



2020 FINANCIAL STATEMENTS

Approved by the Board of Directors of Cassa di Risparmio della Repubblica di San Marino S.p.A. on 9/06/2021
Approved by the Sole Shareholder of Cassa di Risparmio della Repubblica di San Marino S.p.A. on 30/06/2021

INSTITUTIONAL INFORMATION: THE BANK as of 31 December 2020

CAPITAL STRUCTURE

- Eccellentissima Camera of the Republic of San Marino
holder of the shares representing 100% of the share capital.

CORPORATE OFFICERS*

Board of Directors

Prof. Avv. Carloalberto Giusti, Chairman since 30/06/2020
Dott. Stefano Bizzocchi, Vice Chairman since 8/07/2020
Prof. Gianfranco Antonio Vento, Chief Executive Officer since 30/06/2020
Dott. Vincent Cecchetti, Director since 30/06/2020
Dott.ssa Serena La Torre, Director since 30/06/2020**

** during the 2020 financial year, Dott. John Mazza (as Chairman), Dott. Andrea Rosa (as Vice Chairman), Dott. Franco Gallia (as Chief Executive Officer), Dott. Franco Coccioli and Rag. Alfredo Tabarini held offices on the Board of Directors until 30 June 2020.*

*** Dott.ssa Serena La Torre resigned from her post on 25 January 2021.*

Board of Statutory Auditors

Avv. Sara Pelliccioni, Chairman
Dott.ssa Rossana Michelotti, Auditor
Dott.ssa Meris Montemaggi, Auditor

Chief Executive Officer***

Prof. Gianfranco Antonio Vento since 30/06/2020

**** Dott. Franco Gallia also held the position of Chief Executive Officer until 30 June 2020 during the 2020 financial year.*

HEAD OF THE EXECUTIVE STRUCTURE AND GENERAL MANAGEMENT****

Prof. Gianfranco Antonio Vento – Chief Executive Officer and Head of the Executive Structure with also the powers and delegations to the figure of the General Manager since 30/06/2020
Dott.ssa Monica Ceci – Deputy General Manager of Sales and Credits, since 1/12/2020
Dott.ssa Mikela Ercolani – Deputy General Manager of Administration and Finance since 1/12/2020

*****during the 2020 financial year, Dott. Franco Gallia held the position of Head of the Executive Structure until 30 June 2020 and Dott. Stefano Marsigli Rossi Lombardi also held the position of Deputy General Manager until 7 April 2020.*

AUDITING FIRM

Solution S.r.l.

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Report on management

REFERENCE ECONOMIC SCENARIO

International economy¹

The year 2020 saw the devastating effects caused by the rapid spread of COVID-19 which, taking the world by surprise, upset the entire structure of the global economy. Precisely because of the extent of the pandemic, 2020 will go down in history as a year characterized by an extraordinary economic parabola, which cannot - strictly speaking - be traced back to known economic dynamics.

However, the health crisis that shook the economic equilibrium of every country contributed to accelerate phenomena that were already underway, but which were struggling to take off. We witnessed an exceptional promotion of scientific and social research, a necessary push towards the digitalization of daily life, greater flexibility in the management of work contracts, and a redefinition of the spaces and methods of use. The health emergency imposed change on the world, a necessary change.

The global economy opened the year 2020 with encouraging signs of easing for international trade following the agreement signed in January between the United States and China which averted further restrictions and removed part of the US duties on Chinese products against a serious commitment by China to protect intellectual property, liberalize financial markets and increase trade flows. The International Monetary Fund therefore predicted a strengthening of international trade with a recovery in GDP. The outbreak of the pandemic at the end of February heavily conditioned these prospects, also in view of the fact that globalization and links between countries in relation to production chains led to knock-on effects on local economies.

After the strong contraction in economic activity in the first half of the year, the easing of social distancing measures led to a rebound in production in the summer quarter, but not yet sufficient to recover production levels by the end of 2019.

This was also the case in the third quarter where there was a solid recovery in economic activity, with the exception of only the services sector which, more than other sectors, suffered and is still suffering the effects of the pandemic. Only China reported stronger growth than before the health emergency. The United States, Japan and the United Kingdom show a gross domestic product of 3.5%, 4.2% and 9.7% respectively, lower than that of pre-COVID-19.

For the U.S. economy, the federal government's strong support of incomes at the beginning of the year, through direct payments to households and with the increase in unemployment benefits established by the Cares Act, contributed significantly to the recovery. Among other things, the Federal Reserve acted promptly by lowering the federal funds rate by 150bp (tx -0.25bp), reducing the cost of borrowing, and providing facilities to support credit flows. It also reduced the cost of swap lines with major central banks and extended the maturity of Forex transactions.

The events of the fourth quarter with the strong acceleration of contagions in advanced economies, which saw a rather intense resurgence of contagions between October and December, led to a reinforcement of containment measures which resulted in a new slowdown in the world economy.

Crescita del PIL e inflazione
(variazioni percentuali)

VOCI	Crescita del PIL (1)		Inflazione (2)	
	2019	2020 2° trim.	2020 3° trim.	2020 dicembre
Paesi avanzati				
Giappone (3)	0,3	-29,2	22,9	-0,9
Regno Unito (3)	1,3	-58,7	78,0	0,3
Stati Uniti	2,2	-31,4	33,1	1,4
Paesi emergenti				
Brasile	1,1	-11,4	-3,9	4,5
Cina	6,1	3,2	4,9	0,2
India	4,9	-23,9	-7,5	4,6
Russia	1,3	-8,0	-3,4	4,9

As regards the manufacturing sector, in December 2020 the Purchasing Managers' Index PMI remained above the expansion threshold in the United States, the euro area and the United Kingdom. The services sector, which was the most affected by the effects of the COVID-19 pandemic, presents a negative outlook overall, with critical

¹ Source: Parliamentary Budget Office - Note on the economy - October 2020 August 2020
ECB Economic Bulletin 08-2020 and 01-2021
Bank of Italy economic bulletin 01-2021

elements for the tourism and leisure services sectors, for which it is difficult to predict the timing of recovery. In China, on the other hand, where contagions have almost disappeared, partly due to a strict lockdown since last spring, all sectors are showing growth.

World trade was affected by the above, showing a marked increase in trade recorded in the third quarter and a subsequent slowdown in the fourth. The total contraction in world trade in 2020 would be around 9%.

As regards price trends in advanced economies, it should be noted that they generally reflect the weakness of demand and, consequently, consumer inflation is below the levels registered prior to the pandemic, whilst in the long term, the inflation projections registered on the financial markets rose as a result of the favorable news regarding the effectiveness of vaccines, which resulted in more optimistic assessments of growth in the medium term.

In December, the OECD estimated an expansion of 4.2% in global output in 2021, which would enable the levels recorded prior to the pandemic to be exceeded. The estimates are affected by a series of elements, such as, for example, the performance of vaccination campaigns and the possible maintenance of support for expansive economic policies in the international context, as well as the bilateral agreements between the United Kingdom and the European Union regarding the Brexit, signed on 30 December 2020 and aimed primarily at (i) establishing an economic and social free trade area with the United Kingdom, (ii) managing the security of citizens and (iii) defining a horizontal agreement on governance.

Obviously, the hypothesized recovery could be jeopardized by any resurgence of contagions, if not supported by economic and fiscal interventions.

The pandemic heavily affected the oil market with a drastic reduction in demand for crude oil. In April, at the height of the lockdown, supply peaked and due to the near exhaustion of storage sites, WTI quotations reached unprecedentedly low levels. The agreements reached between the OPEC+ countries, aimed at cutting production by close to 10 million barrels per day, enabled quotations to recover. Since last June Brent oil prices have fluctuated between 40 and 45 dollars per barrel, settling at around 50 dollars per barrel since the end of October, thanks to news about the US elections and global vaccination plans. Information about the restoration of production, the settlement of Brexit-related issues and the US tax plan also brought decisive support to prices in December. Encouraging news about vaccines, the overcoming of uncertainty about the outcome of the US elections and the resilience of Asian demand contributed to this. In December, prices also benefited from the OPEC+ decision to adopt a more gradual restoration of production from January 2021, the approval of a new fiscal stimulus in the United States and the reduction of uncertainty related to the Brexit negotiations.

Futures contracts point to slightly declining prices over the medium term, but the outlook will likely be affected by pandemic developments.

The monetary policies of the Federal Reserve announced last December to continue with securities purchases will continue until concrete progress can be achieved in relation to price stability and maximum employment targets. In this regard, China has kept its benchmark rates unchanged, limiting intervention in cases of insolvency of companies controlled by local governments, the Bank of Japan has maintained its policy and the Bank of England has increased the target level of purchases of government bonds to 7% of GDP.

In a longer-term perspective, the launch of vaccination campaigns has a positive impact on the economic outlook, but the timing of the recovery remains uncertain, given the uncertainties regarding the timing of the distribution and administration of vaccines on a large scale, on which the effects on the economic cycle will depend.

Euro area²

At its meeting on 10/12/2021, the ECB Governing Council revised the monetary policy instruments in an expansive manner to ensure favorable financing conditions throughout the pandemic-induced crisis, which is expected to be more extensive than previously assumed.

In fact, while GDP in the euro area rose more than expected in the third quarter, by 12.5%, after a cumulative loss of 15% in the first half of the year, in the last quarter of 2020, despite the resurgence of the pandemic, GDP fell less than expected to -0.7%, with an overall negative effect of 6.6% for the whole of 2020. However, in the euro area as a whole, economic activity weakened in the latter part of the year. In absolute terms, output grew in all the major economies, but in none of them returned to the values prior to the outbreak of the epidemic.

Crescita del PIL e inflazione nell'area dell'euro
(variazioni percentuali)

PAESI	Crescita del PIL			Inflazione
	2019	2020 2° trim. (1)	2020 3° trim. (1)	2020 dicembre (2)
Francia	1,5	-13,8	18,7	(0,0)
Germania	0,6	-9,8	8,5	(-0,7)
Italia	0,3	-13,0	15,9	(-0,3)
Spagna	2,0	-17,9	16,4	(-0,6)
Area dell'euro	1,3	-11,7	12,5	(-0,3)

The PMI indicators are on the whole compatible with a contraction in activity: in the average of the fourth quarter the signs of recovery in manufacturing were consolidated, against a weakening in services, albeit less marked than in the spring months.

The projections drawn up in December by Eurosystem experts indicate that GDP from 2021 to 2023 is expected to grow by 3.9%, 4.2% and 2.1% respectively.

Inflation is affected by weak demand at -0.3% per annum. The projections prepared by Eurosystem experts released in December show a change in consumer prices of around 1% for 2021, 1.1% for 2022 and 1.4% in 2023.

However, the latest findings on inflation, which are still being examined, show a resurgence of the inflationary phenomenon, supported by the recovery of international economic trade.

As part of the Expanded Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), the ECB made net purchases of securities such as to increase the book value of the two securities portfolios and on 16 December 2020 the sixth auction of the third series of Targeted Longer-Term Refinancing Operations (TLTRO3) was settled, allocating € 50 billion to counterparties in the euro area, of which € 11 billion to Italian counterparties (Table 5). Total funds disbursed therefore stand at € 1,749 for the APP program and € 350 billion for the PEPP program.

The reduced demand for funds to meet liquidity requirements and to finance investments has been reflected since the end of the summer in a dampening of the credit dynamic for companies in the eurozone.

In the months from August to November 2020 the growth rate of loans to non-financial companies - which contracted as a result of lower demand for funds for liquidity and investments - fell to 0.2% with different values between countries. Spain and Germany reported a decrease of 2.5% and 0.9% respectively, compared with 4.4% in France and 8.9% in Italy, while there was an acceleration in loans to households, which grew by 4.4% in the same period. The cost of loans for both types of borrower remained stable.

Furthermore, on 10 December 2020, the ECB reached agreement on both the EU budget and the Next Generation EU (NGEU)¹, an instrument designed to support the recovery of the European Union, also approving the multi-year financial framework for the years 2021-27 and the related financial allocation, subject to ratification by all member states.

As far as rates are concerned, low levels, if not slightly negative, were recorded for long-term rates.

Since mid-October the yield spreads compared with German bonds decreased in all the main countries of the euro area (-29bp Greece, -21bp Portugal, -20bp Italy, -14 Spain).

In the same period the euro appreciated by 4.3% against the dollar, with the prospect of further strengthening. In actual nominal terms the euro remained more or less stable.

² Source: Parliamentary Budget Office - Note on the economy - October 2020 August 2020
ECB Economic Bulletin 08-2020 and 01-2021
Bank of Italy economic bulletin 01-2021

Italian economic and financial scenario³

The Italian economic scenario can be divided into two important periods. The first half of the year, characterized by the shocking spread of the COVID-19 pandemic, followed by severe measures aimed at containing the spread of the virus and resulting in the lockdown of the entire peninsula, the summer recovery, sustained by the drastic reduction in cases, which generated the conviction of an almost definitive overcoming of the crisis and the events of the autumn, when the resurgence of the pandemic led to the tightening of rules about the free movement of people with, however, a less devastating effect than the first wave of contagions thanks to the prospect of being able to start a vaccination plan on a global scale.

Having said this, the cyclical phase of the Italian economy, overall stagnant in 2019, rapidly deteriorated in the first half of 2020, due to the COVID-19 pandemic.

ISTAT data show a reduction of 13.0% in Italy's GDP in the second quarter compared to the January-March average and 18% compared to the previous year, with a negative change over the six-month period of 14.8% (Germany -9.7% - euro area -11.8% - Spain -17.8% - France -13.8%).

In the first half of the year there is also a severe contraction in household spending (-17% compared to 2019), with negative peaks for the durable goods and services sector. On the other hand, although disposable income registered a drop, albeit contained thanks to the support measures activated by the government, the propensity of households to save grew (+18.6%) compared with a now stable 8% recorded in previous years. The first half of the year also saw a sharp decline in international trade, with serious repercussions on Italian exports which, after the normal downturn in the winter (-7.5%), fell by 26.4% in the April-June quarter, while the import market fell by 20.6% in the same period.

The 2020 summer months saw higher-than-expected growth, due to an important responsiveness of the economy, but the year-end saw a new contraction. If GDP in the third quarter had grown by 15.9%, the last quarter of the year saw a drop of over 3 percentage points, resulting in a year-on-year reduction of about 9% in GDP.

Sector data show a significant drop in activities in services - which are exponentially affected by the effect of the increase in contagions and the restrictive measures to contain them - while there was a marginal reduction in manufacturing.

In December, the purchasing managers' index and PMI rose, remaining above the threshold compatible with expansion in manufacturing, while in services they are well below that level.

The real estate market also saw an increase, partly due to the reduction in price growth.

After the recovery in the summer, the most recent information indicates a weakening of household spending in the final part of the year. The propensity to save remained high. According to the households interviewed by the Bank of Italy, rather than restrictive measures, fears of contagion are still holding back consumption of services. In the third quarter there was a recovery in household spending (up 12.4%), an increase in disposable income (up 6.6% on the previous quarter) and a consequent reduction in the propensity to save, although still high compared with previous years (up 14.6%).

On the exports and imports front, the scenario also reflects a recovery in the third quarter and a new slowdown in the fourth. However, capital inflows and purchases of Italian government bonds by non-residents continued and, as a result, the Bank of Italy's TARGET2 balance improved. The international investment position became creditworthy after more than thirty years of negative balances.

Italy's export price competitiveness and overall price competitiveness in particular on markets outside the eurozone will deteriorate on average in 2020, reflecting the appreciation of the nominal euro exchange rate.

Purchases of Italian government bonds by non-residents stood at € 26.1 billion in the June-October period, but in October the balance was still negative due to early lockdown sales.

Subscriptions of foreign financial instruments by Italians until October amounted to € 63.9 billion, almost double the previous year's figure. Similarly, the net foreign deposits of Italian banks for loans and deposits decreased (€ 27.7 billion), due to the increased use of Eurosystem refinancing operations by intermediaries.

Consumer prices in the last months of 2020 show a negative variation, generated by the prices of energy goods and the prices of services most affected by the crisis. Inflation expectations for 2021 are very low and preliminary

³ Source: Parliamentary Budget Office - Note on the economy - October 2020 August 2020
ECB - Economic Bulletin 08-2020 and 01-2021
Bank of Italy - Economic Bulletin 01-2021
Istat - Quarterly Economic Accounts
Istat - The 2020-2021 outlook for the Italian economy

data show an annual change in the harmonized index of consumer prices (HICP) stable at -0.3% in December. Inflation in 2020 is therefore -0.1% (0.6% in 2019).

The banking system supported the demand for funds of companies with advantageous supply conditions also thanks to monetary and government policy measures aimed at supporting liquidity. Reduced The cost of banks' bond funding and lending rates to households and businesses remained at moderate levels. There was a steady growth rate in loans to households, an acceleration in mortgages, against a weakness in consumer credit. Moreover, the possibility of access to subsidized loans and moratoria for the liquidity of businesses and households was extended to June 2021.

As regards interest rates, both companies and households reported an average rate of around 1.3%. The optimism generated by the positive news regarding vaccination campaigns, together with the overcoming of the uncertainties linked to the American presidential election and monetary support, led to a recovery in Italian financial markets, although the outlook is strictly dependent on the unknown factors represented by the pandemic.

Government bond yields fell across all maturities and the spread with Bunds fell by 20bp.

The Italian general stock market index rose by 16% in 2020 (eurozone average 12%), the banking sector by 14%, but lagging behind the eurozone.

Economic scenario of the Republic of San Marino⁴

The global impact of the COVID-19 pandemic profoundly changed the context also in San Marino. The Authorities adopted measures against the epidemic, as well as instruments to contain its socio-economic repercussions and, in a first phase, chose to redirect resources to the health system and then provide for interventions to support families and businesses.

The projections contained within the "Selected Economic Indicators" prepared by the Office of Information Technology, Data and Statistics of the Republic of San Marino, prior to the occurrence of the COVID-19 pandemic, saw the San Marino economy continuing its expansion process, recovering since 2015. GDP growth, which stood at 1.7% and 1.1% in 2018 and 2019 respectively, was nevertheless projected to decline in 2020 (+0.7%). However, these projections are no longer in line with the current economic situation due to the succession of events, the increase in risks and uncertainties deriving from the pandemic and the scenarios have decidedly changed with GDP falling by over 10% compared with the previous year.

The Bulletin of Statistics relating to the 4th quarter of 2020 provides evidence on the dynamics affecting the economic fabric of San Marino which, in the year of the pandemic, shows a decrease in employment equal to 442 units, of which 285 frontier workers. The work force therefore stood at 22,525 units (6,070 cross-border commuters), of which 16,067 refer to the private sector and 3,564 to the enlarged public sector, while the unemployed numbered 1,287, against a resident population of 33,627 units. The greatest decrease was inevitably marked by the "Accommodation and Catering Services" sector, which lost 116 workers, followed by the "Rental, Travel Agencies, Business Support Services" sectors.

Inflation, calculated as the annual percentage change in the consumer price index for blue- and white-collar households (net of tobacco), almost stopped in 2020, marking a weak increase equal to +0.22% compared to +0.95% recorded the previous year.

The manufacturing sector remains the leading sector in terms of employment, absorbing 40.1% of employees. This is followed by the wholesale and retail sector, repair of motor vehicles and motorcycles with 16.8%, construction with 5.8%, accommodation and catering services with 5.5% as well as the professional sector with 5.3% (values as of December 2020).

The total number of companies present and operating in the Republic, as of 31/12/2020, is equal to 4,836 units recording, compared to 31/12/2019, a decrease of 98 companies (-2%). Analyzing the trend compared to last calendar year, the sectors with the most negative changes are: "Professional, scientific and technical activities" (down 39 units, equal to -4%), "Manufacturing activities" (down 18 units, equal to -3.5%), "Wholesale and retail trade; repair of motor vehicles and motorcycles" (down 15 units, equal to -1.4%) and "Rental, travel agencies, business support services" (down 9 units, equal to -4.9%). Moderately positive changes were registered in the following sectors: "Education" (up 9 units, equivalent to 33.3%), "Information and communication services" (up 6 units, equivalent to 3.2%) and "Financial and insurance activities" (up 4 units, equivalent to 5.7%).

⁴ Source: Data Technology and Statistics Information Office - Statistical Bulletin Fourth Quarter
IMF - Staff Concluding Statement of an IMF Staff Visit 17/02/2021
Fitch - Rating Action Commentary 13/04/2021
Annual report on the trend of the Trade sector in the Republic of San Marino - Trade Observatory

The most common legal form in December 2020 is the corporate form with 2,651 units (54.8% of companies), there are also 384 craft businesses (7.9% of the total) and 719 freelance activities (14.9%).

The composition of companies by branch of economic activity is confirmed, compared to December 2019, which is mainly concentrated on “Wholesale and retail trade, repair of motor vehicles and motorcycles” and “Professional, scientific and technical activities”, which represent 21.84% and 19.5%, respectively, of the companies present in the territory, followed by the branches “Other service activities” (11.23%) and “Manufacturing activities” (10.24%).

As regards the size of companies, it is clear that most of them have a small structure: 42.8% have between 1 and 9 employees and 51% have no employees at all.

Trade in 2020 recorded a drop of 9.8%, in nominal terms, compared to the previous year. In the same period, provisional values for exports and imports show a reduction of 9.8% and 8.8%, respectively.

The trade balance, derived from the difference between exports and imports, remains positive at € 536 million, but down on the previous year (-15%).

