino banking channel and, secondarily, on the other insurance intermediaries operating in the Republic.

Total gross premiums recorded¹⁸ in 2020 amounted to approximately EUR 11 million, up 34% on what was posted in 2019. Premiums written in 2020 are mainly composed of traditional (class I) and unit-linked products, accounting for approximately 55% and 45%, respectively, of total gross premiums recorded during the year. There is also a residual portion related to class V.

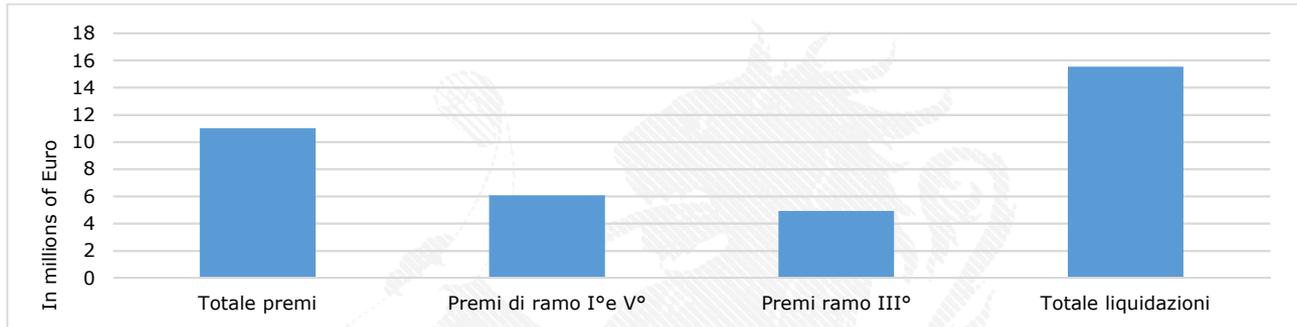
¹⁸ The relevant definition is provided in Annex F to Regulation No. 2009-01.

With regard to settlements, in 2020 the relative amount was approximately EUR 15 million, a decrease of 67% compared to the amount settled in 2019. In particular, it should be noted that requests for liquidation predominantly related to early redemptions of financial insurance policies with dedicated assets for 55%.

Net collection (the difference between premiums and settlements) therefore presents a negative balance of approximately EUR 4 million, up approximately 88% compared to 2019.

The breakdown and performance of domestic insurance business written as at 3 December 2020 is provided below.

Figure 17 - Breakdown of domestic insurance business written as at 31 December 2020



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

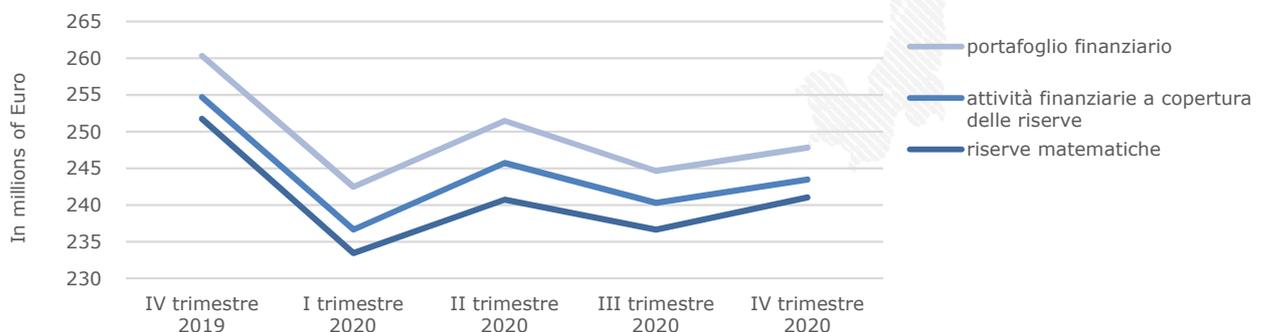
Table 12 - Performance of domestic insurance business written as at 31 December 2020

	Classes I and V	Class III	Total 2020	Total 2019	Annual change (%)
Gross premiums recorded	6,080	4,933	11,012	8,222	34%
Number of new policies	279	25	304	316	-4%

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

As at 31 December 2020, the overall book value of the investments of domestic insurance companies was approximately EUR 248 million, a decrease of 5% compared to the figure as at 31 December 2019. The volume of financial investments compared with the change in the total value of assets covering technical reserves and the volume of mathematical reserves is shown below.

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



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

Table 13 - Volume of financial assets and reserves

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Annual change (%)
Financial portfolio	260,313	242,488	251,493	244,677	247,850	-5%
Financial assets used to cover technical reserves	254,708	236,677	245,762	240,313	243,473	-4%
Mathematical reserves	251,750	233,482	240,747	236,667	241,057	-4%

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

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

It should be noted that the downward trend in assets under management and mathematical reserves is also determined by the negative amount of net collection and is mainly concentrated on financial insurance contracts (class III), whose mathematical reserves represent about 73% of the total at the end of 2020. On this subject, it should be noted that the amount of financial assets included in the separate internal management of revaluable products (at book value, including accrued revenues) was approximately EUR 67 million, almost stable compared to what was recorded in 2019.

An examination of the composition of the held financial portfolio (market value as at 31 December 2020), as in 2019, shows a predominance of investment in bonds, cash and mutual investment fund units. The latter are basically used for structuring and hedging unit-linked type financial insurance products. It should also be noted that the impact of the equity segment as well as the "other" component, which mainly includes certificates of deposit, on the composition of the financial portfolio is rather limited.

1.2.5 Insurance and reinsurance intermediaries

At the end of 2020, a total of 32 entities 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 (23 persons), and financial companies (3 persons). In 2020, cancellations from and enrolment in the aforesaid Register totalled 6 and 1, respectively.

Table 14 - Number of entities registered with the Register of insurance and reinsurance intermediaries who perform 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	5	23	3	31
Suspended/not operating	1	0	0	1
Total	6	23	3	32

Source: Register of insurance and reinsurance intermediaries

It must also be stated that, at 31 December 2020 an additional 46 natural persons were registered in Section A as Managers of the insurance mediation activities, who do not exercise financial activity.

1.2.6 Cold-Calling Parties

In December 2020, an application was received for registration in the Register of Financial Promoters, established pursuant to Regulation 2014-01, which, however, as of 31 March 2021, was still pending. Consequently, as of 31 March 2020 and 31 March 2021, no financial promoter was registered in the aforementioned Register.

As regards the section of the Register dedicated to the employees of authorised entities engaging in cold-calling, it should be noted that, as of 31 December 2020, 32 persons were registered in the Register, a decrease of 4 compared to the previous year. During 2020, the cancellation requests of an equal number of employees attributable to 2 authorised persons were accepted.

In the second half of 2020, an application was received from an authorised entity to register 3 employees. The application process was completed in early 2021 and, following the authorisation granted, 35 employees of authorised entities were registered in the Register of Cold-calling Parties as at 31 March 2021.

1.2.7 Payment service providers

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

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

As at 31 March 2021, there are 6 entities registered, of which 5 are banks and 1 is a payment institution.

1.2.8 Independent financial advisors

Regulation No. 2020-03 entitled "Regulation on Independent Financial Advisors", which entered into force on 3 August 2020, provided for the computerised establishment of the Public register of Independent Financial Advisors (published on the Central Bank's website on 3 December 2020), to which all persons who, as natural persons or companies other than authorised entities, provide professional investment advice on an independent basis must register. Members of this Register will be divided into the following Sections:

- Section A - Natural persons professionally engaged in Independent Investment Advice, either on their own or on behalf of Independent Financial Advisory Firms with which they collaborate;
- Section B - Legal persons who, as Independent Financial Advisory Firms, are engaged professionally in the provision of Independent Investment Advice.

During 2020 and the first quarter of 2021, no applications were received for inclusion in the aforementioned Register.

2 THE INSTITUTIONAL FUNCTIONS

2.1 Supervision and Protection of Investors

2.1.1 Supervisory policy

The epidemiological emergency led to an adjustment of supervisory guidelines through interventions aimed at preserving the role of the national banking system in supporting households and businesses, contributing to the introduction of extraordinary measures that - in agreement with other institutions - would allow systemic stability to be safeguarded, such as legal suspensions of payments and soft loans granted.

Particular attention has been paid to the banking sector in order to mitigate the impact of the economic cycle contraction induced by the pandemic and the excessive volatility of financial markets, by granting derogations on capital absorption for emergency loans (partly guaranteed by the State) and the possibility for losses on securities held for trading to be sterilised in the portfolio.

Against the changing macro-economic conditions, a flexible and pragmatic approach to analysing the conditions of individual intermediaries was adopted, in line with the supervisory guidelines applied in the Eurozone, by confirming the objectives of organisation and capital strengthening of our intermediaries.

The stricter requirements for administrative, managerial and supervisory roles in banks, through Regulation 2020-01, led to a strengthening of corporate governance, which is now faced with the challenge of defining credible and feasible growth paths, in a market context characterised by complexity but also opportunities.

In this respect, it should be noted the provisions on payment services, which are aligned (see below) with the European provisions aimed at laying the foundations for an expansion of the range of services on offer and of operational possibilities by encouraging greater integration of our operators within the international payment circuits.

The high incidence of *Non-Performing Loans (NPLs)* in bank assets constitutes an obstacle to the restructuring of the banking system, given the negative effects on technical balances (as these assets are largely illiquid and non-interest bearing) in order to recover adequate levels of profitability. In this regard, it is no longer possible to postpone the introduction of efficient instruments, inspired by international best practices, for the deconsolidation of NPLs through securitisation operations that bring liquidity, while preserving the real economic value of the assets sold, avoiding undue transfers of value to the detriment of the originators.

To this end, the establishment of specialised operators in servicing activities for the management of non-performing assets represents the necessary complement, together with efficient recovery procedures. In this regard, during 2020, discussions with institutions and with the Bankers Association of San Marino were intensified in order to define and implement an overall regulatory project on the matter, consistent with the aforementioned policy lines.

The discussions with the banks were calibrated by requesting the necessary updates to the business plans in order to also incorporate the effects of the deterioration of the macroeconomic framework, from which limited forecast impacts emerged, without prejudice to the attention paid to the evolution of the creditworthiness of the debtors subject to the moratorium.

The objective of consolidating the financial system despite the criticalities brought by the pandemic context has actively involved the Supervisory Authority in supporting the Government in drawing up and reviewing the documentation required for the first issue of government securities on international markets (finalised in February 2021) and in strengthening the capital of systemic operators.

The Supervisory Authority was also engaged in discussions with rating agencies and international bodies to represent the evolving path recorded by the financial sector in 2020, within

which the increase in total funding, the increase in liquidity levels, and the improvement in the solvency ratio are all significant at an aggregate level.

2.1.2 The Supervision Committee

In 2020, the Supervisory Committee held 68 meetings at which 217 resolutions were passed. Compared to the previous year, there was an increase in the number of resolutions concerning regulatory and sanctions issues. In particular, the following resolutions were approved:

- no. 40 resolutions on regulatory matters (compared to No. 23 in 2019), including No. 9 guidelines, so as to introduce - among other things - flexibility in the classification of performing loans subject to suspensions of payments and on the management of the securities portfolio;
- no. 30 resolutions on sanctions (compared to no. 13 in 2019), considering both the breaches found in the inspection and document activities at intermediaries subject to extraordinary procedures and the need for methodological refinement related to the imposition of the sanctions themselves, also taking into account the innovations introduced by Decree no. 50/2019.

2.1.3 The Activities of the Supervision Department

The activity of the services making up the Supervision Department focused on the management of numerous proceedings at the request of one party and regulatory developments -as well as on the analysis and intervention in the most complex corporate situations, including those related to a bank under resolution proceedings (close to transformation into a non-banking entity), while monitoring the liquidity situation of banks that had potential criticalities in conjunction with overdue repayment of liabilities.

Further actions were aimed at analysing the quality of assets and the correct application of the new fit&proper provisions for banks corporate officials, as well as strengthening ties with foreign supervisory authorities and assisting institutions in managing international relations, including those with the European Commission's focal points in the implementation of the Monetary Agreement.

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

Box 1: Disciplinary procedures and developments in the current business crises

Resolution proceedings of Banca Nazionale Sammarinese S.p.A.

During 2020, activities continued in connection with the resolution proceedings of the former Banca CIS S.p.A., now Banca Nazionale Sammarinese S.p.A. (hereinafter referred to as BNS). The bank therefore proceeded with the repayment of the first liabilities arising from the resolution programme as well as continuing with the gradual disposal of the remaining bank accounts. The management of non-performing assets also continued, also on behalf of Società Veicolo di Segregazione Fondi Pensioni S.p.A., which brought to the latter company important recoveries of fixed assets.

In this context, taking into account what emerged in the course of the extraordinary administration and resolution proceedings, the Special Administrator also initiated civil actions against those who were held responsible for the default of Banca CIS.

With regard to future prospects, with Delegated Decree No. 126/2020 the legislator has defined the new corporate mission of BNS, which provides, among other things, for the conversion of BNS into a non-banking company called Società di Gestione Attivi ex BNS S.p.A. (hereinafter SGA), with the aim, however, of ensuring the timely fulfilment of the liabilities and bonds issued in implementation of the resolution programme. To this end, the aforementioned Decree also provides for the assignment of the credits and any other assets resulting from the recovery of the credit in favour of a special purpose vehicle, set up specifically for securitisation transactions. The Decree also provides for the transfer of the shares of the BNS currently held by the Central Bank to the State, as well as the establishment of a company for the management and recovery of credits (Istituto per la Gestione e il Recupero dei Crediti), which will be responsible for servicing on behalf of the SGA as well as special purpose vehicles



(so-called SPVs) or financial companies. This activity will therefore be subject to Central Bank supervision.

