BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

2018 Financial Statements

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1.

Company Officers

BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

Board of Directors

Luigi Lonfernini
Chairman

Emanuele Rossini
Deputy Chairman

Marco Perotti
General Manager

Councilors

Giancarlo Protti
Wlademir Biasia

Board of Statutory Auditors

Gian Enrico Casali
Chairman

Alberto Vaglio
Auditor

Stefania Maria Gatti
Auditor

General Management

Marco Perotti
General Manager

Tiberio Serafini
Deputy General Manager

2.

Shareholders' Meeting

BAC BANCA AGRICOLA COMMERCIALE Istituto Bancario Sammarinese

On **Wednesday 15 May 2019** - first meeting at 11.00 a.m.
and second meeting at 12.00 p.m. venue: meeting room - **Banca Agricola Commerciale** - Istituto Bancario Sammarinese, Via Tre Settembre 316 - 47891 Dogana, will hold the

SHAREHOLDERS' MEETING

To discuss the following **agenda**

1. Reports of the Board of Directors and the Board of Auditors; presentation of the financial statements for the year ended 31 December 2018 and relevant decisions;
2. Statutory amendments;
3. Appointment of the independent auditing firm for the 2019-2021 three-year period;
4. Determination of the amount to be given for charity.

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In accordance with Article 16 of Articles of Association:
"Only shareholders who are registered in the shareholders' register at least five days before the date fixed for the first meeting are entitled to attend the meeting."

In accordance with Article 20 of Articles of Association:
"The meeting is duly constituted when it is attended by enough members who represent, in person or by proxy:
- at least 65% of the share capital at first meeting;
- at least 50% of the share capital at second meeting.
At first and second meeting, the Shareholders' Meeting shall decide by a majority vote of the shares represented at the meeting.

------omissis------."

San Marino, 15 april 2019

The Chairman of the Board of Directors
Avv. Luigi Lonfernini

3.

Best Bank Governance San Marino 2018

BAC BANCA AGRICOLA COMMERCIALE Istituto Bancario Sammarinese

BAC - Best Bank Governance San Marino 2018

The Capital Finance Internationals analysts of London after a four- months valuation process, awarded BAC the **"Best Bank Governance 2018 award"** for the second consecutive year.

The award highlights the important organizational changes achieved in the BAC in 2018 and underlines the the bank's competences, even in a highly challenging environment, to maintain an high customers satisfaction and reputation of its brand.
The prestigious award was edited in the authoritative magazine CFI .co Winter 2018-19, and highlights the bank's efforts to give efficient and adequate Governance to the business target of Bac Group.

The renewal of the company has concerned both the composition and the governance process and the business model with the introduction of a model strictly customer oriented, focused on the Asset Under Management (BAC Investments Spa), on the Web-Based Services, on the customer assistance and to improve the customer experience in the Bank for the approach to new service and financial products.

During 2018 the bank issued n. 16 internal Regulations strengthening the audit process oriented to the international best practices.

The company turnaround continued in 2018, with the nomination of Mr Marco Perotti as general manager and Mr Tiberio Serafini as deputy general manager, and was not only awarded by the London analysts but also by the customers who opened during the 2018 n.1.282 new current accounts.

4.

Report of The Board of Directors

BAC BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

Macroeconomic scenario

The constant growth underway since mid-2016 continued in 2018 as well and maintained the same levels as in 2017. However, the expansion was less balanced and reached a peak only in some of the major economies. According to the latest IMF forecasts, world GDP will register an increase of al **+3.7%** in the 2018-2019 two-year period (-0.2% less than expected in April). Among advanced economies, the Eurozone and the UK did not register any growth.
After a sharp surge in trade volumes in the last quarter of 2017, there was a drop that curbed economic growth, especially in the Eurozone.
Growth in the **USA**, which is still sustained thanks to private sector productivity, is further supported by fiscal incentives; however, the forecasts for 2019 have been revised downwards due to the recent protectionist measures taken by the Government (import duties) against China.
Among the major ***emerging markets and developing economies***, growth was intense in energy exporting countries thanks to the rise in oil prices, but it was slower in Brazil, Argentina, Iran and Turkey, where it was countered by specific factors, such as geopolitical tensions, high oil import duties and credit crunch.
Chinese GDP grew in 2018 as well, but prospects are down for the next years as a result of the recent protectionist measures; forecasts updated in October 2018 indicate a final annual growth of 6.6% in 2018 and 6.2% in 2019 due to the consequences of a slowdown in the growth of foreign demand and tighter financial regulations.
Inflation began to regain momentum in advanced economies: it totaled 2% in 2018 (1.7% 2017), while in emerging economies, excluding Venezuela, it reached 5% compared to 4.8% in 2017. This average is a reflection of a significant heterogeneity between the various countries, deriving from their cyclical positions as well as from the impacts of exchange rate depreciation and from the increase in prices of energy sources.
Accommodating monetary measures will still be required in those countries where inflation is still weak, if carefully launched, well communicated and dependent on the accurate analysis of data where target inflation is close to being reached.
In the United States inflation is expected to increase until 2018 (2.4%) while in 2019 it will be expected to fall to 2.1%. As anticipated, in December the Federal Reserve (FED) increased interest rates on federal funds by +25 basis points to a target range between 2.25%-2.50% (the fourth rise in 2018).
In the **United Kingdom**, due to the depreciation of the pound, inflation settled at 2.1% in 2018, down compared to 2.4% in 2017. In November 2018, the Bank of England decided to leave rates unchanged at 0.75%, after the upward revision in August, pending operational decisions on Brexit.
In **China** the central bank gradually tightened monetary conditions, favoring a further increase in interbank rates, and introduced new prudential measures in the banking and asset management sectors.
In the **Eurozone** growth continued at a sustained rate, but prospects were revised down by 0.4 percentage points, settling at 2% due to the consequences of weaker foreign trade in the first half of 2018. However, domestic demand continues to support growth in the Eurozone and rising inflationary pressures. Inflation closed at 1.7%, slightly up on 2017. In the meeting of 13 December 2018, the Governing Council of the ECB decided to close the purchases of net assets by December 2018 (quantitative easing), keeping key interest rates unchanged. At the same time, uncertainties related to geopolitical factors such as the threat of protectionism, vulnerabilities in emerging markets and the volatility of financial markets remain important and may require significant incentives to monetary policy to support further accumulation of pressure on domestic prices and medium-term inflation trends. The prospective indications of the Governing Council on the main interest rates of the ECB, which were reinforced by the reinvestment of the substantial stock of assets acquired, keep providing the necessary degree of monetary accommodation to support the convergence of inflation towards levels close to 2%.
According to the latest forecasts drawn up by the IMF, in January (WEO Update) the **Eurozone** product should have grown by **+ 1.8%** in 2018 (+ 2.4% in 2017).
Expected inflation for the Eurozone in 2018 was at **+ 1.872%**, significantly higher than in 2017 (+ 1.5%) but below the ECB target (close but less than 2%).
The Eurozone unemployment rate was estimated at **8.3%** in 2018, down on 9.08% in 2017.
The ***Italian economy***, which grew quite rapidly in 2017, had a setback starting from the end of 2017, as it was no longer supported by the robust growth of the Eurozone and the accommodating monetary policies of the ECB. Political uncertainty, which is reflected in high spreads on sovereign bonds and weighs on domestic demand, in addition to the weak external demand and high oil prices, contributed to the revision of IMF estimates on Italian **GDP**, calculated for **2018** at **+1.0%** (+1.6% 2017).
The decrease in domestic demand and the drop in foreign trade contributed to the contraction of the product. The added value in industry in 2018 shows a slowdown compared to the previous year, which had conversely registered a strong expansion in manufacturing and construction. In the services sector, business remained stable as a whole: it decreased in the financial and information sectors, while it increased in commerce and in the real estate sector. Structural deficiencies are at the center of this economic underperformance constrained by rigidities like labor market inefficiencies, high taxation and an inefficient public sector.
The inflation rate of 1.2% recorded in 2018 was revised downwards in the first months of 2019, with an average annual forecast of **+ 1.4%** (+ 1.5% in 2020).
Employment seems to keep growing relatively, despite the slowdown in economic growth and the unemployment rate estimated for 2019 at **10.5%** (10.8% in 2018).

MACROECONOMIC SCENARIOS (changes and percentage points)	Real GDP*			Inflation**			Unemployment**		
		Forecast			Forecast			Forecast	
	2017	2018	2019	2017	2018	2019	2017	2018	2019
WORLD	**3,7%**	**3,7%**	**3,7%**						
Advanced countries	2,3%	2,4%	2,1%	1,4%	1,8%	1,8%	n.d.	n.d.	n.d.
USA	2,2%	2,9%	2,5%	1,9%	2,3%	2,1%	4,4%	3,8%	3,5%
Eurozone	2,4%	2,0%	1,9%	1,1%	1,5%	1,6%	9,1%	8,3%	8,0%
Germany	2,5%	1,9%	1,9%	0,4%	1,6%	1,5%	3,8%	3,5%	3,4%
France	2,3%	1,6%	1,6%	0,3%	1,2%	1,3%	9,4%	8,8%	8,5%
Italy	**1,5%**	**1,2%**	**1,0%**	**1,3%**	**1,3%**	**1,4%**	**11,3%**	**10,8%**	**10,5%**
Japan	1,7%	1,1%	0,9%	-0,2%	0,8%	1,5%	2,9%	2,9%	2,9%
Great Britain	1,7%	1,4%	1,5%	2,7%	2,5%	2,2%	4,4%	4,1%	4,2%
San Marino**	**1,0%**	**1,2%**	**1,3%**	**1,9%**	**1,4%**	**1,0%**	**8,1%**	**8,2%**	**8,3%**
Emerging countries	**4,7%**	**4,7%**	**4,7%**	**4,3%**	**5,0%**	**5,2%**	**n.d.**	**n.d.**	**n.d.**
China	6,9%	6,6%	6,2%	1,6%	2,2%	2,4%	3,9%	4,0%	4,0%
India	6,7%	7,3%	7,4%	3,6%	4,7%	4,9%	n.d.	n.d.	n.d.
Russia	1,5%	1,7%	1,8%	3,7%	2,8%	5,1%	5,2%	5,5%	5,3%
Brazil	1,0%	1,4%	2,4%	3,4%	3,7%	4,2%	12,8%	11,8%	10,7%

World Trade Volume (goods and services)*	2017	Fct 2018	Fct 2019
World*	**5,2%**	**4,2%**	**4,0%**
Advanced countries	4,3%	3,6%	3,6%
Emerging countries	7,0%	5,4%	4,8%

Consumer prices*	2017	Fct 2018	Fct 2019
Advanced countries	1,7%	2,0%	1,9%
Emerging countries	4,3%	5,0%	5,2%

London Interbank Offered Rate*	2017	Fct 2018	Fct 2019
On U.S. Dollar Deposits (six month)	1,5%	2,5%	3,4%
On Euro Deposits (three month)	-0,3%	-0,3%	-0,2%
On Japanese Yen Deposits (six month)	0,0%	0,0%	0,1%

Eurozone interest rates effective as of March 2017	2017	2018
Marginal interest rate	0,25%	0,25%
Main refinancing rate	0,00%	0,00%
Deposit rate	-0,40%	-0,40%
Euribor 3M - e.o.p.	-0,31%	-0,32%
Eonia - e.o.p.	-0,36%	-0,33%

* Source: FMI, WEO_UpDate_January 2019 - WEO update October 2018 (pages 14-15)
** WEO October 2018"