Italy is inevitably the nation with which most of the trade interchange takes place, amounting to 81.3%, unchanged from 2019, divided into a 78.7% of imports (78.3% in 2019) and an 83, 2% of exports (83.5% in 2019), followed, for imports, by China (4.6%), Germany (2.7%), Spain (2.1%) and Poland (1.5%) and, for exports, by Switzerland (1.8%), the United Kingdom (1.6%), China (1.4%) and the United States (0.8%).

A particular indicator regarding retail trade in 2020 is the contraction of SMaC circuit transactions both in terms of overall balance and number.

“Retail Trade” recorded a decrease in the number of transactions compared to the previous year of -17.8% with an increase in the transaction of 6.4% mainly due to the inability to travel outside the territory for purchases, while for “Accommodation and Catering” the decline in transactions comes to -36.8%, with a reduction in the transaction of 33.2%. For “Trade and Repair of Motor Vehicles and Motorcycles” transactions decreased by 10.9% and turnover by 12%.

This shows how the economic crisis, triggered by the health emergency, affected the trade sector in the Republic.

The International Monetary Fund, in April 2020, had integrated the macroeconomic analysis carried out in January, appreciating the interventions put in place by the Government, highlighting the fact that the COVID-19 epidemic would have considerably amplified the uncertainty and downside risks regarding the country's prospects, also highlighting the commitment to careful monitoring.

Subsequent to the January 2021 visit, IMF staff statements highlighted how, despite the pandemic's significant impact on San Marino's economy, the country has shown resilience despite pre-existing challenges. Some sectors, such as tourism and retail trade were particularly hard hit, however appropriate support was shown, thanks in part to loan signings which provided the necessary cash.

IMF staff also stated that in order to improve the business environment and limit the healing effects of the crisis, while at the same time improving growth prospects, some structural reforms should be activated, such as the implementation of innovative regulations regarding labor, the management of bureaucracy, as well as those linked to dealing with critical issues related to business insolvency.

On 10 April 2020, the agency Fitch Ratings announced the downgrade of the rating for San Marino in the medium to long term, taking it from the “BBB-” level, confirmed in October 2019, to the “BB+” level with a “negative” outlook, highlighting how it expected “that San Marino's public finances will deteriorate significantly in the 2020-2021 period in light of the impact of the COVID-19 pandemic on the economy and the government's support measures”.

Just one year later, on 13 April 2021 the agency Fitch Ratings confirmed the medium to long-term rating for San Marino at the level of “BB+” with a “negative” outlook. The agency pointed out that the BB+ level derives from the effects of a resilient export sector and a large net position of external creditors, as well as a stable political system. In contrast, a high debt burden and a large and poorly capitalized banking sector, together with the very small size of the economy, limited administrative capacity and low growth potential have a negative impact.

For Fitch, San Marino's gross public debt jumped to 80.8% of GDP at the end of 2020 (from 32.3% in 2019) mainly due to the conversion of €455 million of other assets of state-owned bank CRSM into an irredeemable bond. On the other hand, said conversion had a positive impact on the government's fiscal balance, helping to reduce CRSM's recapitalization costs. Fitch states that their fiscal projections indicate that recapitalization costs will decrease significantly over the next two years as a result of the irredeemable bond and CRSM's ambitious new business plan.

Fitch analysts expect the San Marino economy to grow by 4.5% in 2021, compared to an estimated contraction of 8.8% in 2020 last year, based on improvements in the retail and tourism sectors and a strong rebound in export-oriented manufacturing.

However, Fitch believes that although San Marino has put in place a significant vaccination plan which will enable faster rebounds than other countries, it still presents downside risks to the economic recovery as the continued spread of COVID-19 and the slow pace of vaccination in Italy and the rest of Europe could have a stronger than expected negative impact on tourism figures and economic growth.

Banking and financial sector of the Republic of San Marino⁵

The San Marino banking system consists of 12 authorized entities, of which 4 are operating banks. System data published by the Central Bank of the Republic of San Marino (CBSM), note that system deposits as of 31/12/2020, net of interbank deposits, reach € 5,298 million, an increase of approximately € 64 million compared to 31/12/2019, mainly attributable to the aggregate of indirect deposits which increased by € 46 million against savings deposits which grew by € 18 million. Gross loans stood at € 2,500 million, down € 136 million compared to 31/12/2019. The ratio of gross non-performing loans to gross loans stood at 31.08%, compared to 29.7% reported as of 31/12/2019.

Lastly, there was a decrease in total assets by around € 25 million and an increase in equity, which rose from € 231 million recorded as of 31/12/2019 to € 269 million (+ € 38 million); the equity/total assets ratio increased and stood at 6.43%.

Below are the San Marino banking system data.

SAMMARINE BANKING SYSTEM							
Data in millions of €	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	VAR dec 20/dec 19	VAR % dec 20/dec 19
Savings deposits	4,535	3,975	3,861	3,611	3,629	18.00	0.50%
Indirect deposits	1,833	1,806	1,627	1,623	1,669	46.00	2.83%
<i>of which: asset management</i>	204	333	305	263	321	58.00	22.05%
<i>of which: securities under administration</i>	1,619	1,470	1,272	1,255	1,232	-23.00	-1.83%
<i>of which: custodian bank activities</i>			50	105	116	11.00	10.48%
Customer deposits	6,368	5,782	5,488	5,234	5,298	64.00	1.22%
Gross loans	3,310	3,144	2,829	2,636	2,500	-136.00	-5.16%
<i>of which: gross non-performing loans</i>	595	645	576	784	777	-7.00	-0.89%
Non-performing loans / Gross receivables	17.97%	20.52%	20.38%	29.74%	31.08%	1.34%	4.50%
Gross Loans / Savings deposits	73.00%	79.09%	73.27%	73.00%	68.89%	-4.11%	-5.63%
Total assets	5,306	4,774	4,591	4,206	4,181	-25.00	-0.59%
Net equity	399	347	328	231	269	38.00	16.45%
Net equity / Total assets	7.52%	7.28%	7.15%	5.49%	6.43%	0.94%	17.15%

The current condition of the banking system of the Republic of San Marino originates from 2008, as a result of a pronounced process of banking disintermediation combined with a progressive reduction in asset quality, the concomitant causes of which are to be attributed, mainly, to the global crisis of financial markets and the effects of International agreements on capital return (Italian tax shield 2009-2010), Italian voluntary disclosure (2015).

As part of its role in maintaining financial stability and protecting savings, CBSM, in its document "Dinamiche Evolutive del Sistema Bancario Sammarinese" (Evolutionary Dynamics of the San Marino Banking System) of April 2019 had issued some Policy Recommendations, among which the following were highlighted:

- the need to identify external financial resources to contribute to the recovery of the banking system;
- the resolution of the issues related to the non-interest-bearing assets of the Cassa di Risparmio della Repubblica di San Marino, hereinafter referred to as CRSM for brevity, originated as a result of Article 5 ter of Decree Law 93/2017 of 7 August 2017, as amended by Decrees 101/2017 and 122/2017

⁵ Source: CBSM - Banking system statistical data as of 31/12/2020

(hereinafter also Article 5 ter), in order to replace the current non-interest-bearing assets with interest-bearing assets;

- the resolution of the issue relating to tax credits connected to the resolution of banking crises, encouraging their disinvestment, so as to reduce, at least partially, the amount of the non-interest-bearing and illiquid components of the assets of the banking system;
- the hedging of the adjustments which emerged during the AQR with injections of private capital or internal restructuring interventions;
- the recovery of asset management, including through the entry of qualified foreign operators;
- the improvement of NPL management profiles, also with the support of legal, fiscal and regulatory reforms;
- the adoption of a more incisive regulatory framework for the classification of receivables and the application of adjustments.

This is with the ultimate aim of restoring the banking system of the Republic of San Marino to its role of support and driving force for the country's economy, by adopting a "system approach", in which all components strive to overcome the current critical situations, laying the foundations for a path of development, in accordance with international best practices.

The activities hypothesised in the document can be said to have been completed with regard to the restructuring of CRSM's assets, given that, with Law no. 223 of 23 December 2020 (articles 2 and 3), the legislator regulated the conversion of the former Article 5b item into an interest-bearing nonredeemable security which found its place in CRSM's financial statements in 2020.

Article 7 of the same law also governs the final definition of tax credits connected with the resolution of banking crises, currently freezing the amounts following an appropriate assessment by the Supervisory Committee, which has already been set up for this purpose.

In addition, the draft law for the management of NPL credits originating from the system is in the approval phase, which will allow - when fully implemented - a choral management of the same.

The resilience of the financial sector during the pandemic has been remarkable. Although deposits have remained stable, the impact of the crisis on non-performing loans (NPLs) has so far been limited. Moratoria on principal repayments on loans and government guarantees on specific loans have had limited use, but have been helpful in providing economic relief to those most affected. However, the crisis is not over, and its long-term impact on some businesses and individuals could cause banks' loan portfolios to deteriorate. Banks will need to take a proactive approach in analyzing these potential losses and begin to provision accordingly, while the Central Bank of San Marino should remain vigilant in its supervisory role.

The authorities have made significant progress in addressing structural problems in the financial sector. Recent interventions on Cassa di Risparmio della Repubblica di San Marino S.p.A. (CRSM), carried out also through the issuance of a perpetual bond coupled with a significant reduction in operating costs, have been implemented in accordance with this objective. More generally, efforts should be continued to ensure the successful implementation of a thorough restructuring of the financial sector in order to increase its efficiency and profitability. Accelerating the resolution of critical issues related to NPLs will also support these efforts and can benefit from the new securitization law being discussed in parliament, taking care to properly guard potential risks to public finances.

The report of the agency Fitch Ratings, issued on 13/04/2021, specifies that overall, the impact of the COVID-19 recession on the San Marino banking sector has so far been contained. Deposits remain stable Capital ratios improved to 11.9% at the end of 2020, meeting the minimum capital requirement of 11%, albeit below the EU average (18.8% as of June 2020) and with low asset quality risks.

It also highlights the importance of the decision by which the ECB's Governing Council decided to extend the precautionary liquidity facility already granted in the presence of possible market disruptions due to the emergency period from COVID-19 until March 2022.

DEVELOPMENT IN THE REGULATORY FRAMEWORK

The ordinary legislative production of interest for the banking, financial and, more in general, national economic sector in 2020, usually reported in this section, was accompanied by a specific set of regulations issued to cope with the effects of the COVID-19 pandemic on the community.

Although these regulations have not always had a direct impact on the economic fabric of the Republic, the measures adopted in relation to the limitation of the movement of people and, more generally, to the compulsory measures aimed at the containment of the virus, have had a significant impact on the organization of work activity

and, for this reason, it is appropriate to highlight this extraordinary phenomenon which resulted in a significant number of regulations.

Particularly, we highlight:

COVID-19 regulatory measures	
Decree Law no. 42 of 5 March 2020	Establishment of the position of extraordinary commissioner for the COVID-19 emergency
Decree Law no. 43 of 5 March 2020	Urgent containment measures against Covid-19 (Coronavirus) – (repealed)
Decree Law no. 44 of 8 March 2020	Urgent containment measures against Covid-19 (Coronavirus) - repealed
Decree Law no. 51 of 14 March 2020	Urgent measures for the containment and management of the emergency situation caused by Covid-19 (Coronavirus) (repealed)
Decree Law no. 52 of 20 March 2020	Urgent measures for the containment and management of the emergency situation caused by Covid-19 (Coronavirus) (repealed)
Decree Law no. 55 of 29 March 2020	Additional measures related to the Covid-19 (Coronavirus) emergency)” (repealed)
Decree Law no. 59 of 4 April 2020	Extension of Decree-Law no. 52 of 20 March 2020 Urgent measures for the containment and management of the Covid-19 emergency (Coronavirus)
Decree Law no. 61 of 10 April 2020	Amendments to Decree Law 52/2020 Urgent measures to contain and manage the Covid-19 (Coronavirus) emergency)
Decree Law no. 62 of 17 April 2020	Urgent measures for the containment and management of the emergency situation caused by Covid-19 (Coronavirus)
Decree Law no. 63 of 21 April 2020	Interventions in the economic sphere and for the support of families, businesses, self-employed workers, freelancers to deal with the Covid-19 emergency
Decree Law no. 66 of 30 April 2020	Ratification of Decree Law no. 62 of 17 April 2020 - Urgent measures for the containment and management of the emergency situation caused by Covid-19 (Coronavirus)
Decree Law no. 67 of 3 May 2020	Labor and pension interventions to support the Covid-19 economic emergency
Decree Law no. 68 of 3 May 2020	Provisions for a gradual relaxation of restrictive measures resulting from the Covid-19 health emergency
Regulation no. 3 of 11 May 2020	Implementing provisions of the Decree Law no. 63 of 21 April 2020 "Interventions in the economic sphere and for the support of families, businesses, self-employed workers and freelancers to deal with the COVID-19 emergency".
Decree Law no. 78 of 15 May 2020	Updated provisions for the relaxation of restrictive measures related to the Covid-19 emergency
Decree Law no. 79 of 18 May 2020	Provisions in the area of movement, mobility, and travel resulting from the Covid-19 health emergency
Decree Law no. 90 of 22 May 2020	Transitional provisions regarding the simplification of the administrative procedure for registration in the Register of Resident Population due to the COVID-19 emergency
Decree Law no. 91 of 26 May 2020 (Ratification of Decree Law no. 63 of 21 April 2020)	Ratification of Decree - Law no. 63 of 21 April 2020 - Interventions in the economic sphere and for the support of households, businesses, self-employed workers and freelance professionals to deal with the COVID-19 emergency. in this regard, it is also worth mentioning Regulation no. 3 of 11 May 2020, containing "Implementing provisions of Decree Law no. 63 of 21 April 2020" and Regulation no. 5 of 1 July 2020, containing amendments to the aforementioned Regulation no. 3; Decree Law no. 91 of 26 May 2020 was subsequently amended by Decree Law no. 182 of 29 September 2020.
Decree Law no. 92 of 27 May 2020	Ratification of Decree Law no. 67 of 3 May 2020 - Labor and pension interventions to support the Covid-19 economic emergency
Decree Law no. 93 of 27 May 2020	Ratification of Decree Law no. 68 of 3 May 2020 - Provisions for a gradual relaxation of restrictive measures resulting from the Covid-19 health emergency
Decree Law no. 94 of 28 May 2020	Urgent school reorganization measures related to the health emergency caused by COVID-19
Decree Law no. 96 of 31 May 2020	Additional provisions for a gradual relaxation of restrictive measures resulting from the Covid-19 health emergency
Decree Law no. 97 of 2 June 2020	Ratification of Decree Law no. 78 of 15 May 2020 - Updated provisions for the relaxation of restrictive measures related to the Covid-19 emergency
Decree Law no. 98 of 2 June 2020	Ratification of Decree Law no. 79 of 18 May 2020 - Provisions in the area of movement, mobility, and travel resulting from the Covid-19 health emergency
Decree Law no. 102 of 15 June 2020	Additional provisions for a gradual easing of restrictive measures resulting from the COVID-19 health emergency and interventions in the economic area
Decree Law no. 108 of 30 June 2020	Final provisions regarding the COVID-19 emergency.
Decree Law no. 109 of 1 July 2020	Extraordinary support measures for economic operators post COVID-19 (repealed)
Regulation no. 5 of 1 July 2020	Amendments to Regulation no. 3 of 11 May 2020 "Provisions implementing the Decree Law no. 63 of 21 April 2020 'Interventions in the economic sphere and for the support of families, businesses, self-employed workers and freelancers to deal with the COVID 19 emergency'.
Decree Law no.111 of 6 July 2020	Repeal of Decree Law no. 109 of 1 July 2020 - Extraordinary measures to support economic operators post COVID-19
Decree Law no.114 of 8 July 2020	Interventions in the field of work to support the economic emergency caused by COVID-19
Decree Law no. 121 of 24 July 2020	Ratification of Decree Law no. 94 of 28 May 2020 - Urgent measures for school reorganization related to the health emergency caused by COVID-19
Decree Law no. 122 of 24 July 2020	Ratification of Decree Law no. 108 of 30 June 2020 - Final provisions related to the emergency caused by COVID-19
Decree Law no. 123 of 27 July 2020	Ratification of Decree Law no. 114 of 8 July 2020 - Interventions in the field of labor in support of the economic emergency caused by COVID-19
Decree Law no. 134 of 11 August 2020	Provisions on entry into the Republic of San Marino related to health measures due to COVID - 19
Decree Law no. 145 of 31 August 2020	Ratification of Decree Law no. 134 of 11 August 2020 - Provisions on entry into the Republic of San Marino related to health measures linked to COVID – 19. no. 144 Ratification of Delegated Decree no. 118 of 14 July 2020 - Criteria for the determination and disbursement of the performance remuneration of the members of the Executive Committee of the Institute for Social Security
Decree Law no. 147 of 2 September 2020	Preventive provisions to counter the spread of the COVID-19 epidemic.

Decree Law no. 156 of 22 September 2020	Ratification of Decree Law no. 147 of 2 September 2020 -Preventive measures to counter the spread of the COVID-19 epidemic
Decree Law no. 205 of 24 November 2020	Further interventions to support the economic emergency caused by COVID-19
Decree Law no. 206 of 26 November 2020	Additional provisions to counter the spread of the COVID-19 epidemic
Decree Law no. 219 of 17 December 2020	Strengthening of the measures to contrast the spread of the COVID-19 epidemic
Decree Law no. 221 of 22 December 2020	Further provisions for the strengthening of measures to contrast the spread of the COVID-19 epidemic
Decree Law no. 224 of 31 December 2020	Extraordinary interventions in the economic sphere to support the economic emergency caused by COVID - 19

The Great and General Council has introduced the following into San Marino law:

Decree Law no. 10 of 30 January 2020 (in ratification of Decree Law no. 124 of 5 August 2019),	"Urgent measures to support depositors of banks under resolution."
Delegated Decree no. 33 of 27 February 2020 (in ratification of delegated decree no. 21 of 3 February 2020)	"Adaptation of national legislation to international conventions and standards on preventing and combating money laundering and terrorist financing."
Law no. 113 of 7 July 2020	"Change to the budget of the State and the entities of the enlarged public sector for the 2020 financial year and amendments to Law no. 157 of 19 November 2019". It contains, among other things, interventions to protect the stability of the banking system, authentic interpretation of the provisions on official secrecy and Central Bank functions, the reformulation of the article of the LISF pertaining to the strengthening of cooperation relations with Supervisory Authorities and foreign Central Banks, the acquisition of resources through domestic or international financing or the issuance of Public Debt Securities, the conversion of subordinated bonds pursuant to Article 7 of Decree Law no 89 of 27 July 2017 and the extraordinary extension of financial maturities;
Delegated Decree no. 126 of 27 July 2020 (in ratification of Delegated Decree no. 107 of 30 June 2020)	Establishes the new mission of Banca Nazionale Sammarinese S.p.A., in implementation of Article 24, first paragraph, of Law no. 157 of 19 November 2019.
Delegate Decree no. 142 of 21 August 2020 (subsequently ratified by Delegated Decree no. 199 of 13 November 2020)	"Declaration of assets and financial assets held abroad and company shares wherever held", which regulates the obligations to declare assets and financial assets held abroad as well as corporate shares wherever held, susceptible of producing income, by individuals, legally recognized associations and foundations, resident for tax purposes in the Republic of San Marino, in order to monitor the proper discharge of tax obligations in relation to income wherever produced.
Decree Law no. 198 of 13 November 2020(in ratification of Decree Law no. 157 of 23 September 2020)	"Special procedure of tax collection for holders of bonds issued pursuant to Decree Law no. 89 of July 27, 2017".
Decree Law no. 210 of 4 December 2020 (in ratification of Decree Law no. 153 of 17 September 2020)	"Adaptation of national legislation to international conventions and standards on the processing of personal data and the prevention and combating of money laundering and terrorist financing";
Decree Law no. 212 of 7 December 2020	"Provisions regarding financing transactions intended for the acquisition of financial resources by the State through international financing";
Law no. 223 of 23 December 2020	"Budget of the State and public entities for the 2021 financial year and 2021/2023 multi-year budgets", which, among other things, provides for the issuance of irredeemable Public Debt Securities in order to enhance the assets recorded in the balance sheet of Cassa di Risparmio pursuant to Article 5-ter of Decree Law No. 93/2017. In addition, the Law in article 1 deals with the agreements for subsidized loans, in article 5 deals with the acquisition of resources through national or international financing or issuance of Public Debt Securities, in article 6 it devolves the adoption of decrees aimed at strengthening the financial system to the Congress of State, in article 7 envisages the freezing of the maximum amount of tax credits deriving from system operations until 31/12/2020, in article 10 it makes the authentic interpretation of article 73 bis of the LISF regarding significant deposits, in article 11 it extends the public guarantee on loans granted to families and economic operators until 30/06/2021 by virtue of articles 19 and 20 of DL 91/2020.

The following publications are worth mentioning with regard to the specific regulatory production of the Central Bank of the Republic of San Marino:

Regulation 2020-01 of 18/03/2020	"Mixture of targeted interventions to revise current supervisory provisions", which implements the so-called "fit and proper" standard for bank officers and corporate bodies; updates the Central Bank's regulations to the provisions that do not require implementation rules contained in the delegated decrees implementing EU Directives; supplements the set of definitions in banking regulations while seeking to align the definitions of "corporate officers" in other sector regulations and introduces simplification measures
Regulation 2020-02 of 3/06/2020	"Amendment of Regulation 2010-01 regarding the professional exercise of the office of trustee in the Republic of San Marino", in order to regulate the requirements and procedures for enrolment in the Register of authorized trustees in greater detail, as well as the related causes and effects of cancellation and suspension, with a particular focus on compulsory annual training.