Administrative compulsory winding-ups

At the end of 2020, 14 administrative compulsory winding-up procedures were pending, out of which 4 related to banks and 9 to financial/fiduciary companies. During the year, no further administrative compulsory winding-up procedures were approved. Compared to the previous year, 3 administrative compulsory winding-up procedures of financial and/or fiduciary companies were concluded, following the filing of the final winding-up documentation. Out of these, 2 have been deleted (Fin Project and Servizi Fiduciari), and 1 is currently awaiting deletion (Fin Gestioni).

Numerous activities were carried out by CBSM with regard to the disciplinary measures, in order to settle them. In summary, as part of its management of winding-up procedures, in 2020 the Central Bank replaced the bodies of the procedure pursuant to Article 86 of the LISF in two cases, it authorised the commencement of liability actions at the request of the Liquidator pursuant to Article 88(5) of the LISF in one case, and it authorised partial distributions in and restitutions in favour of the entitled parties pursuant to Article 95(4) of the LISF and in two cases it authorised the filing of the final winding-up report pursuant to Article 96(1) of the LISF.

Finally, in a further 2 cases, the Central Bank provided financial support to the illiquid procedures for their smooth running.

A great deal of effort was also devoted to providing directives and guidelines to the liquidators, including on technical and legal issues, in the interest of creditors and with a view to containing costs for the entire banking and financial system, as well as seeking greater efficiency. With this objective in mind, a new version of CBSM's Regulation on the management of disciplinary measures was drafted and will be issued shortly.

Box 2: Sanctioning procedures

Proceedings started and sanctions inflicted

In 2020, the first sanctioning proceedings were initiated with the amendments introduced by Decree No. 50/2019, whereby the addressee of the proceedings is the supervised party as well as persons who can be ascribed a personal, although not exclusive, liability.

The sanctioning proceedings initiated following the ascertainment of the relevant requirements are mainly addressed to corporate officials of authorised parties (Directors, Statutory Auditors and General Managers), to audit firms and, in some cases, to the Heads of Operating Units or control functions or to collaborators included in the corporate organisational structure.

Sanctioning proceedings initiated and concluded in 2020 are 37. In total, the amount of fines imposed was EUR 2,250,450. Some of the entities on whom sanctions were inflicted exercised the right to settlement as laid down by current legislation and the amount collected was EUR 461,813. The remaining sanctions in some cases have been subject to administrative appeal and are therefore *sub judice*, in other cases they have been summoned by the Criminal Judge, pursuant to Article 2(2) of Delegated Decree No. 1/2018.

During the first quarter of 2021, in compliance with the provisions of Article 9(3), of Law 223/2020, taking into account the public intervention in the resolution procedure, the administrative sanctions related to Banca CIS - Credito Industriale Sammarinese were published on CBSM's website and in the Official Bulletin. 8 judgements were issued by the Administrative Court in previous appeals against

sanctions, all in favour of CBSM, for which collection is in progress of the amounts imposed and the related legal fees.

Fines collected, following rulings in favour of CBSM on penalties imposed in previous years, amounted to EUR 21,000. The same amount, collected within the first quarter of 2021, amounts to EUR 30,000.

2.1.4 Regulatory interventions

During 2020, the Central Bank issued five measures while exercising its regulatory powers, namely:

- a) 18 March 2020 - Reg. 2020-01 - "Collection of measures designed to revise supervisory provisions currently in force";
- b) 03 June 2020 - Reg. 2020-02 - "Amending Regulation No. 2010-01 for the professional practice of the office of trustee in the Republic of San Marino";
- c) 31 July 2020 - Reg. 2020-03 - "Regulation on Independent financial advisors";
- d) 23 December 2020 - Reg. 2020-04 - "Regulation of payment and electronic money issuing services (Payment Institutions and EMI)";
- e) 23 December 2020 - Reg. 2020-05 - "Amending Regulation No. 2007-01 on reporting procedures pursuant to Article 68 Law No. 165 dated 17 November 2005".

With regard to the first regulation, as already anticipated in the Annual Report of the Central Bank referred to 2019, it should be noted that, as a result of the amendments introduced to Reg. 2007-07, the rules on the requirements of corporate officials of banks have been made compliant with the international standard known as "fit and proper", thus implementing (albeit at the moment only for banks) the amendments that the Delegated Decree no. 50/2019 made to Article 15 of Law no. 165/2005 (LISF). In addition to this main content, other significant ones have been added, including the recognised possibility for San Marino insurance companies to offer, within certain limits, coverage for loss of employment in addition to life products, the introduction of streamlining measures with regard to supervisory reports, as well as the provision that the "first information" services of the Central Credit Register are free of charge.

Regarding the Reg. 2020-02, which is the Amending regulation 2010-01 on professional trustees, it contains a wide-ranging and pervasive reform, not only with regard to training obligations, for which the Professional Register of Lawyers and Notaries and Accountants play a central role, but also with reference to streamlining requirements for accessing the market for the so-called trust companies and the formal requirements of the documentation to be submitted, both at the time of initial registration and at the time of the annual self-declaration of permanence of the requirements, replacing the set of certificates.

With regard to the third regulation, this is the discipline which, in implementation of Article 25-bis of the LISF, introduced by Delegated Decree no. 61/2019 in pursuance of Directive 2014/65/EU (so-called MiFID II), established and governs the new Register of Independent Financial Advisors, kept by the Central Bank. In addition to regulating registration requirements, causes of suspension and cancellation from the Register and related procedures/forms, the Regulation also contains basic rules of conduct and organisation aimed at advisors, as well as provisions on forms of exercising supervision and cross-border operations.

The last 2 measures, adopted at the end of 2020, close a particularly productive year from a regulatory perspective. More specifically, the fourth regulation introduced the new and organic discipline which, in implementation of Delegated Decree no. 177/2018, completed the transposition of Directive (EU) 2015/2366 into the San Marino financial system. Such Directive, known as PSD2, has completely replaced (by repealing it) the previous Directive on Payment Services (2007/64/EC) which San Marino had already transposed with the Central Bank Regulation no. 2014-04, now also replaced by Regulation no. 2020-04. The new Regulation mainly pursues the objective of favouring digital innovation in the banking sector and in particular in the payments sector, with expected benefits for customers in terms of cost and execution times reduction, by defining the principle that all information on accounts is in the ownership and availability of customers and not of the banks or



payment institutions where the accounts are held (so-called open banking). The new regulation also provides for the establishment of a new public Register, kept by the undersigned and dedicated exclusively to Payment Service Providers (PSPs) operating in San Marino, also specifying their agents or entities under agreement, if any, as well as the PSPs specialised (so-called Third-Party Payment or TPPs) in the provision of payment services under new regulations, such as:

- the *Payment Initiation Service* (PIS);
- the *Account Information Service* (AIS).

The last regulation of 2020 is more specific, since it integrates the provisions of the new three paragraphs of Article 68 of the LISF, introduced by the Delegated Decree No. 61/2019 for the implementation of the so-called MiFID2, and significantly amends Regulation 2007-01, in order to regulate the new type of reports to the Central Bank that goes by the name of whistleblowing and that adds to the other type, already regulated, now distinguished as reports-statements.

In conclusion, it should be noted that also in 2020 the Central Bank continued its constant activity of interpreting the provisions it issued, carried out by answering both questions received from supervised entities or the public administration of San Marino and from other entities, both from San Marino or abroad, including professionals and advisors, who are in any case interested in the banking and financial regulations of San Marino, applying in this case the fees paid for issuing documents pursuant to Article 21 of Regulation no. 2019-01, for the purpose of, at least partial, cost recovery.

2.1.5 Supervisory reporting and methodologies

Ordinary supervisory reporting and methodologies activity in 2020 involved managing, processing, and checking the information received from the supervised entities, producing financial reports and statistics as well as updating regulations for preparing supervisory reports and issuing and updating reporting forms and related guides for compilation.

As a result of the COVID-19 health emergency in March 2020, temporary extensions were granted for the transmission of certain supervisory reports as well as derogations from the supervisory provisions relating to the transfer of securities between the investment and trading portfolios, the valuation of financial instruments and their possible assignment, as set out in paragraph 1.1.3.

The Central Bank has launched, starting from June 2020 reference date, a new periodic, temporary supervisory reporting aimed at monitoring the loans granted by banks and financial companies pursuant to Articles 19 (Temporary measures to support the liquidity of households) and 20 (Temporary measures to support the liquidity of economic operators) of Decree Law 63/2020 and subsequent amendments. This Decree, aimed at containing the negative effects that the epidemiological emergency caused by COVID-19 has produced on the socio-economic fabric of San Marino, provided for the granting of public guarantees on loans provided by banks and financial companies to households and economic operators, by establishing the access requirements and the characteristics of the aforementioned guarantees and loans.

Given that the deadline for approval of the 2020 Annual Report of authorised parties under Article 29 of Law 165/2005 has been postponed by one month, in April 2021 the deadlines for supervisory reports on annual report data and prudential supervision have been extended.

With a view to streamlining supervisory reports and the templates in use, certain supervisory reports and reporting deadlines have been updated and merged.

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

2.1.5.1 National and international statistics

The Central Bank has exclusive responsibility for the processing and publication of statistical data relating to the entities and activities supervised by it. Some data are aggregated and processed

for statistics intended for publication in the specific section of the website www.bcsm.sm, i.e. they are provided to international focal points, who will in turn include them in the statistics developed on the different world financial systems.

CBSM periodically publishes the Quarterly Information Bulletin¹⁹, which describes the characteristics of the legal and regulatory framework, supervisory activities, the structure of the financial system and details the data referring to the banking system and management companies. In a specific paragraph, the various functions performed by the Central Bank are illustrated with specific details.

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

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

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

The statistics which the Central Bank forwards to the IMF continued to be produced during 2020:

- *Monetary and Financial Statistics (MFS)* - These are essentially related to the reclassification of the net equity data of the Central Bank (MFSCBS) and San Marino banks (MFSODC), as well to the data pertaining to the main monetary aggregates (MFSMS) with regard to monetary financial institutions (IFMs) and interest rates (MFSINT) with regard to San Marino banks;
- *Financial Soundness Indicators (FSIs)* - These statistics provide, among other things, net equity and profit and loss account data as well as liquidity, balance sheet, net equity and prudential indicators for the banking, financial, and insurance systems (FSI1, FSI2, FSI3);
- *Financial Access Survey (FAS)* - the statistics pertains to annual data concerning access to the financial services.

Within the framework of the e-GDDS²⁰, the Central Bank contributes to the National Summary Data Page (NSDP) of San Marino by providing the following statistics:

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

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

- *Monetary Interest Rate statistics (MIR)* - These statistics refer to the interest rates on deposits and loans applied by banks (see Regulation EU 1072/2013);
- *Balance Sheet Items statistics (BSI)* - These are statistics on the financial statements of Monetary financial institutions (banks and Central Bank), regarding their assets and liabilities. They are broken down by category, institutional sectors and residence (see Regulation EU 1071/2013);

¹⁹ <https://www.bcsm.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>.

²⁰ The *Enhanced General Data Dissemination System* is an advanced statistical data dissemination system, established in 2015 by the Executive Board of the International Monetary Fund, to provide guidance to countries regarding the dissemination of data by supporting transparency, encouraging statistical development and helping to create strong synergies between data dissemination and supervision.



- *Quarterly Financial Accounts (QFA)*: statistics on quarterly financial accounts regarding total assets and liabilities broken down by business segment and residence (see EU Regulation No. 549/2013 and the European Central Bank Guideline of 25 July 2013 on the ECB's statistical reporting requirements in the field of quarterly financial accounts - recast - ECB/2013/24 - 2014/3/EU).

2.1.5.2 *Central Credit Register*

The Central Credit Register (CCR) operated by the Central Bank is governed by Article 50 of the LISF and Circular 2015-02.

During 2020, the aforementioned Circular 2015-02 was updated, among other things, to provide clarification in the case of the transfer of bad loans to entities not included in the CCR.

With regard to the moratorium on loans granted in connection with the exceptional situation created by the COVID-19 health emergency, it was emphasised that non-payments resulting from compliance with this moratorium should not be used to assess a different credit classification and the relative risk position of the debtor during the period of suspension. This was done so as not to penalise customers who took part in the moratorium with the consequent rescheduling of the original due dates.

There were 11 intermediaries participating in the CCR as at 31 December 2020, including 5 banks, 1 financial company, 4 mutual funds²¹ and the Central Bank.

Participating intermediaries also forward to the CCR personal information on entities to be registered, risk position and qualitative information on the customer's debt situation whenever a change of status occurs, i.e. when an entity is reported as "non-performing" or when such status is removed.

CBSM carries out periodic checks on the data reported to the CCR in order to verify the compliance of the information reported with the reporting formats, the consistency of the information within the same report and with previous reports, and the compliance with assigned benchmarks. In this regard, the intermediaries concerned are notified by means of a specific communication of flows rejected because they contain formally incorrect information, or findings.

The CCR provides participating intermediaries with daily updates of official source personal data on their registered entities.

Moreover, the CCR makes available to the participating intermediaries a customised monthly return flow containing the personal data and the total indebtedness towards the San Marino credit system of individual customers and their jointly-obligated customers, as reported by the intermediaries themselves. For each name reported, the return flow contains at system level the exposure broken down by cash loans, including bad loans, credit commitments, guarantees received and the information section.

The instructions and forms for submitting requests for accessing data as well as further information on the Central Credit Risk (FAQ, fact sheet on CCR and guide to reading the debtor prospectus) are published in the specific section of the Central Bank's website²². In this regard, in May 2020 an additional possibility was introduced for the parties concerned to submit the request for access to CCR data and receive the relevant responses also by registered electronic Notice or by certified email (P.E.C.).

At the reference date of 31 December 2020, about 15,250 entities were reported to the Central Credit Register, including natural persons (67.1%), legal persons (18%) and joint accounts (14.9%). As at the same date, the following information was provided as a whole: cash loans (drawn amount totalled approximately EUR 3,021 million), credit commitments (drawn amount totalled

²¹ Pursuant to Circular 2015-02, paragraph 1.5(1)(d), participation in the risk centralisation service is mandatory for CBSM-authorized mutual funds having more than 50% of their assets invested in credits or assets resulting from the termination of loan agreements.