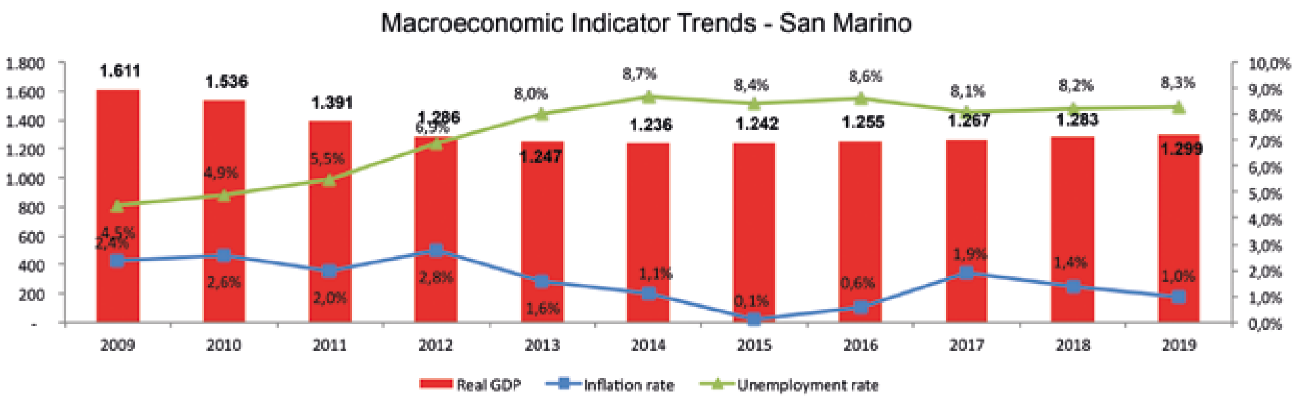
Emilia-Romagna macroeconomic scenario

According to the "Scenarios for local economies" developed by Prometeia and released in October 2018, Emilia Romagna's gross domestic product in 2018 should have recorded an increase of + 1.4% (+ 1.2% in 2019), in both cases higher than the national average.
Emilia Romagna is confirmed as the first Italian region for real GDP growth rate in 2018, along with Lombardy. The growth of domestic demand was driven by gross fixed investments, + 4.7% during 2018, whose positive trend in investments should be strengthened further in 2019 reaching growth of +2.3%.
The double recovery of growth in both world and Eurozone trade contributed positively to the acceleration of the Region's export dynamics in 2018 (+ 2.4%); the positive trend is expected to be strengthened in 2019, so much so that sales are expected to increase by + 3.5% abroad.
From a sectorial point of view, the discrete recovery of industry continues (+ 1.7%), the recession phase for constructions finally closes, marking an increase of + 1%, and the moderate growth in the services sector is confirmed (+ 1.2%).
In the past year, the added value produced by construction in Emilia Romagna marked the first increase (+ 1.5%) after nine years of consecutive negativity; in 2019 the rate of increase in added value is expected to be + 1.7%, thus confirming the positive trend.
For industry in the strict sense, 2018 confirmed the moderately positive trend of growth in added value, which should have reached + 1.5%.
The unemployment rate, which was 2.8% in 2007, reached 8.4% in 2013 as a result of recession; since then, it has dropped, first gradually and then more rapidly thanks to the recovery, until it reached 5.7% at the end of 2018 (6.5% 2017).

San Marino macroeconomic scenario

The economy of San Marino has shown signs of recovery since 2016, but the momentum is slowing down again in the face of uncertainties in the banking sector, with considerable losses recorded by the largest bank and the closure of a bank in the spring of 2017. San Marino's economic recovery remains contained, weighed down by the constant reduction of debt in the financial sector. The indicators at hand are somewhat opposing, with employment growth of 2.2% in October 2018, driven by the increase in the participation of non-residents; unemployment slowly drops to an average rate of 7.9% in 2018, against 8.1% in 2017; no increase in the number of registered companies.
In December 2018 the rating agency Fitch confirmed the medium-long term rating of San Marino: **BBB-**.
The key rating drivers that caused San Marino to be included in the BBB- class are the relatively low capitalization of the financial system, in particular that of the largest state-owned bank, due to which the rating agency Fitch, also in light of the results of the Asset Quality Review (AQR), considers future capital injections with negative effects on public accounts very likely.
Added to this is the high level of non-performing loans (hereinafter also NPLs) and the modest profitability of the banking system.

In this regard, the IMF itself, through the *Executive Board Concludes* in April 2018[1] and the *Staff Concluding Statement of the 2018 Article IV Mission* in January 2019[2], basically highlights the same critical issues identified by Fitch, along with the actions to be taken and the reforms that can no longer be postponed, to give economy a sustainable path of growth and prosperity. This requires the immediate implementation of a full package of political actions aimed at stabilizing the banking system and restoring the supply of credit while safeguarding public finances. Priority should be given to the recognition of losses and the recapitalization of banks in advance, rapidly cutting down on operating costs and non-performing loans (NPL) and reviewing the supervision and governance of the banking sector. Sustainable, growth-friendly fiscal consolidation and ongoing structural reforms are also needed to ensure public debt sustainability, improve competitiveness and promote potential growth.
Compared to the main countries in the Eurozone, the economic and financial crisis that began in 2007 hit San Marino more markedly, as it was associated with a series of exogenous shocks, including the permanence of San Marino for several years in the black list of the main economic and commercial partner and the repeated foreign measures on the repatriation of capital.
These events contributed to weakening the economic/financial system that has so far had little access to foreign capital markets and cannot rely on a "lender of last resort".
Based on the latest IMF estimates, the country's **real GDP**, which saw an increase of + 1.0% in 2017, is estimated to grow by **+ 1.2%** and **+ 1.3%** in 2018 and 2019 respectively.
The inflation rate, which was equal to **+ 1.9%** in 2017, was expected to reach **+ 1.4%** and + 1.0% in 2018 and 2019 respectively.
The unemployment rate for 2017 was **8.1%** and IMF projections see a worsening rate of **8.2%** and 8.3% in 2018 and 2019 respectively.



[1] IMF Country Report No. 17/86.
[2] http://www.imf.org/en/News/Articles/2018/01/17/ms011718-san-marino-staff-concluding-statement-of-the-2018-article-iv-mission.

The signing of the agreement with Italy against double taxation, which allowed the country to exit the Italian tax black list, and the OECD multilateral agreement on the automatic exchange of information (Common Reporting Standard), signed by San Marino in October 2014[3], are two important "steps" towards building a financial system that meets international standards.
However, the transition process towards a more sophisticated financial model is not yet fully completed: the weak "foreign demand" is also reflected in the competitiveness of the country system with ample room for improvement.
The analysis of the competitiveness of the country system, through the ranking elaborated by the Word Bank, shows that at the beginning of 2018 the Republic of San Marino held the number **93** position in *The Ease of Doing business* ranking, losing **14** positions compared to 2017 (Rank 79). The analysis takes into consideration a total panel of 190 countries, where New Zealand held the first place (Rank 1) and Italy was forty-sixth (Rank 46).

[3] San Marino is among the so-called Early Adopter countries.

Topics Doing business - DB 2018	**2018** **San Marino Rank 93**	**2018** **New Zeland Rank 1**	**2018** **Italy Rank 46**
Starting a Business	112	1	66
Dealing with Construction Permits	68	3	96
Getting Electricity	14	37	28
Registering Property	78	1	23
Getting Credit	183	1	105
Protecting Investors	175	2	62
Paying Taxes	40	9	112
Trading Across Borders	20	56	1
Enforcing Contracts	78	21	108
Resolving Insolvency	109	32	24

Source: World bank group, www.doingbusiness.org - total of 190 countries

San Marino legislation and regulations and compliance activities

In 2018, the BAC Compliance Function adjusted the internal regulations, procedures and processes to the increasingly complex San Marino regulatory framework, which is in line with international standards and constantly evolving also in tax matters, extending the scope of operations of the Function to these matters (Tax Compliance).
Banking and financial regulations
With regard to banking and finance, the evolution of the regulatory framework of the Republic of San Marino continued with the transposition of other community directives (the community acquis on financial matters) as established in the Monetary Agreement signed between the Republic of San Marino and the European Union on 27/03/2012 and last updated with Council Decree no. 136 of 5 December 2017.
With ***Regulation no. 2018/01***, "Miscellany of interventions designed to review current supervisory provisions", Central Bank, with reference to CBSM Regulation no. 2013.04 on euro banknotes and coins suspected of being false/unsuitable for circulation, intends to make operational updates regarding the timing of periodic reports and the repeal of the reporting models named B2 (report for the transmission of euro banknotes) and M2 (report for the transmission of euro coins).
With ***Regulation no. 2018/02***, "Regulation amending Regulations no. 2006-03, no. 2007-07, no. 2011-03, no. 2014-04, no. 2016-02", entered into force on 31.08.2018, Central Bank defines the "branches" of banks, management companies, financial companies, trusts and payment service providers. With regard to the financial statements, this provision aligns the rules to EU directives 86/635/EEC and 89/117/EC in order to prepare the system for the application of IAS-IFRS principles.
With ***Circular no. 2018/01***, "Update of Statistical Currency Reporting appendixes", Central Bank transmits appendixes no. 2 and no. 4 updated to November 2018, relating to the tables of country codes and currency codes respectively, for the compilation of the Statistical Currency Reporting, envisaged by Communication no. 2000/1 of 11 July 2000.

Banking and financial legislation

Delegated decree no. 34 of 10 April 2018 "Amendment of article 6 of Law no. 47 of 23 February 2006 as amended – Law on companies". The process of verifying and maintaining the integrity requirements of the employees of the BAC Banking Group was regulated on the basis of the regulations contained in the employment contracts as well as in those issued by the Supervisory Authorities from time to time.
Delegated decree no. 50 of 4 May 2018 Ratified by Delegated Decree no. 72 of 25 June 2018 "Provisions on credit facilities for companies". Projects that can be financed include company projects envisaging new investments aimed at developing the company and/or repositioning it on the market and/or preserving the competitive capacity by maintaining or increasing the number of human resources employed. It is possible to sign specific agreements with the State Congress to obtain credit facilities. In these agreements the State Congress establishes the conditions: maximum amount and duration of the loan, interest grants, project deadlines, etc.
Decree Law no. 58 of 25 May 2018 "Amendment of articles 75, 78 and 79 of Law no. 147 of 21 December 2017 – Consolidated Law on Urban Planning and Building" Ratified by Decree Law no. 70 of 25 June 2018 "Ratification of Decree Law no. 58 of 25 May 2018 – Amendment of articles 75, 78, 79 and 80 and introduction of articles 71-bis and 86-bis of Law no. 140 of 14 December 2017 – Consolidated Law on Town Planning and Building". In summary, article 75 envisages the regularization of building and urban planning violations; subject to payment of an administrative fine, a concession or building permit can be requested in the form of amnesty. On 02/02/2018 a regulation was issued on the management of real estate property owned by the BAC Banking Group.
Decree Law no. 62 of 13 June 2018, Ratified by Decree Law no. 101 of 03.08.2018, "Extension of the deadline for lodging applications for building permission in the form of extraordinary amnesty pursuant to paragraph 1, article 33, of Law no. 94 of 7 August 2017, as amended by paragraph 5, article 95 of Law 21 December 2017, and adjustment of the terms related thereto". The deadline for lodging applications for building permission in the form of extraordinary amnesty is extended to 30.11.2018 and the three-year deadline referred to in article 95 of Law no. 147/2017 and the deadline set for the payment of 50% of the sanction amount and the concession fee are also extended to such date.
Law no. 171 of 21 December 2018 "Protection of individuals with regard to the processing of personal data", the law entered into force on 05.01.2019 and the new provisions apply to all the companies of the BAC Group. The new law repeals Law no. 70/1995, which remains in force only with reference to the computerized collection of legal persons' data. The new law establishes rules concerning the protection of natural persons with regard to the processing of personal data, including those held abroad, and the circulation of such data. The aforementioned law has the same content as Regulation 2916/679/EU on the processing of personal data in force since 25/5/2018 to allow the processing of data of individuals residing in a Member State with the same methods.
Delegated Decree no. 110 of 31 August 2018 "Provisions regarding investor compensation systems and implementing Directive 97/9/EC", Ratified by Delegated Decree no. 148 of 22 November 2018. The provision introduces the San Marino Investor Compensation Fund for the protection of customers' receivables from individuals authorized to carry out the investment services referred to in letter D of the LISF Annex and to the accessory service of custody and administration of financial instruments on behalf of customers. The Central Bank Regulation will define the methods for joining the San Marino investor compensation fund and the first contribution to it.
Delegated Decree no. 111 of 31 August 2018 "Provisions regarding final orders for transfer in a payment or securities settlement system implementing Directive 98/26/EC". The Decree updates the current rules on the finality of transfer orders in a payment or securities settlement system. The Decree also applies to collateral securities even if provided in relation to transactions carried out by the Central Bank. Transfer orders are binding and enforceable against third parties even in the event of the opening of insolvency proceedings if entered before the opening of the proceedings. Similarly, the guarantees established before the opening of the proceedings can be carried out exclusively to satisfy the guaranteed credit. The guarantee can be enforced in order to satisfy the guaranteed rights.
Delegated Decree no. 112 of 31 August 2018, "Provisions on the reorganization and liquidation of credit institutions implementing Directive 2001/24/EC", ratified by Delegated Decree no. 149 of 22 November 2018. The recipients of the measures are Banks even when they perform the activity of providing investment services. Extraordinary administration procedures, suspension of administrative bodies and compulsory administrative liquidation are also provided for branches of foreign entities. Forms of collaboration with foreign authorities are established. The validity of actions for consideration carried out by the Bank after the start of a reorganization or liquidation procedure, in relation to the