Regulation 2020-03 of 31/07/2020	"Regulation on Independent Financial Consultants" which, in implementation of article 25-bis of the LISF, establishes and regulates the Register of Independent Financial Consultants, kept by the Central Bank and soon to be available online.
Regulation 2020-04 of 23/12/2020	"Regulation of payment services and issuance of electronic money (Payment Institutions and IMELs)", which fully replaces the rules set out in the Regulation 2014-04 of the same name; the measure is aimed at implementing Delegated Decree no. 177 of 28 December 2018, adopted in implementation of the so-called "PSD2", i.e. EU Directive 2015/2366 which replaced (repealing it) the previous Payment Services Directive no. 2007/64/EC. The PSD2 was born mainly on the push of the need to regulate the new payment services under the name of digital payments, i.e. electronic payments arranged through online applications or apps, ensuring greater transparency, protection and security for this type of transactions, which are increasingly requested and used by customers.
Regulation 2020-05 of 23/12/2020	"Regulation amending Regulation 2007-01 on reporting procedures pursuant to art.68 Law no. 165 of 17 November 2005"; the aforementioned art. 68 was supplemented by art. 17 of Delegated Decree no. 61 of 29 March 2019, which included the new paragraphs having regard to the reports known under the name of whistleblowing. These reports differ from the traditional reports, now identified as whistleblowing, in that the latter are addressed to the Supervisory Authority by customers (or consumer defense associations) to report alleged failures or improprieties of the supervised parties in the commercial relations with them that have harmed the legal sphere of the reporter, while the new whistleblowing reports are addressed to the Supervisory Authority by anyone, including employees, collaborators and exponents of the supervised subjects themselves, to report presumed violations of the rules set forth in the LISF or the supervisory regulations, in all cases other than those that can be reported as whistleblowers.

Finally, the Financial Intelligence Agency issued:

Instruction no. 008 of 8/05/2020	"Provisions Regarding Information Data Accompanying Funds Transfers". The Instruction established that all incoming and outgoing transfers, except for those from the RIS network, must mandatorily contain a minimum data set.
Guidelines no. 002 of 02/06/2020	"Countering Weapons of Mass Destruction Proliferation Programs and Their Financing". According to the Guidelines, designated financial entities are required to conduct specific training on proliferation and its financing; have a good understanding of the risk of financing proliferation programs to which they are exposed in the course of their business; and establish screening procedures in relation to UN lists, with respect to customers, beneficial owners and proxies, as well as originators and beneficiaries of funds transfers. Designated entities are required to include elements related to proliferation program financing in the AVC process, among the risk factors, and to provide for specific enhanced monitoring measures on affected transactions or relationships in situations of high risk of proliferation program financing.
Circular no. 003 of 12/11/2020	"Procedure for reporting violations as per art. 31, paragraph 2 of Law 92/2008". The Circular regulates the activities of communication to FIA that the designated subjects are required to carry out, if in the framework of their activities they become aware of violations of the provisions set forth in articles 30 and 31 of Law 2008/92.
Circular no. 004 of 23/12/2020	"Appointment of central contact points for issuers of electronic money and for payment service providers" which provides that issuers of electronic money and payment service providers established in San Marino in a form other than a branch and whose head office is located abroad, must appoint central contact points that ensure compliance in the territory with the rules on combating money laundering and terrorist financing on behalf of the foreign financial subjects making the appointment and facilitate the supervision by the FIA.
Circular no. 005 of 23/12/2020	"Additional Measures to be Taken by Designated Persons when Holding Majority Controlled Branches in Countries with Specific AML/CFT Restrictions". The Circular provides that designated entities that hold branches or majority-owned subsidiaries abroad must: (a) conduct risk self-assessment which also includes group exposure; (b) ensure that the risk self-assessment referred to in (a) adequately considers the group-wide AML/CFT policies and procedures; (c) obtain approval from the parent company's corporate bodies for the risk self-assessment referred to in (a) and for the group-wide AML/CFT policies and procedures referred to in (b); (d) provide targeted training to personnel employed in the foreign country so that they are able to identify risk factors with respect to AML/CFT, and ensure that such training is effectively conducted and effective. The Circular deals with the measures which must be taken by designated entities belonging to groups, where they have branches or majority-owned subsidiaries in jurisdictions or countries with specific AML/CFT limitations, other than EU member countries.

CASSA DI RISPARMIO DI SAN MARINO - CRSM

PRESENCE OF THE BANK IN THE TERRITORY

The commercial channels through which CRSM carries out its activities are as follows:

- 11 offices, including 9 branches (of which 2 Hub and 2 Spoke) and two "detached" offices equipped with self-service machines at the Azzurro and Atlante shopping centers;
- Welly remote banking for businesses, around 1,590 users;
- Welly internet banking for private customers, around 7,790 users;
- users who downloaded the WellyApp, over 5,700;
- 14 ATMs, of which 3 advanced multi-function ATMs;
- 5 self-service checkouts;

- 715 POS terminals and 25 enabled only for the Smac service.

The location of the abovementioned branches throughout San Marino is shown below.



OVERSEAS BRANCHES

The Bank has no branches outside the territory of San Marino.

MAIN ACTIONS DURING 2020

The 2020 financial year saw the bank facing important and decisive challenges for the future, proceeding with the action of reorganization and relaunching of the Company. On 30/06/2020 - in a context of “provisional liberation” from COVID-19, given that after the spring lockdown the Republic found itself with a temporary zero contagion - on the occasion of the Assembly for the approval of the 2019 Budget, the Sole Shareholder Eccellentissima Camera proceeded to fully replace the Board of Directors, resulting in the appointment of a new CEO.

The first six months of the year were characterized by crisis management, due to the spread of the pandemic, the need to give operational continuity to the banking service in a critical context never experienced before, carrying out its activities in conditions of reduced staff and with reduced mobility of customers.

CRSM changed pace with the summer resumption, acquiring the indications of the Sole Shareholder who, in approving the 2019 Financial Statements with the correlated commitment to cover its losses - an action that was completed in December 2020 - has, on one hand, provided the prerequisites for business continuity and, on the other, issued Law 113/2020 which, in Art. 1, mandated CRSM's Board of Directors to prepare proposals to be submitted to the Shareholders' Meeting by 30/09/2020, aimed at identifying possible extraordinary finance transactions or forms of valorisation of the assets recorded in CRSM's balance sheet pursuant to art. 5ter of Decree-Law 93/2017 as amended by art. 1 of Decree Law 101/2017, with the aim of making them interest-bearing, transferable, payable, negotiable and collectable, including through their securitisation.

On 22 September 2020, CRSM's Board of Directors approved the 2020-2023 Business Plan (the “Plan”), which, duly approved by the Sole Shareholder on 26 October 2020, contains forward-looking scenarios that are in discontinuity with previous plans and envisages significant evolutionary scenarios.

The Plan, drawn up “in house”, with considerable cost savings, is a tailor-made plan which, assuming that all CRSM's stakeholders collaborate responsibly with CRSM, each within their own sphere of competence, on the project to relaunch the bank, represents the strategic guide for the change of course.

CRSM's critical issues became immediately apparent, resulting from the long and articulated sequence of negative events over the past decade and which continued to produce their negative effects, such as:

- reduction in business volumes and contraction of profitability margins;
- deterioration in the quality of assets, including receivables, securities and capital assets;
- misalignment and inadequacy of the organizational structure and operating models with respect to the changed economic conditions of the market and with respect to the transformation of the banking sector brought about by technological evolution;
- capital erosion as a result of operating and legacy losses.

Aware of the current state of affairs and aware of the importance of focusing on its core business to support San Marino's economy, the Plan is based on a number of main guidelines, which - in progress - have already had their initial manifestation:

- ✓ **the conversion of the item pursuant to Art. 5ter** as an extremely critical element for the bank which included a residual amount of € 455 million in its balance sheet under the item “other assets”, recorded pursuant to Art. 5ter of Decree Law 89/2017 which, in addition to being non-interest bearing, entailed an annual reduction with a direct effect on the profit and loss account which from € 10 million in 2020 would have amounted to over € 22 for 2021 and for the next 19 years.

The conversion of the post, completed on 31/12/2020, due to the combined provisions of articles 2 and 3 of Law 223/2020, was also welcomed by the IMF delegation which, following the visit in January 2021, stated, among other things: “The authorities have made significant progress to address structural problems in the financial sector. The recent recapitalization of Cassa di Risparmio di San Marino (CRSM) with a perpetual interest-bearing bond combined with a significant reduction in operating costs recognized the urgent need to strengthen its capital position as well as its profitability”⁶, giving value both to the activity of the Member and to the important action of the structure - started already in 2019 - and aimed

⁶ Synopsis: The authorities have made significant progress in addressing structural problems in the financial sector. The recent recapitalization of Cassa di Risparmio di San Marino (CRSM) with an irredeemable bond, along with a significant reduction in operating costs, addresses the urgent need to strengthen its capital position and also its profitability.

at reducing all costs, in a spending review that has seen administrative costs fall by 31.53% in the 2018-2020 three-year period;

- ✓ **cost containment**, on which the IMF delegation also placed emphasis, takes its origin, as mentioned above, from the actions implemented in the three-year period both independently and pursuant to the provisions of art.52 of Law 173/2018 and art. 23 of Law 157/2019 with which the Sole Shareholder dictated the guidelines on the matter, appropriately included in the Plan. The reduction in operating costs in the 2019 - 2020 two-year period stood at 17.59% on average, distributed between “other administrative costs” and personnel costs. Said percentage rises respectively to 31.53% if we refer to the 2018-2020 three-year period (- 33.97% other administrative costs and - 29.38% personnel costs). However, this second saving was achieved as a result of the reduction of staff through early retirement, as provided for by law, as well as the termination of some fixed-term and permanent employment relationships. The process aimed at signing a solidarity agreement with employees has not yet been completed, either at the level of the banking system or through company union activities. On the other hand, it should be pointed out that CRSM's employees, who following early retirements and resignations were reduced by around 20% compared with other banks of the same size, nevertheless ensured the correct and orderly management of all the bank's activities;

As regards personnel costs, in 2019, CRSM in pursuant to and for the purposes of Law 23/1977, continued the activity of reducing staff through early retirement, which in 2018 had already affected thirteen employees. An additional four employees were able to take advantage of the benefits provided for by Decree Law 124/2018 on social safety nets and early retirement benefits during 2019, for whom the employment relationship ended as of 30 June 2019. In addition, a further seven employees, three of whom are on fixed-term contracts, ceased employment.

- ✓ **diversification of the sources of profitability** to overcome the limits deriving from the small size of the San Marino market where, at present, margins are minimal, CRSM has started in-depth analyses aimed at opening up to new foreign markets. It is clear, however, that these elements of fragility are the strength to change business strategy in a more streamlined and effective way and be able to provide services of excellence to niche markets and beyond. The Plan provides for a strong push towards internationalization aimed at boosting revenues from services with particular regard to foreign customers;
- ✓ **growth in deposits**: a drive towards greater openness to the outside world is underway, aimed in particular at encouraging the entry of new capital from outside the EU, is considered the driving force behind development activities. The objective of enhancing customer services, in its pursuit, requires a rationalization of operations, in order to recover margins of efficiency and cost-effectiveness and to ensure increasingly effective services in achieving the objectives and customer satisfaction. Also with a view to consolidating revenues and cash flows, as provided for in the Plan, the management of new foreign customers was entrusted to a dedicated member of staff within the Sales Department, in order to have the operational and linguistic skills, as well as experience, needed to deal with customers with an international profile and high standing. The activity began in the autumn and immediately generated a good response, which today gives CRSM greater visibility in the market;

The reorganization of certain branches, such as Chiesanuova and Cailungo, whose activities are now managed by the Gualdicciolo and Borgo Maggiore branches, respectively, is also aimed at providing customers with highly professional services, with particular regard to credit and financial matters, which would otherwise not be available in smaller branches.

- ✓ **asset quality improvement**: the bank's activity has long been focused on the monitoring of credit with careful management aimed at maximum control of impaired positions as well as careful and timely management of the concession. During this year, despite the ongoing health emergency, CRSM has been committed to creating a dedicated structure within the Credit Area, which, in compliance with the regulations issued to support the economic fabric, was able to accompany customers towards the timely recognition of the best conditions dedicated, but on the other hand also adopted more restrictive controls for the monitoring of assigned positions. In order to anticipate the possibility of expected losses on loans, CRSM used precise analyses to define its positioning with respect to the most affected sectors. In order to mitigate credit risk in these sectors, CRSM decided to centralize the autonomy of credit management at the level of the Credit Area and General Management. These interventions have made it possible to obtain a substantial invariance in the probability of default processed in the migration matrices, detailed in the specific section of the report.
- ✓ **Stabilization of Equity and Liquidity**: The actions of the Plan are such as to ensure an increase in the bank's equity over the medium term. After the end of the current financial year, CRSM will have a different solidity with an adequate solvency ratio and a liquidity capable of guaranteeing orderly management.

Thanks to careful monitoring of the dynamics of liquidity, it has been possible to easily overcome even complex scenarios and the use of available liquidity is implemented in accordance with the principle of proper and prudent management. Investment choices are based on a careful analysis of prospective liquidity flows. Once the reference time horizon is defined, the risk/return profile of transactions is assessed, focusing primarily on market risk. As CRSM is not an investment bank, it intends to effectively monitor this type of risk, which can potentially cause significant capital losses in the event of adverse movements.

In relation to the issue of liquidity, one cannot fail to highlight how, potentially adverse events such as the partial conversion of the subordinated bonds already issued by Asset Banca S.p.A. into LCA, as well as the repayment of the bonds issued pursuant to Decree Law 89/2017, if not properly managed, could have affected CRSM's capacity, including operational capacity.

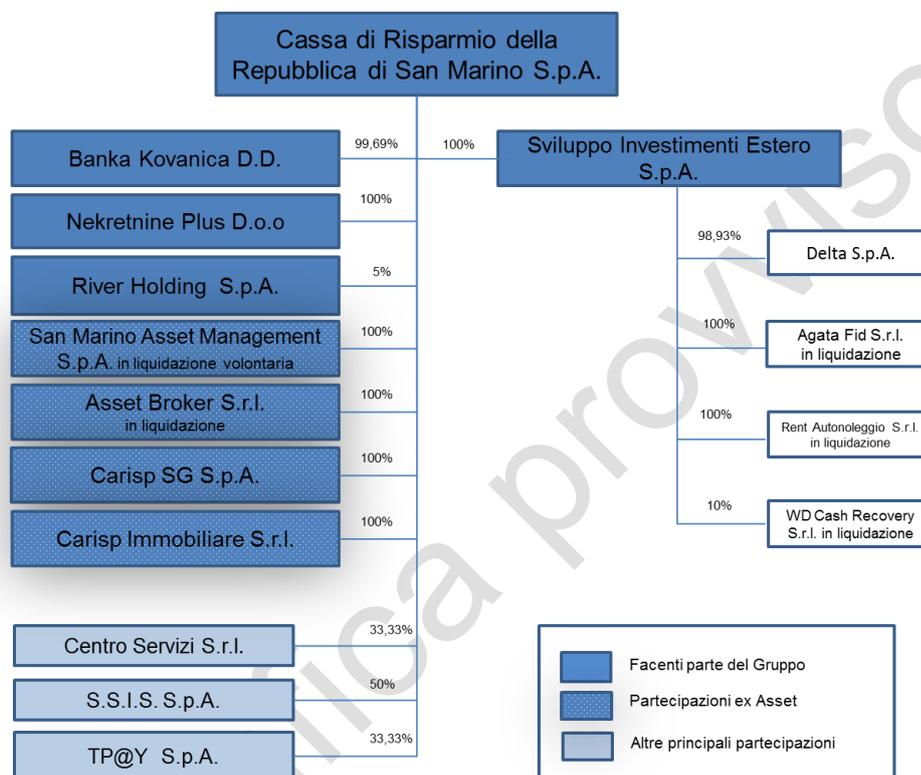
As regards subordinated bonds held by former Asset Bank customers, for which Decree Law 89/2017 had not governed repayment, they were regulated by art. 44 of Law 113/2020, on the basis of which it was possible for CRSM to recognize up to an amount of € 50 thousand per credit position, while for the exceeding part new subordinated bonds were issued with maturity staggered according to the amount 3, 5 or 7 years, and a rate proportional to the duration, not exceeding 0.75%. The same Law, in art. 45, also regulated the procedures for the repayment of the bonds issued pursuant to Decree Law 89/2017, for a total nominal amount of € 114.5 million, providing for the possibility of postponing it until 30/09/2020. CRSM made use of the option granted by the aforementioned article by resolving to credit an amount equal to 20% of the amount held by the individual creditor (€ 22.9 million), extending the maturity of the remaining 80% to 30/09/2020 (€ 91.6 million) at unchanged economic conditions (1.5%). In order to deal with any liquidity tensions in the days following repayment, CRSM on the one hand launched a campaign to contact interested customers by offering suitable investment proposals and, on the other, took action on the interbank market to obtain credit lines to be used if necessary, for a total of € 50 million maturing on 31/12/2020. The commercial action was so effective that CRSM was able to cope with the situation and resorted to borrowing only once, for the amount of € 3 million and for the duration of one day.

Moreover, precisely in order to be prepared for unexpected and sudden events, CRSM adopted a Contingency Funding Plan (CFP), drawn up by the structure and subject to approval by the competent administrative body which, together with other monitoring tools, such as the Liquidity Coverage Ratio (LCR), provided the structure and the Board of Directors with concrete actions to be implemented when events occurred. All this has ensured effective liquidity management and adequate risk control.

GROUP STRUCTURE AND INVESTMENTS PERFORMANCE

CRSM is the parent company of the “Cassa di Risparmio Group”, governed by CBSM Regulation 2014 - 03. CRSM's directly held companies included in the Group framework are 8, including a Croatian bank and the holding company, which in turn holds the stake in Delta S.p.A.. The associated companies (3) are companies providing support services to the banking business, while the other investee companies (2) include CBSM and SGCD S.p.A., the latter held as a result of the determinations of the 182-bis Agreement.

The structure of the main shareholdings held directly by CRSM as of 31/12/2020 is broken down in the table below.



CRSM coordinates and controls the entire Group and, following the appointment of the new Board of Directors, the governance of the subsidiaries associated with the Delta Group was supervised, with particular regard to Sviluppo Investimenti Estero S.p.A. and River Holding S.p.A. (the latter being an indirect subsidiary).

In order to comply with current legislation regarding the reduction of all costs of state-controlled companies, CRSM officially asked its subsidiaries to pursue an objective of containing all administrative costs, with a consequent reduction in the cost/income ratio, in line with that implemented by the Parent Company.

In this regard, the most significant operating and earnings trends for 2020 are described below, with reference to the tables in "Section 6 - Shareholdings" of the Explanatory Notes for detailed information.

Group companies

Banka Kovanica D.D. (99.69% owned), with its registered office in Varaždin (Croatia)

Commercial bank under Croatian law subject to the supervision of the Croatian National Bank.

In the 2020 financial year, the bank reports an operating result of € 4.5 million (+ 5.3%) for a further improvement in the cost/income ratio to 51.4% and a pre-tax result of € 2.0 million (- 14.3%), which includes the increase in the cost of risk to guard against the effects of COVID-19, in accordance with IFRS 9, as well as the new default definition rules under the amended EU Regulation 575/2013. Despite the exceptional nature of the pandemic event, the bank continues to record a double-digit pre-tax return on equity, in the top quartile of the entire system

and above the revised budget target (ROE>10%), with a limited incidence of moratoria, confirming the resilience of the niche model specializing in consumer credit.

As of 31/12/2020, total assets on the balance sheet stood at € 181.3 million (+ 1.6%) and net equity at € 19.1 million (€ 20.5 million including the IFRS 9 first-time adoption reserve), for a total CRD IV-CRR/Basel III capital adequacy ratio of 17.6% (18.9% including the 2020 result), strong with a further reduction in the proportion of net impaired loans to 3.0%, in line with the domestic banking system and best-in-class in the sample of small banks. The annual prudential review and assessment process (SREP 2020), based on a so-called pragmatic approach in accordance with the ECB guidelines in response to the pandemic crisis, reconfirms the additional capital requirement in the adverse scenario pursuant to Article 92.1.c) of EU Regulation 575/2013 at 3.3%, for a total capital ratio of 15.3%.

The update of the 2020 - 2023 Business Plan, in maintaining a diligent cost discipline and a high profitability of equity despite the continuing compression of margins, provides for a sustained, but selective, growth in lending, both to optimize assets weighted for credit risk and to diversify asset classes, with an incidence of up to 25% of total loans at the end of the plan, with a preference for loans to businesses assisted by state guarantees as part of programs for the financing of fixed and working capital fed by European Funds, while the new production of consumer credit will focus on the assignment of one fifth of salary and pension in accordance with the amended art. 123 of EU Regulation 575/2013 or with mortgage guarantee. In accordance with the Parent Company's guidelines, this plan provides for a sustained income guidance in the context of continuing exceptionally low interest rates and affected by significant and growing regulatory and competitive pressures, for a pre-tax ROE ratio of 10%+. Finally, it provides for a dividend distribution policy equal to 50% of the periodic profit, starting from 2022.

Nekretnine Plus d.o.o. (100% owned), with registered office in Varazdin (Croatia)

A company under Croatian law set up by CRSM in 2013, its purpose is the recovery of loans from Croatian debtors, even in court, largely backed by mortgages on assets located in Croatia. In 2020 there were no extraordinary operational events or changes in the ownership structure; credit monitoring continued, implemented with the support of the Parent Company.