²² <https://www.bcsn.sm/site/home/servizi-per-il-pubblico/elenco-dei-servizi/accesso-ai-dati-della-centrale-dei-rischi.html>.

approximately EUR 241 million) and guarantees received²³ (with guaranteed amount and guarantee value totalling approximately EUR 1,687 million and EUR 3,056 million, respectively).

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

During 2020, approximately 2,500 responses to first information requests transmitted by participating intermediaries were processed by the Central Credit Register, with which approximately 27,300 accounting dates were investigated: out of these, approximately 11,100 contained information on amounts. In the first quarter of 2021, approximately 800 responses were processed, with which approximately 8,600 accounting dates were investigated: out of these, approximately 3,300 contained information on amounts. During 2020, 47 requests for access to data recorded in the CCR archive were processed and 13 in the first quarter of 2021.

2.1.5.3 Other assets

To the extent as lying within its province, the Central Bank provided its support regarding the IMF missions that took place during 2020 in the framework of Article IV and the Virtual Staff Visit occurred in February 2021.

In March and September 2020, the Central Bank had exchanges with Fitch credit rating agency for the purpose of updating the Republic of San Marino's rating.

2.1.6 Controls over the banking and financial system

2.1.6.1 Documentary controls

The Central Bank, as part of its supervisory functions, continued to carry out checks on documents of the supervised entities in 2020.

In particular, the off-site supervisory activity, based mainly on the analysis of supervisory reports, consists in assessing the various profiles of the intermediary, i.e. the capital and organisational adequacy, liquidity and profitability profile. In this context, checks carried out on the existence of the requisites provided for by current supervisory provisions with regard to the corporate structure and corporate officials of banking, financial and insurance companies are also important.

In the framework of the main operational areas, characterised by different kinds of activities related to the different situations identified, actions that are possible and adopted can be classified in authorisation processes²⁴ and in possible securities 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 documentary activities carried out during 2020 resulted in the production of 872 documents. The same activity, carried out in the first quarter of 2021, resulted in the drafting of 221 documents.

²³ Only personal guarantees and external collaterals are registered in the guarantees received data entry category. Moreover, guarantees that do not originate from independent negotiations between the parties, such as statutory sureties issued *by the State*, are not included.

²⁴ 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 particular, it should be noted that 125 fact-finding, pre-emptive and corrective actions were carried out in 2020, while documents concerning authorisation procedures totalled 59. On the other hand, the management of fulfilments concerning the application of regulations involved 71 notes. The documentary activities concerning the management of extraordinary procedures involved 134 interventions, while 59 interventions concerned cooperation and relations with other authorities.

Following the issuance of CBSM Regulation No. 2020-01 "Collection of measures designed to revise supervisory provisions currently in force", which implemented, among other things, the so-called "fit and proper" criteria for corporate officials of banking companies, part of the supervisory activity was devoted, on the one hand, to evaluating the authorisation processes relating to changes in the company's articles of association in order to bring them into line with the new regulations, and, on the other hand, to assessing the suitability of corporate officials being renewed or newly appointed with respect to the aforementioned standards.

Moreover, it should be noted that the total amount of the documents produced in the above-mentioned reference period includes a significant portion that involved both sanctioning proceedings against ascertained breaches of the supervisory activity and the management of issues related to extraordinary procedures (extraordinary administration, resolution and administrative compulsory winding-up), as well as answers to questions of various kinds.

In the period from 1 January 2020 to 31 March 2021, 307 notifications were made relating to the management of sanctioning proceedings.

2.1.6.2 Inspections

The 2020 inspection plan, prepared using a risk-based approach according to information from the different supervisory services and evidence gathered during previous on-site inspections, approved during last quarter of 2019, covered the whole period 2019-2020.

However, since the first quarter of 2020, activity has been significantly affected by the Covid-19 health emergency. In fact, during the lockdown period, no new activities were started and those in progress were suspended. Subsequently, as the state of emergency continued, the implementation of the inspection programme underwent inevitable changes determined by the need to combine compliance with measures to limit contagions in the workplace with the needs of the Inspection Service. As a result, the inspections carried out during the financial year were carried out according to the instructions from the Supervision Committee, such as, by way of example, urgent inspections, or the requests for assessment made by the Single Court under Article 104 of the LISF. The inspections were carried out in "mixed" mode, by limiting the time spent at the intermediary's premises to a minimum and making extensive use of remote connection modalities (telephone calls, video-calls, exchange of documents via electronic messaging, etc.). The activity was also carried out on the basis of the work commitment of the resources in other assignments (e.g. Internal Inspectors of the Supervisory Committee) and in specific projects (see National Risk Assessment).

In this context, 5 on-site inspections were carried out at banks and 1 inspection at a Management Company, 4 of which in the form of targeted interventions and 2 as activities specifically carried out on behalf of the Judicial Authority.

With specific reference to the accesses for supervisory purposes, in 2 cases they were carried out to investigate anomalies and irregularities found in the operations of entities already subject to extraordinary proceedings and in other cases following the need to acquire information on credit matters. Finally, within the framework of the cooperation with the Single Court of the Republic of San Marino, it should be noted that the On-site Supervision Service carried out, in addition to the two specific interventions mentioned above, a further 5 inspections (on documents) at banking companies aimed at acquiring information relating to operational anomalies detected and reported. Table 15 summarises the inspections carried out in the three-year period 2018-2020.

Table 15 - On-site Supervision Inspections

	2018			2019			2020		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	3	0	3	9	0	0	5	0	1
of which spread-spectrum	0	0	0	1	0	0	0	0	0
of which targeted	3	0	3	4	0	0	3	0	1
of which specific	0	0	0	4	0	0	2	0	0
Total	6			9			6		

The main irregularities that emerged during the on-site inspections are briefly and mainly attributable to the existence of widespread criticalities in the corporate governance system and anomalies in the processes of disbursement, management, monitoring, classification and evaluation of loans. The inspection findings, in most cases, also as a result of the follow-up activity on the inspection reports, led to the initiation of sanctioning proceedings, the forwarding of reports to the Financial Intelligence Agency and complaints/reports to the Judicial Authority.

The On-site Supervision Service, within the framework of the cooperation with the Financial Intelligence Agency, during 2020, transmitted 1 report of suspicious transaction and 5 exchanges of information concerning breaches of Law n. 92/2008 and/or facts and circumstances that could be related to money laundering.

2.1.6.3 *Protest Information Service*

The charts below show the number of names relative to protested cheques and the total amount, shown in millions, recorded during the 2016-2020 period.

Figure 19 - Number of names related to protested cheques

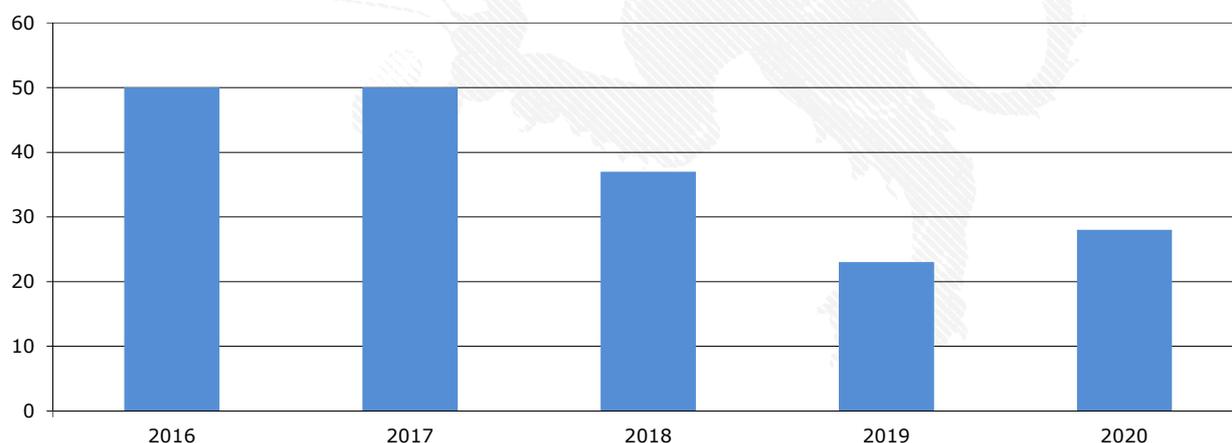
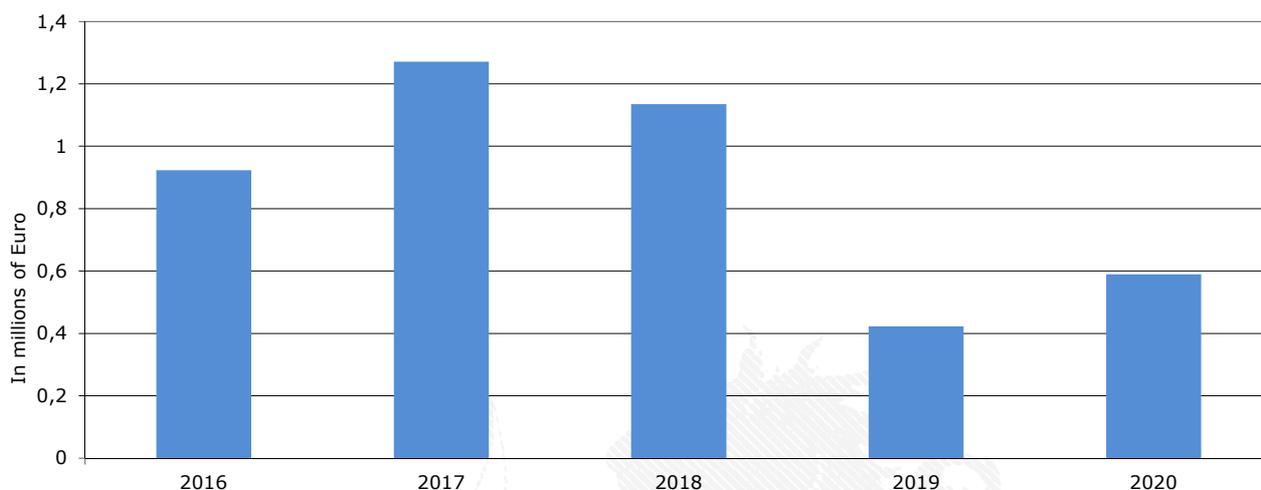


Figure 20 - Protested amounts



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

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

International Monetary Fund - IMF

The data and information exchange activity with the IMF regarding the banking and financial system has been constant and has involved numerous Central Bank functions. As is customary, this activity involved the periodic submission of statistical data (Monetary and Financial Statistics, Financial Soundness Indicators, Financial Access Survey), data pertaining to equity, income, and cash flow profiles of the system, as well as data concerning the Central Bank, with special reference to its reserves.

The Central Bank also participated in filling in specific questionnaires requested by the IMF on, among other things, monetary operations and instruments, macro-prudential policy and agreements and restrictions on exchange rates (AREAER) and carried out the activities related to the management of the financial position of the Republic of San Marino towards the IMF, specifically, it also provided assistance for the mobilisation of part of San Marino's investment in the endowment fund of the international body, which was finalised with the relevant credit, thus increasing the liquidity available to the State to face the pandemic emergency.

Due to restrictions caused by the global health emergency, there was only one visit by the IMF delegation, in January 2020, which was the annual assessment mission under Article IV of the Fund's Statutes.

The 2020 report (Country Staff Report) approved by the Executive Board of the Fund on 2 April 2020, gives an overview of the economic situation of San Marino formulated on the basis of data and indicators for the year 2019 and based on the lines of action explained by the Authorities and the Central Bank. The report was drafted before the outbreak of the COVID-19 pandemic and therefore presents analyses that do not take into account the effects that the pandemic has had on the economy. However, a Supplementary note, drafted by the European Department of the IMF, has been added to the publication, presenting information on the health crisis in the Republic of San Marino, as well as the first containment measures adopted.

The Spring Meetings in April and the Annual Meetings in October 2020, both held in virtual mode, as well as the periodic conference calls during which the Central Bank was able to present the evolution of the banking and financial system and the main lines of action, were further fruitful opportunities for discussion with the IMF's technical staff. At the end of 2020, due to the pandemic restrictions, the usual preparatory visit for the following year's staff visit was not held, but was replaced by a virtual staff visit in early 2021.

Relations with other central banks

In terms of cooperation with national and foreign authorities, contacts were strengthened with the Bank of Italy and the European Central Bank in order to guarantee the banking and financial system of San Marino access to the refinancing instruments of the Eurosystem.

The renewed and fruitful relations maintained between the Supervisory Authorities allowed CBSM to consolidate its role as lender of last resort. In particular, in August 2020, the European Central Bank (ECB) acknowledged to CB the possibility to benefit from a precautionary liquidity line to support San Marino financial institutions in the presence of possible market disruptions due to the COVID-19 emergency. This line, which falls within the main framework provided for bilateral swaps and repurchase agreements of the Eurosystem, is for a maximum amount of EUR 100 million and was granted with an initial maturity to March 2021, subsequently extended until March 2022, unless otherwise agreed between the ECB and CBSM.

Conclusion of National Risk Assessment and MONEYVAL AML/CFT effectiveness evaluation

During 2020, the National Risk Assessment (NRA) project was concluded and the main activities for assessing the effectiveness of Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) by MONEYVAL were completed.

The NRA is a self-risk assessment exercise on AML - CFT carried out by the country's authorities in close cooperation with each other, coordinated by the National Technical Coordination Committee, which is the main coordinating body on this matter. The conclusion of the NRA took place, also due to the COVID-19 pandemic, in the second quarter of 2020. The Government took note of the work done, approving a National AML-CFT Strategy in July 2020, which outlined the planning of activities necessary to pursue the objectives of fighting against money laundering and terrorism financing as highlighted by the NRA.

In the same period, the working group also drafted the preparatory documents for the MONEYVAL assessment²⁵, aimed at identifying the level of compliance (so-called Technical Compliance) of the existing regulatory framework with the FATF-GAFI Recommendations on AML/CFT and the degree of effectiveness of the AML/CFT regime in the different phases (preventive, investigative and repressive).