financial instruments that are registered in a register or in a centralized deposit system, is governed by the law under which the register, account or deposit system is kept.
Delegated Decree no. 113 of 31 August 2018 "Provisions regarding financial collateral agreements transposing Directive 2002/47/EC", ratified by Delegated Decree no. 150 of 22 November 2018. The provision transposes into the San Marino system the regulation on financial collateral agreements consisting of a transfer of the collateral ownership title to the beneficiary (including repurchasing agreements) or of the establishment of a real guarantee in favor of the beneficiary.
Delegated Decree no. 176 of 28 December 2018 "Provisions regarding access to the activity of credit institutions and the prudential and supplementary supervision of the financial sector, implementing Directive 2002/87/EC, Directive 2013/36/EU and the related EU regulation 575/2013". The so-called CRDIV is Directive 2013/36/EU with EU Regulation 575/2013, which establishes the rules for accessing the activity of credit institutions and the so-called Basel III minimum capital requirements. The provision transposes Directive 2002/87/EC concerning the supplementary supervision of credit institutions, insurance companies and investment firms belonging to a financial conglomerate. Please note the reference to Solvency II, which sets minimum capital requirements for insurance companies. The concept of financial institution includes management companies.
Delegated Decree no. 177 of 28 December 2018 "Provisions regarding payment services transposing EU Directive 2015/2366" PSD2 is Directive 2015/2366, which concerns payment services. Please note that in this context the Republic already transposed PSD1 with Regulation 2014/04.

Anti-money laundering provisions and regulations

FIA Instruction 2018/1 "Procedures for fulfilling the obligations of identification and verification of the identity of the customer and of the beneficial owner". The first pillar of the IV Directive 849/2015 focuses attention on the identification of the beneficial owner. Therefore, this Instruction provides a detailed list of the methods of identification of the customer and of the beneficial owner. The most relevant ones of these are aimed at tracing the identity of the customer and of the beneficial owner; the figure of the person in charge of fulfilling due diligence is introduced; the BIA must report the validation of the risk profile, the motivation of its modification and the indication of the evaluation process that led to the identification of the beneficial owner, with the obligation to keep the documentary track of the checks carried out.
FIA Instruction 2018/2 "Provisions regarding risk based approach on money laundering and terrorist financing". The second pillar of the IV Directive 849/2015 envisages the modulation of due diligence measures according to the risk profile. Therefore, this Instruction indicates the modes of determining the risk profile and the reinforced and simplified due diligence measures. The risk-based approach requires due diligence measures to be calibrated based on the risk profile assigned to the customer, to assess the risk factors also in relation to the beneficial owner, to adopt simplified, ordinary and strengthened due diligence measures according to the combination of the high or low risk resulting from the national assessment or the self-assessment and the risk profile attributed to each customer.
FIA Instruction 2018/3 "Fulfillment of customer due diligence obligations through third parties". The Instruction allows customers who have relationships with other designated subjects to avail themselves of the due diligence already carried out without repeating the fulfillment of identification of the customer and the beneficial owner, verification of their identity and understanding of the purpose and nature of the relationship. The possibility of making use of the due diligence by a third party presupposes the consent of the customer, the designated subject and the third party.
The designated subject is not obliged to use the third party and the third party has the right not to adhere to the procedure. The Bank and the Companies of the Group normally do not make use of the due diligence carried out by third parties because it considers the reception of information and declarations directly from the customer to be more protective.
FIA Instruction 2018/4 "Registration and conservation obligations". The new provisions apply to all BAC Group companies. The basic IT system, according to the new provisions, must allow logging established relationships, links between subjects and even occasional operations. The use of the basic IT system complete with all data and information does not make the Anti-Money Laundering IT Archive mandatory.
Circular no. 2018-01 "Risk factors for financial subjects" Information is provided on the risk factors relating to the customer and the beneficial owner, the geographical area, the products, services, operations or distribution channels. The risk factors must be analyzed to correctly determine the customer's risk profile and be reported in the BIA to justify the evaluation process that led to the determination of the customer's profile.
FIA Newsletter no. 1 March 2018 Starting from March 2018, FIA launched a new activity aimed at providing Obliged Parties and Anti-Money Laundering Reporting Officer with useful information for the prevention and combating of money laundering and terrorist financing by periodically publishing a newsletter. That of March 2018 reports the latest news concerning the fight against money laundering and terrorist financing published on the main national and international sites.
FIA Newsletter no. 2 June 2018 On 08/06/2018 FIA published the FIA Newsletter 02/2018 bearing the latest publications on the combating of money laundering and terrorist financing in order to provide useful information for risk prevention and mitigation.
FIA Newsletter no. 3 October 2018 On 25/10/2018 FIA published the FIA Newsletter 03/2018 bearing the latest news relating to the combating of money laundering and terrorist financing published on the main national and international sites.
NRA – National Risk Assessment-Summary Report FIA published the Summary Report of the first national assessment of money laundering risks (NRA) conducted in 2015 and 2016. This document provides the analysis conducted on money laundering threats, vulnerability and risks to which the Republic is exposed. Attached is a summary of the results of the assessment in relation to the threats and the main sectors exposed to them.
Delegated Decree no. 15 of 1 February 2018 Ratification of Delegated Decree no. 128 of 31 October 2017 "Provisions to facilitate the return of assets and the emergence of certain assets held abroad", the so-called San Marino Tax Shield entered into force on 01/11/2017. This decree introduces a tax compliance program to which Law no. 92/2008, FIA Instruction 2014/03 and Congress Regulation no. 7 of 24 October 2014 apply. Voluntary tax compliance programs are aimed at facilitating the regularization of the tax payer's situation in relation to funds or utilities previously not declared or incorrectly reported to the tax authorities. The activities that benefit from the tax compliance programs are subject to the customer due diligence procedure, including the obligation to identify the beneficial owner and the application of enhanced customer due diligence measures, registration obligations and reporting of suspicious transactions.

FIA legislation, instructions and publications on anti-money laundering

Date	Type	Title
19/04/18	Instruction 2018/01	Procedures for fulfilling the obligations of identification and verification of the identity of the customer and of the beneficial owner.
19/04/18	Instruction 2018/02	Provisions regarding risk based approach on money laundering and terrorist financing.
19/04/18	Instruction 2018/03	Fulfillment of customer due diligence obligations through third parties.
20/12/18	Instruction 2018/04	Registration and conservation obligations.
19/04/18	Circular 2018/01	Risk factors for financial subjects.
01/02/18	Delegated Decree no. 15 of 1 February 2018 - Ratification of Delegated Decree no. 128 of 31 October 2017	Provisions to facilitate the return of assets and the emergence of certain assets held abroad.
03/2018	FIA Newsletter no. 1	Latest news on the combating of money laundering and terrorist financing published on the main national and international sites.
06/2018	FIA Newsletter no. 2	Latest news on the combating of money laundering and terrorist financing published on the main national and international sites.
10/2018	FIA Newsletter no. 3	Latest news on the combating of money laundering and terrorist financing published on the main national and international sites.
2015/2016	National Risk Assessment-Summary Report	National Risk Assessment of Money Laundering – NRA.

Banking provisions and regulations

Regulations	Subjects
Regulation no. 2018-01	Miscellany of interventions designed to review current supervisory provisions.
Regulation no. 2018-02	Regulation amending Regulations no. 2006-03, no. 2007-07, no. 2011-03, no. 2014-04, no. 2016-02.
Circular no. 2018-01	Update of Statistical Currency Reporting appendixes.
Delegated Decree no. 34 of 10 April 2018	Amendment of article 6 of Law no. 47 of 23 February 2006 as amended – Law on companies.
Delegated Decree no. 50 of 4 May 2018 - Ratified by Delegated Decree no. 72 of 25 June 2018	Provisions on credit facilities for companies.
Decree Law no. 58 of 25 May 2018 - Ratified by Decree Law no. 70 of 25 June 2018	Amendment of articles 75, 78 and 79 of Law no. 147 of 21 December 2017 – Consolidated Law on Urban Planning and Building.
Decree Law no. 62 of 13 June 2018 Ratified by Decree Law 3 August 2018	Extension of the deadline for lodging applications for building permission in the form of extraordinary amnesty pursuant to paragraph 1, article 33, of Law no. 94 of 7 August 2017, as amended by paragraph 5, article 95 of Law 21 December 2017, and adjustment of the terms related thereto.
Law no. 171 of 21 December 2018 n. 171	Protection of individuals with regard to the processing of personal data.
Delegated Decree no. 110 of 31 August 2018 Ratified by Delegated Decree no. 148 of 22 November 2018	Provisions regarding investor compensation systems and implementing Directive 97/9/EC.
Delegated Decree no. 111 of 31 August 2018	Provisions regarding final orders for transfer in a payment or securities settlement system implementing Directive 98/26/EC.
Delegated Decree no. 112 of 31 August 2018 Ratified by Delegated Decree no. 149 of 22 November 2018	Provisions on the reorganization and liquidation of credit institutions implementing Directive 2001/24/EC.
Delegated Decree no. 113 of 31 August 2018, Ratified by Delegated Decree no. 150 of 22 November 2018.	Provisions regarding financial collateral agreements transposing Directive 2002/47/EC.
Delegated Decree no. 176 of 28 December 2018	Provisions regarding access to the activity of credit institutions and the prudential and supplementary supervision of the financial sector, implementing Directive 2002/87/EC, Directive 2013/36/EU and the related EU regulation 575/2013.
Delegated Decree no. 117 of 28 December 2018	Provisions regarding payment services transposing EU Directive 2015/2366.