San Marino Asset Management S.p.A. in voluntary liquidation (100% owned), with registered office in the Republic of San Marino

San Marino Asset Management S.p.A. (hereinafter also briefly SMAM) was the financial and fiduciary company of the Asset Banca group, acquired by CRSM with a deed of transfer of assets and liabilities, finalized on 27/10/2017, hereinafter, for brevity also "AB Deed of Transfer".

As part of the reorganization of the shareholding structure, CRSM, as the sole shareholder, by means of the minutes of the shareholders' meeting of 17 April 2018, resolved to voluntarily liquidate the company, with registration in the Register of Companies on 12 October 2018, after obtaining certification from the Central Bank that the prerequisites for regular conduct of the liquidation procedure had been met pursuant to Article 99 of the LISF.

As part of this liquidation process, during the last year, activities focused on the disposal of the company's assets, with the sale of all leasing contracts and all existing loan agreements and the extinction of almost all trustee mandates. No new loans were disbursed, no new finance lease agreements signed and no new fiduciary mandates opened, as the company no longer carries out any activity and all operations are aimed at the liquidation procedure.

The 2020 financial statements, which were drawn up using financial statements that do not comply with statutory requirements, closed with a loss of €91,824, mainly due to administrative costs for IT support and for monitoring activities (such as control, audit and internal audit bodies) that are still required by law.

Asset Broker S.r.l. in liquidation (100% owned), with registered office in the Republic of San Marino

The company Asset Broker S.r.l., incorporated on 31/08/1998, registered under number 1783 in the Register of Companies of the Republic of San Marino, was acquired by CRSM as a result of the AB Deed of Transfer. The company has never carried out operational activities since, prior to the finalization of the aforementioned Deed, the Commissioner of the Law, by Decree dated 12/09/2017, had ex officio ordered the liquidation of the company, providing for the appointment of the liquidator.

Carisp SG S.p.A. (100% owned, previously known as Asset SG S.p.A.), with registered office in the Republic of San Marino

The company specialises in collective investment services, mainly by setting up and managing open-ended and closed-end mutual funds under San Marino law.

On behalf of the Parent Company, Carisp SG is the product factory for the open-ended mutual funds governed by San Marino law intended for retail customers, known as the CARISP GLOBAL BOND Fund, a global bond fund, and the CARISP DYNAMIC Fund, a flexible balanced fund. Its role is involved in the construction and financial management of the products while distribution to customers is reserved for the Parent Company, which subscribes the funds in question in its own name on behalf of third parties according to the "indirect placement" method. Carisp SG also carries out important instrumental activities for the Parent Company through the implementation of the following activities:

- centralized management of debt collection in the following closed-end funds reserved for the Parent Company:
 - ✓ Fondo ASSET NPL, consisting of the non-performing loans acquired following the transfer of BCS to Asset Banca;
 - ✓ Fondo AB NPL, consisting of non-performing loans acquired following the sale of Asset Banca to CRSM;
- «collective» management of CRSM's products called Conto Previdente and Conto Previdente Plus.

The result of the financial management of the retail open-end funds, although affected by the negative effects deriving from the COVID-19 pandemic involving a strong depreciation in March 2020, recorded a gradual and progressive recovery in 2020, thanks also to a careful and active management implemented by the fund manager.

From an income point of view, the main economic component of Carisp SG, which distinguishes its core business, is the one related to management fees, taken from funds, and in particular from retail funds. The result obtained in 2020 shows, net of management fees charged in 2019 by the CARISP EQUITY BIOTECH Fund liquidated at the end of 2019, a slight improvement (9%) compared to the previous year.

In the first half of 2020 Carisp SG renegotiated the economic conditions of the main outsourcing contracts, signed with the Parent Company, reaching a new economic agreement in late May 2020. The economic benefit due to this renegotiation, the impact of which became evident from the second half of 2020, is approximately € 8,100 per year for SG and approximately € 30,000 for both NPL Funds. The activity of containing administrative costs also involved other suppliers with whom existing contracts were renegotiated or services that were not strictly necessary were discontinued. The initiatives undertaken starting from the second half of 2019 and continued in 2020 allowed Carisp SG to report a result of -€ 72,209 for the period as of 31/12/2020, significantly lower (-45%) than what was reported in the previous year (-€ 132,452) and a clear improvement (-18%) compared also to the objectives of the strategic plan approved by the Parent Company, which provided for a loss of -€ 87,577 at the end of 2020.

Carisp Immobiliare S.r.l. (100% owned), with registered office in the Republic of San Marino

Carisp Immobiliare S.r.l. (formerly Asset Immobiliare S.r.l., acquired by CRSM with AB Deed of Transfer), carries out the management of a lot of real estate properties which used to be Asset Banca's branch offices, in particular the offices located in Via Tre Settembre and at Central Square in Domagnano, as well as a villa in Formello (RM). The bank's activities in 2020 were mainly developed along two main lines:

- the profitability of the real estate properties, in relation to which the lease agreement relating to part of the larger complex in Domagnano constituted, in continuity with the situation at the beginning of the year, the only source of income. Given the health emergency caused by COVID-19, which effectively froze the real estate market for most of the year, in the second half of the year negotiations were oriented towards the sale of real estate. In this regard, there have been expressions of interest in both San Marino properties, which at the moment have taken the form of inspections and informal negotiations, as well as updates to the appraisals, for which concrete results are expected in 2021;
- real estate maintenance, in relation to which extraordinary interventions were carried out on the real estate in Italian territory.

As for the financial situation, the company fulfilled its debt commitments and obtained full recognition of the three-year bonds issued at the time by CRSM in compliance with Decree Law 89/2017.

The 2020 financial statements closed with a loss of € 0.49 million, originating from the depreciation of tangible fixed assets and adjustments for lasting losses of value carried out on some real estate properties, following the hiring of a regular appraisal.

Sviluppo Investimenti Estero S.p.A. - hereinafter also referred to as SIE - (100% owned), with registered office in Bologna

The company is a wholly-owned subsidiary of CRSM and its purpose is to manage investments in companies under Italian law. In particular, it owns 98.93% of Delta S.p.A..

The subsidiary no longer has any direct employees having terminated their last employment relationship in May 2019 as part of a group restructuring, and does not record any other significant operating costs other than administrative, legal and real estate lease fees.

The company is managed by a board of directors consisting of three members appointed in July 2020 who will remain in office until the Shareholders' Meeting called for the financial statements for the year ended as of 31 December 2022. As far as operational activities are concerned, these concern the management of the shareholding in Delta S.p.A., the supervision of the voluntary liquidation of Rent Autonoleggio S.r.l. and Agata Fid S.r.l., the management of the property in Bologna leased and rented to third parties and finally, through the specially appointed lawyers, the activities for the recovery of loans recorded in the balance sheet.

The company's debt is mostly concentrated with CRSM.

As regards the liquidations underway, the procedures regarding both subsidiaries are essentially complete and, compatibly with the general context, are expected to be finalized in the coming months. In particular, with regard to the subsidiary Rent Autonoleggio S.r.l., it should be noted that, through the intervention of SIE, at the end of December, the amounts due to River Holding and CRSM were settled.

The company's debt is mainly concentrated with CRSM.

As regards SIE's exposure to CRSM, this indirectly represents the value of the shareholding in Delta, the hedging of which is guaranteed by the value adjustment made to the aforementioned amount due from CRSM and posted among amounts due from customers. For this reason, the financial commitment necessary to support SIE's assets in order to ensure its business continuity is confirmed for 2021 as well.

The Financial Statements for 2020 are not currently available, as the company opted to call a General Meeting for approval within 180 days of the end of the financial year. This possibility is recognized by Law no. 21 of 26 February 2021 in conversion of the "Milleproroghe" decree (Decree Law 183/2020) which repeats what was already provided for in the previous year (pursuant to art. 106 of Decree Law 18/2020 converted by Law no. 27 of 24 April 2020).

The provisional financial statement data, however available, indicate a negative result of approximately € 1.5 million.

Main share held through SIE: Delta Group

CRSM exercises management and coordination over Delta S.p.A. and, consequently, over all companies directly or indirectly controlled by the latter, through its Italian subsidiary SIE S.p.A. with sole shareholder.

As of 31/12/2020 the Delta Group is composed as follows:



The objective of the administrative bodies and management of Delta S.p.A., also for 2020, has been the pursuit of the rationalization of the organizational structure and the progressive reduction of operating costs, which are now affected to a limited extent by credit recovery costs for the portfolios of former financial companies (residual),

while they have undergone an increase for the recovery part of the transferred portfolios, as part of the out-of-court management of said portfolios has been centralized in River Holding, as per the reorganization project underway since 2018, which involves group personnel in relation to the servicing contracts provided for in the transfer agreements, while also becoming a source of external revenue.

As of 31/12/2020, the Delta Group as a whole has 48 employees. As of 31 December, River Holding had 33 employees in its workforce, down by 3 compared to the previous year following some resignations, while the number of resources that the Cerved group acquired from River Holding remained unchanged at 5. Delta S.p.A. has 12 employees (15 in 2019), Adale Sistemi S.r.l. has 2 employees and, the only one among the former financial companies, Plusvalore 1 employee, entirely seconded to SGCD. Also in Delta the reduction in resources was due to spontaneous resignations, and the Manager in charge of Security was also accompanied to retirement, replaced by the General Coordinator.

The Financial Statements of Delta S.p.A., which will be approved on an exceptional basis (provided for in relation to the extraordinary pandemic situation underway and in view of the necessary activities envisaged for the closure of the 182bis Agreement at the end of May), were examined by the Company's Board in draft form and show the following results (as of 23/05/2021):

- net equity € 59.09 million;
- net loss for the year € 564 thousand (not including any direct taxes);
- total assets € 75.59 million;
- value of production equal to € 1.98 million (-16.37%), down due to lower intercompany revenues;
- production costs equal to € 2.7 million (-13.49%), sharply down due to the containment process underway;
- other revenues € 174 thousand.

Therefore, the management closed with a loss, as already hypothesized in the budget phase, mainly influenced by personnel costs and the necessary management costs of the structure, which could not evolve towards the restructuring project hoped for during 2018-2019.

The subsidiary River Holding closed the year (provisional financial statements as of 17 March 2021) with a loss (down approximately € 853 thousand), recording a value of production of approximately € 2.8 million and net equity of € 18.98 thousand.

Associated companies and other investee companies

Centro Servizi S.r.l. (33.33% owned), with registered office in the Republic of San Marino

The main functions carried out by the subsidiary concern the POS and ATM Terminal Manager (GT) service - dealing with authorization bodies and managing accounting flows - and the design and implementation of solutions for the management of payment transactions with physical and virtual POS and ATM withdrawals. Moreover, exclusively for CRSM, Centro Servizi manages the San Marino payment circuit with CARTAZZURRA debit card.

The company reorganized the working methods of personnel in 2020 as a result of the risks which emerged with the outbreak of the COVID-19 epidemic. In particular, extensive use of smart working was made in order to guarantee safety for its employees, while maintaining complete continuity and reliability of service to customers. The activities which marked 2020, including the porting of payment applications to the recently introduced Ingenico POS, enabled the company to keep up with the new technologies on the market as much as possible and thus consolidate its role as a systemic and reference company for GT POS and ATM services in San Marino. The company also provides POS terminal management services on an exclusive basis for the SMaC Card circuit, for which it owns the license to use the management software. In this context, the company worked on the study of an evolution of the circuit in 2020, which through the use of innovative technologies improves the ease of use, while maintaining the necessary security requirements.

The company's 2020 financial statements show a positive, albeit modest, result for the year.

S.S.I.S. S.p.A. (50% owned), with registered office in the Republic of San Marino

The company provides facility management services for information systems, technological infrastructures and centralized services.

Together with the management activities of the processing and telecommunications infrastructure, provided both to member banks and to customers (Centro Servizi S.r.l., T.P@Y S.p.A., SM Life S.p.A., Asset Banca in LCA, SMAM S.p.A. in voluntary liquidation, Carisp SG S.p.A. formerly Asset SG S.p.A.), SSIS provides back office services for portfolio management, physical archiving and document search.

The year just ended was dominated by the outbreak of the COVID-19 pandemic, which heavily penalized the world economic system, and consequently, that of San Marino.

However, the Company has always met the needs of its customers by adopting flexible working arrangements, in addition to all the necessary precautions, with staff rotating both on duty and in “smart working” mode, in order to guarantee the safety of its employees and the required level of service.

In 2020 the policy of rationalization and cost reduction continued as well as the analysis and redesign of processes, with the aim of improving operating performance. This action led to a reduction in direct costs of around 13% compared to the previous year, which allowed for a significant reduction in the fees charged to Members for the services they use.

The change of Sole Director took place in the last quarter of the year. The mandate of the new Director began by first of all pursuing the rationalization of management processes and the careful management of operating costs, but at the same time looking for development opportunities, through the identification of possible expansion of the customer base, based on the services already offered to Members.

The accounting data as of 31/12/2020 show a result for the year with a profit of € 8,840 net of IGR taxes amounting to € 16,371.

At the beginning of 2021 the Company started and is in the process of making very significant investments for the renewal of hardware and data transmission networks, required by the new project to replace the Banking Information System launched by the Shareholders.

Istituto di Pagamento Sammarinese T.P. @Y S.p.A. (33.33% owned), with registered office in the Republic of San Marino

The company was set up - with authorization from the Central Bank of the Republic of San Marino on 3 November 2015 - as Istituto di Pagamento Sammarinese (San Marino Payment Institution) with the aim of providing issuing and acquiring services for credit and debit card payments, with the participation of a number of banks in the area. The 2020 financial year was characterized by the presence of the COVID-19 epidemic, which strongly penalized the retail system, thus generating a drop in the total amount of payments managed by TPay.

Faced with the pandemic, the company reorganized the activities of its employees in 2020, adopting suitable risk mitigation measures and using remote working methods as much as possible, while maintaining constant supervision of operations and continuously providing all services to its customers.

The processing service provider for the issuing component was replaced at the beginning of the year by SIA S.p.A., a leading Italian and European operator. The operation involved the replacement of all cards in circulation within a few weeks, most of which had in any case reached their natural expiry date. The replacement operations were managed by the company, providing customers with all useful information and support, guaranteeing continuity of service for all cardholders.

During the year, the project to issue international debit cards was implemented, allowing the company to extend the range of its products in order to meet all the needs of current and potential customers. The international debit card can also be managed via the TP@y APP, which has real-time display and information functions and allows each customer to manage the entire portfolio of their payment cards issued by TP@y. The company's 2020 financial statements show a loss of € 241 thousand deriving from the sharp decrease in transacted volumes caused by the outbreak of the COVID-19 pandemic.

A new Board of Directors was appointed in early 2021 in which the Chief Executive Officer plays the role of head of the executive structure.

For more details on the values of the investments, reference should be made to the appropriate tables in the notes to the financial statements in Section 6 - Shareholdings.

Relations with subsidiaries and the controlling shareholder

Specific contracts for the provision of services are in place with the subsidiaries Centro Servizi S.r.l., SSIS S.p.A. and, since 2017, with the company T.P.@Y.

In 2020, the activities for the benefit of the subsidiary Carisp SG continued, regulated by specific outsourcing contracts for (i) the delegated management of control activities (Internal Auditing, Compliance, Risk Management, Anti-Money Laundering Officer), (ii) the provision of general services (legal consultancy, accounting consultancy and Central Risk Service, IT consultancy and assistance, mailing service, purchases and logistics), (iii) communication and marketing activities and, finally, (iv) administration and personnel management activities, albeit with a considerable rationalization of tasks.

Transactions with the controlling shareholder and with subsidiaries are part of the Bank's ordinary operations, conducted under market conditions.

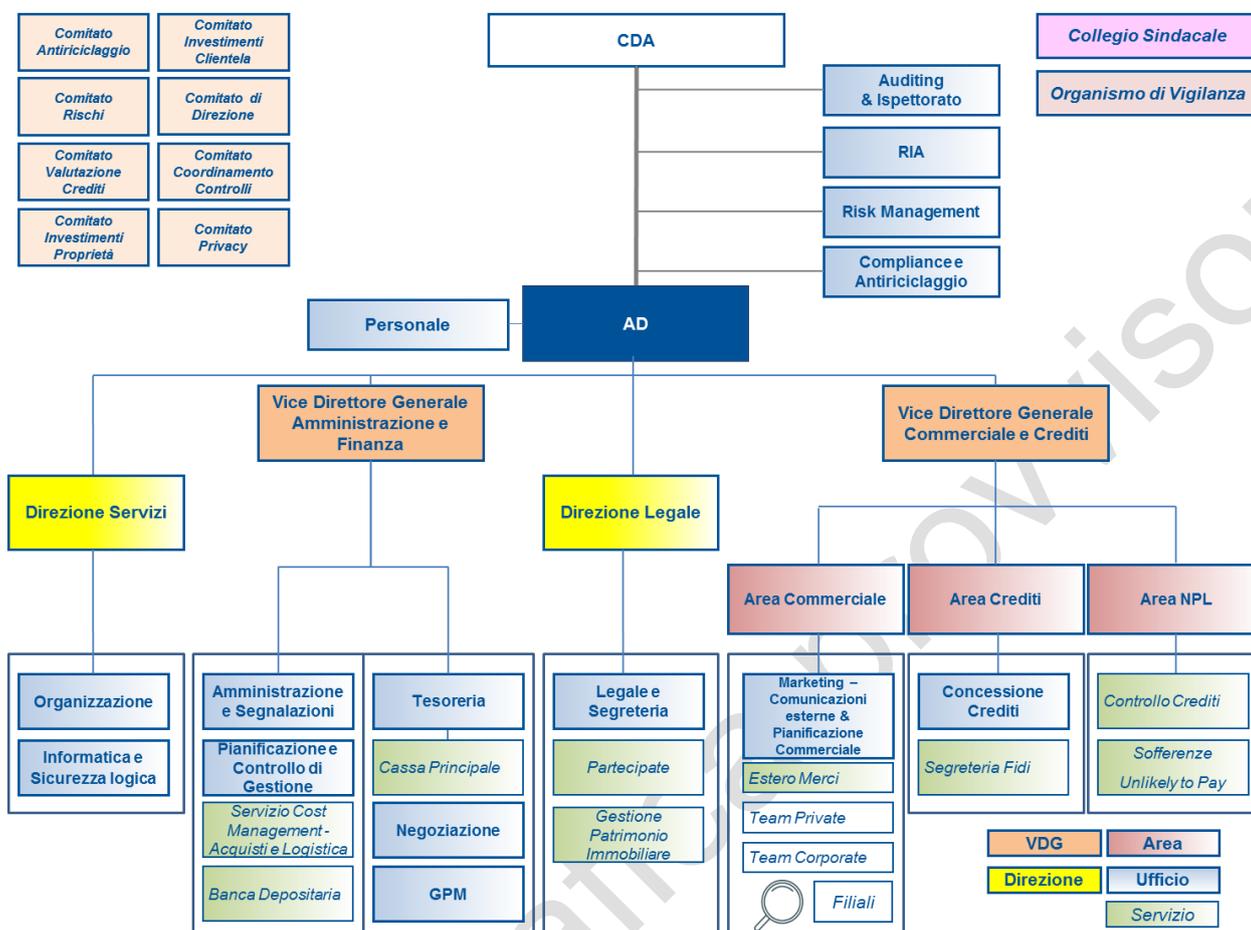
In particular, transactions with the Most Excellent Chamber of the Republic of San Marino - CRSM's sole shareholder by virtue of specific "Deed of Transaction bearing Share Transfer Agreement" signed with Fondazione San Marino Cassa di Risparmio - S.U.M.S. on 27/11/2019 and registered on 3/12/2019 vol. 2019 n.10691 - are regulated at market conditions and are represented in receivables and payables to customers for transactions with counterparties attributable to the State, or in guarantees issued on behalf of third parties and in favor of CRSM in relation to Subsidized Housing and Agricultural Loans.

Details of financial relations with subsidiaries are provided in Tables 6.6 and 6.7 of the Explanatory Notes to the Financial Statements.

GOVERNANCE AND ORGANIZATIONAL STRUCTURE

Organizational structure chart

The organizational structure chart in force as of 12/31/2020 is shown below:



Compared to the previous year, the organizational chart as of 31 December 2020 shows the following changes:

- establishment of the supervisory body;
- establishment of the figure of the Deputy General Manager for Administration and Finance;
- establishment of the figure of the Deputy General Manager for Sales and Credits;
- establishment of the Services Department reporting to the Chief Executive Officer;
- establishment of the Legal Department, reporting to the Chief Executive Officer;
- abolition of the Finance Department and transfer of the Treasury, Asset Management and Trading Departments' responsibilities to the Deputy General Manager for Administration and Finance;
- transfer of the Main Cash Office responsibilities to the Treasury Office;
- abolition of the Corporate Secretary's Office;
- renaming of the Legal and Secretarial Office to Legal and Secretarial Office reporting to the Legal Department;
- establishment of the Shareholdings Service reporting to the Legal Department;
- transfer of responsibilities to the Real Estate Management Service, reporting to the Legal Department;
- abolition of the Operating Machinery Area and transfer of the Administration and Reporting, Planning and Management Control Offices, as well as the Custodian Bank Service reporting to the Deputy General Manager for Administration and Finance;
- merger of the Cost Management Service with the Purchasing and Logistics Service, reporting to the Deputy General Manager for Administration and Finance;
- splitting of the Organization and IT Office into the Organization Office and the Information Technology and Logical Security Office, both reporting to the Services Department;

- renaming of the NPL Legal Unit as the NPL Area, reporting to the figure of the Deputy General Manager, Sales and Credits;
- transfer of the Commercial and Credit Area to the figure of the Deputy General Manager for Commercial and Credit;
- merger of the External Communications Service with the Marketing & Commercial Planning Office, renamed Marketing-External Communications & Commercial Planning Office reporting to the Commercial Area;
- merger of the Anti-Money Laundering Service with the Compliance Office, renamed the Compliance and Anti-Money Laundering Office.