Like the NRA, the CBSM carried out its activities in close collaboration with the other supervisory authorities and in particular with the Financial Intelligence Agency throughout 2020. In this regard, it is worth highlighting the "on site" mission of the Moneyval experts in October 2020, during which all the Authorities, as well as representatives of the various actors of the economic and financial system, participated in direct interviews with the group of assessors, in order to deepen the various aspects of the documentation provided to MONEYVAL and thus determine the degree of effectiveness of the actions aimed at AML-CFT. Activities continued in the early months of 2021, as the evaluation process is not due to be completed until the second quarter of that year.

Further information regarding the activities carried out is available in the Quarterly Bulletins published on the institutional website of CBSM²⁶.

Relations with other international organisations, agencies and other bodies

²⁵ <https://www.coe.int/en/web/moneyval/home>

²⁶ <https://www.bscm.sm/site/home/pubblicazioni-e-statistiche/bollettino-informativo-trimestrale.html>



The Republic of San Marino, during the first quarter of 2020, supported the assessment of the Fitch Rating Agency, where the Central Bank was strongly involved to represent the dynamics occurring in the financial system. The assessment was concluded in April 2020 with the publication of the "Long-term Issuer Default Rating (IDR)" assigned to San Marino as "BB+", down from the previous "BBB-". The same rating was also confirmed in early October 2020, as well as the previously defined negative outlook.

In the third quarter of 2020, CBSM continued to provide support to the Government for activities related to the first issuance of government bonds in international financial markets, which took place with an intensive schedule of meetings via distance communication techniques with rating agencies and investment bank, given the ongoing pandemic emergency. These activities concluded with the first issue in the history of the Republic placed on international markets in February 2021.

Relations with the World Association of Guarantee Funds for Depositors (IADI) and with the corresponding European association (EFDI), of which the Central Bank is a member, also continued in 2020, with a view to exchanging experience and gaining knowledge and feed them into the best practices adopted within the Republic of San Marino system. CBSM also continued its activity as observer country within the Affiliation of the Micro-European States (AMES), which represents a specific working group within the EFDI.

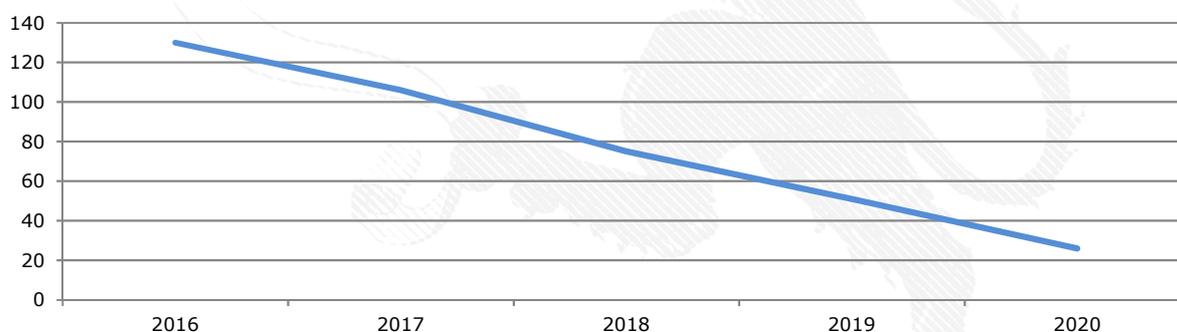
2.3 Management of Counterfeit Banknotes and Coins in Euro

The charts below show a comparison of the values relating to euro-denominated counterfeit banknotes detected from 2016 to 2020, highlighting the most significant facts of the activity carried out in 2020.

The banknotes taken out of circulation and recognised as being counterfeit in 2020 total 26 units, thus decreasing by 49% compared to 2019.

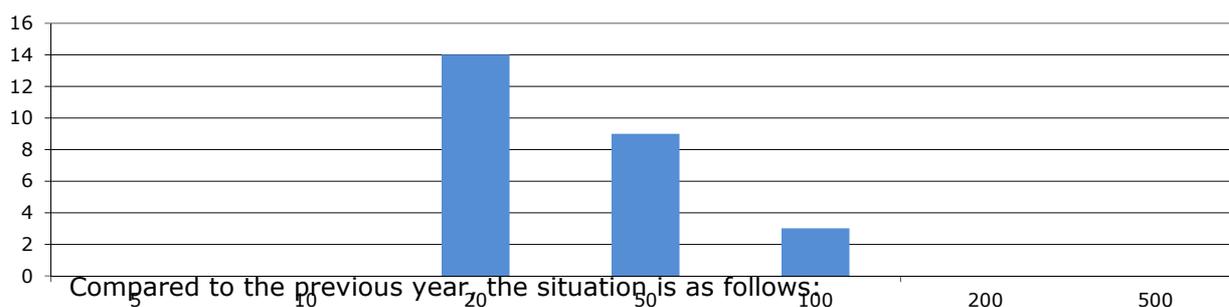
No cases of counterfeit coins were detected during 2020.

Figure 21 - Number of counterfeit banknotes: 2016-2020 annual data comparison



The chart below shows that 20 euro banknotes were mostly counterfeited.

Figure 22 - Counterfeit banknotes withdrawn from circulation in 2020: breakdown by denomination



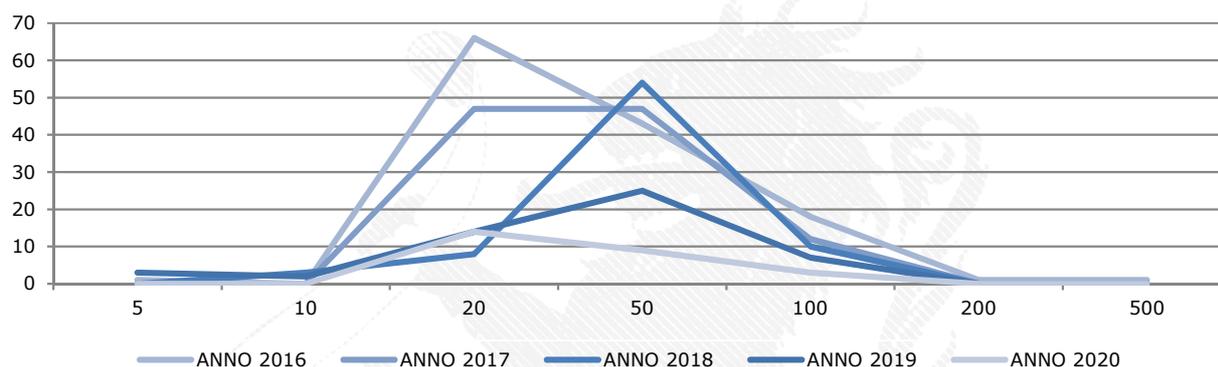
- 5 euro banknotes (0% of the total) decreased from 3 in 2019 to 0 in 2020;

- 10 euro banknotes (0% of the total) decreased from 2 in 2019 to 0 in 2020;
- 20 euro banknotes (53.9% of the total) did not post any change from 14 in 2019 to 14 in 2020;
- 50 euro banknotes (34.6% of the total) decreased from 25 in 2019 to 9 in 2020;
- 100 euro banknotes (11.5% of the total) decreased from 7 in 2019 to 3 in 2020.

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

The chart below shows a comparison of the changes that occurred from 2016 to 2020 by denomination.

Figure 23 - Denomination of counterfeit banknotes: 2016-2020 annual data comparison



The general decrease in the number of counterfeit banknotes detected during 2020 in San Marino is in line with the trend observed in Italy. It should be noted that in Italy, as in San Marino, the most counterfeited denominations withdrawn from circulation concerned 20 Euro banknotes (39.3% of the total), 50 Euro banknotes (36.8% of the total) and 100 Euro banknotes (18% of the total).

European Central Bank publications show that, in 2020, 17.7% fewer Euro banknotes were withdrawn from circulation than in 2019 (460,000 compared to 559,000 withdrawn last year). The European Central Bank also announced that the majority of counterfeit banknotes (94.5%) were detected in euro area countries; about 2.8% of the counterfeits came from EU Member States, which are not part of the Euro area, and 2.7% from other parts of the world.

2.4 Cash Handling

In 2020, the Central Bank provided for the distribution of cash to the San Marino banking system through 73 subsidies, which were possible thanks to the recirculation of systemic cash surpluses and procurement from Italy. The requests for cash received by the banking system of San Marino recorded an increase in the amounts distributed compared to the previous year, equal to 0.6%. Moreover, it should be noted that the Central Bank does not supply the banking system of San Marino with 200 and 500 euro denominations.

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

2.5 Advisory and cooperation activity

In 2020, some State Secretariats again requested the Central Bank for advice on banking and financial regulation. This regulatory advice was, as in previous years, provided in different forms, such as requests for preparation of drafts of entire legislative texts, conducting analyses and assessments on specific legal acts or regulations, drafting -- from both a technical and legal

perspective -- regulations on the basis of strategic decisions or policies adopted by the San Marino State Secretariats or Institutions themselves.

2.5.1 Regulatory advice

The regulatory advisory activity carried out by the Central Bank during 2020 was also relevant and, as already explained in the previous Report, took different forms both in terms of initiative and in terms of level/phase of involvement.

In most cases, CBSM provided regulatory advice upon the express request of the relevant State Secretariats, mainly the Finance State Secretariat, but there were also proposals for regulatory intervention made directly by the Central Bank, while exercising its powers under Article 45.2 of its Statute. In terms of the level or stage of involvement, sometimes the Central Bank was asked to provide analysis and assessment of draft laws or draft decrees, while in other cases, the regulatory advice requested related directly to the drafting of such drafts.

Starting with the latter form, which is more challenging for CbSM, we can hereby recall what follows:

- a) the preparation of the draft Delegated Decree entitled "*Strengthening the collection activity of the Overdue Tax Collection Service*", implementing Article 12 of Law 157/2019, sent in May 2020 to the Finance and Budget State Secretariat;
- b) the preparation of the draft Decree-Law entitled "*Special procedure for tax collection for holders of bonds issued pursuant to the Decree - Law No. 89 dated 27 July 2017*", later adopted as Decree-Law 157/2020 and ratified as Decree-Law 198/2020;
- c) the preparation of the draft Delegated Decree entitled "*Update of the provisions on banknotes implementing Decision (EU) 2019/669 of the ECB*", subsequently adopted as Delegated Decree 164/2020, in order to transpose the legal acts of the European Union into San Marino law in accordance with the provisions of the current Monetary Agreement.

In this regard, it should be noted that the Central Bank also supported the Finance and Budget State Secretariat in the preparation of a plan for transposing certain legal acts of the European Union, with a markedly technical content and pertaining to financial operations mainly related to the area of securities and post-trade services, in order to obtain the approval of the Joint Committee held in October 2020. In this context, the regulatory advisory activities carried out by the Central Bank concerned, as in previous years, also other areas, including those relating to the management of Euro banknotes and coins, financial statistics and the evolution, also regulatory, of the financial system of San Marino.

Turning to the regulatory advice provided by CBSM in the form of the production of analyses and assessments of draft regulations submitted to it, the activities carried out in this area deserve specific mention:

- the draft law establishing tax offset certificates;
- Delegated Decree 126/2020 entitled "*New Mission of Banca Nazionale Sammarinese S.p.A.*";
- Articles 2 and 3 of Law 223/2020 concerning the issuance of Irredeemable Government Securities, also in consideration of the function assigned to the Central Bank by Article 40(1)(d) of Law 96/2005 (Statutes of the Central Bank) as Agent of the State in the management of national debt certificates;
- the draft law "*Measures and instruments for the securitisation of credits*", from the original draft prepared by the Bankers Association of San Marino to the latest draft approved in February 2021 at the first reading in the Great and General Council.

The technical advice on the above-mentioned regulatory projects was developed not only by sending comments and revisions on the texts received, but, in some cases, also through active participation in working groups and/or meetings organised by the competent State Secretariats. In this regard, worth mentioning here is also the advisory activity carried out already in 2020 by the Central Bank, at the request of the State Secretariat for Industry, Handicraft and Trade, Technological Research and Regulatory Simplification, for the possible introduction of a specific San Marino

regulation on the custody of virtual assets by banks. A similar process was started in 2020 for the possible introduction of a specific law on raw gold and precious metals.

In conclusion and for the sake of completeness, reference is also made below to the legislative proposals which the Central Bank presented on its own initiative, pursuant to Article 45(2) of the Statutes, but always with a view to providing regulatory advice, to the Credit and Savings Committee through the Secretary of State for Finance and Budget. More specifically:

- in August 2020, a proposal was submitted to update and supplement the contents of Law No. 165/2005 (the so-called LISF), which led to the amendments provided for in Articles 9, 11, 12 and 13 of Law No. 196/2020, respectively on "*capital separation of new relevant deposits*", "*obstruction of the exercise of the supervisory function*", "*references from the Supervision Committee to the Judicial Authority*" and "*cross-border supervision*";
- in December 2020, legislative interventions were proposed, leading to Articles 9 and 10 of Law no. 223/2020, on "*administrative sanctions*" and "*new relevant deposits*" respectively.

Still in 2020, despite the pandemic emergency, CBSM continued to play an important and proactive role in providing regulatory advice and assistance to the Executive Board, in addition to the no less intense regulatory activity carried out in the same period. Further details are provided in section 2.14 of this Report.

2.5.2 Summary of other forms of advice and cooperation activity

In addition to providing advice in the regulatory framework, as explained in the previous section, the Central Bank provides its technical contribution to other Institutions or Bodies of the Republic of San Marino, by participating in technical commissions or working groups. The forms of cooperation that CBSM provides in such contexts may also include recurring activities or activities that last for long periods of time, especially with regard to particularly relevant issues or project-related issues. The contribution requested from CBSM may also consist in the preparation of opinions, assessments or technical notes on specific economic and financial issues or the preparation of statistics.