Main legislative actions in San Marino's regulatory framework

- Delegated Decree no. 1 of 2 January 2018 – Administrative violations.
- Decree Law no. 2 of 2 January 2018 – Urgent provisions regarding social and subsidized building, ratified by Decree Law no. 30 of 19 March 2018.
- Delegated Decree no. 6 of 23 January 2018 – Determination of the maximum annual remuneration pursuant to article 32, paragraph 6, of Law no. 15 of 11 February 1983 as amended.
- Delegated Decree no. 7 of 23 January 2018 – Changes in the cost of living and related coefficients pursuant to article 32, paragraph 9, of Law no. 15 of 11 February 1983 as amended.
- Delegated Decree no. 22 of 1 March 2018 – Ratification of Delegated Decree no. 148 of 27 December 2017 – Amendment to Annex A of Law no. 188 of 5 December 2011 as amended – Establishment of the one-stop shop for companies.
- Regulation no. 2 of 15 March 2018 n. 2 – Provisions regarding the Register of Auditors.
- Delegated Decree no. 43 of 30 April 2018 – Simplification of administrative authorizations and concessions connected with the exercise of business ratified by Delegated Decree no. 74 of 27 June 2018.
- Delegated Decree no. 44 of 30 April 2018 – Provisions regarding the extraordinary tax on real estate and property assets, ratified by Delegated Decree no. 71 of 25 June 2018.
- Decree Law no. 52 of 10 May 2018 – Amendment to articles 62 and 64 of Law no. 147 of 21 December 2017 – Provisional Budgets of the State and Bodies of the Public Sector for the financial year 2018 and 2018/2020 multi-year financial statements ratified by Decree Law no. 75 of 27 June 2018.
- Delegated Decree no. 65 of 15 June 2018 – Amendments to Delegated Decree no. 46 of 11 April 2016 – Provisions for the use of electronic qualified delivery services, ratified by Delegated Decree no. 92 of 26 July 2018.
- Delegated Decree no. 68 of 22 June 2018 – Business sectors subject to the authorization of the State Congress.
- Decree Law no. 76 of 28 June 2018, ratified by Decree Law no. 123 of 25 September 2018 – Regulation of the tax abatement regime for income deriving from intangible assets.
- Delegated Decree no. 80 of 2 July 2018 – Provisions implementing Law no. 115 of 29 September 2017 – Amendments and additions to the rules on support for economic development – and Law no. 147 of 21 December 2017 – Provisional Budgets of the State and Bodies of the Public Sector for the financial year 2018 and 2018/2020 multi-year financial statements, relating to incentives for hiring women and people over 50, and job lists.
- Decree Law no. 82 of 5 July 2018, ratified by Decree Law no. 124 of 25 September 2018 – Urgent provisions regarding social safety nets and employment sustainability, and early retirement benefits.
- Delegated Decree no. 87 of 24 July 2018 – Amendments to Decree no. 100 of 20 July 2004 – Soft tax rate for the construction, renovation and completion of buildings directly instrumental to business.
- Law no. 93 of 30 July 2018 – Law on single-phase credits and tax credits for banks.
- Law no. 102 of 6 August 2018 – Amendments to Law no. 7 of 29 January 1992 – General Urban Plan – for the implementation of operations designed for companies' economic and occupational development.
- Decree Law no. 103 of 6 August 2018 – Amendments to Law no. 71 of 27 June 2013 – Law on support for economic development – and to Delegated Decree no. 63 of 25 April 2014 – Delegated Decree implementing articles 18, 20, 28, 37 of Law no. 71 of 27 June 2013 – Law on support for economic development.
- Law no. 104 of 8 August 2018 – Amendment to the Provisional Budget of the State for the financial year 2018 and amendments to Law no. 145 of 21 December 2017.
- Delegated Decree no. 109 of 30 August 2018 – Regulation of public telecommunications services – Establishment of the company "Public NetCo" and "Autorità ICT", ratified by Delegated Decree no. 146 of 20 November 2018.
- Delegated Decree no. 122 of 24 September 2018, ratified by Delegated Decree no. 154 of 11 December 2018 – Introduction of ordinary residence for frontier workers, ratified by Delegated Decree no. 154 of 11 December 2018.
- Delegated Decree no. 130 of 27 September 2018 – Definition of the maximum spread and the nominal interest rate to be applied until 30 September 2019 to loans with state contributions.
- Delegated Decree no. 131 of 27 September 2018 – Extraordinary Fund against financial frauds, ratified by Delegated Decree no. 168 of 17 December 2018.
- Decree Law no. 133 of 17 October 2018 – Extension of the deadlines for submitting the declaration and payment of the extraordinary tax on real estate and movable assets pursuant to Delegated Decree no. 71 of 25 June 2018.
- Law no. 137 of 31 October 2018 – Second amendment to the Provisional Budget of the State, Amendment to the Provisional Budget of Other Bodies of the Public Sector for the financial year 2018, amendments to Law no. 147 of 21 December 2017 as amended.
- Delegated Decree no. 138 of 31 October 2018 – Simplification for submitting the financial statements of economic operators.
- Delegated Decree no. 144 of 14 November 2018 – Amendments to article 73 of Law no. 166 of 16 December 2013 – General income tax – as amended.
- Council Decree no. 166 of 12 December 2018 – Ratification of the Amendments made in the year 2017 to the Annex of the Monetary Convention between the European Union and the Republic of San Marino to avoid double taxation and prevent income tax evasion.
- Law no. 169 of 17 December 2018 – General accounts of the State and Bodies of the Public Sector for the financial year.
- Law no. 173 of 24 December 2018 – Provisional budgets of the State and Bodies of the Public Sector for the financial year 2019 and 2019/2021 multi-year financial statements.
- Delegated Decree no. 180 of 28 December 2018 – Rules on tax credit for the recruitment of personnel registered with employment lists and weak categories and on incentives on performance bonuses (Amendments to Law no. 115/2017 and Delegated Decree no. 137/2017).

Dear shareholders,

before commenting on the 2018 accounts, it is worth recalling that the past financial year was still particularly complex for the entire San Marino banking system.
The frequent distress significantly affected all the main economic indicators of the financial system, also causing a large outflow of capital from the Republic of San Marino.
In light of the general economic situation and the consequent repercussions generated on the banking system, the economic results achieved by your Bank, albeit negative, must be considered with great positivity, especially if framed within the challenging process of governance change set up by the Board of Directors.
Therefore, a reason for particular satisfaction is represented by the award received for the second consecutive year by London's Capital Finance International (CFI co) analysts, who elected BAC *"Best Bank Governance San Marino 2018"* after a four-month evaluation process.
The prestigious award was published by the authoritative magazine CFI.co Winter 2018-19, and repays the Bank's effort to provide itself with efficient and appropriate governance for the types of business implemented by the BAC Group.
The corporate renewal affected both the composition and governance processes and the business model with the introduction of a strongly customer-oriented model, focusing on managed deposits (BAC Investments SG S.p.A.), web-based services, assistance to customers towards introducing new products/services and improving their experience in the Bank. During 2018, 16 Regulations were updated and/or issued, strengthening the control structures oriented towards international best practices.
The bank's turnaround, which continued in 2018 with the appointment of Mr. Marco Perotti as General Manager and Mr. Tiberio Serafini as Deputy General Manager, was awarded by London analysts and repaid by customers, who opened 1,282 new current accounts in just one year.
Worth mentioning is the fact that BAC was granted, by the Supervisory Authority, the authorization to set up the management company BAC Investments SG on 12/12/2017 and, starting from 2 July 2018, it started the placement of five managed funds which made it necessary, among other things, to establish the function of a Depositary Bank at BAC.
The creation of BAC Investments SG represents an important step in asset management which qualifies it as an asset manager at the same level as other European investment houses and will allow a further development of the Group's commercial activities. BAC Investments SG manages five open-ended mutual funds intended for the general public and subject to UCITS[4] regulations (already authorized by the Central Bank of the Republic of San Marino).
The placement of insurance policies in the "non-life branch" was also launched to implement the Insurance product distribution agreement signed with NET Insurance S.p.A. and NET Insurance Life S.p.A. in Rome.
The BAC Group also includes: BAC Fiduciaria Spa, wholly owned and operating in the trust sector, as well as San Marino's main insurance company San Marino Life Spa, whose entire share capital was acquired during 2012 and for which BAC has also acted as an intermediary since 2009, the year the Company was founded.
The BAC Group also controls IBS Immobiliare Srl, established in 2011 by IBS Spa for the management of assets, especially real estate ones.

[4] The acronym UCITS (Undertakings for Collective Investment in Transferable Securities) refers to EU Directive no. 65/EC of 13/01/2019 which establishes the terms for the placement of funds domiciled in one of these.

General principles for the preparation of the Management Report

The Management Report is intended to ensure a correct, true and clear representation of the economic-financial situation in terms of form and content.
It provides information in accordance with the preparation basis of the concise statement of assets and liabilities and profit and loss account, which are connected in a timely manner to the statutory ones. The Report includes a few tables (Main data, Reclassified financial statement schemes) and comments on the "Results for the year".

Main data

Profit and loss account data

PROFIT AND LOSS ACCOUNT	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Interest margin	12.338.018	15.211.942	-2.873.923	-18,89%
Commission income	3.708.599	3.623.757	84.842	2,34%
Profits and losses on financial transactions	79.889	397.399	-317.510	-79,90%
Revenues from intermediation	5.715.100	5.744.703	-29.604	-0,52%
Intermediation margin	**18.053.118**	**20.956.645**	**-2.903.527**	**-13,85%**
Personnel expenses	-8.878.670	-9.599.022	720.353	-7,50%
Administrative expenses	-5.431.760	-5.328.904	-102.856	1,93%
Tangible and intangible asset adjustments	-1.714.315	-2.045.177	330.863	-16,18%
Operating costs	**-16.024.744**	**-16.973.104**	**948.359**	**-5,59%**
Operating result	**2.028.373**	**3.983.541**	**-1.955.168**	**-49,08%**
Provisions and net adjustments on credits and financial assets	-5.910.186	-4.762.353	-1.147.833	24,10%
Margin on investment securities/extraordinary income	481.745	998.188	-516.443	-51,74%
Tax on income	-320.972	-226.961	-94.011	41,42%
Result for the year	**-3.721.039**	**-7.585**	**-3.713.454**	**-48960,97%**

Balance sheet data

	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Total assets	**929.209.077**	**927.227.822**	**1.981.255**	**0,21%**
Loans to customers	502.895.394	542.798.321	-39.902.927	-7,35%
- of which deteriorated loans	120.447.654	119.105.683	1.341.971	1,13%
Financial assets	54.377.741	39.534.103	14.843.638	37,55%
Amounts due to customers and outstanding securities	**716.570.778**	**707.029.682**	**9.541.096**	**1,35%**
of which amounts due	434.007.160	413.157.964	20.849.196	5,05%
of which outstanding securities	282.563.618	293.871.718	-11.308.100	-3,85%
Interbank net position (including securities)	**138.326.686**	**120.416.107**	**17.910.579**	**14,87%**
Net equity (including net result)	**86.585.733**	**90.264.495**	**-3.678.762**	**-4,08%**

Financial assets of customers

	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
A) Direct deposits	**725.186.274,54**	**719.890.841,69**	**5.295.432,85**	**0,74%**
Savings deposits	3.605.783	3.830.533	-224.750	-5,87%
Customers' euro and foreign currency accounts	402.488.328	390.654.938	11.833.390	3,03%
Repurchasing agreements	24.087.145	18.672.493	5.414.652	29,00%
Other funds	3.825.903	0	3.825.903	0,00%
Certificates of deposit	282.563.618	293.871.718	-11.308.100	-3,85%
Internal cheques	604.644	845.016	-240.372	-28,45%
Subordinate liabilities	8.010.853	12.016.144	-4.005.291	-33,33%
B) Managed deposits (market value)	**26.303.424**	**57.024.023**	**-30.720.599**	**-53,87%**
of which cash	14.347.349	15.700.264	-1.352.915	-8,62%
of which Subordinate Loans	480.000	720.000	-240.000	-33,33%
C) Administered deposits (market value)	**515.332.859**	**537.724.722**	**-22.391.863**	**-4,16%**
of which Subordinate Loans	7.520.000,00	11.280.000,00	-3.760.000,00	-33,33%
D) Depositary bank activity	**45.495.135**	**0**	**45.495.135**	**n.d.**
of which cash	950.104	0	950.104	n.d.
of which Subordinate Loans				
Total Deposits	**1.289.020.240**	**1.286.939.323**	**2.080.917**	**0,16%**

MAIN INDICATORS	31/12/2018	31/12/2017
Structure data		
Number of employees e.o.p.	123	131
Number of branches	9	9
MAIN INDICATORS	**31/12/2018**	**31/12/2017**
Credit risk ratios		
Net non-performing loans/Net loans to customers	13,00%	9,64%
Net doubtful loans/Net loans to customers	23,95%	21,94%
Coverage on total loans	8,41%	7,01%
MAIN INDICATORS	**31/12/2018**	**31/12/2017**
Supervisory capital and ratios		
Supervisory capital	76.806.605	84.167.481
Weighted risk assets	449.336.899	462.676.445
Tier 1 (%)	17,09%	18,19%
Total assets	929.209.077	927.227.822
PROFITABILITY INDICATORS	**31/12/2018**	**31/12/2017**
Interest margin/Intermediation margin	68,34%	72,59%
Service margin/Intermediation margin	31,66%	17,29%
Cost/income ratio	88,76%	80,99%
Cost/income ratio gross of value adjustments	11,24%	19,01%
Leverage (medium assets/medium equity)	10,73	10,27
ROA e.o.p.	-0,40%	0,00%
ROE e.o.p.	-4,30%	-0,01%

Reclassified financial statement schemes

RECLASSIFIED ASSETS	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Cash and cash equivalents	6.765.689	6.140.397	625.292	10,18%	0,73%	0,66%
Loans to banks	139.463.756	121.200.553	18.263.202	15,07%	15,01%	13,07%
Loans to customers	502.895.394	542.798.321	-39.902.927	-7,35%	54,12%	58,54%
Financial assets	54.377.741	39.534.103	14.843.638	37,55%	5,85%	4,26%
Shareholdings	12.564.779	12.221.284	343.495	2,81%	1,35%	1,32%
Tangible fixed assets	93.093.216	93.765.359	-672.143	-0,72%	10,02%	10,11%
Intangible fixed assets	1.237.337	1.598.958	-361.622	-22,62%	0,13%	0,17%
Other assets	118.811.166	109.968.847	8.842.320	8,04%	12,79%	11,86%
Total assets	**929.209.077**	**927.227.822**	**1.981.255**	**0,21%**	**100,00%**	**100,00%**