Veste grafica provvisoria

HUMAN RESOURCES

As of 31/12/2020, the workforce was represented by 101 employees in total (a decrease of 26 compared to 31/12/2019). In 2020, CRSM, pursuant to and for the purposes of Law 23/1977 and subsequent amendments and additions, continued its workforce reduction activities, which from 2018 to 2019 had already affected 17 employees. In 2020, an additional 5 employees were able to take advantage of the benefits provided for by Decree Law 124/2018 regarding social safety nets and early retirement benefits. During the year 2020, an additional 21 employees terminated their employment, 18 of whom were on fixed-term contracts.

HUMAN RESOURCES COMPOSITION														
	2016	%	2017	%	2018	%	2019	%	2020	%	2019-2020 changes		2016-2020 changes	
Officers/Executives	7	5.4%	5	3.2%	6	4.2%	4	3.1%	4	4.0%	0	-33.3%	-3	-42.9%
Central unit employees	61	47.3%	77	49.7%	75	52.8%	63	49.6%	60	59.4%	-3	-16.0%	-1	-1.6%
Auxiliary staff	2	1.6%	4	2.6%	2	1.4%	2	1.6%	1	1.0%	-1	0.0%	-1	-50.0%
Office Employees	70	54.3%	86	55.5%	83	58.5%	69	54.3%	65	64.4%	-4	-16.9%	-5	-7.1%
Sales Network Employees	59	45.7%	69	44.5%	59	41.5%	58	45.7%	36	35.6%	-22	-1.7%	-23	-39.0%
Resources on permanent contracts	129	100.0%	125	80.6%	114	80.3%	103	81.1%	101	100.0%	-2	-9.6%	-28	-21.7%
Resources on fixed-term contracts	0	0.0%	30		28	19.7%	24	18.9%	0	0.0%	-24	-14.3%	0	
Total employees	129	100.0%	155	100.0%	142	100.0%	127	100.0%	101	100.0%	-26	-10.6%	-28	-21.7%

The average age of staff is slightly up on the previous year (around 45.5 years); the change is linked to the reduction in staff, which affected the most recent recruits and therefore the lowest age brackets.

AGE DISTRIBUTION										
YEARS	2016		2017		2018		2019		2020	
	No. of employees	%								
up to 21 years	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
from 22 to 25 years	0	0.0%	1	0.6%	1	0.7%	1	0.8%	0	0.0%
from 26 to 30 years	3	2.3%	4	2.6%	3	2.1%	2	1.6%	0	0.0%
from 31 to 35 years	20	15.5%	26	16.8%	20	14.1%	11	8.7%	7	6.9%
from 36 to 40 years	23	17.8%	24	15.5%	26	18.3%	28	22.0%	18	17.8%
from 41 to 45 years	24	18.6%	34	21.9%	31	21.8%	31	24.4%	29	28.7%
from 46 to 50 years	20	15.5%	22	14.2%	25	17.6%	20	15.7%	18	17.8%
from 51 to 55 years	29	22.5%	25	16.1%	28	19.7%	27	21.3%	21	20.8%
from 56 to 60 years	9	7.0%	18	11.6%	8	5.6%	7	5.5%	8	7.9%
over 60 years	1	0.8%	1	0.6%	0	0.0%	0	0.0%	0	0.0%
TOTAL	129	100%	155	100%	142	100%	127	100%	101	100%

As regards the level of education, the percentage of employees with a university degree stands at 40%, slightly up on previous years, primarily due to the reduction in the number of staff with a high school diploma (down 19, equal to a reduction of 24%) compared with university graduates (down 6, equal to 13%).

SCHOOLING										
EDUCATIONAL QUALIFICATION	2016		2017		2018		2019		2020	
	No. of employees	%								
University degree	48	37%	52	34%	50	35%	46	36%	40	40%
High school certificate	77	60%	98	63%	89	63%	78	61%	59	58%
Middle school certificate	4	3%	5	3%	3	2%	3	2%	2	2%
TOTAL	129	100%	155	100%	142	100%	127	100%	101	100%

By analyzing the distribution of graduates by age group, it can be seen that most of them are concentrated in the interval between 41 and 45 years of age (32.5%), followed by the intervals between 36 and 40 years of age (27.5%), as well as between 46 and 50 (20%).

GRADUATES BY AGE BRACKETS															
YEARS	2016			2017			2018			2019			2020		
	No. of employees	Of which graduates	%	No. of employees	Of which graduates	%	No. of employees	Of which graduates	%	No. of employees	Of which graduates	%	No. of employees	Of which graduates	%
up to 21 years	0	0	0.0 %	0	0	0.0 %	0	0	0.0 %	0	0	0.0 %	0	0	0.0 %
from 22 to 25 years	0	0	0.0 %	1	0	0.0 %	1	0	0.0 %	1	0	0.0 %	0	0	0.0 %
from 26 to 30 years	3	0	0.0 %	4	1	1.9 %	3	1	2.0 %	2	1	2.2 %	0	0	0.0 %
from 31 to 35 years	20	10	20.8 %	26	8	15.4 %	20	7	14.0 %	11	3	6.5 %	7	2	5.0 %
from 36 to 40 years	23	11	22.9 %	24	13	25.0 %	26	13	26.0 %	28	14	30.4 %	18	11	27.5 %
from 41 to 45 years	24	14	29.2 %	34	16	30.8 %	31	13	26.0 %	31	12	26.1 %	29	13	32.5 %
from 46 to 50 years	20	7	14.6 %	22	11	21.2 %	25	14	28.0 %	20	12	26.1 %	18	8	20.0 %
from 51 to 55 years	29	3	6.3 %	25	2	3.8 %	28	2	4.0 %	27	3	6.5 %	21	5	12.5 %
from 56 to 60 years	9	2	4.2 %	18	1	1.9 %	8	0	0.0 %	7	1	2.2 %	8	1	2.5 %
over 60 years	1	1	2.1 %	1	0	0.0 %	0	0	0.0 %	0	0	0.0 %	0	0	0.0 %
TOTAL	129	48	100 %	155	52	100 %	142	50	100 %	127	46	100 %	101	40	100 %

Approximately 470 hours of training were provided in 2020, representing an average of about 5 hours per year per employee. The hours of training are significantly down compared to 2019 due to the pandemic situation that led - at least in the initial phase - to a real difficulty in organizing the course rooms.

CRSM provided the usual annual update on anti-money laundering matters involving all employees, with additional specific training for senior management and in a manner compatible with the ongoing health emergency. Hours of training were dedicated to safety in the workplace (first aid and fire prevention). Commercial training began in November 2020 for network personnel. 2020 also saw CRSM's participation in the numerous training initiatives promoted by the San Marino Banking Association, including "La Responsabilità nella Gestione delle situazioni di crisi d'Impresa Italia e San Marino, un parallelismo divergente" (Responsibility in the Management of Business Crisis Situations Italy and San Marino, a Divergent Parallelism) in collaboration with the Mularoni legal and notary firm.

CRSM also promoted an increase in training on credit matters, adhering to a dedicated course provided by ABI Formazione, which was used by a group of employees, including those classified as middle managers. Training focused on credit preliminary analysis, controls, reclassification of financial statements, analysis of files, the importance of monitoring risk management, problems generated by the health emergency and difficulties in granting credit in general.

Internal training sessions were also organized on financial matters, involving part of the network staff.

Sector and specialist projects were developed, with staff taking part in seminars, masters and training events organized by external companies, such as, for example, a university master's degree aimed at internationalization processes, an executive course in Financial Risk Management and a course on anti-money laundering "The role of the anti-money laundering function and the monitoring of AML/CFT risks".

In compliance with the Privacy Law, also for 2020, CRSM agreed to specific training on the protection and processing of personal data.

CRSM also participated, with a resource, in the annual refresher course (remotely) organized by the Academy of Trust of San Marino, aimed at maintaining the professional qualification of Trustee in San Marino.

As of today, there are 20 people enrolled in the Public Register of Financial Advisors of the Republic of San Marino, in the special section dedicated to employees of authorized persons who carry out off-site offerings, as per Regulation no. 2014-01 "Regulation on financial promotion and off-site offerings", issued by CBSM and entered into force on 31/03/2014; this measure regulates the professional exercise of the activity of financial advisor and off-site offerings of financial instruments and investment services in the Republic of San Marino.

INSTITUTIONAL AND SOCIAL INITIATIVES

The 2020 financial year was heavily conditioned on all fronts by the effects of the COVID-19 Pandemic. The restrictions on the free movement of people necessary to safeguard collective health determined and conditioned the bank's actions towards the territory.

Nevertheless, CRSM, which has always stood out for its support to the territory and the entire community - as far as possible due to the extraordinary nature of the year 2020 - did not fail in its prerogatives starting from the support during the emergency.

In this regard, CRSM acted as a collector between the banks for the fundraising organized by Civil Defence, in turn making a direct donation aimed at supporting health expenses.

Inevitably, the events were reduced and the sponsorships limited to the concession of the bank's spaces. In particular, the Galleria della CRSM was granted to the Associazione Porta del Paese - immediately before the outbreak of the pandemic - to organize the traditional "Veglione" and to restore stories and episodes linked to the tradition of the Republic to the memory of each citizen.

Subsequently, in the summer period, the gallery premises were used for other events, such as "Ripartiamo con un Fiore", an exhibition of impromptu floral installations created by Italian and San Marino floral designers and aimed at using flowers destined for ceremonies cancelled due to the pandemic.

CRSM is also a partner of "San Marino Comix", which in 2020 was the only event in Italy in the sector conducted in compliance with the agreed effective health regulations and which was well received in terms of attendance. Another important event at the San Marino sports level is the Giro del Monte, of which CRSM is a sponsor. This is a 7 km running race around Mount Titano in which, alongside competitive and amateur athletes, ordinary citizens who love their local area take part and which, once again this year, was well attended.

The Autumn Musical Festival was also on the program, but was stopped early due to the resurgence of autumnal contagions, and the concession of the gallery for the Natale delle Meraviglie (Christmas of Wonders) event to which the organizers assigned the Parla Babbo Natale (Santa Claus) attraction where children could interact with Santa Claus connected via streaming - in compliance with the distance imposed by the regulations in force - from a television studio set up as if it were his home at the North Pole.

TRADE INITIATIVES AND MARKETING ACTIVITIES

In the complex context of lockdown CRSM launched a new product, Bancomat Pay®.

Bancomat Pay® is a service which allows:

- ✓ to transfer money between individuals;
- ✓ make payments at affiliated merchants, also online;

all in real time and via mobile devices, such as smartphones and tablets.

The new product, at a time when the use of cash has rightly been identified as a means of transmitting the virus, met with immediate success and in just a few months there were 613 activations.

The activity focused above all on customer assistance. In the middle of the emergency phase, a working group dedicated to the management of moratorium and/or subsidized loan requests was set up, in order to allow those who wanted to access these institutions to receive the necessary support to process their requests in an organic and complete manner. In order to reach customers, communication on social networks was favored, regarding communications on opening hours and, more generally, useful information for customers.

Finally, at the end of the year, the foundations were laid for the development of the foreign sales activity assigned to the Trade Area, in an initial phase, with the expectation that the customers would subsequently be entrusted to a dedicated resource with adequate operational and linguistic skills. The service was activated in early 2021 and has seen excellent results with high growth rates.

ORGANIZATIONAL, LOGISTIC AND RESEARCH AND DEVELOPMENT ACTIVITIES

The guidelines of the organizational activities, aimed at the management and optimization of internal procedures, were oriented towards the development of new products and services, as well as the adaptation of banking procedures to the evolution of the legislative context.

The main development projects in 2020 involved:

- Payment Systems Area:
 - ✓ activation of the payment service called Bancomat Pay;
 - ✓ debit cards: evolution of multi-function debit cards through the activation of contactless technology also on Pagobancomat and, as regards CartAzzurra, the activation of new functions such as amount exchange and integration with Pin PAD;
 - ✓ POS: upgrade of PagoBancomat certificates and adaptation of the entire POS network to PagoBancomat Cless and Digit technology;
 - ✓ issuing MasterCard debit: completion of project to issue and manage T.P@Y international debit cards;

- Area structure rationalization interventions:
 - ✓ migration of reports and organizational coordination in the definition activities of the Hub (Borgo Maggiore and Gualdicciolo) and Spoke (Cailungo and Chiesanuova) branches with adaptation of the self-area at the Spoke branch in Cailungo;

- Anti-money laundering area:
 - ✓ interventions on the SIB aimed at implementing the Instructions issued by the Financial Intelligence Agency (FIA) with particular reference to the requirements of Annex A of FIA Instruction no. 2018-004;
 - ✓ activation of management of the PEP flag in the general registry;
 - ✓ optimizations of the BIA module;
 - ✓ redefinition of the process for assigning the constant control manager;

- Special Projects: The 2020 financial year was characterized by the software selection process to define the replacement process of the current banking information system. The choice, shared with other banks in the area, fell on the FLEXCUBE application supplied by Cabel, which will replace the current SIB Gesbank of Allitude S.p.A. in 2021..

CONTROL SYSTEM

The system of internal controls consists of a set of rules, procedures and organizational structures that aim to ensure compliance with corporate strategies and the achievement of the effectiveness and efficiency of business processes, the safeguarding of the value of assets, the reliability and integrity of accounting and management information and the compliance of transactions with all applicable regulations.

CRSM organised its system of internal controls in such a way as to ensure that its activities are based on sound and prudent management and effective risk control, in line with the strategies and policies adopted, and to enable the achievement of corporate objectives in accordance with plans, procedures and internal regulations, as well as with the law and supervisory regulations.

The controls involve the administrative bodies, the Board of Statutory Auditors, the Management and all the staff in the structure, with different roles, and are an integral part of the Bank's daily activities.

The system of controls in CRSM is divided into three levels:

- line controls (first level), aimed at ensuring the proper conduct of operations. These controls are carried out by the operational structures (e.g. hierarchical controls), incorporated into procedures or performed as part of back-office activities;
- controls on risk management and compliance (second level), whose purpose is to check compliance with the limits assigned to the various operational functions, to check the compliance of corporate operations with the regulations, including self-regulation. They are entrusted to specific functions, in order to guarantee the separation between operational and control functions;
- internal audit activities (third level), whose purpose is to assess the functionality of the overall internal control system and identify anomalous trends, violations of procedures and regulations. It is carried out continuously, periodically or on an exception basis, also through on-site audits by the Internal Auditing function.

The Internal Auditing function reports directly to the Board of Directors and carries out its audits autonomously and on the basis of what is planned and approved by the Board in the Audit Plan.

The second-level control functions - Risk Management, Compliance and Anti-Money Laundering, Anti-Money Laundering Officer - also report directly to the Board of Directors, in compliance with the regulations in force.

The Internal Auditing function assists the Bank's organisation by carrying out independent and objective assurance and advisory activities aimed at improving overall effectiveness and efficiency, with particular regard to risk management, control and governance processes.

This function has the task of analysing company processes, assessing their functional adequacy and the reliability of control mechanisms; reviewing the risk management process; verifying compliance with the limits provided for by the delegation mechanisms and ascertaining the correctness of operational processes, also with regard to specific irregularities.

The Risk Management function deals with second-level controls in the field of risk management, and in particular it contributes to the definition of risk measurement methods, verifies compliance with the limits assigned to the various operational structures and checks the consistency of the operations of the individual production areas with the risk-return objectives assigned. The Risk Management function has an overall view of all the risks taken on by the Bank and more generally by the Group and brings the specific skills involved in the management of the various types of risk together, ensuring the promotion of a risk culture at corporate level.

The Compliance and Anti-Money Laundering function carries out compliance checks with respect to the provisions of laws and regulations, contributing to the promotion of a corporate culture based on principles of honesty, correctness and compliance with the rules. On the basis of the results of the checks carried out, the aforesaid function urges the company units concerned to put in place suitable measures to regularise any anomalies; it also identifies the applicable rules on an ongoing basis, assessing their impact on company processes and procedures and verifying the presence of rules that effectively prevent violations or infringements of the rules in force. The Compliance and Anti-Money Laundering function is responsible for ensuring the adequacy, functionality and reliability of the anti-money laundering measures in line with the provisions of the law and regulations as well as with the internal policies and procedures.

As far as the Anti-money laundering officer (RIA) is concerned, he is in charge of managing the internal reports, of carrying out in-depth analysis on them, of analyzing the transactions carried out by the customers in order to search for and acquire the information useful for the complete analysis of the movements and, if the conditions are met, he forwards the relevant information to the FIA. He acts as a liaison with the aforesaid Agency and promptly replies to any requests coming from them. Finally, he ensures that access to his archives is forbidden to unauthorized persons and is responsible for the confidentiality of the acquired documents and of the reports received.

RISK MANAGEMENT POLICIES

As far as the overall management of the risks to which it is exposed is concerned, CRSM has drawn up a map of significant risks, which provides the framework for assessing, measuring, monitoring and mitigating risks. To this end, it has identified all the relevant risks to which it is, or could be, exposed and which could affect its operations, the pursuit of its strategies and the achievement of its corporate objectives. For each type of risk identified, the relative sources of generation are identified (also for the purposes of the subsequent definition of the tools and methods to monitor the relative measurement and management) and the structures responsible for management.

Strategic risks and the related monitoring and management methods are governed by specific internal regulations.

As regards the monitoring and management of regulatory risks, the Risk Committee met periodically to verify the level assumed by the risk indicators defined by the Board of Directors and to define any strategies for falling below the limits. If limits were exceeded, the Board of Directors was informed in accordance with the provisions of the Finance Regulations and the Credit Regulations regarding risks.

CREDIT AND COUNTERPARTY RISK

Credit risk is defined as the risk that, in the context of a credit transaction, the debtor fails, even partially, to meet its obligations to repay the principal and/or pay interest to its creditor. The definition of credit risk also includes the risk of debtor downgrading, i.e. the possibility that the creditworthiness of a counterparty turns out to be lower than the creditor's original estimate.

The methods for managing and monitoring this risk are governed by the Credit Regulations in force from time to time. This document defines CRSM's policies on loan disbursement and sets out the guidelines for loan disbursement activities, the organisation of the loan process and the functions involved, and the related risks. More specifically, with regard to the strategic limits, the document sets out the definition, the permitted level, the methods of monitoring and the management of any excesses.

The Prudential Supervision Regulations (CBSM Regulation 2007-07) state that the bank must maintain a level of regulatory capital sufficient to cover 11% of total risk-weighted assets in relation to the risk of loss due to default by debtors. These credit risk weightings, applied to the exposure net of value adjustments, are differentiated on the basis of three parameters and, in particular, debtor counterparties, country risk and guarantees received.

In order to focus more closely on the management and monitoring of doubtful loans, CRSM adopted the Doubtful Loans Regulations. This document defines the procedures for classifying, managing and evaluating doubtful loans. Loans with the status of "restructured", "substandard" and "non-performing" are assigned to specific internal organizational units. In order to reduce the risk of generating doubtful loans and to analyse predictive signs of insolvency, checks are carried out on anomalous trends, with consequent communication to the organisational units responsible aimed at restoring correct operations. In the event that anomalies are found in the use of the credit lines for which it can be presumed that a regular trend will be resumed, the exposure is classified as "under observation".

The credit risk limits monitored by the Risk Management function regard: product sector, duration limits, limits on the maximum amount financed for mortgages with respect to the appraised value of the property, limits on unsecured loans, concentration limits, as well as specific limits on financial leasing transactions, such as duration, amount of the advance payment and amount of the final redemption. Monitoring is carried out by means of dedicated extractions, carried out by the IT system or on the basis of data extrapolated from the "Information Obligations in the area of Prudential Supervision" report prepared and sent to the Supervisory Authority on a quarterly basis, in compliance with the provisions in force. Due to the significant presence of fixed assets, credit risk represents a strategic point of attention.

Further controls aimed at monitoring credit risk are carried out by means of:

- a tool for monitoring the composition of the credit portfolio and the trend of the main credit risk indicators, called "Credit Dashboard", which is prepared and maintained by the Risk Management function on a monthly basis;
- a procedure called "Anomalous Position Management" (hereinafter GPA), integrated into the banking information system, which allows constant monitoring of any anomalies in the performance of the customers entrusted, by means of a system of Early Warning Indicators, as well as the administrative management of non-performing positions through the collection, in the information system, of all the information relating to the individual case. The information collected through the GPA procedure is used by the Risk Management function for the purposes of checking the correct classification of loans and the appropriateness of existing adjustments, as well as the recovery process.

Finally, CRSM carried out the preparation of an NPL Operating Plan, consistent with the Bank's Business Plan, with the aim of improving Asset Quality. As part of the plan, objectives were identified in terms of the level of the net NPL ratio, the coverage ratio of doubtful receivables, as well as improvements in the main indicators of deterioration of the receivables portfolio (Probability of Default, Danger Rate and Cure Rate).

In addition to traditional lending activities, banks are normally exposed to position and counterparty risks with reference to securities transactions. To this end, CRSM defines appropriate strategic limits in terms of maximum exposure per individual security, per homogeneous categories of securities (e.g. by asset class, currency, geographical area, etc.) and per individual counterparty or banking group, the management and monitoring of which are governed by the Finance Regulations.