In this regard, it should be noted that also in 2020 the cooperation provided by the Central Bank for the preparation of San Marino statistics on the balance of payments continued. More specifically, as already explained in the previous Summary Report, CBSM cooperates with the Statistics Office by transmitting to the latter a series of aggregate data, mainly processed from the statistics collected by the banking and financial system and functional to the preparation by the Statistics Office of the overall balance of payments of San Marino. The activity of the Central Bank is therefore focused on processing data pertaining to the section of the financial accounts which makes up the wider framework of the balance of payments.

In addition to the foregoing and to paragraph 2.2, it is felt appropriate to provide in the box below an overview of all forms of advice and support provided by the CBSM in the various areas of jurisdiction, with special reference to the national and international working groups and technical committees, other Institutions in the Republic as well as the participation in projects of strategic significance to the San Marino banking and financial system.

Box 3: Summary of the advice and cooperation activities performed by the Central Bank

Participation in international and national technical committees and working groups

- San Marino-European Union Monetary Agreement and relative regulatory amendments;
- San Marino – European Union Association Agreement relative to profiles pertaining to the financial sector;
- Technical Commission for National Coordination – combating money laundering and terrorist financing;
- Working group for the evaluation of *Moneyval*;
- Working group for the preparation of San Marino statistics on the Balance of Payments;
- working group on virtual assets.



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

- collaboration with State Secretariats on regulatory matters relating to the financial system;
- collaboration with the Finance and Budgetary State Secretariat in issuing national debt certificates on international markets;
- Cooperation with the Office for Economic Affairs, Central Liaison Office and the Supervision Office of the Department of Economics;
- Cooperation with the Financial Intelligence Agency;
- Support to the Broader Public Administration in the compilation of questionnaires and statistics requested by international organisations in relation to economic, tax and financial matters.

2.6 Currency Authority

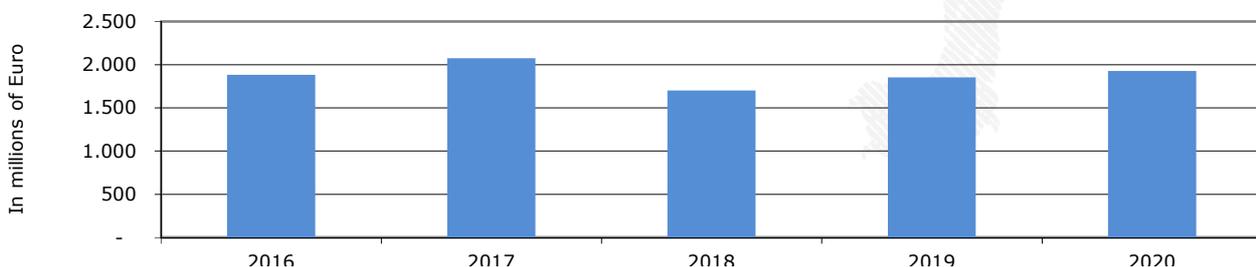
On a monthly basis, in 2020 the Central Bank, through the RIS, gathered statistical information on cross-border settlements made by the banks of San Marino, whether for their own account or for the account of their resident customers, relating to transactions having a value in excess of or equal to EUR 15,500. To this end, it relied on the model set out in the relevant regulations, known as Statistical Currency Notification (SCN). The figures shown below represent the SCN flows sent to the Central Bank and the respective values across a time horizon spanning 2016-2020.

Figure 24 - Total flows (number of SCNs)



In 2020, the number of SCNs received by banks was 19,795, representing a year-on-year decrease of 18.1%. However, the value of amounts settled increased by 4.1%, from EUR 1,850 million in 2019 to EUR 1,926 million in 2020.

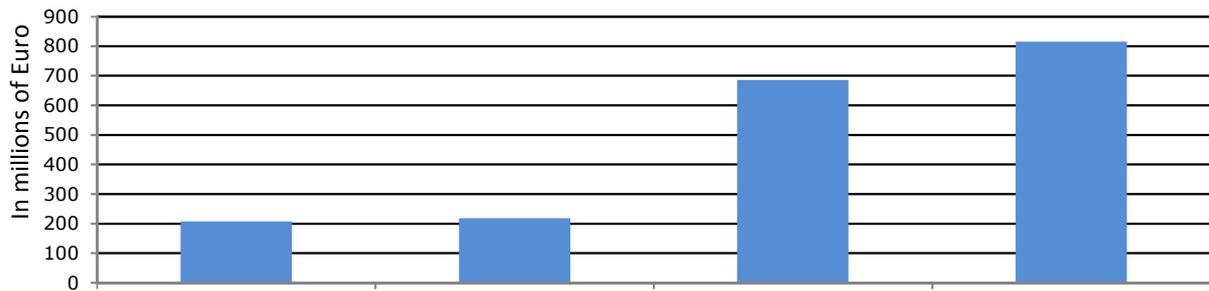
Figure 25 - Amounts settled by the San Marino banking system



"Incoming transactions" relating to SNC operations in 2020 stood at EUR 1,033 million, of which 21.1% related to countries belonging to the European Union (EUR 218 million) and 78.9% (EUR 815 million) related to the rest of the world.

"Outgoing transactions" related to SNC operations in 2020 totalled EUR 893 million, of which 23.2% related to countries belonging to the European Union (EUR 207 million) and 76.8% (EUR 686 million) related to the rest of the world.

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



In 2020, the Central Bank also continued to file quarterly reports on the statistical data of the Currency Composition of Foreign Exchange Reserves (COFER), in compliance with the obligations resulting from the Republic of San Marino participation in the International Monetary Fund. Payment System

2.7 Payment System

With reference to national payment instruments channelled through the RIS, such as Sepa Credit Transfer (SCT), Sepa Direct Debit (SDD) of the Broader Public Administration and cheques traded and drawn on San Marino banks, the number of transactions decreased by 4.2% and the overall value of amounts settled increased by 0.3% in 2020.

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

The high percentage of national wire transfers transmitted by CBSM 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 27 - Breakdown of the number of national wire transfers transmitted

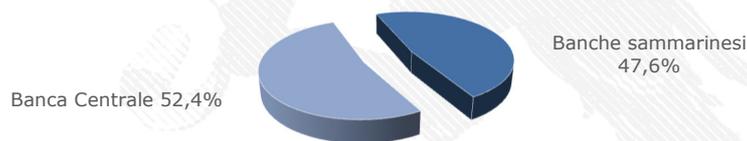
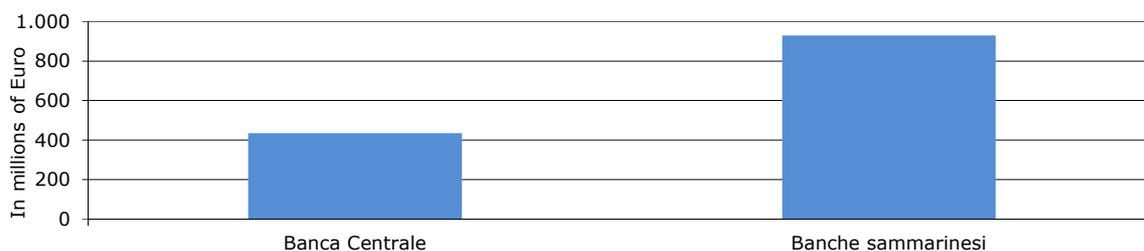


Figure 28 - Amounts settled through national wire transfers



The banking system transmitted 527,000 national wire transfers with a value of approximately EUR 1,364 million. Compared to 2019, wire transfers sent over the national network increased by 4.9% and the value of the amounts increased by 10.4%.

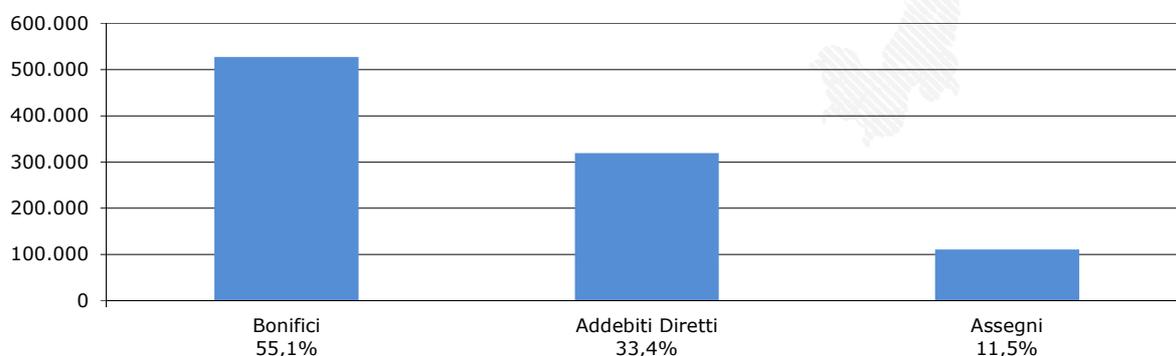
Direct debits, i.e. the payment instrument the creditor uses to request to debit the debtor's current account, recorded for the year 2020 approximately 319,000 orders for a value of approximately EUR 74 million. Comparing the data with 2019 a decrease is posted in both the number of direct debits sent by the Central Bank to banks of San Marino equal to 8.4% and in the amounts settled equal to 5.0%.

The charts below provide a percentages breakdown of the types of payment methods channelled through the RIS in 2020, divided by amount and number of orders, respectively.

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



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



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.

The national cheques exchanged in the SRD service, in 2020, totalled about 110,000 units for a value of EUR 254 million; this means a decrease of 25.3% in the number and a decrease of 32.2% in value compared to 2019.

2.8 State Treasury

As summarised in **Table 16**, in terms of volume, transactions carried out in the SRD service related to financial inflows totalled approximately EUR 1,235 million, up by 0.78% compared to approximately EUR 1,225 million in 2019 and up by 0.46% compared to 2018. As regards financial outflows, transactions totalled approximately EUR 1,095 million, down by 6.00% compared to approximately EUR 1,165 million in the previous year and by 5.30% over 2018.

Table 16 - Volumes processed expressed in relation to total orders

Entity	2018		2019		2020	
	Inflows	Outflows	Inflows	Outflows	Inflows	Outflows
C.O.N.S.	5,335,475.85	5,143,932.06	6,342,859.60	5,992,342.86	5,158,330.60	5,008,793.17
University	7,448,292.29	6,862,411.77	7,659,264.17	6,578,880.90	6,021,639.20	5,346,495.44
A.A.S.L.P.	25,900,612.09	24,515,119.97	24,661,702.82	23,151,120.62	20,103,215.62	18,937,202.58
State Board of the Games	327,304.07	226,083.91	326,118.13	273,986.42	235,922.10	178,319.66
A.A.C.N.M.	2,296,077.11	1,004,255.34	2,827,579.44	1,369,868.02	3,180,707.62	1,117,066.30
I.S.S.	365,659,608.49	356,364,812.35	352,572,839.87	346,022,639.61	339,900,000.40	330,881,762.67
FONDISS	23,300,414.77	20,928,768.08	25,997,009.73	23,743,924.15	25,053,825.49	22,824,901.08
The Most Excellent Chamber	656,864,166.15	614,403,773.60	644,962,687.67	612,513,065.79	711,230,931.44	602,355,803.28
A.A.S.S.	141,899,318.77	127,186,297.64	159,771,975.11	145,523,604.49	123,811,323.42	108,666,481.79
Total	1,229,031,269.59	1,156,635,454.72	1,225,122,036.54	1,165,169,432.86	1,234,695,895.89	1,095,316,825.97

Source: Central Bank (data updated as at 31 March 2021)

The transactions carried out on behalf of the Public Administration in the 2020 financial year are shown in numerical terms in **Table 17**. Specifically, the total number of orders processed was 81,911, broken down as follows: 18,687 collection vouchers, 25,329 pending incoming items, 36,930 orders for payment and 965 pending outgoing items.

Table 17 - Volumes processed expressed in relation to the number of orders

Entity	2018					2019					2020				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	370	120	2,003	35	2,528	389	137	1,985	69	2,580	346	100	1,622	29	2,097
University	409	78	2,912	33	3,432	454	83	2,908	42	3,487	463	56	2,387	33	2,939
A.A.S.L.P.	595	316	4,818	102	5,831	590	378	4,928	88	5,984	567	274	4,223	81	5,145
State Board of the Games	183	100	258	41	582	166	91	258	51	566	149	64	253	75	541
A.A.C.N.M.	1,569	345	238	41	2,193	1,113	393	246	38	1,790	1,145	373	252	38	1,808

Entity	2018					2019					2020				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
I.S.S.	3,849	5,011	16,042	192	25,094	4,610	5,470	17,875	212	28,167	4,388	5,606	15,120	211	25,325
FONDISS	6	1,771	58	24	1,859	5	2,167	57	24	2,253	6	2,775	63	22	2,866
The Most Excellent Chamber	8,852	15,016	10,558	333	34,759	10,297	15,129	10,462	328	36,216	10,894	15,170	8,797	308	35,169
A.A.S.S.	815	868	5,643	231	7,557	1,078	1,006	5,131	209	7,424	729	911	4,213	168	6,021
Total	16,648	23,625	42,530	1032	83,835	18,702	24.54	43,850	1,061	88,467	18,687	25,329	36,930	965	81,911

Notes: REV = Collection vouchers PPE = Pending Incoming Items MAN = Payment Orders PPU = Pending Outgoing Items
 Source: Central Bank (data updated as at 31 March 2021)

Revenues were collected through the counters of the commercial banks in San Marino, as regulated by a specific Agreement signed on 24 February 2005 between the Central Bank and the commercial banks, through the counters of the Treasury Department of CBSM and by bank transfer ordered by the users in favour of the Public Administration; it must be pointed out that this payment instrument significantly exceeded its volumes compared to the previous years mainly due to the health emergency. The payment notices that expired on time were collected directly at the counters of the Treasury Department or Overdue Tax Collection Department of the Central Bank. These collections were recorded on the management accounts of the entities by the Treasury Department through the creation of pending incoming items on the areas pertaining to the individual offices of the Public Administration, which subsequently transmitted the relevant accounting, paperwork and reports.