RECLASSIFIED LIABILITIES	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Amounts due to banks	1.137.069	784.447	352.623	44,95%	0,12%	1,69%
Amounts due to customers	434.007.160	413.157.964	20.849.196	5,05%	46,71%	42,55%
Payables represented by securities	282.563.618	293.871.718	-11.308.100	-3,85%	30,41%	38,28%
Provisions for risks and charges	1.857.990	2.975.597	-1.117.607	-37,56%	0,20%	0,32%
Non-adjusting provision for risks on credits	0	0	0	-	0,00%	0,00%
Other liabilities	115.046.654	114.157.457	889.197	0,78%	12,38%	9,13%
Subordinate liabilities	8.010.853	12.016.144	-4.005.291	-50,00%	0,86%	1,58%
Net equity	86.585.733	90.264.495	-3.678.762	-4,08%	9,32%	6,45%
- Capital and reserves	94.107.416	94.065.140	42.277	0,04%	10,13%	6,33%
- Retained losses	-3.800.644	-3.793.060	-7.585	100,00%	0,41%	0,00%
- Result for the year	-3.721.039	-7.585	-3.713.454	48960,97%	-0,40%	0,25%
Total liabilities	**929.209.077**	**927.227.822**	**1.981.255**	**0,21%**	**100,00%**	**100,00%**

RECLASSIFIED PROFIT AND LOSS ACCOUNT	31/12/2018	% Intermed. margin	31/12/2017	% Intermed. margin	CHANGE	
					Absolute	%
Interest income and similar charges	**16.384.609**	**-102,25%**	**19.660.080**	**93,81%**	**-3.275.471**	**-16,66%**
of which: a) Interest income to customers	15.674.469	86,82%	19.041.146	90,86%	-3.366.677	-17,68%
b) Interest income to banks	161.433	0,89%	82.390	0,39%	79.042	95,94%
c) Interest income on debt securities	548.708	3,04%	536.543	2,56%	12.164	2,27%
Interest expense and similar charges	**-4.392.413**	**-24,33%**	**-4.923.553**	**-23,49%**	**531.139**	**-10,79%**
of which: a) Interest expense to customers	-1.057.549	-5,86%	-839.331	-4,01%	-218.218	26,00%
b) Interest expense on payables represented by securities	-3.334.018	-18,47%	-4.082.595	-19,48%	748.576	-18,34%
c) Interest expense to banks	-845	0,00%	-1.627	-0,01%	782	-48,04%
Interest margin	**11.992.196**	**66,43%**	**14.736.527**	**70,32%**	**-2.744.331**	**-18,62%**
Dividends and other revenues	345.822	1,92%	475.415	2,27%	-129.592	-27,26%
Financial margin	**12.338.018**	**68,34%**	**15.211.942**	**72,59%**	**-2.873.923**	**-18,89%**
Net commissions	3.708.599	20,54%	3.623.757	17,29%	84.842	2,34%
of which: a) commission income	4.506.328	24,96%	4.465.221	21,31%	41.108	0,92%
b) commission expense	-797.729	-4,42%	-841.463	-4,02%	43.734	-5,20%
Profits and losses on financial transactions	79.889	0,44%	397.399	1,90%	-317.510	-79,90%
of which: a) on securities	-214.756	-1,19%	65.119	0,31%	-279.875	-429,79%
b) on exchanges	294.645	1,63%	332.280	1,59%	-37.635	-11,33%
c) on other operations	0	0,00%	0	0,00%	0	0,00%
Other net revenues	1.926.611	10,67%	1.723.547	8,22%	203.065	11,78%
Service margin	**5.715.100**	**31,66%**	**5.744.703**	**27,41%**	**-29.604**	**-0,52%**
Intermediation margin	**18.053.118**	**100,00%**	**20.956.645**	**100,00%**	**-2.903.527**	**-13,85%**
Operating costs	**-16.024.744**	**-88,76%**	**-16.973.104**	**-80,99%**	**948.359**	**-5,59%**
of which: a) Personnel expenses	-8.878.670	-49,18%	-9.599.022	-45,80%	720.353	-7,50%
b) Other administrative expenses	-5.431.760	-30,09%	-5.328.904	-25,43%	-102.856	1,93%
c) Tangible and intangible fixed asset adjusments	-1.714.315	-9,50%	-2.045.177	-9,76%	330.863	-16,18%
Operating result	**2.028.373**	**11,24%**	**3.983.541**	**19,01%**	**-1.955.168**	**-49,08%**
Provisions and net adjustments on credits	-5.083.858	-28,16%	-4.691.353	-22,39%	-392.505	8,37%
Provisions for risks and charges	-533.099	-11,92%	-71.000	-0,34%	-462.099	650,84%
Financial fixed asset adjustments	-293.229	-1,62%	0	0,00%	-293.229	100%
Income from ordinary activities	**-3.881.812**	**-21,50%**	**-778.812**	**-3,72%**	**-3.103.001**	**-398,43%**
Extraordinary profit (loss)	481.745	2,67%	998.188	4,76%	-516.443	-51,74%
Variation of the General banking risk fund (+/-)	0	0,00%	0	0,00%	0	0,00%
Tax on income	-320.972	-1,78%	-226.961	-1,08%	-94.011	41,42%
Result for the year	**-3.721.039**	**-20,61%**	**-7.585**	**-0,04%**	**-3.713.454**	**-48960,97%**

Results for the year
Main results and performance for the period

Profit and loss account

Operating result structure

(The tables refer to the reclassified profit and loss account).
The Profit and Loss Account for the year 2018 ended with a loss of € 3.721 million, greater than the previous year (- € 0.007 million in 2017).
The analysis of the data concerning the 2018 financial year shows that the result of ordinary activities at the end of December 2018, negative for € 3.881 million, fell by € 3.103 million compared to the final balance of 2017 (- € 0.778 million).
The negative performance of the result shown above is attributable to a negative performance of the financial margin which recorded a decrease equal to - € 2.873 million compared to the final balance of 2017 (- 18.89%). The average spread relating to the ratio of loans/deposits to customers equal to 2.71% decreased by - 22 bps compared to the same period in 2017 (2.93%) since the decrease in the average cost of funding, - 0.6 bps compared to the previous year (- 0.60% 2018, - 0.66% 2017), does not offset the contraction in the average return on customer loans, - 28 bps, compared to the previous year (3.31% 2018 - 3.59% 2017).
This contraction is essentially due to the contraction in the stock of gross loans to customers (- € 39.902 million on the previous year), to the coupon flow of the own securities portfolio, which remains in line with the previous year (€ 0.548 million 2018, € 0.536 million 2017) despite the increase in the stock of own securities, because purchases were made in the last months of the year. Lastly, the contraction is also due to a lower contribution recorded on the companies of the group compared to the year 2017 (- € 0.126 million).
In addition to the above, there are substantial loan value adjustments (€ 5.083 million), up on the previous year by € 0.362 million, as well as provisions for risks, up by € 0.462 million on 2017.
In order to counter the negative economic situation that is still affecting the economy of San Marino and the difficulties experienced by the private economic operators of the Republic, BAC continued to make significant provisions and net adjustments on loans; in particular, for the transfer of the Delta Credits package, authorized by Creditors adhering to the Restructuring Agreement, of which BAC holds 2.543%, BAC made significant adjustments only on this position.
As indicated above, 2018 shows the worsening of the ratio of loans/deposits. Nonetheless, the policy of reducing the average funding cost (- 0.6 bps) following the prudent policies aimed at aligning interest rates with the international money market continues in combination with a positive increase in total direct deposits for € 9.541 million.
Conversely, total intermediation revenues show a stable trend (€ 5.715 million - 0.52% compared to € 5.755 million in 2017), which can be attributed on the one hand to the decrease in profits on the side of financial operations due to the volatility of the markets, and on the other hand to the pure commission income, which records an increase due to a slight recovery in the masses and to other commissions and revenues that include an increase in rental income on leased properties.
On the cost side, thanks to the careful restructuring and containment policies already launched in 2017, there was a total decrease of 5.59% attributable to the reduction in managerial figures which led to a reduction in staff costs equal to - 7.5 % and in adjustments on instrumental fixed assets equal to - 16.18%, deriving from the complete amortization of some fixed assets.

Financial margin

The financial margin stood at € 12.338 million compared to € 15.211 million in 2017 (- € 2.874 million).
The margin represents the balance between net interest equal to € 11.992 million and dividends of € 0.345 million wholly deriving from Group companies. In 2017 these items were equal € 14.736 million and € 0.475 million respectively.
The balance of net interest recorded a decrease of € 2.744 million compared to the previous year (- 18.62%).
The decrease is to be considered taking into account the dynamics of the financial market rates which, as mentioned in the introduction, saw the Euribor continuing its decline also in 2019 and standing on average at - 0.308% in the three-month case, and the contraction of gross loans, which fell by € 39.902 million. The interest margin drop was also contained by the decrease in interest expense thanks to the average funding cost contraction policy (- 0.6 bps, - € 0.530 million in absolute value).
Under the item dividends, the component relating to Group companies amounted to € 0.346 million, which shows a substantial decrease compared to the previous year due to the sole contribution of the dividend of San Marino Life for € 0.475 million, a decrease of - € 0.130 million. SSIS Spa, 50% held jointly with Cassa di Risparmio Spa, closed with a substantial balance, so the modest profit was capitalized to equity. BAC Fiduciaria Spa also capitalized the 2018 profit, while BAC Investments SG Spa closed its first year of operation with a loss of € 0.248 million.

Investee Company	% held	2018 dividends	2017 dividends
BAC Fiduciaria Spa	100%	0,000	0,000
San Marino Life Spa	100%	0,346	0,475
BAC Investments SG Spa	100%	0,000	0,000
SSIS Srl	50%	0,000	0,000

FINANCIAL MARGIN	31/12/2018	31/12/2017	CHANGE		% incidence on interest margin	
			Absolute	%	31/12/2018	31/12/2017
Interest income on loans to customers	15.674.469	19.041.146	-3.366.677	-17,68%	127,04%	125,17%
Interest expense on amounts due to customers	-834.003	-736.157	-97.845	13,29%	-6,76%	-4,84%
Interest expense on payables represented by securities (CD bonds)	-3.334.018	-4.082.595	748.576	-18,34%	-27,02%	-26,84%
ORDINARY CUSTOMER MARGIN	**11.506.448**	**14.222.394**	**-2.715.946**	**-19,10%**	**93,26%**	**93,49%**
Interest income on debt securities	548.708	536.543	12.164	2,27%	4,45%	3,53%
Interest expense on payables represented by securities (repurchasing agreements)	-223.547	-103.174	-120.373	116,67%	-1,81%	-0,68%
FINANCIAL INVESTMENT MARGIN	**325.161**	**433.369**	**-108.209**	**-24,97%**	**2,64%**	**2,85%**
BANKING MANAGEMENT MARGIN	**11.831.609**	**14.655.764**	**-2.824.155**	**-19,27%**	**95,90%**	**96,34%**
Interest income on credit institutions	161.433	82.390	79.042	95,94%	1,31%	0,54%
Interest expense on credit institutions	-845	-1.627	782	-48,04%	-0,01%	-0,01%
INTERBANK MARGIN	**160.587**	**80.763**	**79.824**	**98,84%**	**1,30%**	**0,53%**
Dividends and other revenues	345.822	475.415	-129.592	-27,26%	2,80%	3,13%
FINANCIAL MARGIN	**12.338.018**	**15.211.942**	**-2.873.923**	**-18,89%**	**100,00%**	**100,00%**

Intermediation margin

At the end of December 2018 the intermediation margin amounted to € 18.053 million, with a decrease of € - 2.903 million (- 13.85%) in the annual comparison. The analysis of the tables below shows that the increase in intermediation revenues mitigates the negative performance on the interest margin. Indeed, the composition of the own securities portfolio, which increased in quantities, suffered the high volatility on prices, as happened in 2017. The interest margin contributed for 66.43% to the formation of the intermediation margin, while the intermediation revenues accounted for 31.66%. Finally, the contribution of the dividends of BAC banking group companies amounted to 1.92%.