MARKET AND EXCHANGE RATE RISK

In managing its owned portfolio, the bank incurs market risks mainly due to the volatility of market rates and prices; possible fluctuations in the prices of purchased securities may generate actual losses (if the security is sold) or potential losses (mark-to-market valuation).

In order to adequately manage and monitor this type of risk, in line with the level of available assets, CRSM in its Finance Regulations (last updated in February 2021) set out the policies for carrying out the financial activity of treasury and securities portfolio management. The document sets out the structure of the finance process, the functions involved, the types of risk involved, the rules for valuing securities in the proprietary portfolio, the strategic limits and the related control methods.

The Risk Management function is responsible for verifying the strategic limits defined in the Regulations and reports its findings to the Risk Committee, also informing the Board of Directors if they are exceeded. The market risk limits that are monitored by the Risk Management function concern the owned portfolio (securities and banks) and, in particular, the maximum acceptable loss, the VaR (Value at Risk) and the composition limits. Monitoring is carried out by means of market risk analyses (VaR, Duration) made available by a specific external Servicer and by means of information system extractions integrated with market data extrapolated from the Bloomberg infoprovider.

Furthermore, the Risk Management function is responsible for verifying compliance with the limit, defined in the Finance Regulations, relating to exchange rate risk. The monitoring concerns the level assumed by the open position in exchange rates.

RATE RISK - BANKING PORTFOLIO

The bank's financial statements are subject to the risk arising from fluctuations in interest rates. These fluctuations have an impact on both the profit and loss account and on the balance sheet, due to the different composition of assets and liabilities in terms of rate (fixed or variable) and in terms of repricing times.

The Risk Management function monitors the aforementioned interest rate risk by means of ALM (Asset Liability Management) models, both in the short term (impact on the interest margin), and in the medium to long term (impact on Equity), with the aim of measuring the impact of fluctuations in market rates on the bank's income results and economic value. The analysis of interest rate risk is carried out on the basis of reports made available by a specific external Servicer.

The results of the monitoring of interest rate risk, if exceeded, are submitted to the Risk Committee, as well as to the Board of Directors.

LIQUIDITY RISK

An adequate level of liquidity is fundamental for the correct functioning of all the bank's operations both in the short and in the medium-long term. In order to deal with this risk, it is therefore advisable to have an adequate

level of liquid assets or assets that can be readily liquidated, in the short term, and to have a correct ratio between assets and liabilities falling due in the medium-long term. The level of liquidity is also monitored by the Supervisory Authority, which has long required banks to send a specific report, first on a daily basis and from November 2019 on a weekly basis.

CRSM, internally, has defined strategic limits whose management, monitoring is established by the Board of Directors in the Finance Regulations. The liquidity risk limit monitored by the Risk Management function is the coverage ratio of demand deposits. This indicator expresses the bank's ability to cope with any decreases in sight deposits. Monitoring is carried out on the basis of data extrapolated from the liquidity report sent to CBSM. The results of the liquidity risk monitoring were submitted to the Risk Committee as well as to the Board of Directors, in case of non-compliance with the established limit.

OPERATIONAL RISK

Operational risk is inherent to the banking business as it is generated across all business processes; the main sources of operational risk are attributable to possible internal fraud, information system malfunctions, professional obligations to clients or the nature or characteristics of the products offered.

CRSM provided for the definition of responsibilities and organizational attributions articulated both on the top management bodies and on the company's organizational units, aimed at monitoring the risk in question.

As part of its wider control activities, the internal audit function carries out specific, targeted checks on operational risks.

In terms of capital absorption, the current regulations on Prudential Supervision (CBSM Regulation 2007-07) provide for the application of the so-called Basel Basic Indicator Approach. Specifically, the minimum capital requirement is 15% of the average gross interest and other banking income for the last three years.

MANAGEMENT PERFORMANCE

In order to provide a concise representation of the performance of the main balance sheet and profit and loss account aggregates, reclassified balance sheets and profit and loss accounts are provided.

These statements form the basis for calculating management indicators which provide additional information on the composition of assets and liabilities, profitability, solvency and the efficiency of the organizational structure.

Reclassified balance sheet

STATEMENT OF ASSETS AND LIABILITIES	31/12/2020	31/12/2019	Change
ASSETS (€ thousands)			
Gross loans to customers*	1,014,280	1,059,153	-44,873
-asset adjustment fund	-649,121	-656,440	7,319
Interbank balance	69,191	44,126	25,065
Securities owned	622,133	190,129	432,004
Shareholdings	40,400	42,316	-1,916
Fixed assets	79,982	86,894	-6,912
Other assets, accruals and deferrals	247,364	704,527	-457,163
TOTAL ASSETS	1,424,229	1,470,705	-46,476

STATEMENT OF ASSETS AND LIABILITIES	31/12/2020	31/12/2019	Change
LIABILITIES (€ thousands)			
Savings deposits*	1,263,853	1,293,828	-29,975
of which sight deposits	781,697	693,732	87,965
of which current accounts and restricted dr	13,150	13,710	-560
of which other funds	515	570	-55
of which certificates of deposit	406,038	412,382	-6,344
of which repurchase agreements	28,738	26,971	1,767
of which bonds	18,873	142,968	-124,095
of which subordinated loans and hybrid instruments	13,982	3,010	10,972
Other liabilities, accruals and deferrals	47,888	78,645	-30,757
Allowance for doubtful accounts	0	600	-600
Provisions for risks and charges	38,293	25,994	12,299
EMPLOYEE SEVERANCE INDEMNITIES	388	485	-97
Provisions for banking and general risks	0	0	0
Shareholders' equity and reserves**	100,738	100,738	0
Net income for the year	-26,931	-29,585	2,654
TOTAL LIABILITIES	1,424,229	1,470,705	-46,476

The financial statements highlight the main changes which took place in 2020.

Particularly on the assets side there is a considerable increase in the item "Securities owned" which include the balance of the interest-bearing irredeemable bond issued pursuant to art. 2 of Law 223/2020, as conversion of the residual item recorded under "Other Assets", originating from the effects of Article 5ter of Decree Law 93/2017.

As regards liabilities, there was a reduction in the item bonds due to the fact that the bonds issued pursuant to Decree Law 89/2017 expired during the current year.

Composition of assets and liabilities

COMPOSITION INDICATORS		
	31/12/2020	31/12/2019
Net loans to customers/Total assets	25.64%	27.38%
Own securities/Total assets	43.68%	12.93%
Interbank balance/Total assets	4.86%	3.00%
Savings deposits/Total liabilities	88.74%	87.97%
Net loans and advances to customers/collection of deposits	28.89%	31.13%
Loans to customers/Gross loans/savings deposits	80.25%	81.86%
Maturity deposits/Sight deposits	61.68%	86.50%
Shareholders' equity/total assets	5.18%	4.84%

The composition indexes (calculated on the basis of the values reported in the reclassified Balance Sheet), compared with the previous year, show a decrease in the ratio of net loans to customers to total assets (from 27.38% to 25.64%).

Conversely, the ratio of savings deposits to total liabilities increased from 87.97% to 88.74%.

The ratio of time deposits to sight deposits fell from 86.50% to 61.68%.

Finally, shareholders' equity, including the loss for the year, increased as a percentage of total assets, rising from 4.84% to 5.18%.

Loans to customers

Loans to customers, represented before the related value adjustments, amounted to € 1,041 million at the end of 2020, down 4.12% compared to 31/12/2019 which, in absolute terms, corresponds to - € 44.73 million.

LOANS TO CUSTOMERS*				
(amounts in € units)	31/12/2020	31/12/2019	Change	% Change
Gross loans to customers	1,041,431,306	1,086,154,956	-44,723,650	-4.12%
Provision for doubtful debts	-652,111,188	-659,355,700	-7,244,512	-1.10%
Net loans to customers	389,320,118	426,799,256	-37,479,138	-8.78%

This overall variation originates both from the reduction in doubtful loans for a gross value of € 13.9 million and a net value of € 6.7 million, and from the reduction in performing loans for a gross value of € 30.8 million and a net value of € 30.75 million due, mainly, to:

- returns recorded on performing positions for € 25.7 million, not offset by new disbursements and/or uses;
- transfer of exposures from performing to impaired status for € 7.5 million;
- restoration of positions previously classified as non-performing to performing status following the overcoming of temporary difficulties which changed their classification for an amount of € 2.4 million..

The reduction in net loans reflects the change in the gross value of loans, as it is generally generated by repayments on exposures.

The following graph shows the distribution of net loans by business sector and is net of restructured loans ex Delta and loans indirectly linked to the restructuring of the Delta Group. This provides evidence of the bank's core business net of the impact of the Delta Group.

The household sector, with 40%, is the most important segment for CRSM, followed by companies in the services sector with 29%, industry with 17% and construction with 6%.

Table 4.7 in the Explanatory Notes shows the distribution of loans to customers by the main categories of debtors, including loans excluded here.

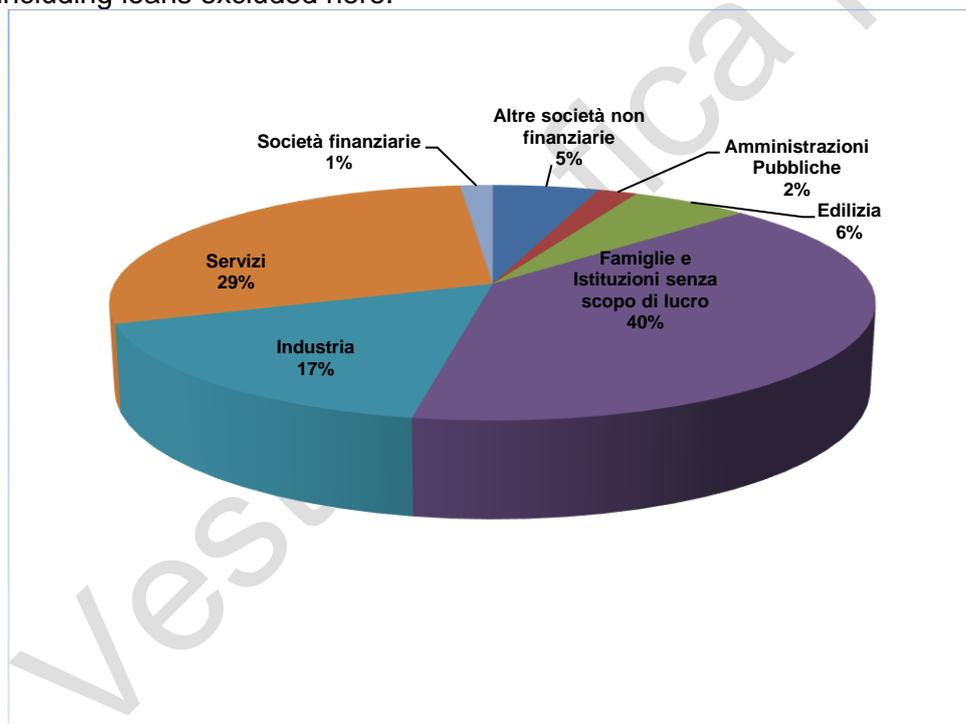


Figure 1 Breakdown of net loans to clients (including leasing) by sector excluding receivables subject to the Delta Group Restructuring Agreement

More generally, with reference to the effects of the pandemic on San Marino's economic system, it is necessary to highlight how dedicated regulations were necessary to support families and economic operators. In particular, as a result of Decree Law 63/2020 and Decree Law 91/2020 containing specific measures and interventions in the economic sphere and for the support of families, companies, self-employed workers and freelance

professionals, families and economic operators in temporary financial difficulty due to the pandemic were able to access, depending on the needs expressed, the institute of moratoria on the repayment of existing loans or new loans guaranteed in part by the State.

In 2020 CRSM granted moratoria to 304 clients for a total residual debt as of 31/12/2020 of € 29.74 million and a total suspended capital of € 5.27 million, equal to 3.51% of outstanding loans. With reference to subsidized loans, as of the same date, 73 were granted for a total of € 4.88 million, equal to 27.72% of the amount granted in 2020 and 1.54% of the bank's total exposure.

Risk Indicators for Credit and Doubtful Loans

The aggregate of doubtful loans consists of non-performing, substandard, restructured, overdue and/or in arrears loans and unsecured loans to at-risk countries.

It should be noted that the restructured loans category includes the following sub-categories:

- restructured loans formerly due from Delta, where loans arising from the Restructuring Agreement of the Delta Group pursuant to art. 182-bis of the Italian Finance Law (hereinafter also the Delta Agreement) are recorded
- loans indirectly related to the restructuring of the Delta Group, originating from loans to SIE S.p.A. and Rent Autonoleggio S.r.l. in liquidation (the latter terminated relationships in 2020).

LOANS TO CUSTOMERS*								
Category	31/12/2020			31/12/2019			Exposure change	Devaluation change
	Exposure	Value adjustment	% coverage	Exposure	Value adjustment	% coverage		
Non-performing loans	213,132,173	170,438,993	79.97%	209,528,288	164,720,961	78.62%	3,603,885	5,718,032
Substandard loans	60,695,273	23,861,675	39.31%	42,050,829	16,108,110	38.31%	18,644,444	7,753,565
Restructured loans – other	6,976,351	2,343,257	33.59%	28,945,307	10,599,189	36.62%	-21,968,956	-8,255,932
Ex Delta restructured loans	509,899,865	449,465,618	88.15%	512,591,722	449,465,618	87.68%	-2,691,857	0
Loans linked indirectly to the Delta Group restructuring	62,585,659	4,170,308	6.66%	74,072,933	16,545,743	22.34%	-11,487,274	-12,375,435
Past due and overdue loans	285,054	5,116	1.79%	197,960	3,388	1.71%	87,094	1,728
Unsecured loans to at-risk countries	36,660	32,271	88.03%	114,280	40,295	35.26%	-77,620	-8,024
TOTAL DOUBTFUL LOANS	853,611,035	650,317,238	76.18%	867,501,319	657,483,304	75.79%	-13,890,284	-7,166,066
TOTAL DOUBTFUL LOANS WITHOUT DELTA**	281,125,511	196,681,312	69.96%	280,836,664	191,471,943	68.18%	288,847	5,209,369
Performing loans	187,820,271	1,793,950	0.96%	218,653,637	1,872,396	0.86%	-30,833,366	-78,446
TOTAL LOANS*	1,041,431,306	652,111,188	62.62%	1,086,154,956	659,355,700	60.71%	-44,723,650	-7,244,512

* The data includes financial leases

** It excludes the ex-Delta Restructured Loans and Loans linked indirectly to the Delta Group restructuring

As of 31 December 2019, gross non-performing loans amounted to € 213.13 million, compared to € 209.53 million as of 31/12/2019, an increase of € 3.6 million mainly due to a deterioration of credit already classified as substandard, also as a result of the economic crisis generated by the pandemic. Gross substandard loans, amounting to € 60.69 million, increased by € 18.6 million mainly due to the transfer of significant positions from restructured status. Ex-Delta restructured loans amount to gross € 509.9 million, recording a reduction of € 2.69 million, represented by the reimbursements received from CRSM as a creditor participating in the Delta Agreement.

The gross value of loans indirectly linked to the restructuring of the Delta Group stood at € 62.58 million as of 31 December 2019, with a reduction of € 11.48 million compared to the previous year, mainly due to the extinction of relationships in the name of Rent Autonoleggio S.r.l. in liquidation. Past due and/or overdue loans amount to € 285 thousand, a slight increase compared to the previous year (+ € 87 thousand).

Overall, the aggregate of doubtful loans decreased by gross € 13.89 million, from € 867.5 million as of 31 December 2019 to € 853.61 million.

Total value adjustments on these loans recorded a reduction of € 7.16 million; excluding the effects of the corporate transaction involving Rent Autonoleggio S.r.l. and SIE S.p.A., for € 12.38 million. Adjustments to the remaining doubtful loans increased by € 5.21 million.

The level of coverage of doubtful loans - the so-called overall coverage ratio - stands at 76.18%, an increase compared to the figure of 31/12/2019, equal to 75.79%; the coverage percentage of non-performing loans stands at 79.97%, while substandard loans are covered at 39.31%.

The recovery activity in 2020 was such that, despite the criticality of the current year caused by the pandemic, which led to the postponement of most of the hearings already scheduled for 2021 and the suspension of enforcement activities for about 8 months, CRSM managed to replicate the 2019 results, thanks, above all, to an intense activity of out-of-court credit management.

RECOVERY STATUS				
(amounts in € units)	31/12/2020	31/12/2019	Change	% Change
Non-performing loans	3,047,880	4,236,274	-1,188,394	-28.05%
Substandard	4,248,254	3,698,479	549,775	14.86%
Restructured loans (net of Delta)	1,276,723	661,322	615,401	93.06%
TOTAL	8,572,857	8,596,075	-23,218	-0.27%

Further details of loans and the related trends are provided in the relevant sections of the notes to the financial statements.

Credit risk indicators are shown in the table below:

CREDIT RISK INDICATORS		
	31/12/2020	31/12/2019
Gross non-performing loans/Gross loans	20.47%	19.29%
Net Doubtful/Net Loans	10.97%	10.50%
Gross substandard loans/Gross loans	5.83%	3.87%
Restructured loans - other Gross/Gross loans	0.67%	2.66%
Ex-Delta restructured loans Gross / Gross Loans	48.96%	47.19%
Ex-Delta restructured loans Net/Net loans	15.52%	14.79%
Loans indirectly linked to the restructuring of the Delta Group Gross/Gross loans	6.01%	6.82%
Loans indirectly linked to the restructuring of the Delta Group Net/Net Loans	15.00%	13.48%
Past due loans in arrears Gross/Gross loans	0.03%	0.02%
Unsecured loans to at-risk countries Gross/ gross loans	0.00%	0.01%
NPL Ratio	81.97%	79.87%
NPL (Net) Ratio	52.22%	49.21%

As of 31/12/2020, the NPL Ratio, consisting of the ratio of doubtful loans to the total amount of loans to customers, if calculated with reference to gross loans, stood at 81.97%, a slight increase compared to the previous year's figure of 79.87%, while the same ratio measured on the value of loans net of value adjustments, stood at 52.22%, an increase compared to the figure as of 31/12/2019 (49.21%).

The ratio of gross non-performing loans to gross loans was 20.47%, up from the previous year's figure of 19.29%. The ratio of net non-performing loans to net loans was 10.97%, up from the 2019 figure of 10.50%. The ratio of substandard loans to gross loans increased to 5.83%, compared to 3.87% in the previous year.

As regards ex Delta restructured loans, the ratio of these exposures to gross loans increased slightly, from 47.19% in 2019 to 48.96% in 2020.

On the other hand, the ratio of loans indirectly related to the restructuring of the Delta Group to gross loans decreased to 6.01%, compared to 6.82% in the previous year. These changes depend on the reduction in the denominator of the ratio, i.e. gross loans.

Finally, some risk indicators of the credit portfolio extrapolated from the annual migration matrices are shown, compared with the data from the previous year:

	31/12/2019 - 31/12/2020 Migration	31/12/2018 - 31/12/2019 Migration	Note
PROBABILITY OF DEFAULT	3.46%	3.42%	probability that a loan migrates from performing to impaired status
DANGER RATE	2.00%	9.54%	probability that a loan that is already impaired will migrate to non-performing status
CURE RATE	0.86%	1.21%	probability that an impaired loan will return to performing status

The own securities portfolio and treasury

The securities portfolio shows a marked increase (+ € 432.00 million, equal to 227.22%) compared to the previous year following the recognition, in the corresponding balance sheet item, of the irredeemable bond issued by the Republic of San Marino pursuant to articles 2 and 3 of Law 223/2020, reserved in issue, for the entire amount of € 455 million, to CRSM for the conversion of assets already recorded in the balance sheet, attributable to the so-called item ex Article 5 Ter.

Bonds represent 96.45% (86.77% net of the irredeemable bond) of the portfolio, while the equity component stands at 3.55% (13.23% net of the irredeemable bond).

During 2020 the main investments concerned bonds with a low duration which, following the appreciation of prices due to the expansionary policies of the European Central Bank to deal with the pandemic event, were sold at the end of the year to realize the capital gains inherent in the free portfolio.

Transactions were also carried out on the stock market, with a view to short-term investment.

During the reporting period, the bond component increased substantially, varying from € 159.420 million as of 31/12/2019 to € 600.017 million as of 31/12/2020.

The equities/funds segment underwent a decrease of € 8.5 million, attributable almost entirely to the trading portfolio and due mainly to the negative change in the value of closed-end funds managing NPL loans (- € 6.2 million), to the negative change in two speculative funds, already in the portfolio since 2005 (- € 2.2 million) and only in part to market sales transactions for the purpose of realization.

OWN SECURITIES PORTFOLIO						
(amounts in € units)	31/12/2020	% weight	31/12/2019	% weight	Change	% Change
BONDS AND OTHER DEBT SECURITIES	600,017,779	96.45%	159,420,281	83.85%	440,597,498	276.37%
Trading portfolio	2,005,839	0.32%	5,759,155	3.03%	-3,753,316	-65.17%
Investment portfolio	143,011,940	22.99%	153,661,126	80.82%	-10,649,186	-6.93%
Investment portfolio - non-deductible securities	455,000,000	73.14%	0	0.00%		
SHARES AND OTHER EQUITY SECURITIES	22,115,525	3.55%	30,709,189	16.15%	-8,593,664	-27.98%
Trading portfolio	20,878,849	3.36%	29,263,602	15.39%	-8,384,753	-28.65%
Investment portfolio	1,236,676	0.20%	1,445,587	0.76%	-208,911	-14.45%
TOTAL	622,133,304	100.00%	190,129,470	100.00%	432,003,834	227.22%

The treasury position increased by € 25.06 million compared to the previous year, thanks also to the coverage of the loss for the 2019 financial year, perfected at the end of the year and despite the fact that 2020 was characterized by extraordinary events, such as the repayment of the bond issued pursuant to Decree Law 89/2017.