Figure 31 - Percentage volumes of collection and payment transactions carried out by the Treasury Department in 2020

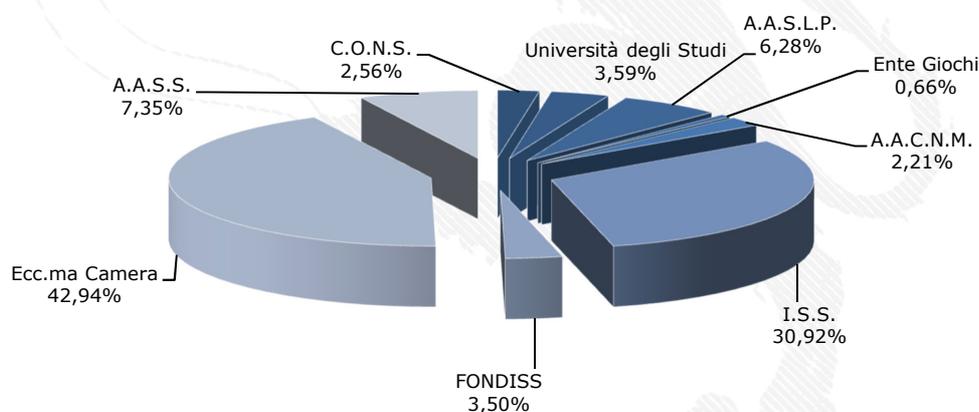


Figure 31 shows how most of the transactions, expressed in percentage terms, were carried out on behalf of the Most Excellent Chamber (42.9%) and the Social Security Institution (30.92%); followed by the State Autonomous Authority for Public Services (7.35%), the Autonomous State Authority for Public Works (6.28%), the University (3.59%), the FONDISS (3.50%), the National Olympic Committee of San Marino (2.56%), the Authority for Civil Aviation and Maritime Navigation (2.21%) and the State Board of the Games (0.66%).

In order to make payment by bank transfer more efficient, the dematerialised bank transfer system was introduced in 2020, which users can use to make payments to the Tax Office, and the use of the Sepa Direct Debit instrument was extended, which is already used to a large extent for payments to the State Autonomous Authority for Public Services, for services and contributions pertaining to the Social Security Institution, for school meals and, of course, for the SMaC circuit.

In addition to the foregoing, during the year under review, the Treasury Department managed, on behalf of the Overdue Tax Collection Department, collections related to tax bills that had fallen due within the payment time limits and collection operations performed by Tax Collection Officers. Pursuant to Law No. 44/2007, 1,006 attachment procedures were performed in respect of payment orders concerning parties in arrears with the Public Administration. As regards financial outflows, bank transfers prevailed over drawer's and quittance cheques.

Although to a lesser extent compared to past years, the drawer's and quittance cheque is still mainly adopted for the payment of pensions. Thanks also to Article 24 of Law 146/2014, which in paragraph 4 has provided for the obligation for taxpayers to communicate their current account for the settlement of their credit positions, it is hoped that the use of this payment method will undergo a further decrease.

As indicated in the specific agreement, in 2020, deposit services in the technical form of a current account, as instructed by the requesting Entity/Office were still provided to the Broader Public Administration. In addition, reports were prepared and periodically sent to the Broader Public Administration in accordance with the provisions of the regulations in force and the agreements between the parties. Specifically, on a daily basis, it transmitted cash ledgers with the summary of incoming and outgoing movements for each Entity as well as the statements of account. It transmitted the 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 Statement of Cash Flows was prepared and transmitted, as provided for in Article 3 of Law no. 96/2005 "Establishment of the Sole Treasury Service" (as amended by Article 51 of Law no. 96/2005), and in the provisions pursuant to Law no. 30/1998 "General Rules on the Accounting Legislation of the State" as amended and supplemented.

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

2.9 State Tax Department

At the legislative level in 2020, specific rules were introduced which, in light of the crisis situation led by the spread of the Covid-19, sought to favour the tax debtor by allowing him, for example, to postpone the instalments of the repayment plan due from March to June 2020, to extend the terms of the guaranteed instalment plan (from 5 to 10 years) and of the unsecured instalment plan (from 18 months to 36-48 months), saving him the payment of penalties and interest on the tax bill if paid or instalment-paid by the due date. In addition to this, Law no. 223/2020 introduced with Article 68 the "facilitated settlement of overdue tax debts". This rule allows tax debtors, with the exception of certain specific revenues, to settle their debt without paying any penalty and interest even if accrued after the due date of the tax bills.

2.9.1 Collection activity conducted since the service was started

From 2005 to 2020, approximately EUR 759.2 million was assigned by the Lending Institutes to the Overdue Tax Collection Department for collection. A portion of this amount (approximately EUR 211.3 million), accounting for 27.8% of these claims, was cancelled. Most of these cancellations were due to debtors being struck off or resulted from actions taken by the tax authorities following collection at their counters after tax demands had been issued, or were due to errors in processing such demands.

Based on tax demands issued, net of cancellations (approximately EUR 547.9 million) amounts collected from 2005 to 2020 totalled approximately EUR 238.7 million, of which EUR 14.1 million in 2020. Comparing the total collections with the total overdue tax demands, net of cancellations, recovery stood at around 43.6%.

On the other hand, about EUR 162.4 million amounts overdue were still under management, i.e. approximately 29.7% of debts under collection net of cancellations. These items were subject of



enforcement actions, either in progress or to be started, or pertained to debts with no possibility of being salvaged, but still accounted for.

About 2.3% of these account receivables, totalling approximately EUR 12.6 million, were being subject to extensions under Article 34 of Law 70/2004. These extensions are backed by a guarantee in favour of the Central Bank (first demand bank guarantee or lien).

The sum of items pertaining to entities involved in insolvency proceedings stood at EUR 77.1 million as at 31 December 2020 (14.0% on total), while items deemed as not collectable stood at EUR 57.1 million (10.4%).

Figure 32 - Statement as at 2020

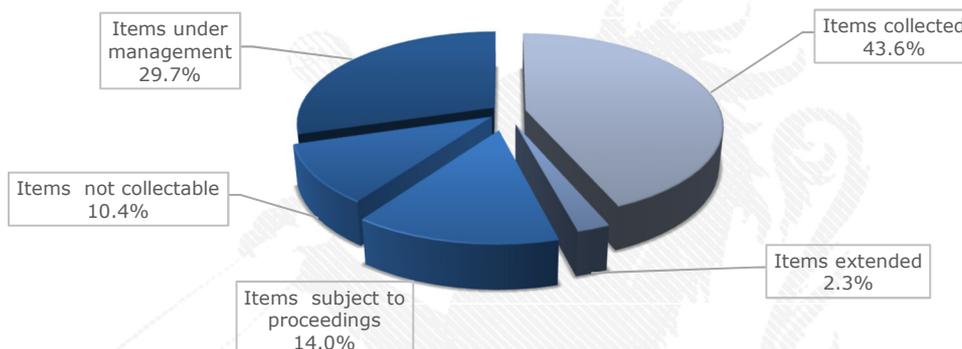


Figure: Report from 2005 to 2020 of tax demands managed by the Overdue Tax Collection Department, net of cancellations

2.9.2 Precautionary and executive proceedings

Precautionary actions are aimed at guaranteeing the future collection of the amount due or instalment payment thereof. During 2020, a number of conventional and legal liens were registered as a provisional measure.

Enforcement actions include attachment and sale of personal and real property, attachment of claims, attachment of salary and of other income or assets of the debtor. Enforcement, however, is not always carried through inasmuch as the mere start of enforcement proceedings is an effective deterrent inducing taxpayers to settle their debt or seek a payment by instalments. In principle, enforcement proceedings are started according to certain priority selection criteria which take into account a number of factors, such as the extent of debt built up, repeated indebtedness, taxpayer's reliability, protection of employees and whether business is operational or otherwise (going concern). As also clarified by Article 3 of Decree-Law No. 5/2019, among the criteria the Overdue Tax Collection Department considers as low priority is the debtors' commitment to settle their debt within a short period of time through scheduled payments (a.k.a. "repayment plan") to be made on a regular basis.

As regards enforcement action in the strict sense, attachments of personal or real property in 2020 totalled 97, 15 of which proved unsuccessful because the debtor could not be located or property was not eligible for attachment.

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

2.9.3 Entries in the Overdue Tax Register in 2020

Entries in the Overdue Tax Register in 2020 totalled about EUR 37.1 million and pertained to 36,230 items. A comparison with the previous year shows a decrease of approximately EUR 2.3 million (-6.0%).

Table 18 - Entries in and cancellations from the Overdue Tax Listing between 2019 and 2020

Items	2019		2020	
	Amount	Number of items	Amount	Number of items
Managed	39,447,327.71	40,622	37,097,638.84	36,230
Cancelled	52,052,235.60	5,336	19,628,106.98	4,155
% cancelled	130%	13.10%	53%	11.50%

Table - Entries in and cancellations from the Overdue Tax Listing between 2019 and 2020

2.9.4 Entries broken down by Entity

While showing an overall decrease in the total number of entries in 2020 compared to the previous year, the State Autonomous Authority for Public Services increased its entries by 25.5% and Central Bank by 142.8%.

Table 19 – Comparison between entries in and cancellations from the Overdue Tax Listing between 2019 and 2020 by Entity

Entity	2019		2020	
	Amount	Number of items	Amount	Number of items
Most Excellent Chamber	28,982,884.03	30,451	27,569,912.02	28,174
Social Security Institution	7,885,596.37	4,999	7,008,043.78	3,990
Fondiss	1,010,605.49	3,264	945,079.42	3,113
State Autonomous Authority for Public Services	1,078,627.65	1,881	1,354,200.38	938
Central Bank	90,789.09	13	220,403.24	15
Financial Intelligence Agency	397,294.80	10	-	-
Autonomous State Authority for Public Works	1,530.28	4	-	-
Total	39,447,327.71	40,622	37,097,638.84	36,230

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

In terms of numbers, entries in the Most Excellent Chamber accounted for 77.8% of the overall total. Of these, 71% pertained to the Registry (for the CAUTA), while 22.9% and 2.3% pertained to the Tax Office indirect tax section and direct tax section, respectively. In terms of value, the largest portion pertained to the Tax Office (83.0%), followed by the Registry (15.3%).

Table 20 - Entries in the Overdue Tax Register of the offices of the Most Excellent Chamber in 2020

Office	Entry in the Overdue Tax Register		Release from the Register	
	Amount	Number of items	Amount	Number of items
Indirect taxation section of the Tax Office	17,396,624.59	6,446	12,484,991.38	1,954
Direct taxation section of the Tax Office	5,481,322.63	637	4,128,898.86	275

Office	Entry in the Overdue Tax Register		Release from the Register	
	Amount	Number of items	Amount	Number of items
Registry	4,228,445.74	20,009	266,270.00	454
Civil Police	198,386.00	440	27,950.78	59
Gendarmerie	31,111.22	30	200.00	1
Guardia di Rocca	4,804.00	12	404.00	1
Administrative Control Office	174,100.00	449	126,184.90	15
Vehicles Register	16,709.00	111	213.00	3
Agricultural Resources Management Office	2,585.10	1	-	-
Office for Economic Affairs	19,470.00	5	125,924.80	14
Data Protection Authority	501.50	1	-	-
Elementary Schools Directorate	15,852.24	33	2,643.48	7
Total	27,569,912.02	28,174	17,163,681.20	2,783

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

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

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

Table 21 - Entries in the Overdue Tax Register by the offices of the Social Security Institution in 2020

Office	Entry in the Overdue Tax Register		Release from the Register	
	Amount	Number of items	Amount	Number of items
Contributions office	6,398,454.34	3,738	1,024,135.73	657
Public Healthcare Department	20,130.40	28	2,243.74	3
External healthcare benefits office	33,000.00	23	-	-
Accounting Office	556,459.04	201	525,112.19	30
Fondiss	945,079.42	3,113	93,658.83	398
Total	7,953,123.20	7,103	1,645,150.49	1,088

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

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

In 2020, 19,990 single tax bills were issued for a total amount of approximately EUR 4.2 million. It should be noted that EUR 880,000, i.e. 26.7% of the total amount collected amounting to approximately EUR 3.3 million, derives from pre-authorized debits.

Table 22 - CAUTA 2019-2020 comparison

Overdue Tax Entries	2019		2020	
	Amount	Number of items	Amount	Number of items
Entered	4,192,271.55	19,909	4,191,963.94	19,990
Cancelled	33,235.63	135	20,876.60	88
Collected by the Central Bank	3,340,346.73	17,244	3,268,658.98	17,153
To be managed	806,840.46	2,504	895,099.50	2,737
% cancelled	0.79	0.70%	0.50%	0.44%
% collected by the Central Bank	81%	88%	78%	86%
% to be managed	19.50%	13%	21%	14%

Table - CAUTA 2019-2020 comparison

It should be noted that the process of collecting the Single Tax Bill involves processing a large number of items. In 2020, the latter accounted for approximately 55.2% of the total items and mostly related to entries against heads of family for EUR 20.00 each. In view of efficiency, the CAUTA collection system could be structured differently, at least for households.

2.9.8 Public auctions

The sale of the foreclosed assets represents the final phase of the executive procedure and its regular implementation over time permits greater possibilities of credit realization both for the Creditor Entity and the debtor.

In 2020, there were no public auctions of real estate, only those related to movable assets. In general, this activity was limited by the requirements following the spread of Covid-19. As far as reported, 2 public auctions were organised (each consisting of 3 auction rounds), without auction and with the submission of bids in sealed envelopes.

The amounts collected at the auctions held in 2020 totalled approximately EUR 196,000, or 52,0% of the total value of the goods on sale, whose value was estimated at EUR 376 million.