This trend, while not growing, if read in the aforementioned microeconomic context, reveals the attention and professionalism of the entire BAC facility in managing the severe crisis that continued throughout 2018. On the other hand, the Euro zone economy is showing tentative signs of recovery supported by ECB monetary policy, aimed at giving support to companies with low rates policies with unconventional measures taken for the first time in 2015.

The commission margin at the end of December 2018, equal to € 5.715 million, while showing a slight decline compared to the final balance of 2017 (- 0.52%), remains good despite the slight recovery in collection volumes. It should be noted that the increase in other revenues is attributable to the increase in rental income on properties no longer leased following the termination of lease agreements for non-compliance.

PROFIT AND LOSS ACCOUNT	31/12/2018	31/12/2017	CHANGE		% incidence on intermediation margin	
			Absolute	%	31/12/2018	31/12/2017
Interest margin	11.992.196	14.736.527	-2.744.331	-18,62%	66,43%	70,32%
Dividends and other revenues	345.822	475.415	-129.592	-27,26%	1,92%	2,27%
Intermediation revenues and other	5.715.100	5.744.703	-29.604	-0,52%	31,66%	27,41%
Intermediation margin	**18.053.118**	**20.956.645**	**-2.903.527**	**-13,85%**	**100,00%**	**100,00%**

Intermediation margin

INTERMEDIATION REVENUES AND OTHER	31/12/2018	31/12/2017	CHANGE		% incidence on service margin	
			Absolute	%	31/12/2018	31/12/2017
Net commissions	**3.708.599**	**3.623.757**	**84.842**	**2,34%**	**64,89%**	**63,08%**
Commission income	**4.506.328**	**4.465.221**	**41.108**	**0,92%**	**78,85%**	**77,73%**
- guarantees given	91.121	113.772	-22.651	-19,91%	1,59%	1,98%
- management services, intermediation, cons.	2.137.028	2.096.803	40.225	1,92%	37,39%	36,50%
of which managed saving (common funds and managements)	928.755	885.418	43.337	4,89%	16,25%	15,41%
of which placement, trading, security custody	930.366	948.509	-18.144	-1,91%	16,28%	16,51%
of which financial activity	20.794	47.830	-27.036	-56,53%	0,36%	0,83%
of which insurance bank	257.114	215.046	42.067	19,56%	4,50%	3,74%
- currency trading	334.641	327.223	7.418	2,27%	5,86%	5,70%
- other services	1.943.538	1.927.423	16.116	0,84%	34,01%	33,55%
of which current accounts	338.706	334.958	3.748	1,12%	5,93%	5,83%
of which portfolio	323.374	364.102	-40.729	-11,19%	5,66%	6,34%
of which collection and payment services	1.064.754	1.015.530	49.225	4,85%	18,63%	17,68%
of which loans granted	126.705	152.833	-26.128	-17,10%	2,22%	2,66%
Commission expenses	**-797.729**	**-841.463**	**43.734**	**-5,20%**	**-13,96%**	**-14,65%**
- collection and payment services	-367.454	-319.694	-47.760	14,94%	-6,43%	-5,57%
- management services, intermediation, cons.	-352.826	-417.521	64.695	-15,50%	-6,17%	-7,27%
- currency trading	-48.804	-63.920	15.115	-23,65%	-0,85%	-1,11%
- other services	-28.645	-40.328	11.684	-28,97%	-0,50%	-0,70%
Profits and losses on financial transactions	**79.889**	**397.399**	**-317.510**	**-79,90%**	**1,40%**	**6,92%**
On securities:	-214.756	65.119	-279.875	-429,79%	-3,76%	1,13%
- security trading	155.446	-7.131	162.577	2279,91%	2,72%	-0,12%
- security valuation	-370.202	72.250	-442.452	-612,39%	-6,48%	1,26%
- currency trading	294.645	332.280	-37.635	-11,33%	5,16%	5,78%
- other activities			n.d.	n.d.	0,00%	0,00%
Operating income and charges	**1.926.611**	**1.723.547**	**203.065**	**11,78%**	**33,71%**	**30,00%**
Other revenues	1.695.639	1.627.808	67.831	4,17%	29,67%	28,34%
Expense recovery	230.972	95.738	135.234	141,25%	4,04%	1,67%
SERVICE MARGIN	**5.715.100**	**5.744.703**	**-29.604**	**-0,52%**	**100,00%**	**100,00%**

Operating result

PROFIT AND LOSS ACCOUNT	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Intermediation margin	**18.053.118**	**20.956.645**	**-2.903.527**	**-13,85%**
Administrative expenses	**-14.310.430**	**-14.927.927**	**617.497**	**-4,14%**
- Personnel expenses	-8.878.670	-9.599.022	720.353	-7,50%
- General expenses	-5.431.760	-5.328.904	-102.856	1,93%
Tangible and intangible fixed asset adjustments	**-1.714.315**	**-2.045.177**	**330.863**	**-16,18%**
Total operating costs	**-16.024.744**	**-16.973.104**	**948.359**	**-5,59%**
Operating result	**2.028.373**	**3.983.541**	**-1.955.168**	**-49,08%**

Operating costs

At the end of December 2018 the total operating costs amounted to € 16.024 million, showing a decrease compared to the same period of the previous year equal to € 0.948 million (- 5.59%).

Personnel expenses, amounting to € 8.879 million, decreased in comparison with the same period of 2017 by about € 0.720 million (- 7.50%). This significant contraction is mainly due to: the evolution of the workforce, which stood at 123 as at 31 December 2018, showing a decrease of 8 resources compared to the previous year, due to voluntary resignations and retirements. Moreover, no further provisions were made to the Bonus System – namely one-off premiums to be granted to employees depending on the achievement of objectives.

Other administrative expenses recorded in 2018 a value of € 5.431 million, increasing by € 0.102 million (+ 1.93%) compared to the same period of the previous year. This increase is attributable to the accounting of the extraordinary property tax on Net Equity established by Delegated Decree no. 17 of 25/06/2018, which accounted for € 0.271 million, in addition to the charges paid to the Supervisory Authority for the exercise of the 2017 AQR rediscounted over three years and Central Risk Database installation charges to be rediscounted in five years for € 0.231 million. Therefore, net of these additional expenses, the bank continued the policy of reducing structural costs and rationalizing the organizational structure.

Tangible and intangible asset adjustments amounted to € 1.714 million, decreasing by € 0.330 million compared to € 2.045 million in 2017.

They were calculated based on their residual possibility of utilization and coincided with the tax amortization coefficients imposed by the new tax reform under Law 166/2013.

Net adjustments/write-backs for impairment of loans, guarantees and commitments

At the end of December 2018, net adjustments on loans and provisions for guarantees and commitments amounted to € 5.083 million, up by 8.37% compared to the same period of 2017. Strict policies for monitoring and timely assessing credits were implemented by the appointed function that considered this provisional level to be prudential. It should be noted that following the transfer of the Delta Credits package, authorized by the Creditors adhering to the Restructuring Agreement of which BAC holds 2.543%, the Bank made significant adjustments only to this position for € 4.598 million, which the bank recorded for payment in the profit and loss account in 5 years starting from the 2018 financial year, as envisaged in the 2018 Finance Law no. 173 art. 40, since the creditor position is part of the sample subjected to the Assessment Quality Review (AQR) launched by the Supervisory Authority since 2016, the total results of which will be announced in the first months of 2019. We also point out the presence of an additional provision for risks and charges of € 1.077 million, already established in previous years to face potential risks deriving from pending lawsuits and proceedings, endowed during the year with further € 0.533 million.

It should be noted that non-performing loans were determined as required by the legislation in force (CBSM Regulation 2007/07).

For a detailed analysis on the dynamics of the so-called "credit quality" see the appropriate paragraph of this Report.

Furthermore, among the value adjustments in 2018 we highlight the write-down of BAC Investments SG Spa investments for € 0.248 million and IBS Immobiliare Srl investments for € 0.022 million following the adjustment of their value in the Statement of Assets and Liabilities to the Net Equity, in addition to € 0.022 million for the write-off following the voluntary liquidation of the subsidiary IBS rent Srl.

Result of ordinary activities

The *Result of ordinary activities* is negative by € 3.881 million, decreasing compared to 2017 when it recorded a loss of € 0.788 million (- € 3.103 million compared to 2017), which is substantially impacted by massive provisions for credit adjustments and the contribution reduction of the interest margin.

Extraordinary revenues and charges

The bank recorded extraordinary revenues amounting to € 0.627 million and extraordinary charges for - € 0.145 million.

It should be noted that extraordinary revenues include € 0.253 million deriving from collections on impaired or past-due credit positions, € 0.255 million for the discharge of the provision for lawsuits and disputes following definitive legal closures of some causes that are no longer to be claimed, disposals of our movable assets and properties for € 0.017 million, € 0.021 million for the discharge of residual additional monthly payments for previous years. Extraordinary charges include € 0.062 million for building amnesties on our real estate properties subject to the termination of leasing contracts, in order to facilitate their disposal or lease, and € 0.082 million for extinction of customer relations and the closure of debit items that are no longer collectible.

Income tax

The tax rate is equal to 9.44% and is an expression of the counting of payable taxes in compliance with tax standards, since the surplus of adjustments on credits over 5% of loans must be included in taxation.

It should also be noted that BAC benefits from tax credit of about € 1.923 million, resulting from the Decree-Law 174/2011 relating to the in-bulk acquisition of legal relations by a bank in compulsory administrative liquidation.

Net profit

For explanatory purposes, the table below shows the reclassified steps that lead from the operating result to the net profit (loss), compared with 2018 data.

PROFIT AND LOSS ACCOUNT	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
OPERATING RESULT	**2.028.373**	**3.983.541**	**-1.955.168**	**-49,08%**
Provisions and value adjustments	**-5.910.186**	**-4.762.353**	**-1.147.833**	**24,10%**
- Provisions and value adjustments on credits	-5.083.858	-4.691.353	-392.505	8,37%
- Provisions for risks and charges	-533.099	-71.000	-462.099	-650,84%
- Financial fixed asset adjustments	-293.229	0	-293.229	-100,00%
INCOME ON OPERATIONS	**-3.881.812**	**-778.812**	**-3.103.001**	**-398,43%**
Margin on investment securities	0	0	0	0,00%
Extraordinary revenues	627.556	1.131.081	-503.525	-44,52%
Extraordinary charges	-145.811	-132.893	-12.918	9,72%
Extraordinary revenue and charge balance and margin on investment securities	481.745	998.188	-516.443	-51,74%
Profit before tax	-3.400.067	219.376	-3.619.444	-1649,88%
Tax on income	-320.972	-226.961	-94.011	41,42%
Net result	**-3.721.039**	**-7.585**	**-3.713.454**	**-48960,97%**

The year 2018 ended with a net loss of € 3.721 million compared to a net loss of € 0.007 million recorded at the end of December 2017.

Statement of Assets and Liabilities

Loans to customers

Net loans to customers as at 31 December 2018 amounted to € 502,895 million, decreasing by € 39,902 million compared to the end of 2017.