The bank requested some credit lines in the fourth quarter of the year to cope with possible liquidity tensions related to the aforementioned bond repayment without using them, except for a single accounting day and limited to € 3 million.

INTERBANKING				
(amounts in € units)	31/12/2020	31/12/2019	Change	% Change
DUE FROM BANKS	70,118,587	44,981,769	25,136,818	55.88%
AMOUNTS DUE TO BANKS	927,293	855,450	71,843	8.40%
INTERBANK BALANCE	69,191,294	44,126,319	25,064,975	56.80%

There are no open positions in derivatives as of 31/12/2020.

Own shares held in portfolio

CRSM does not hold any treasury shares in its portfolio.

Customer deposits

TOTAL DEPOSITS				
(amounts in € units)	31/12/2020	31/12/2019	Absolute change	% Change
Savings deposits	1,263,567,835	1,293,617,799	-30,049,964	-2.32%
Savings deposits (net of Asset Management cash)	1,241,215,052	1,273,267,286	-32,052,234	-2.52%
Indirect deposits	340,736,670	341,189,758	-453,088	-0.13%
Indirect deposits (including Asset Management cash)	363,089,453	361,540,271	1,549,182	0.43%
<i>of which managed*</i>	137,132,357	135,996,690	1,135,667	0.84%
<i>of which administered**</i>	219,369,042	219,075,202	293,840	0.13%
<i>of which custodian bank</i>	6,588,054	6,468,379	119,675	1.85%
Total deposits	1,604,304,505	1,634,807,557	-30,503,052	-1.87%
Incidence of managed/indirect deposits	37.77%	37.62%		

* includes Asset Management and Funds

** Includes CRSM Shares deposited with CRSM; does not include CRSM bonds and Funds

COMPOSITION OF DIRECT DEPOSITS FROM CUSTOMERS				
(amounts in € units)	31/12/2020	% weight	31/12/2019	% weight
Current Accounts	783,414,122	62.00%	695,138,432	53.74%
Cheques issued but not cashed	861,574	0.07%	484,376	0.04%
Savings Deposits	11,432,644	0.90%	12,304,089	0.95%
Certificates of Deposit*	406,037,872	32.13%	412,382,171	31.88%
Senior, subordinated and hybrid bonds*	32,568,922	2.58%	145,768,060	11.27%
Repurchase Agreements	28,737,669	2.27%	26,970,837	2.08%
Other funds	515,032	0.04%	569,834	0.04%
SAVINGS DEPOSITS	1,263,567,835	100%	1,293,617,799	100%

* net of financial instruments held by credit institutions

Total deposits as of 31/12/2020 stood at € 1,604 million.

The performance of total deposits shows a contraction of 1.87%, equal to around € 30.5 million generated, mainly by:

- reduction in volumes relating to institutional investors (- € 13.5 million, of which - € 4 million non-residents);
- execution of confiscations (- € 4 million);
- return of capital, mainly held by Italian individuals and/or Italian trustees, taking into account the increased sensitivity of customers to country risk following the well-known events which affected the San Marino banking system in recent years (- € 8.8 million).

As regards the individual items, the most significant change relates to the aggregate of “senior, subordinated and hybrid bonds” which, on one hand, saw the repayment of bonds issued pursuant to Decree Law 89/2017 (€ 115 million) and, on the other, the issue of 3, 5, 7-year subordinated loans for a total of € 11.9 million pursuant to art. 44 of Law 113/2020.

Effects of the Delta Group Restructuring Plan

As a result of complex legal issues which affected the Group, in May 2009, by decree of the Italian Ministry of the Economy and Finance, the parent company Delta S.p.A. was placed under extraordinary administration with the simultaneous dissolution of its management and control bodies. During the extraordinary administration period, which lasted four years, the Extraordinary Commissioners drafted a Restructuring Agreement pursuant to art. 182bis of the Finance Law, signed in 2011 by Delta S.p.A., River Holding S.p.A., Plusvalore S.p.A., Carifin Italia S.p.A., Detto Factor S.p.A. (hereinafter respectively "River Holding", "Plusvalore", "Carifin" and "Detto Factor") and the creditor banks (including CRSM) and filed with the Court and the Companies' Register in June 2011. The final approval of the Delta Agreement took place in February 2012, while the actual launch of this agreement took place in December 2012 and the first disbursement of repayments to the participating creditors dates back to March 2013.

On 7 May 2013 the extraordinary administration procedure was concluded: today the governance of the group in liquidation is ensured through a Board of Directors of Delta S.p.A. made up of three members. Delta S.p.A. is headed by a manager indicated by CRSM in the role of General Manager. During the year the activities of the company Società Gestione Crediti Delta (SGCD) S.p.A. continued. This company performs the fundamental role of managing and collecting credits from Plusvalore, Carifin Italia and Detto Factor (all in liquidation) and distributing the proceeds to participating creditors, while respecting the rights of non-participating creditors.

In fact, the primary objective of the Delta Agreement is to maximize the satisfaction of the Group's creditors, providing for full payment to non-participating creditors (essentially represented by non-banking or non-financial entities) accompanied by the maximum possible satisfaction of participating creditors (banking or financial entities that had financed the Group in various ways), the latter in proportion to the amount of credits due as of 31/03/2010. Payments are made through the cash flows deriving from the gradual extinction of the portfolio of loans to customers owned by each finance company, as well as from the liquidation of all other assets, net of recovery and management costs.

By virtue of the mandate received pursuant to the Delta Agreement, SGCD, whose duties also include the distribution of collections to creditors participating in the Restructuring Plan, is authorized to carry out, without the need for any prior authorization from Plusvalore, Carifin and Detto Factor any act or settlement agreement, including those of a transactional nature, regarding loans to customers (or part of them), provided that it has been previously authorized by as many of the participating creditors representing a minimum of 60% of the total credits of the participating creditors with the mandating company concerned.

This operating scope includes the Arcade Project, the effects of which were completed in 2019, for the contractual payments component.

The Arcade Project and the residual portfolio related to the Delta Agreement

The process aimed at selling part of the loan portfolio (so-called Arcade Portfolio) held by the three financial companies in liquidation, Carifin Italia S.p.A., Plusvalore S.p.A. and Detto Factor S.p.A., which had already been initiated by SGCD in 2016 as part of its contractual autonomy, was completed in 2018.

Following receipt of all the information related to the sale process, defined in accordance with market best practices, on 31 July 2018, the Board of Directors of SGCD approved the final offer of Cerberus Capital Management L.P. (hereinafter also Cerberus) and initiated the approval procedure for the transfer of the Arcade Portfolio credits, inviting the participating creditors to send their assent or dissent within the established deadlines.

CRSM, which made use of an advisor, in order (i) to assess the process put in place by CRSM itself with reference to the Arcade Project and also (ii) to express an opinion on the fairness of the sale price, communicated to SGCD, on 29/10/2018, its favorable decision regarding the Arcade Project, following the entire process supported by the decisions taken by both the Finance Committee and the Shareholders' Meeting.

The sale of a large part of the loan portfolio of the three former financial companies, identified in the Arcade Portfolio, although it led to a considerable reduction in the exposure pertaining to the Delta Agreement (- € 75.4 million) did not lead to the conclusion of the liquidation activities of the Delta Group companies provided for in the Delta Agreement. In fact, there remains a portion of loans to customers - which, pursuant to art. 2.7 of the 182bis Agreement should have been assigned to the participating creditors on 30/11/2020, but which, due to the effect of art. 9, paragraph 1, of Italian Legislative Decree 23/2020 will remain in the availability of the three former financial companies until 30/05/2021 - cash and cash equivalents and other assets and activities attributable to

the Group, for the realization of which studies are underway regarding the best actions to be taken to maximize recovery for all stakeholders.

In numerical terms, in 2020 the participating creditors received the 68th repayment corresponding to the released portion of the escrow account, in relation to Plusvalore and Carifin. This is an amount placed as collateral for the Arcade transaction and aimed at guaranteeing the buyer which, once the verifications on the acquired portfolio were completed, allowed the payment of the residual payment to the seller.

The checks on the escrow account of Detto Factor are still in progress, on completion of which, it is hoped, further sums will be released.

The aforementioned repayment resulted in CRSM collecting a total of € 2.83 million, which reduced the exposure relating to the Delta Agreement net of the cash reserve component, i.e. the portion of collections retained by River Holding, initially corresponding to 40% of the collections distributed to it and, as of August 2015, reduced to 10%, as established by the 182bis Agreement, in the event of CRSM's direct participation in the capital of River Holding.

Overall, since the Delta Agreement was finalized, the three former financial companies distributed € 639 million (€ 243.9 million Carifin Italia, € 313.9 million Plusvalore, € 81.2 million Detto Factor), of which € 325 million was paid to CRSM and River Holding S.p.A..

In relation to the collections received, it should be noted that the analysis of the structured operational management following the implementation of the Delta Group's Restructuring Plan, also due to the organizational complexity (SGCD S.p.A., formerly three financial companies, River Holding S.p.A.), as well as the high level of costs for legal expenses, showed that a significant part of the collections was absorbed by these costs.

The balance of credits from the Delta Agreement updated as of 31 December 2020 stands at a net € 60.43 million, as further detailed below.

In brief, CRSM's cash exposure to the Delta Group at the end of 2020 can be broken down into three different categories:

- loans to River Holding S.p.A., as the delegated company from the former Sedicibanca, which represent the residual trade payables after the spin-off of the banking arm acquired from Intesa Sanpaolo, as well as to the other companies in the Delta Group (Plusvalore, Carifin Italia and Detto Factor), subject to the Delta Agreement (residual € 60.43 million) for which, in 2020, collections of € 2.83 million were recorded (of which € 0.14 million retained as a cash reserve);
- the residual value of the shareholding under the Delta Agreement held through the subsidiary SIE (residual € 58.4 million);
- the securitization, represented by the bond issued by SPV Project ABS S.r.l. (hereinafter SPV) deriving from the residual non-recourse loan portfolio and from the securitization known as "Cart1", the proceeds of which are collected daily, giving rise to redemptions of the security on a quarterly basis (residual approximately € 27.5 million net of adjustments). During the year, the security made capital redemptions for € 439.52 thousand and paid coupons for € 307.80 thousand. On the basis of the information regarding the quality of the underlying loan portfolio provided by the securitization Portfolio Manager, further write-downs for impairment losses were made for a total of € 1 million. In this regard, it should be noted that a renegotiation of the commissions received from the Servicers was undertaken in order to contain recovery costs and provide incentives for the same. This has resulted in a business plan which, in defining the recovery forecasts and the expected expenses, has thus supported the aforementioned value adjustment.

As regards the 2020 assessments of the exposure relating to the Delta Agreement, it should be noted that the method adopted for the purposes of an overall assessment was based on the analysis provided by the liquidators of the former financial companies, who communicated the expected recovery percentages on the basis of the assessment of residual loans and other balance sheet assets, net of payables. Given that these are liquidation scenarios, the assumptions made are extremely prudent and the current balance sheet exposure is conservatively well below the average of the values analyzed.

The above evidence regarding the recoverable value of the above loans led the CRSM Risk Committee to confirm the write-downs already in place regarding exposure to the Delta Group.

It should be pointed out that the criterion for valuing the assets has not changed with respect to the previous year since, although provided by different parties, the underlying assumption is equally represented by the expected asset recovery.

As for the “indirect” exposure towards the Delta Group, represented by the exposure of SIE S.p.A. (residual € 58.4 million), it should be noted that the loan to SIE almost entirely represents the loan against the value of the shareholding it holds in Delta S.p.A.. In the methodology adopted, the residual value of Delta's shareholders' equity was used as a reference base for the determination of the presumed realizable value, which, based on the estimate referring to 31 December 2019 due to the absence of a more recent approved balance sheet, did not entail further value adjustments to those already in place.

Also from the preliminary 2020 balance sheet of Delta S.p.A., given the level of net equity, there are no elements to proceed with further value adjustments with respect to those already existing.

For further details, see table “4.3” in the explanatory notes.

Equity

CRSM's net equity, including the loss for the year of € 26.93 million, amounts to € 73.81 million, while the regulatory capital amounts to € 59.03 million, an increase of € 10.70 million compared to the previous year. The “total cash and off-balance sheet assets” amounted to € 418.08 million, a sharp decrease compared to the previous year (€ 465.38 million) and the solvency ratio was 14.12%, an improvement on the 10.39% of the previous year and above the minimum ratio of 11%, provided for in art. VII.III.9 of Regulation 2007-07.

Net Equity and Regulatory Capital				
	31/12/2020	31/12/2019	Change	% Change
Net Equity	73.81	71.15	2.66	3.74%
The result for the year	-26.93	-29.59	-2.66	-8.99%
Regulatory capital	59.03	48.33	10.70	22.14%
Total cash and off-balance sheet assets	418.08	465.38	-47.30	-10.16%
Solvency Ratio	14.12%	10.39%	3.73%	

For further and more detailed information on this subject, reference should be made to paragraph “31.1 PRUDENTIAL AGGREGATES” of the explanatory notes.

As regards the coverage of the loss for the year 2020, reference should be made to the specific paragraph “Loss settlement plan”.

Reclassified Profit and Loss Account

RECLASSIFIED PROFIT AND LOSS ACCOUNT (€ thousands)	31/12/2020	31/12/2019	Change	%
Interest income	12,509	13,849	-1,340	-9.68%
- customer interest income	10,457	11,718	-1,261	-10.76%
- securities interest income	2,116	2,082	34	1.63%
- banks interest income (net of interest expense)	-64	49	-113	-230.61%
Interest expense	-7,557	-10,547	2,990	28.35%
- customer interest expense	-1,101	-2,274	1,173	51.58%
- securities interest expense	-6,456	-8,273	1,817	21.96%
Dividends	279	46	233	506.52%
Interest margin	5,231	3,348	1,883	56.24%
Profits/Losses on financial transactions	-2,119	213	-2,332	-1094.84%
Commission income	6,075	6,168	-93	-1.51%
Other revenues	4,386	5,675	-1,289	-22.71%
<i>of which other operating proceeds from leasing</i>	3,243	2,983	260	8.72%
Other charges	-188	-18	-170	-944.44%
Commission expense	-1,334	-1,626	292	17.96%
Intermediation margin	12,051	13,760	-1,709	-12.42%
Administrative expenses	-13,503	-16,385	2,882	17.59%
- personnel costs	-7,405	-9,021	1,616	17.91%
- other administrative expenses	-6,098	-7,364	1,266	17.19%
Operating income	-1,452	-2,625	1,173	44.69%
Operating result with depreciation	-7,893	-9,526	1,633	17.14%
Value adjustments on fixed assets	-6,441	-6,901	460	6.67%
<i>of which leasing depreciation</i>	-3,243	-2,983	-260	-8.72%
Adjustments and value recoveries on loans	-21,970	-5,974	-15,996	-267.76%
Allocation to the provision for credit risks	0	-600	600	
Adjustments and value recoveries on financial fixed assets	-1,000	-1,608	608	37.81%
Provisions for risks and charges	-551	-1,590	1,039	65.35%
Income from ordinary activities	-31,414	-19,298	-12,116	-62.78%
Balance of extraordinary operations	4,483	-10,287	14,770	143.58%
Change Provisions for general financial risks	0	0	0	
Gross profit	-26,931	-29,585	2,654	8.97%
Income taxes	0	0	0	
Result for the year	-26,931	-29,585	2,654	8.97%

The negative result for the year shows a reduction, in part generated by the improvement in the bank's income profile and in part originating from the effects of the issue of the irredeemable bond (art. 2 and art. 3 of Law 223/2020) which recognized the conversion of the amount of the item pursuant to Art. 5ter, burdening the previous result by € 10 million.

Analysis of Margins

ANALYSIS OF MARGINS*				
(amounts in € thousands)	31/12/2020	31/12/2019	Change	% Change
Interest margin*	5,231	3,348	1,883	56.24%
Intermediation margin	12,051	13,760	-1,709	-12.42%
<i>of which other operating proceeds - Leasing</i>	3,243	2,983	260	8.72%
Administrative expenses	-13,503	-16,385	2,882	17.59%
- <i>Personnel expenses**</i>	-7,405	-9,021	1,616	17.91%
- <i>Other administrative expenses</i>	-6,098	-7,364	1,266	17.19%
Operating result	-1,452	-2,625	1,173	44.69%
Operating result with depreciation	-7,893	-9,526	1,633	17.14%
Ordinary income	-31,414	-19,298	-12,116	-62.78%
Result for the year	-26,931	-29,585	2,654	8.97%

* calculated on the reclassified profit and loss account

An analysis of margins shows a marked improvement in net interest income compared with the previous year, thanks to a marked reduction in interest expense (28.35%), which more than offset the reduction in interest income (- 9.68%).

This result was obtained both as a result of a careful management of rates, which made it possible to stem the increase in deposit rates caused by the presence of a batch of three-year and increasing-rate CDs, subscribed starting from 2018 and until the first months of 2019, and as a result of the reduction of the assets and, ultimately, the repayment of bonds issued pursuant to Decree Law 89/2017, interest bearing at 1.5%, on 30/09/2021.

This result assumes greater value in a context in which a large part of CRSM's assets is still non-interest bearing (represented, for example, by non-performing loans and exposures pursuant to Agreement 182bis) and, therefore, financed by onerous deposits.

The intermediation margin was down compared to the previous year (€ 12.05 million compared to € 13.76 million), as the previous year included some non-recurring items recorded under the item other proceeds for € 1.5 million and the current year recorded a negative performance of the financial sector deriving, almost exclusively, from the write-down made for two speculative funds, already in the portfolio since 2005 (- € 2.2 million).

Administrative costs continue to show a marked downsizing with an overall reduction of 17.59% even greater than that recorded in 2019 compared to 2018 (-16.92%). The figure is made up of personnel costs which - with a reduction in absolute value of € 1.6 million - show a contraction of 17.91%, (-18.07% referring to employees and -15.36% referring to directors) and other administrative costs which fell by -17.19%. The reduction in personnel costs mainly originated from the effects of early retirements carried out pursuant to Law 23/1977 on the reduction of personnel costs and subsequent amendments, which were followed, with regard to social safety nets, by Decree Law 82/2017, Decree Law 82/2018 as ratified by Decree Law 124/2018, Decree Law 111/2019, reiterated by Decree Law 149/2019, as well as the termination of employment for 21 employees, 3 of whom were on permanent contracts. Regarding CRSM's administrative costs, as of 2019, it is pursuing an important plan to reduce all costs, implementing shrewd cost containment policies, carried out also through the renegotiation of supply contracts, as well as through the rationalization of the operating structure and the reduction of management costs.

The operating result with depreciation and amortization shows an improvement of € 1.63 million compared to 2019, while the result of ordinary activities is down mainly due to prudent provisions, including the effect of a corporate transaction which led to the recording among the value adjustments of loans of € 3.6 million, already set aside in previous years to the provision for risks for guarantees and commitments. In this regard, reference should be made for further information to what is expressed at the bottom of table 29.1 of the explanatory notes. The financial year closed with a negative result of € 26.93 million, compared to the previous - € 29.58 million.

SIGNIFICANT EVENTS AFTER YEAR-END

The first months of 2021 were heralds of important events for CRSM.

CRSM on 27/03/2019 was the recipient of a missive from the Italian Revenue Agency (Taxpayers Division, sector for combating unlawful acts and analysis and strategies section for combating international unlawful acts), together with the other banks in the Republic of San Marino, containing a detailed questionnaire to which it was invited to provide a response and which was followed by the opening of an administrative procedure.

The most recent dispute was settled on 1 March 2021 without impacting on the profit and loss account, given that in previous years, the action strategies and necessary provisions had been defined thanks to the joint work of the structure and consultants.

As a result of article 7 of Law 223/2020 and subsequent amendments, the maximum amount of the benefits referred to in article 1 of Decree Law 174/2011, Decree Law 72/2013 and Decree Law 88/2017, as well as article 8 of Decree Law 61/2012 - the so-called "maximum amount of tax credit" - recognized to each bank participating in system operations is definitively established on the basis of the statements of the mutual funds as of 31 December 2020. It follows that the banks concerned will see this amount, previously subject to periodic fluctuations, consolidated after certification by the Supervisory Committee set up for this purpose, which, with this last act ends its activity on 30 June 2021.

As far as cash flow is concerned, following the provisions of Law 223/2020, the Excellency requested early repayment of the zero-coupon bond with original maturity on 29 December 2023. The transaction was completed on 30 April 2021 and saw the repayment of an amount of € 94.35 million, of which € 85 million in capital, in a context in which the bank saw a progressive increase in available cash in late December.

As regards impaired loans, the legislator approved the securitization bill in the first instance. This project provides for the setting up of a system vehicle for the securitization of the non-performing loans of San Marino banks. The launch of this project would allow for an improvement in the capital ratios relating to credit quality and an outsourcing of the management of certain non-performing loans.

30 May 2021 is the date on which, pursuant to the 182-bis Agreement, the loans to customers held by the former financial companies are assigned pro-rata to the participating creditors and the collections of which, together with the residual assets on the balance sheet net of payables, represent the instruments for repaying the exposures to the former financial companies themselves.