Table 23 - Collections resulting from the auctions of movable assets in 2020

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

2.9.9 Legal activities

Pursuant to Article 5(5) of Law no. 70/2004 "The Tax Collector is authorised to assume the defence, through his own attorney, of the Most Excellent Chamber, the Entities and the Autonomous Authorities, in the legal actions initiated due to the collection, at the Single Court. For the purposes of this point, the provisions of Decree no. 56 of 56/1995 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 CBSM 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 which 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 CBSM. Sometimes it is the same attorney of the Overdue Tax Collection Department who takes the initiative of initiating a civil action, often of a precautionary nature (seizure, revocatory, etc.) to preserve the integrity of the debtor's assets in view of the enforcement actions.

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

The activities carried out by the legal department are outlined below:

- a. 1 civil action in bankruptcy proceedings (action to set aside a transaction) currently pending appeal;
- b. 6 administrative appeals at first instance, of which three were concluded during the year;
- c. 4 administrative appeals, of which two were concluded during the year;
- d. 4 cases of non-contentious jurisdiction regarding acceptance of succession and one case of non-contentious jurisdiction regarding an estate in abeyance and one case of non-contentious jurisdiction for mortgage fraud;
- e. participation in 4 civil-enforcement cases;
- f. 6 civil proceedings concerning "instrumental procedure";
- g. 3 civil actions regarding enforcement of overdue tax collection notices;
- h. 4 manu regia procedures.

2.10 Management of liquidity and financial portfolio

2020 was also a year of great discontinuity compared to the recent past. In fact, world growth fell sharply to -3.5%. The global economic trend had already been slowing down for some years.

The Coronavirus pandemic has had a huge health, social and economic impact on all systems, and the rapid and large-scale production of various vaccines to combat it has only partly mitigated the severe socio-economic effects for 2021. The traditional yardsticks for assessing the performance of the major economies have suddenly become poorly significant, as each country has focused its efforts on the imperative goal of saving lives, putting aside economic profits.

The operational decisions taken by the various countries and geographical areas to combat the spread of the virus have followed different approaches, but have essentially provided for different levels of 'lockdown' of economic activities and restrictions on the movement of people, pending the availability of treatments or vaccines deemed effective. Governments have therefore had to deal with the difficult trade-off between safeguarding public health and the economic depression due to the closure of many activities deemed 'non-essential'.

In the financial markets, the perception that the virus that initially spread in the Wuhan region of China had become a global problem triggered very violent reactions of huge extent. The order of magnitude of the fall in stock markets in February and March 2020 was 30/40% of their value. Credit risk indicators were also heavily affected, with the generic creditworthiness index for European issuers on a five-year maturity tripling in value from a minimum value of 42 at the end of February to a high value of 138 in mid-March 2020.

The effects on the financial markets have been extremely wide-ranging, with situations of extreme illiquidity and, in some cases, unforeseen distorting effects, including the fall in the price of oil on the futures market at the end of April, to a negative price of minus 37 dollars a barrel

In the most complete uncertainty of the early stages of the global spread of the contagion, the guidelines for the economy and the financial markets were dictated by the operations of the Central Banks, which intervened to support liquidity and the measures taken by the political and governmental Authorities in order to stem the spread of the virus and combat the negative effects on the income of the populations involved.

The severity of the pandemic's impact on lifestyles and the performance of the major economies gradually became clearer as the estimated end of the crisis receded in time. In April 2020, the International Monetary Fund was still estimating a global economic fall of 3% on an annual basis, forecasting a return to gradual normalisation in the second half of the year. In particular, the aggregate economic decline figure for the most advanced economies stood at -4.9%.

The gross domestic product of the United States of America fell by 3.4%, while the Eurozone countries recorded a fall of 7.2%, with rather large differences between the Member States (e.g. Italy fell by 9.2%, France by 9% and Germany by 5.4%). The United Kingdom was the worst of the European countries at -10%, partly due to the uncertainties surrounding Brexit.

The EU response to combat the effects of the pandemic from an economic and financial point of view can be summarised in a few significant points:

- On 23 April 2020 an economic recovery fund was established to mitigate the effects of the crisis;
- in July, EU leaders launched a EUR 1.824 billion plan for the period 2021-2027. This includes a multiannual financial framework (MFF) and the Next Generation EU instrument, which will help trigger economic recovery after the COVID-19 pandemic by supporting investments in green and digital transitions;
- at the end of December the European vaccination plan was launched to ensure health protection for the majority of citizens.

These measures come on top of other measures worth EUR 540 billion already introduced by the EU to support workers, businesses and countries. The response of the ECB Monetary Authority to the pandemic was directed, in addition to the maintenance of Eurozone reference interest rate levels, to minimum levels to facilitate access to loans, in order to help the economy absorb the shock caused by the crisis through the Pandemic Emergency Purchase Programme (PEPP) totalling EUR 1,850 billion. The effects of the sudden and dramatic fall in financial asset prices also affected the Central Bank's securities portfolio, which, despite being composed of investment grade securities with short to medium maturities, nevertheless suffered from falling prices and widening credit spreads.

From a management point of view, efforts were made to maintain existing positions, believing that the solidity of the selected issuers and the quality of the securities purchased would allow prices to recover as the negative effects of the crisis diminished. We also tried to invest the limited liquidity resources available to make new purchases of high-yield securities, trusting in a recovery in prices. At the same time, agreements were made with banking and institutional counterparties to provide the Central Bank with instruments to raise liquidity in the financial markets for short-term needs. Therefore, contracts were negotiated to carry out Repo transactions and liquidity loans guaranteed by bonds with 2 leading Italian banks and, thanks to the support programme promoted by the ECB against the negative effects of the pandemic, the Central Bank requested and obtained from the ECB/Bank of Italy a credit line of EUR 100 million, backed by securities, subject to the signing of international contracts.

Turning to the annual report data, the securities portfolio was worth EUR 266 million at the end of the year.

Receivables from credit institutions amounted to approximately EUR 354 million, an increase of 336% compared to the 2019 figure of EUR 81 million. Examining the components of the figure, it



is noted that both on-demand loans increased sharply by around 158% and the item "other credits", which rose to EUR 145 million compared to around EUR 0.2 million in the previous year. This item represents deposit transactions carried out with the Bank of Italy on an overnight basis.

Loans to customers decreased from approximately EUR 87 million compared to EUR 92 million of 2019, a decrease of 6%, almost entirely due to "other credits".

A review of liabilities shows an increase in debts with credit institutions, as they rose to EUR 425 million at the end of 2020 compared to EUR 265 million in the previous period, reflecting an overall increase of 60%, chiefly due to an increase of 101% in on demand debts, which rose to EUR 324 million from EUR 161 million.

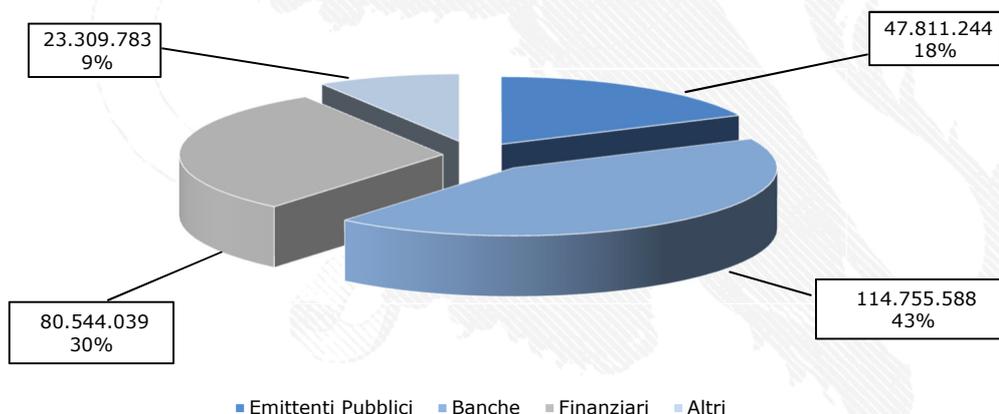
Debts with customers also increased significantly, showing a rise of approximately 41% over the previous period, standing at approximately EUR 257 million (EUR 182 million in 2019). This increase was chiefly due to a 46% increase in on demand debts, which rose from EUR 176 million to EUR 257 million, while term or notice debts dropped significantly from EUR 5 million in 2019 to zero in 2020.

Profit-and-loss-account figures show that interest received declined by 38% over the previous period, standing at EUR 1.5 million (EUR 2.4 million in the previous period).

Interest paid dropped by 92%, with an overall cost of EUR 0.02 million compared to EUR 0.2 million at the end of 2019.

At the end of 2018, financial transactions posted a profit of EUR 2.4 million compared to EUR 5,9 million posted at the end of 2019.

Figure 33 - Breakdown of the bond portfolio*



* In millions of Euro

2.11 Second Social Security Pillar (FONDISS)

In the second half of the year, a part of the pension contributions was invested in term deposits with San Marino banks. In the discharge of its duties as depositary bank of Fondiss, the Central Bank checked compliance with investment limits and settled the transactions instructed by the Fund; In addition, it checked the monthly unit value, calculated by the administrative functions of the Fund itself, which was determined by the value of the assets and the number of outstanding units.

Table 24 - Financial instruments and other assets linked to the activities as depositary bank

	31 December 2019	31 December 2020
Liquidity deposited with the Central Bank	84,648,392	77,243,629

	31 December 2019	31 December 2020
Other assets other than financial instruments and liquidity (term deposits)	0	30,402,000
Pension Fund Segregation Public Vehicle	15,907,054	15,111,701
Total	100,555,446	122,757,330

2.12 The Trust Register

The number of trusts entered in the Register as at 31 December 2020, net of cancellations, stood at 179 (of which 1 foreign trust), growing by 16.23% as compared to the corresponding number (i.e., number of active trusts) at the end of 2019 (154).

More specifically, in 2020 the Office made the following entries in the Register:

- a. 34 new trusts;
- b. 9 cancellations of trusts formerly registered;
- c. 107 changes to Register records;
with the ensuing issue and/or withdrawal of Trust Certificates.

At 31 March 2021 the number of active trusts comes to 189, including 1 foreign trust. During the first quarter of 2021, 12 new trusts were registered, 2 cancellations were carried out while there were 6 changes to the data included in the Register.

In the context of the aforementioned operational processes, in 2020 the Office initiated 8 sanctioning proceedings, of which 5 for breach of Article 7(1) of Law no. 42/2010 (late drafting of the trust certificate), 2 for breach of Article 28-bis of Law no. 42/2010 (failure to appoint the new resident agent within the deadlines) and 1 for breach of Article 23-quater of Law no. 92/2008 (failure to communicate the trust beneficial owners). In the first quarter of 2021, a further sanctioning proceeding was initiated for the breach of Article 13(8) of Law no. 42/2010 (delay in sending the semi-annual request to the non-resident trustee to learn of any changes to the elements indicated in the certificate), which has not yet been completed. The total amount of sanctions imposed in 2020 amounts to EUR 31,000.00.

Moreover, the Office issued 10 certificates under Article 5 of Delegated Decree 50/2010, of which 4 at the request of trustees and 6 at the request of the resident agent. In the first quarter of 2021, 4 certificates were issued, of which 2 were requested by resident agents and 2 by trustees.

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

At the request of the AML Officer at CBSM, 18 verifications of names subject to restrictive measures in implementation of the UN resolutions to combat terrorist financing were performed last year. In the first quarter of 2021, the AML Officer at CBSM gave immediate response to 7 requests.

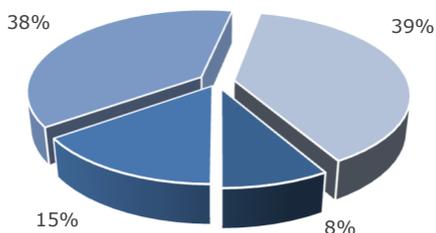
The Office referred one particular case to the Court of Trust and Fiduciary Relations, while no further situations worthy of communication or reporting to other Authorities were found. In the first quarter of 2021 the Office, on its own initiative, made 3 communications to the Financial Intelligence Agency under Article 37 of Law no. 92/2008.

With regard to the Trust beneficial owners register, established pursuant to Article 23 quater of Law no. 92/2008, the Trust Register Office has provided during 2020 and in the first quarter of 2021 for the inclusion in the electronic application of the notices of beneficial owners received.

Since the date of establishment of the Register (01 June 2019) and until 31 December 2020, 30 accesses to the Register of Trust Beneficial Owners were made by the competent Authorities as per paragraph 7 of the same Article 23-quater of Law no. 92/2008. In the first quarter of 2021 there were no accesses by the same Authorities.

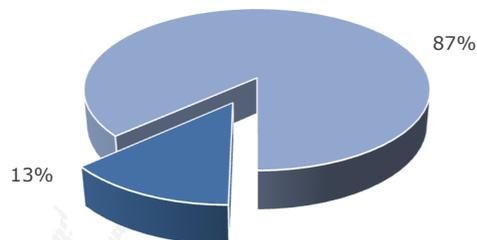
The charts below show statistical data regarding the institute of trust in San Marino as at 31 December 2020.