Description	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Current accounts in credit	50.503.971	60.781.586	-10.277.615	-16,91%	9,2%	10,4%
Discounted and s.t.c. portfolio	61.327.847	63.057.293	-1.729.446	-2,74%	11,2%	10,8%
Repurchasing agreements and repos	-	-	-		0,0%	0,0%
Leasing	91.006.085	98.710.385	-7.704.300	-7,80%	16,6%	16,9%
Loans	141.256.498	152.813.377	-11.556.879	-7,56%	25,7%	26,2%
Personal loans	10.291.730	11.247.643	-955.913	-8,50%	1,9%	1,9%
Foreign currency loans	21.755.615	24.586.427	-2.830.812	-11,51%	4,0%	4,2%
Factoring	-	-	-		0,0%	0,0%
Loans subject to transfer of 1/5 of the salary or pension	-	-	-		0,0%	0,0%
Other	78.089.092	94.278.830	-16.189.738	-17,17%	14,2%	16,2%
Outstanding loans (gross values)	**454.230.838**	**505.475.541**	**-51.244.703**	**-10,14%**	**82,7%**	**86,6%**
Non-performing loans (gross values)	**94.861.822**	**78.260.196**	**16.601.626**	**21,21%**	**17,3%**	**13,4%**
TOTAL (gross values)	**549.092.660**	**583.735.737**	**-34.643.077**	**-5,93%**	**100,0%**	**100,0%**
Current accounts in credit	43.504.322	55.074.658	-11.570.336	-21,01%	8,7%	10,1%
Discounted and s.t.c. portfolio	61.187.547	62.846.389	-1.658.842	-2,64%	12,2%	11,6%
Repurchasing agreements and repos	-	-	-		0,0%	0,0%
Leasing	87.895.696	94.785.606	-6.889.910	-7,27%	17,5%	17,5%
Loans	139.966.589	151.558.627	-11.592.038	-7,65%	27,8%	27,9%
Personal loans	10.208.264	11.103.796	-895.532	-8,07%	2,0%	2,0%
Foreign currency loans	21.687.069	24.453.517	-2.766.448	-11,31%	4,3%	4,5%
Factoring	-	-	-		0,0%	0,0%
Loans subject to transfer of 1/5 of the salary or pension	-	-	-		0,0%	0,0%
Other	73.086.441	90.635.496	-17.549.055	-19,36%	14,5%	16,7%
Outstanding loans (gross values)	**437.535.928**	**490.458.089**	**-52.922.161**	**-10,79%**	**87,0%**	**90,4%**
Non-performing loans (gross values)	**65.359.466**	**52.340.233**	**13.019.233**	**24,87%**	**13,0%**	**9,6%**
TOTAL (gross values)	**502.895.394**	**542.798.322**	**-39.902.928**	**-7,35%**	**100,0%**	**100,0%**

At the end of 2018 **gross impaired loans** amounted to € 164.411 million, slightly decreasing in comparison to the previous year.
Also in 2018, BAC continued making substantial provisions and adjustments on non-performing loans to protect its customers.
These additional provisions increased the total adjustments by e 5.259 million compared to the final balance of 2017.

Credit quality

As better explained in the appropriate paragraph of the Explanatory Notes, the monitoring of credits and the activities related to the preliminary examination of debtors' solvency represent basic elements of the credit policy of BAC S.p.A.
The exacerbation of the crisis in the past few years, which affected the San Marino economic system and consequently the deterioration of debtors' ability to repay their exposures, in addition to the consolidation of the Central Risk Database (hereinafter "CR") started in 2017, significantly contributed to generating a more coordinated classification of risk positions on the San Marino banking system. The effective management of impaired positions was considered decisive for achieving the overall profitability targets. The attention paid to bad loans thus generated very large returns: € 8.622 million on non-performing and loans and impaired loans in 2018 (consisting of both actual collections and the positive definition of specific positions). In this context, the incidence of non-performing loans (at gross values) is 17.28% of total loans to customers (13.41% at the end of 2017), while impaired loans fell to 6.60% (9.62% at the end of 2017).
As far as performing loans are concerned, which amounted to € 384.680 million at nominal value as at 31/12/2018 (€ 426.217 million as at 31/12/2017), prudential value adjustments were made for a total amount of € 2.233 million and are an expression of the write-down made according to the difficult situation in debt service by the countries where debtors are resident, taking into account the negative economic trends regarding homogeneous loan categories, such as the sector of economic activity. Moreover, the write-down was carried out and determined prudently by the administrative bodies.
On the whole, therefore, total loans to customers stood at nominal € 549.092 million, upon which value adjustments were constituted for € 46.197 million, which raise the general coverage of loans to customers to 8.41% (it was 7.01% as at 31/12/2017).
The following summary tables provide the reconstructed data for the years 2018 and 2017.

LOANS TO CUSTOMERS AND LOAN PORTFOLIO QUALITY	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Total gross loans	**549.092.660**	**583.735.737**	**-34.643.077**	**-5,93%**	**100,00%**	**100,00%**
Provisions for risk on credits	**46.197.267**	**40.937.416**	**5.259.851**	**12,85%**	**8,41%**	**7,01%**
loss forecasts	**43.964.129**	**38.412.428**	**5.551.701**	**14,45%**	**8,01%**	**6,58%**
analytical and flat-rate value adjustments	**46.197.267**	**40.937.416**	**5.259.851**	**12,85%**	**8,41%**	**7,01%**
accrued interest value adjustments	**0,00**	**0,00**	**-**	**0,00%**	**0,00%**	**0,00%**
coverage ratio	**8,41%**	**7,01%**				
Total loans net of provisions for risk on credits	**502.895.393**	**542.798.321**	**-39.902.928**	**-7,35%**	**91,59%**	**92,99%**
Loans net of non-performing loans	**454.230.838**	**505.475.540**	**-51.244.702**	**-10,14%**	**82,72%**	**86,59%**
Non-performing/performing loans	**17,28%**	**13,41%**				
Non-performing loans net of advances	**94.861.822**	**78.260.197**	**16.601.625**	**21,21%**	**17,28%**	**13,41%**
Non-performing loans net of advances	29.502.356	25.919.964	3.582.392	13,82%	5,37%	4,44%
analytical value adjustments	29.502.356	25.919.964	3.582.392	13,82%	5,37%	4,44%
coverage ratio	31,10%	33,12%				
non-performing loans net of value adjustments	**65.359.466**	**52.340.233**	**13.019.233**	**24,87%**	**11,90%**	**8,97%**
Total impaired loans	**36.244.483**	**56.128.963**	**-19.884.480**	**-35,43%**	**6,60%**	**9,62%**
loss forecasts	4.299.930	7.192.920	-2.892.991	-40,22%	0,78%	1,23%
analytical value adjustments	4.299.930	7.192.920	-2.892.991	-40,22%	0,78%	1,23%
coverage ratio	11,86%	12,81%				
impaired loans net of value adjustments	**31.944.554**	**48.936.043**	**-16.991.489**	**-34,72%**	**5,82%**	**8,38%**
Total past due loans	**2.741.397**	**319.106**	**2.422.290**	**759,09%**	**0,50%**	**0,05%**
loss forecasts	273.649	3.309	270.340	8168,85%	0,05%	0,00%
flat-rate value adjustments	273.649	3.309	270.340	8168,85%	0,05%	0,00%
coverage ratio	9,98%	1,04%				
past due loans net of value adjustments	**2.467.747**	**315.797**	**2.151.951**	**681,44%**	**0,45%**	**0,05%**
Total restructured loans	**30.556.982**	**22.798.067**	**7.758.915**	**34,03%**	**5,56%**	**3,91%**
loss forecasts	9.888.184	5.296.220	4.591.964	86,703%	1,80%	0,91%
analytical value adjustments	9.888.184	5.296.220	4.591.964	86,703%	1,80%	0,91%
coverage ratio	32,36%	23,23%				
restructured loans net of value adjustments	**20.668.798**	**17.501.847**	**3.166.951**	**18,09%**	**3,76%**	**3,00%**
Total loans to at-risk countries	**7.099**	**11.777**	**-4.678**	**-39,72%**	**0,00%**	**0,00%**
loss forecasts	9	14	-5		0,00%	0,00%
flat-rate value adjustments	9	14	-5	-34,62%	0,00%	0,00%
coverage ratio	0,13%	0,12%				
loans to at-risk countries net of value adjustments	**7.090**	**11.763**	**-4.673**	**-39,73%**	**0,00%**	**0,00%**
Total faulty loans	**164.411.783**	**157.518.110**	**6.893.673**	**4,38%**	**29,94%**	**26,98%**
loss forecasts	**43.964.129**	**38.412.428**	**5.551.701**	**14,45%**	**8,01%**	**6,58%**
value adjustments	**43.964.129**	**38.412.428**	**5.551.701**	**14,45%**	**8,01%**	**6,58%**
coverage ratio	**26,74%**	**24,39%**				
faulty loans net of value adjustments	**120.447.654**	**119.105.683**	**1.341.971**	**1,13%**	**21,94%**	**20,40%**
Total performing loans	**384.680.877**	**426.217.626**	**-41.536.750**	**-9,75%**	**70,06%**	**73,02%**
value adjustments	**2.233.138**	**2.524.988**	**-291.850**	**-11,56%**	**0,41%**	**0,43%**
coverage ratio	**0,58%**	**0,59%**				

The year just ended saw deposits reach € 1,289 million (including the new depository bank activity for BAC Investments SG Spa).
The following table shows the customers' financial resources as at 31/12/2018, broken down by technical form and included in the aggregates of direct and indirect deposits compared to the 2017 BAC data.

Customers' deposits and securities

CUSTOMERS' FINANCIAL RESOURCES (*€ amounts*)	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
A) Direct deposits	**725.186.274,54**	**719.890.841,69**	**5.295.432,85**	**0,74%**	**100%**	**100%**
Savings deposits	3.605.783	3.830.533	-224.750	-5,87%	0,50%	0,53%
Customers' euro and foreign currency accounts	402.488.328	390.654.938	11.833.390	3,03%	55,50%	54,27%
Repurchasing agreements	24.087.145	18.672.493	5.414.652	29,00%	3,32%	2,59%
Other funds	3.825.903	0	3.825.903	0,00%	0,53%	0,00%
Certificates of deposit	282.563.618	293.871.718	-11.308.100	-3,85%	38,96%	40,82%
Internal cheques	604.644	845.016	-240.372	-28,45%	0,08%	0,12%
Subordinate liabilities	8.010.853	12.016.144	-4.005.291	-33,33%	1,10%	1,67%
B) Managed deposits (market value)	**26.303.424**	**57.024.023**	**-30.720.599**	**-53,87%**		
of which cash	*14.347.349*	*15.700.264*	*-1.352.915*	*-8,62%*		
of which Subordinate Loans	*480.000*	*720.000*	*-240.000*	*-33,33%*		
C) Administered deposits (market value)	**515.332.859**	**537.724.722**	**-22.391.863**	**-4,16%**		
of which Subordinate Loans	*7.520.000,00*	*11.280.000,00*	*-3.760.000,00*	*-33,33%*		
D) Depositary bank activity	**45.495.135**	**0**	**45.495.135**	**n.d.**		
of which cash	*950.104*	*0*	*950.104*	*n.d.*		
of which Subordinate Loans						
Total Deposits	**1.289.020.240**	**1.286.939.323**	**2.080.917**	**0,16%**		

Direct deposits amounted to € 725.186 million, increasing by € 5.295 million (+ 0.74%) compared to the end of 2017.
More in detail:

- sight deposits decreased by € 0.225 million;
- current accounts increased by € 11.833 million;
- deposit repurchasing agreements with customers increased by € 5.414 million;
- certificates of deposit decreased by € 11.308 million;
- bonds issued by the bank decreased by € 4.00 million.
- other funds increased by € 3.825 million and represent the institutional deposits to the ISS Fund of the Republic of San Marino.

In 2018, debts represented by securities in circulation, amounting to € 290.574 million, registered a decrease of € 15.313 million to be attributed, as already explained, to decreasing certificates of deposit and bonds, contained and offset by the conversion into other deposit forms (repurchasing agreements) and sight deposits (current accounts). It should be noted that the Bank issued a subordinate loan in 2013 amounting to nominal 20 million and maturing in March 2020, which provides for a 20% annual repayment starting in 2016, summarized in direct deposits for € 8 million in the table above, and also reclassified, as required by the Supervisory Authority, among Indirect deposits with details between Administered and Managed ones.
Indirect deposits amounting to € 587.131 million shows a decrease of € 7.617 million (- 1.28%) compared to € 594.748 million in 2017. In particular the aggregate shows:

a decrease in administered savings amounting to € 22.391 million (- 4.16%);

a decrease in managed savings amounting to € 30.720 million (- 53.87%);

an increase of € 45.495 million for the depositary bank activity for the five funds managed by the new company of the BAC Group BAC Investments SG Spa, and distributed through BAC's commercial network, which will allow further development of the Group's business activities; we specify that this depositary bank function represents an "of which" in the aggregate of Administered Deposits.

Financial investments

Financial investments recorded an increase of € 4.843 million (37.55%) deriving from purchases both in trading financial assets (+ € 8.709 million) and in the financial investment assets which increased by € 6.134 million, and from the devaluation of the participation in the loans fund (NAV of 12/31/2018). The write-down was converted into a tax credit as regulated by Delegated Decree no. 174 of 27/11/2011 "urgent measures to sup-port savings protection operations" due to the acquisition of the assets of Credito Sammarinese in administrative compulsory liquidation.