CRSM, following evaluations aimed at defining the best possible scenario for the future management of these loans, given the objective difficulty of distributing them to the participating creditors, decided to exercise the option provided for in art. 2.7 of the 182-bis Agreement, which allows CRSM and its subsidiary River Holding S.p.A. to receive an amount of loans from the aforementioned former financial companies corresponding to their share, as a datio in solutum and limited to the loans of Detto Factor S.p.A.. At the same time as exercising this option, CRSM made an offer to purchase residual credits.

Determinations in this regard are still underway, but there is no expectation of the need for further action to adjust the values in these financial statements.

All of the above, in addition to the information described in the following paragraph, leads us to believe that the going concern principle is fully applied.

BUSINESS OUTLOOK

CRSM, with the approval of the 2020 - 2023 Business Plan, set itself challenging objectives and is continuing with actions aimed at reducing the level of non-interest-bearing assets, maximizing the profitability of interest-bearing assets and further compressing the level of operating costs (staff costs, other administrative costs as well as amortization and depreciation).

The process of cost containment could continue with further revisions to the organizational structure, if the doubts regarding interpretation of the possibility of onboarding customers via remote channels are clarified..

The actions to be implemented, therefore, are those provided for in the Business Plan, which enters into full swing with the 2021 financial year. In particular, activities to find new resources were launched, with particular focus on the non-EU market.

Thanks to the contribution of these resources, which support a moderate increase in deposits, it is possible to implement a plan to diversify the sources of profitability which allows for growing revenues in a context of adequate risk control.

In particular, it should be noted that, in the face of greater available liquidity, the bank set out a strategy for its use, for the current year, which was developed through two main methods:

- strategic positioning through investments in mutual funds and ETFs: this category includes assets with the nature of strategic asset allocation, which is implemented through investments in products with a medium-term time horizon (at least one year) and mainly non-directional in nature (which aim to produce returns regardless of the trend of the main market indexes, therefore in both its phases, both downward and upward, also being able to use hedging instruments in case of adverse periods), in line with the current market situation. In practice, preference was given to bond and absolute return funds through portfolio optimization instruments owned by SGRs with long-standing and stable professional relationships and through specific asset management;
- use of the investment portfolio: the purchase of individual bonds as a strategy aimed at defining a stable coupon yield for the own portfolio with a long-term time horizon, with the declared objective of stable investment. These instruments are mainly investment grade in nature.

In view of the completion of the regulatory process relating to the public vehicle for the management of impaired loans, considering that the improvement of asset quality and, with it, of the NPL ratio is a key condition for CRSM, CRSM - aware of the need for the San Marino banking system to intervene promptly to deal with the criticality represented by NPLs, which today stand at values that are clearly not in line with those of Italian and European banks - once the details of the transactions have also been defined, with regard to (i) the securitised assets, (ii) the subjects involved, (iii) the financial instruments to be issued and, last but not least, (iv) the costs to be incurred, it will carry out the necessary and appropriate assessments to define the risks and benefits of the project deriving from participation in the aforementioned system operation, also taking into account the risks inherent in the project.

Finally, the challenge to be faced in 2021 will be the management of the post-emergency period. Recovery scenarios are strongly conditioned by the performance of the vaccination campaign and, in any case, the pandemic event revealed a series of critical issues which must be addressed. In particular, the need to promote a bank that is more oriented towards providing services with a high technological content that allow customers to use the bank, independently of the physical location in which they find themselves, obtaining prompt and immediate feedback, has been strongly expressed. This need is well matched with the desire, expressed in the Business Plan, to provide services with high added value, even with a reduced number of staff.

LOSS SETTLEMENT PLAN

The negative result recorded in the financial year, amounting to € -26,931,255.97, does not fall under the case provided for by Article 14, paragraph 1, of Law 47/2006.

Although therefore there are no mandatory legal requirements to proceed with the coverage of the loss, it is acknowledged that the Sole Shareholder already with Article 157, paragraph 3, of Law 157/2019, regulated the intervention on its own forecast budget in order to be able to proceed with the coverage of the loss, if any “3. Pursuant to paragraph 2 of Article 3 of Law no. 104 of 8 August 2018 at the time of the Change to the State Budget for the 2021 financial year, any extraordinary changes and accounting entries to the State General Accounting Statement for the 2020 financial year are approved in order to align it with the 2020 result of the financial statements of Cassa di Risparmio della Repubblica di San Marino S.p.A. approved by the Shareholders' Meeting”. Similar provisions were also prudentially included in Law 223/2020, with reference to the 2021 budget, despite the bank's relaunch forecasts contained in the 2020 - 2023 Business Plan.

* * *

In compliance with the provisions of Law no. 47 of 23 February 2006, art. 6, paragraph 10, the declarations made by the Directors concerning the permanence of the subjective and objective conditions required by law for the assumption of the office are attached to this report.

* * *

The Board of Directors thanks the Board of Statutory Auditors, the Supervisory Authority and the executive structure for the work carried out and the support provided.

Financial Statements

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FINANCIAL STATEMENTS

STATEMENT OF ASSETS

Asset items	31 December 2020	31 December 2019
10 CASH AND CASH EQUIVALENTS WITH CENTRAL BANKS AND POSTAL AUTHORITIES	9,721,927	13,927,269
20 TREASURY SECURITIES AND OTHER FINANCIAL INSTRUMENTS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	0	0
a) Treasury securities and other similar financial instruments	0	0
b) other financial instruments eligible for refinancing with central banks	0	0
30 LOANS TO CREDIT INSTITUTIONS	70,118,587	44,981,769
a) on demand	55,919,630	44,758,121
b) other loans	14,198,957	223,648
40 LOANS TO CUSTOMERS	365,159,466	402,712,862
a) on demand	127,922,431	140,621,398
b) other loans	237,237,035	262,091,464
50 BONDS AND OTHER DEBT FINANCIAL INSTRUMENTS	600,017,779	159,420,281
a) of public issuers	568,259,932	115,663,020
b) of credit institutions	3,891,439	14,412,847
c) of financial companies other than credit institutions	27,865,340	29,342,524
d) of other issuers	1,068	1,890
60 SHARES, UNITS AND OTHER CAPITAL FINANCIAL INSTRUMENTS	22,115,525	30,709,189
70 HOLDINGS	13,752,918	13,502,918
a) Financial companies	13,428,648	13,178,648
b) Non-financial companies	324,270	324,270
80 SHAREHOLDINGS IN GROUP COMPANIES	26,647,162	28,813,349
a) Financial companies	21,018,732	21,372,726
b) Non-financial companies	5,628,430	7,440,623
90 INTANGIBLE FIXED ASSETS	1,537,452	1,869,778
a) Financial leases	494,420	543,322
- of which assets under construction	0	0
b) Assets awaiting leasing due to lease termination	0	0
- of which for breach by tenant	0	0
c) Assets from credit recovery	0	0
- of which assets available for credit discharge through settlement agreement	0	0
d) Goodwill	0	0
e) Start-up costs	0	0
f) Other intangible fixed assets	1,043,032	1,326,456
100 TANGIBLE FIXED ASSETS	78,444,816	85,023,877
a) Financial leases	15,547,729	15,719,257
- of which assets under construction	0	62,703
b) Assets awaiting leasing due to lease termination	8,118,503	7,823,815
- of which for breach by tenant	8,118,503	7,823,815
c) Assets from credit recovery	1,697,463	2,445,000
- of which assets available for credit discharge through settlement agreement	430,000	430,000
d) Land and buildings	51,699,041	57,322,686
e) Other tangible fixed assets	1,382,080	1,713,119
110 SUBSCRIBED CAPITAL NOT PAID IN	0	0
- of which called-up capital	0	0
120 OWN SHARES OR UNITS	0	0
130 OTHER ASSETS	237,302,022	690,166,483
140 ACCRUED INCOME AND PREPAID EXPENSES	340,109	433,517
a) accrued income	111,697	152,833
b) prepaid expenses	228,412	280,684
150 TOTAL ASSETS	1,425,157,763	1,471,561,292

STATEMENT OF LIABILITIES

Liability items	31 December 2020	31 December 2019
10 DUE TO CREDIT INSTITUTIONS	927,293	855,450
a) on demand	896,263	855,450
b) on term or notice debts	31,030	0
20 DUE TO CUSTOMERS	824,099,467	734,983,192
a) on demand	781,697,220	693,732,282
b) on term or notice debts	42,402,247	41,250,910
30 DEBTS REPRESENTED BY FINANCIAL INSTRUMENTS	424,910,414	555,350,259
a) bonds	18,872,542	142,968,088
b) certificates of deposit	406,037,872	412,382,171
c) other financial instruments	0	0
40 OTHER LIABILITIES	48,639,791	78,978,843
<i>of which cheques in circulation and similar securities</i>	<i>861,574</i>	<i>484,376</i>
50 ACCRUED EXPENSES AND DEFERRED INCOME	110,953	151,448
a) accrued expenses	12,554	14,716
b) deferred income	98,399	136,732
60 EMPLOYEE SEVERANCE INDEMNITIES	388,420	485,423
70 PROVISIONS FOR RISKS AND CHARGES	38,293,190	25,994,102
a) provisions for pensions and similar obligations	1,181,509	1,215,104
b) provisions for taxes and duties	386,905	550,373
c) other provisions	36,724,776	24,228,625
80 PROVISIONS FOR CREDIT RISKS	0	600,000
90 PROVISION FOR GENERAL BANKING RISKS	0	0
100 SUBORDINATED LIABILITIES	13,981,597	3,009,787
110 SUBSCRIBED CAPITAL	100,634,322	100,634,322
120 SHARE ISSUE PREMIUMS	0	0
130 RESERVES	103,572	103,572
a) ordinary or legal reserve	0	0
b) reserve for own shares or units	0	0
c) statutory reserves	0	0
d) other reserves	103,572	103,572
140 REVALUATION RESERVE	0	0
150 PROFIT (LOSS) CARRIED FORWARD	0	0
160 PROFIT (LOSS) FOR THE FINANCIAL YEAR	-26,931,256	-29,585,106
170 TOTAL LIABILITIES	1,425,157,763	1,471,561,292

GUARANTEES AND COMMITMENTS

Guarantees and Commitments items	31 December 2020	31 December 2019
10 Guarantees given	303,514,155	214,114,906
a) acceptances	0	67,146
b) other guarantees	303,514,155	214,047,760
20 Commitments	8,462,327	8,942,054
a) certain use	3,067,371	316,929
<i>of which: financial instruments</i>	<i>1,131,332</i>	<i>0</i>
b) uncertain use	5,394,956	8,625,125
<i>of which: financial instruments</i>	<i>35,520</i>	<i>55,826</i>
c) other commitments	0	0
TOTAL	311,976,482	223,056,960

PROFIT AND LOSS ACCOUNT

Profit and loss account items	31 December 2020	31 December 2019
10 Interest received and other proceeds:	12,540,780	13,849,934
a) on loans to credit institutions	-32,662	49,955
b) on loans to customers	10,457,252	11,717,785
c) on debt securities	2,116,190	2,082,194
20 Interest paid and other costs	-7,588,081	-10,547,967
a) on amounts due to credit institutions	-30,959	-482
b) on amounts due to customers	-1,100,929	-2,274,055
c) on debts represented by securities	-6,456,193	-8,273,430
<i>of which: on subordinate liabilities</i>	-151,309	-183,294
30 Dividends and other proceeds	278,582	45,629
a) on shares, units and other capital securities	107,356	45,629
b) on shareholdings	171,226	0
c) on shareholdings in group companies	0	0
40 Commissions received	6,075,066	6,168,352
50 Commissions paid	-1,334,321	-1,625,749
60 Profits (losses) on financial transactions	-2,118,671	212,980
70 Other operating proceeds	4,386,193	5,674,772
80 Other operating charges	-188,352	-17,311
90 Administrative expenses	-13,503,100	-16,385,061
a) Labor costs	-7,405,238	-9,021,315
wages and salaries	-5,039,125	-6,169,312
social security costs	-1,287,120	-1,614,533
severance indemnities	-416,602	-525,354
retirement and similar liabilities	-219,452	-181,014
directors and statutory auditors	-427,434	-505,024
other labor costs	-15,505	-26,078
b) Other administrative expenses	-6,097,862	-7,363,746
100 Value adjustments on intangible fixed assets	-581,616	-562,492
110 Value adjustments on tangible fixed assets	-5,859,469	-6,338,851
120 Provisions for financial risks and costs	-550,763	-1,590,389
130 Provisions to credit risk funds	0	-600,000
140 Value adjustments on credits and provisions for guarantees and commitments	-25,333,094	-9,838,936
150 Value re-adjustments on receivables and provisions for guarantees and commitments	3,362,790	3,865,148
160 Value adjustments on financial fixed assets	-1,000,000	-1,608,013
170 Value recoveries on financial fixed assets	0	0
180 Profit (loss) on ordinary activities	-31,414,056	-19,297,954
190 Extraordinary proceeds	4,798,195	388,844
200 Extraordinary costs	-315,395	-10,675,996
210 Extraordinary profit (loss)	4,482,800	-10,287,152
220 Income tax for the financial year	0	0
230 Change in provisions for general banking risks	0	0
240 Profit (loss) for the year	-26,931,256	-29,585,106

REISSUE OF THE INDEPENDENT AUDITOR'S REPORT PURSUANT TO ART. 33 OF LAW No. 165/2005 AS AMENDED (LISF), OF ART. 68 OF LAW No. 47/2006 AS AMENDED (COMPANY LAW), OF ART. VI.II.3 OF REGULATION No. 2007-07 AND ART. VIII.I.1 OF REGULATION No. 2016-02 ISSUED BY THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO

To the Sole Shareholder of
Cassa di Risparmio della Repubblica di San Marino S.p.A.

Introduction

In execution of the assignment, we had issued, on 26/05/2021, the audit report on the financial statements as of 31/12/2020 of Cassa di Risparmio della Repubblica di San Marino S.p.A. (henceforth also the Bank) approved by the Board of Directors on 24/05/2021.

After the date of issue of our report and precisely on 09/06/2021, the Board of Directors concluded the approval of a new draft financial statements as of 31/12/2020 following events which occurred after the end of the financial year which they required changes to the values of liabilities in the financial statements, in compliance with the postulate of prudence and accrual.

These subsequent events led to a greater provision for risks of an amount of approximately € 11.8 million, resulting in a decrease in the Bank's equity and an increase in the loss for the year of the same amount.

The adjustment described below resulted in the Bank's operating loss settling at approximately € 26.9 million, consequently bringing its final shareholders' equity to a value of approximately € 73.8 million.

On this basis, we reissue our audit report on the financial statements as at 31/12/2020 of Cassa di Risparmio della Repubblica di San Marino S.p.A. which includes the balance sheet as at 31/12/2020, the income statement for the year closed as at such date and the explanatory note, in accordance with Regulation no. 2016-02 issued by the Central Bank of the Republic of San Marino which governs the drafting criteria.

Scope of the legal audit

We carried out the audit in compliance with the requirements of national regulations issued in Republic of San Marino and, where applicable, with the International Standards on Auditing. Our responsibilities under these principles are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of this report. We are independent from the Bank in accordance with the rules and principles on ethics and independence applicable in the San Marino

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legal system to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for preparation of the financial statements that give a true and fair view in accordance with the San Marino regulations governing the drafting criteria and, within the terms established by law, for that part of internal control deemed necessary by the directors themselves to allow the preparation of financial statements without significant errors due to fraud or unintentional behavior or events.

The directors are responsible for the assessment of the Bank's ability to continue as an operating entity and, in preparing the financial statements, for the appropriateness of the use of the going concern assumption, as well as for adequate disclosure on the matter. The directors use the going concern assumption in preparing the financial statements unless they have considered that the conditions exist for the liquidation of the Bank or for the interruption of the business or have no realistic alternatives to such choices.

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

Auditor's Responsibilities for the audit of the Financial Statements

Our objectives are to acquire reasonable certainty that the financial statements as a whole do not contain significant errors, due to fraud or unintentional behavior or events, and to issue an auditor's report that includes our judgement. Reasonable certainty means a high level of security which, however, does not provide the assurance that an audit carried out in compliance with the legislation in force in the Republic of San Marino and, where applicable, with the International Standards on Auditing, will always identify a significant error, if existing. Errors can result from fraud or unintentional behavior or events and are considered significant if it can reasonably be expected that they, individually or as a whole, are able to influence the economic decisions made by users on the basis of the financial statements.

As part of the audit carried out in accordance with the legislation in force in the Republic of San Marino and, where applicable, with the International Standards on Auditing, we exercised professional judgment and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material errors in the financial statements, due to fraud or unintentional behavior or events; we defined and performed audit procedures in response to these risks; we acquired sufficient and appropriate audit evidence on which to base our judgment. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error arising from unintentional behavior or events, since fraud may

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imply the existence of collusion, forgery, intentional omissions, misleading representations or internal auditing forcing;

- we acquired a relevant understanding of internal control for auditing purposes in order to define appropriate circumstantial audit procedures and not to express an opinion on the effectiveness of the internal control of the Bank;
- we assessed the appropriateness of the accounting principles used as well as the reasonableness of the accounting estimates made by the directors, including the related disclosure;
- we reached a conclusion on the appropriateness of the use of the business continuity assumption by the directors and, based on the audit evidence, on the presence of significant uncertainty regarding events or circumstances that may give rise to significant doubts about the Bank's ability to continue operating as an operating entity;
- In the presence of significant uncertainty, we are required to draw attention in the audit report to the related disclosures, or, if such disclosures are inadequate, to reflect this fact in the formulation of our judgement. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Bank ceasing to operate as an operating entity;
- we assessed the presentation, structure and content of the financial statements as a whole, including the disclosure, and whether the financial statements represent the underlying transactions and events in order to provide a correct representation.

We informed the managers of the governance activities, identified at an appropriate level, among other aspects, of the scope and timing planned for the audit and the significant results that emerged, including any significant deficiencies in the internal control identified during the audit.

Opinion

In our opinion, the Financial Statements give a true and fair view of the equity and financial position of Cassa di Risparmio della Repubblica di San Marino S.p.A. as at 31/12/2020 and the economic result for the year closed as at such date, in accordance with the San Marino rules governing the drafting criteria.

A note to public disclosure

Without changing our judgement, we would like to draw attention to what is stated by the Board of Directors in the Management Report and in the Explanatory Notes, in particular on the following issues:

- On 30/12/2020, pursuant to the provisions of articles 2 and 3 of Law no. 223/2020, the Bank subscribed irredeemable public debt securities for a value of € 455 million, included in asset item 50 "Bonds and other debt financial instruments". By means of this operation, the item pursuant to Article 5 ter of Law Decree no. 93/2017 and subsequent amendments, recorded

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in the financial statements as at 31/12/2019 under asset item 130 "Other Activities" for an amount of € 455.1 million, all as detailed in paragraph 5.1.1 of the Explanatory Notes.

- Although the 2020 financial year closes with a loss of € 26.9 million, the determinations of the "2020-2023 Business Plan" approved by the sole shareholder on 26/10/2020, together with the primary legislation issued by the "Consiglio Grande e Generale" of Republic of San Marino with regard to the measures to safeguard the capital solidity reported in the Management Report in the paragraph "Loss settlement plan", allow to confirm the existence of the necessary conditions for the continuity of the Bank's business activity.
- In the 2020 financial year, the Bank recorded receipts for a total of € 2.7 million net of the cash reserve, deriving from the residual amount relating to the Arcade Portfolio, thus reducing the credit exposure relating to the Restructuring Agreement pursuant to Article 182- bis LF Italian (hereinafter Delta Agreement) which, as at 31/12/2020, amounted to € 60.4 million net. Further information relating to the Delta Agreement is described in the paragraphs "Effects of the Restructuring Plan of the Delta Group" and "Significant events after the end of the year" of the Management Report to which reference is made.
- The Bank has allocated € 0.6 million recorded in the financial statements at 31/12/2019 under item 80 of the liabilities "Provision for credit risks" to directly adjust the credit exposures of the assets; at 31/12/2020 the item is therefore cleared.

Report on other provisions of law and regulations

Judgment pursuant to art. VIII.I.1, paragraph 2, letter a) and b) of Regulation no. 2016-02 issued by the Central Bank of the Republic of San Marino (the Regulation).

The directors of Cassa di Risparmio della Repubblica di San Marino S.p.A. are responsible for the preparation of the management report as at 31/12/2020, including its consistency with the related financial statements and its compliance with the Regulation.

We have carried out the procedures indicated in the Regulation in order to express an opinion on the consistency of the management report with the financial statements of Cassa di Risparmio della Repubblica di San Marino S.p.A. as at 31/12/2020 and on its compliance with the Regulation, as well as to issue a declaration on any relevant incorrect statement.

In our opinion, the management report is consistent with the financial statements of Cassa di Risparmio della Repubblica di San Marino S.p.A. as at 31/12/2020 and drafted in compliance with the Regulation.

With reference to the declaration referred to in art. VIII.I.1, paragraph 2, letter b) of the Regulation, based on the knowledge and understanding of the Bank and the related context acquired during the audit, we have nothing to report.

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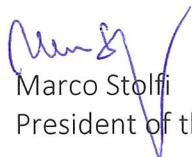


Other aspects

It should be noted that the Bank holds controlling shareholdings, but the current regulatory framework does not currently require the preparation of the consolidated financial statements.

San Marino, June 9, 2021

SOLUTION S.r.l.



Marco Stolfi
President of the Board of Directors

Solution S.r.l.

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