Figure 34 - Type of trustees



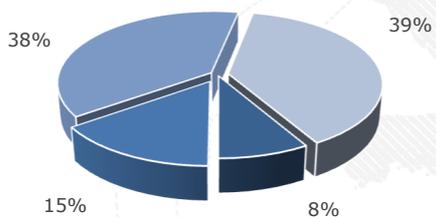
- Trust con trustee residente con 1 trust
- Trust con trustee residente con più di un trust
- Trust con trustee non residente con 1 trust
- Trust con trustee non residente con più di un trust

Figure 35 - Origin of settlors



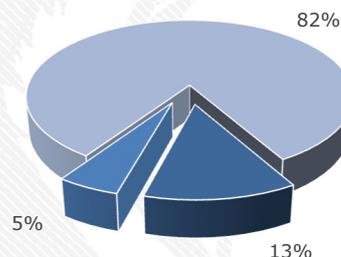
- Trust con disponente residente
- Trust con disponente non residente

Figure 36 - Type of trusts



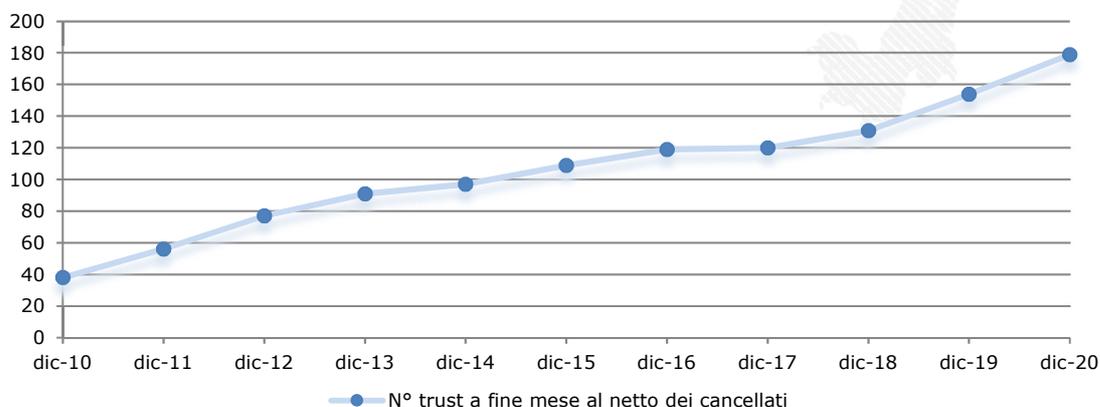
- Trust con trustee residente con 1 trust
- Trust con trustee residente con più di un trust
- Trust con trustee non residente con 1 trust
- Trust con trustee non residente con più di un trust

Figure 37 - Type of resident agent



- Trust con agente commercialista-esperto contabile
- Trust con agente avvocato-notaio
- Trust con agente Società

Figure 38 - Registration trend



2.13 Register of Fiduciary Shareholdings

Again for 2020, activities carried out in relation to the Register of Fiduciary Shareholdings pursuant to Law 98/2010 continued to focus on receiving reports from San Marino and foreign fiduciary companies, and collaborating with public administration offices and authorities responsible for the exchange of information.

The regulatory framework of reference concerning the exchange of information regarding the Register of Fiduciary Shareholdings did not register additional changes in 2020 compared to the previous framework of reference.

The table below provides an overview of the activities carried out with reference to FY 2020 and Q1 2021:

Table 25 - Activities carried out: requests and reports received

Reports/requests	2020	Q1 2021
Number of reports received from fiduciary companies and banks*	26	6
Number of requests for information received from Public Offices and relevant Authorities	12	3

Notes: *The management activity of the report often also involves the request and the return of certain reports and the request for clarifications to the senders regarding the information transmitted.

Also for the year 2020 a decreasing trend is still recorded in the number of reports transmitted by both San Marino and foreign fiduciary companies. This trend is due, in general, to the consistent downward variation which has affected the fiduciary activity of registration of shareholdings in San Marino companies in recent years. On the other hand, requests for information from public offices and authorities responsible for exchanging information remained substantially stable compared to 2019.

Moreover, in 2020 the Office responsible for imposing administrative sanctions - the Office for Economic Affairs - was notified of a fiduciary company's failure to report an investment held in a San Marino company.

3 MEASURES PUT IN PLACE TO FIGHT AGAINST COVID-19

3.1 Directions in the Bank's premises

The Central Bank Management, in collaboration with the Organisational Units on staff (Human Resources, Organisation and General Services) constantly monitored the health emergency. In accordance with the regulations issued by the legislator, appropriate instructions were issued to the Bank's staff and constantly revised according to the evolving health situation.

From the outset, CBSM adopted the teleworking tool in order to preserve the health of employees as much as possible and mitigate the risk of interruption of strategic functions supporting the functioning of the San Marino financial system.

With regard to the organisation of work and the presence of staff on the premises of the Central Bank, the actions taken concerned:

- the use of protective equipment (masks, gloves, shoe covers) and the installation of thermal scanners at the entrance;
- limiting the reception of external guests to cases of necessity only;
- diversification of access to the Bank's premises;
- the restriction of the reception of external users with the obligation to use personal protective equipment;
- suspension of travel;
- the organisation of meetings in audio/video conference mode;
- the provision of specific detergents for the cleaning of premises open to the public, offices, toilets and meeting rooms and the integration of cleaning and sanitising activities in the Bank's premises, as well as sanitising procedures where necessary;
- limiting the use of common areas and recommending less travel to offices other than one's own.

3.2 Teleworking

With the aim of achieving maximum staff distancing, all technical and organisational measures have been taken in order to use teleworking for a number of resources that allow the maximum possible distancing between people in the offices, with, in most cases, a maximum of one person per room.

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

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

4 ANNUAL REPORT ON THE GUARANTEE FUND FOR DEPOSITORS

4.1 2020 Operational Highlights

During 2020, the Guarantee Fund for Depositors (hereinafter also referred to as the "Fund" or "GFD") continued the capital strengthening process that was started as early as its establishment, as illustrated below, the purpose being to be able to rely on the resources set forth by the regulations and that may prove necessary to deal with any situations requiring action.

Taking into account the important changes introduced to the depositors' safety net system by Law no. 102/2019 on bank resolutions, which modified its general approach, the Management Body (hereinafter also "MB") proposed to make the consequent amendments to the secondary legislation and in particular to Regulation 2016-01.

Below is an overview of the main events that characterised operations in 2020.

As in previous years, in 2020 the Fund continued to cooperate with the European Forum of Deposit Insurers (EFDI) in its capacity as full member, a status the Fund has been enjoying for a number of years. In addition, in its capacity as observer since 2019, it participated in the activities of the Affiliation of European Micro-States (AMES), i.e. an EFDI ad-hoc working group. This purpose of this cooperation is to share experiences and acquire knowledge with a view, among other things, to feeding international best practices into the Republic of San Marino's system.

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

The annual contribution to the Fund in 2020 from the participating banks was set by the Management Body at 0.04% of protected deposits, corresponding to a total of EUR 571,385, divided among the participating banks. The annual contribution rate in 2020 was set at a lower level than in 2019 (when it was equal to 0.06%), taking into account the effects of the Covid-19 pandemic on San Marino's economic cycle.

However, the target level of 0.80% for protected deposits to be reached by 3 July 2024 remains unchanged. This target level corresponds to the minimum level of financial resources that the GFD is, pursuant to the regulations in force, required to reach, without prejudice to the possibility for the MB to deviate from this target level by setting a threshold no lower than 0.50% of protected deposits, after consulting with the Supervision Committee.

Following the contribution for 2020 made by the banks, the coverage level of 0.58% of protected deposits was reached at 31 December 2020, standing at EUR 8,955,626 at the end of 2019. The increase in the Fund's value was due to ordinary contributions as well as interest (EUR 11,867) on (i) capital investments in repurchase agreements with CBSM, with underlying eligible securities and (ii) cash holdings on the current account maintained with CBSM. The above figure decreased over the previous period when it stood at EUR 29,223. In 2020, given the lower remuneration of repurchase agreements with CBSM compared to the remuneration of the current account deposit, the MB, as an investment strategy, decided not to renew these operations, keeping its liquidity on the current account deposit. As at 31 December 2020, there were therefore no repurchase agreements with CBSM.

As was the case in previous periods, in 2020 the CBSM Governing Council confirmed again until the assumption of the Fund's costs relating to its management and operation, thereby supporting the depositors' guarantee scheme to protect financial stability with its own "indirect contribution".

During the first quarter of 2021, the MB completed a stress test regarding its ability to take action. In this connection, it also relied on the Single Customer View information flows from participating banks, as pursuant to current legislation.

By means of a specific document, prepared in 2020 and the first quarter of 2021, the GFD systematised the stress test exercises carried out in the context of the Banca CIS crisis, providing an adequacy assessment for each aspect examined, as well as suggesting related remedial measures.



These stress exercises are part of the mandatory stress exercises required by the regulations in force, every three years, pursuant to Article III.III.2 of Regulation 2016-01.

These tests addressed part of the intervention scenarios and thematic areas described in the European Banking Authority's document "*Final report - Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU*".

In particular, the GFD assessed its ability to perform the tasks related to the only type of intervention permitted by the legislation in force at the time, namely the reimbursement of depositors in case of insolvency of the bank in distress (reimbursement function). In the context of the stress exercises related to this reimbursement function, the GFD mainly covered the following two risk areas:

- operational risks, i.e. the risks the GFD cannot fulfil its obligations due to inadequate or dysfunctional internal procedures or inadequate personnel and systems;
- financing risks, i.e. the risks the sources of funding provided for by the regulations in force (ordinary and extraordinary contributions and alternative financing mechanisms) will not be sufficient to enable the GFD to meet its contingent liabilities or to meet them on time.

The results of the stress tests will serve as the basis for planning the subsequent activities of the GFD as well as for conducting future stress exercises pursuant to Article III.III.2 of Regulation 2016-01.

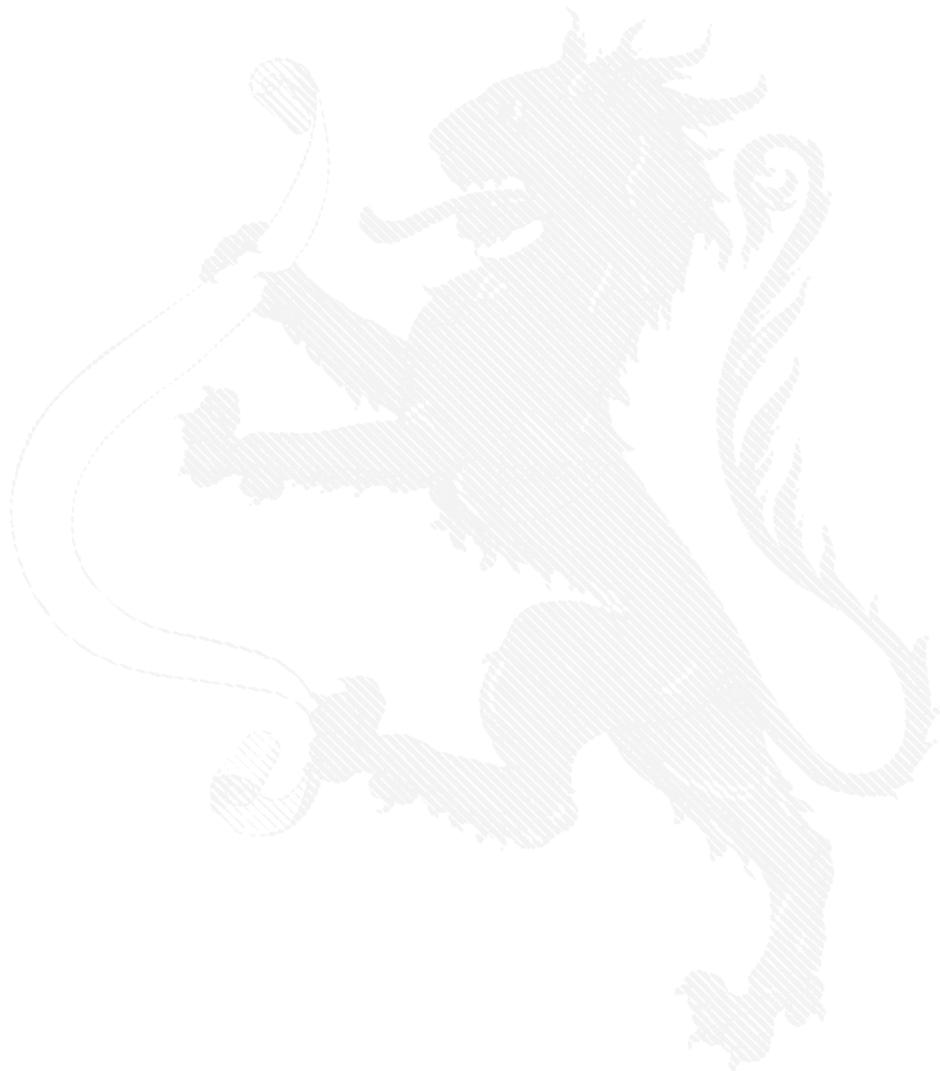
In March 2021, following a resolution of CBSM Governing Council, the new member of the Fund's Management Body, Mr Ivan Pagliarani, took over the duties of the outgoing member, Mr Filippo Vella. In addition to the aforementioned member, the Council is therefore made up of the Chairman, Ms Silvia Cesarini,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

Table 26 - Fund figures as at 31 December 2020

Figures	
5	participating banks (listed alphabetically: Banca Agricola Commerciale - Istituto Bancario Sammarinese S.p.A.; Banca Nazionale Sammarinese a socio unico in risoluzione (formerly Banca CIS S.p.A.); Banca di San Marino S.p.A.; Banca Sammarinese d'Investimento S.p.A.; Cassa di Risparmio della Repubblica di San Marino S.p.A.)
59,930	was the total number of GFD protected depositors in the 5 participating banks
1,611	million was the total value of "deposits protected" under the GFD
9.0	million was the value of the GFD's "available financial means"
0.58%	Approximate percentage value of the GFD's endowment at 31 December 2020
0.80%	was the minimum target level to be reached through ordinary contribution by 3 July 2024, save for exceptions under Article VII.II.1(9) of Regulation 2016-01.
10	business days was the ordinary time limit within which the GFD was required to repay depositors from the effective date of the administrative compulsory winding-up (as of 1 January 2024, a 7-day time limit will apply, pursuant to Article III.I.5 of Regulation 2016-01)
3	are the Central Bank employees who — in their capacity as members of the Management Body — are required to deal with the management of the GFD on a regular basis, albeit not exclusively.

4.2 2020 Statement of Operations

For a review of assets and liabilities as well as operating costs and revenues for 2020, reference should be made to the "Statement of Operations for financial year 2020", which was prepared pursuant to Article III.III.2(2) of Regulation 2016-01, contained in the financial statements of the Central Bank, of which it forms an integral part. The aforesaid statement of assets and liabilities includes the balance sheet, the profit and loss account and accompanying notes, complete with the reports of the Central Bank's Board of Statutory Auditors and of the Audit Firm appointed by the Central Bank.



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