FINANCIAL ASSETS	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Investment securities	36.853.191	28.143.889	8.709.302	30,95%
of which bonds	31.434.308	25.489.532	5.944.776	23,32%
Trading securities	17.524.550	11.390.214	6.134.336	53,86%
of which bonds	13.520.687	7.235.564	6.285.123	86,86%
Total financial portfolio	**54.377.741**	**39.534.103**	**14.843.638**	**37,55%**

FINANCIAL ASSETS Issuers	**31/12/2018**	**31/12/2017**	**CHANGE**	
			Absolute	**%**
Investment securities	36.853.191	28.143.889	8.709.302	30,95%
of which public issuers	31.434.308	25.489.532	5.944.776	23,32%
of which credit issuers	0	0	0	0,00%
of which financial issuers	0	0	0	0,00%
of which others	5.418.883	2.654.357	2.764.527	100,00%
Trading securities	17.524.550	11.390.214	6.134.336	53,86%
of which credit issuers	0	0	0	0,00%
of which financial issuers	0	4.154.650	-4.154.650	-100,00%
of which public issuers	13.520.687	7.235.564	6.285.123	86,86%
of which others	4.003.863	0	4.003.863	0,00%
Total debt securities	**54.377.741**	**39.534.103**	**14.843.638**	**37,55%**

FINANCIAL ASSETS Fixed/variable rate	**31/12/2018**	**31/12/2017**	**CHANGE**	
			Absolute	**%**
Investment securities	36.853.191	28.143.889	8.709.302	30,95%
of which fixed rate	31.434.308	25.489.532	5.944.776	23,32%
of which variable rate	5.418.883	2.654.357	2.764.527	100,00%
Trading securities	17.524.550	11.390.214	6.134.336	53,86%
of which fixed rate	8.816.928	7.235.564	1.581.364	21,86%
of which variable rate	8.707.622	4.154.650	4.552.972	109,59%
Total debt securities	**54.377.741**	**39.534.103**	**14.843.638**	**37,55%**

FINANCIAL ASSETS - BONDS Residual Life	**31/12/2018**	**31/12/2017**	**CHANGE**	
			Absolute	**%**
Investment securities	31.434.308	25.489.532	5.944.776	23,32%
- within 12 months	0	0	0	0,00%
- within 5 years	5.976.673		5.976.673	
- over 5 years	25.457.635	25.489.532	-31.897	-0,13%
Trading securities	13.520.687	7.235.564	6.285.123	86,86%
- within 12 months	0	0	0	0,00%
- within 5 years	4.996.779	5.206.629	-209.850	-4,03%
- over 5 years	8.523.908	2.028.935	6.494.973	320,12%
Total debt securities	**44.954.994**	**32.725.096**	**12.229.898**	**37,37%**

For the sake of clarity, the balance of the portfolio and its composition compared to 2017 data are also provided.
In consideration of market conditions and in compliance with investment policies, the aim of diversifying cash investments, having greater contribution to the interest margin and seizing market opportunities led to the following:

- the bank bought securities on the free portfolio, with maturity included between 5 and 7 years, and two Italian government bonds for a nominal value of € 5 million;
- the free financial instruments generated trading profits of € 0.155 million and valuation losses equal to € 0.370 million.

Trading financial instruments are made up of € 13.520 million in debt securities issued by the government and in units of investment funds established under the laws of San Marino for € 4.003 million. The latter were subscribed on 29/12/2012 following the en-bloc sale of legal relationships by Credito Sammarinese in compulsory winding-up, in compliance with the contractual clauses provided for in the deed of sale which provided for a commitment for all transferee banks to transfer the acquired credits to a San Marino management company established ad hoc. This item decreased by € 0.151 million due to the valuation of the fund at NAV 31/12/2018; we specify that the write-down had no effect on the profit and loss account because it was recorded, as per regulations, under item "temporary tax differences", since only later will it turn into tax credit due to the losses that will be ascertained according to the effective realization of the assets sold.
The own investment financial instruments purchased in 2016 were further increased in 2018 as detailed below:

- purchase of an Italian government bond for a nominal value of € 6 million;
- subscription of another nine tranches of the "Tower Credit Opportunities PLC" Fund (value of € 5.418 million as at 31/12/2018).

The Tower Credit Opportunities PLC fund, which is intended to support the growth of Italian SMEs, finances investment programs, extraordinary finance operations and interventions to support the financial structure.
The expected duration will be 12 years starting from the final date of the last closing.
The investment portfolio consists of six government bonds with a maturity up to and over five years, in addition to the subscription of the "Tower Credit Opportunities PLC" fund.

Shareholdings

	31/12/2018	**31/12/2017**	**CHANGE**		**COMPOSITION**	
			Absolute	**%**	**31/12/2018**	**31/12/2017**
Shareholdings	**4.840.804**	**4.768.052**	**72.752**	**1,53%**	**38,53%**	**39,01%**
Investments in group companies	**7.723.975**	**7.453.232**	**270.743**	**3,63%**	**61,47%**	**60,99%**
Total shareholdings	**12.564.779**	**12.221.284**	**343.495**	**2,81%**	**100,00%**	**100,00%**

Equity investments in group companies showed an increase of € 0.343 million due to:

- the revaluation of the investment of BAC Fiduciaria S.p.A. for € -0.008 million, based on the net asset values expressed in the financial statements for the year ended 31/12/2018;
- the revaluation of the investment of San Marino Life S.p.A. for € 0.038 million, based on the net asset values expressed in the financial statements for the year ended 31/12/2018;
- the revaluation of the investment of SSIS S.p.A. for € 0.0008 million, based on the net asset values expressed in the financial statements for the year ended 31/12/2018;
- the devaluation of the investment of IBS Immobiliare Srl for € 0.022 based on the net asset values expressed in the financial statements for the year ended 31/12/2018;
- the disposal of the 10% investment in Techno Science Park San Marino Italia Spa for € 0.011 million, repurchased by the State following the Resolution of the State Congress no. 25 of 01/03/2018;
- liquidation and write-off of IBS Rent Srl acquired through the merger of IBS Leasing in 2014. The company was placed in voluntary liquidation in 2013 and based on the liquidation balance approved in 2014, it liquidated all debts and credits in 2018 following the release of the cancellation at the Court Registry Office on 26/02/2018.
- the acquisition of a further investment in Centro Servizi Srl, deriving from the allocation of the portion of Asset Banca Spa, placed in administrative compulsory liquidation, corresponding to the 2016 acquisition value, namely the estimated market value of the company at the time of purchase.
- the establishment of the company BAC Investments SG Spa with initial assets of € 0.500 million and a subsequent write-down of € 0.248 million based on the net equity values expressed in the first financial statements for the year ended 31/12/2018. The company that manages five open-ended mutual funds will allow further development of the Group's commercial activities.

No change was recorded in the values of the holdings of the Central Bank and the Chamber of Commerce, for which we hold a minority share, and the participation of the Chamber of Commerce.

A summary description of the main subsidiaries in the various operating sectors of the Group is shown in the introductory notes of the Management Report to which reference is made.

Interbank

The Bank, as part of its financial activities, recorded a positive net inter-bank balance between assets (€ 139.463 million) and liabilities (€ 1.137 million) at the end of 2018, equal to € 138.326 million. Compared to the corresponding figures at the end of 2017 (net of € 120.416 million), the balance recorded an increase in net assets of € 17.910 million, due to the expansion of loans to banks (€ 18.263 million) caused by the repositioning of overdue lending volumes, in addition to a slight increase in bank deposits of € 0.352 million. The net position remains high and bears witness to the absence of interbank debt, confirming the good liquidity situation of the company and the constant management and monitoring of liquidity risk.

	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Loans to banks	**139.463.756**	**121.200.553**	**18.263.202**	**15,07%**	**100,0%**	**100,0%**
- in euro	*133.684.886*	*114.502.558*	*19.182.328*	*16,75%*	*95,9%*	*94,5%*
- in foreign currency	*5.778.870*	*6.697.995*	*-919.126*	*-13,72%*	*4,1%*	*5,5%*
Amounts due to banks	**1.137.069**	**784.447**	**352.623**	**44,95%**	**100,0%**	**100,0%**
- in euro	*1.137.069*	*784.447*	*352.623*	*44,95%*	*100,0%*	*100,0%*
- in foreign currency	*0*	*0*	*0*	*0,00%*	*0,0%*	*0,0%*
Net position	**138.326.686**	**120.416.107**	**17.910.579**	**14,87%**	**100,0%**	**100,0%**
- in euro	*132.547.816*	*113.718.111*	*18.829.705*	*16,56%*	*95,8%*	*94,4%*
- in foreign currency	*5.778.870*	*6.697.995*	*-919.126*	*-13,72%*	*4,2%*	*5,6%*

	31/12/2018	31/12/2017	CHANGE		COMPOSITION	
			Absolute	%	31/12/2018	31/12/2017
Loans to banks	**139.463.756**	**121.200.553**	**18.263.202**	**15,07%**	**100,0%**	**100,0%**
- short term (up to 12 months)	*108.871.345*	*90.804.015*	*18.067.331*	*19,90%*	*78,1%*	*74,9%*
- medium and long term (over 12 months)	*30.592.410*	*30.396.539*	*195.872*	*0,64%*	*21,9%*	*25,1%*
Amounts due to banks	**1.137.069**	**784.447**	**352.623**	**44,95%**	**100,0%**	**100,0%**
- short term (up to 12 months)	*1.137.069*	*784.447*	*352.623*	*44,95%*	*100,0%*	*100,0%*
- medium and long term (over 12 months)	*0*	*0*	*0*	*0,00%*	*0,0%*	*0,0%*
Net position	**138.326.686**	**120.416.107**	**17.910.579**	**14,87%**	**100,0%**	**100,0%**
- short term (up to 12 months)	*107.734.276*	*90.019.568*	*17.714.708*	*19,68%*	*77,9%*	*74,8%*
- medium and long term (over 12 months)	*30.592.410*	*30.396.539*	*195.872*	*0,64%*	*22,1%*	*25,2%*

Net equity and capital ratios

Net equity

If the proposal of the draft budget approved by the Directors is accepted by the Shareholders' Meeting, the **net equity** as at 31/12/2018 will amount to € **86.600** million, compared to € 90.278 million at the end of 2017, with a decrease of € 3.713 million.
During 2018, the decrease of € 3.713 million is due to:
> the increase in revaluation reserves of € 0.042 million following the valuation of investments at net equity;
> the formation of the net profit for 2018 of - € 3.721 million.
The table below shows the assets of the institution in comparison to BAC data and 2017 data:

NET EQUITY	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Capital and Reserves	**94.121.794**	**94.079.518**	**42.276,70**	**0,04%**
Share capital - subscribed and paid-up shares	20.880.080	20.880.080	0	0,00%
Ordinary reserve fund	58.395.668	58.395.668	0	0,00%
Extraordinary reserve fund	0	0	0	n.d.
Share premium reserve fund	0	0	0	n.d.
Own share reserve fund	14.378	14.378	0	0,00%
Revaluation reserves	14.831.669	14.789.392	42.277	0,29%
Retained loss	-3.800.644	-3.793.060	-7.585	-100,00%
Result for the year	-3.721.039	-7.585	-3.713.454	-48960,97%
Total	**86.600.111**	**90.278.873**	**-3.678.762**	**-4,07%**

Share capital

The share capital, fully subscribed and paid-in, amounts to € **20.880.080.00** divided into **803.080** shares with a **nominal value** of € **26.00** each.

Own shares

The number of own shares amounts to 553 shares for a nominal value of € 14,378. It should be noted that in relation to the own shares held in the portfolio the bank constituted a special reserve fund of the same amount, as required by current legislation.

Supervisory capital and capital ratios

The **Supervisory capital** – determined on the basis of the provisions of the Supervisory Authority – amounted to € **76.806** million, formed by **Core capital** for € **70.516** million (€ 84.167 million as at 31/12/2017).
The capital of the bank is suitable to hedge all said risks, with a **Total Capital Ratio** of **17.09%**, well above the minimum regulatory standard of 11% and **capital absorption against the operating risk** of € **3.074** million, which shows a surplus against the total capital absorption.

SUPERVISORY CAPITAL	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Supervisory capital	**76.806.605**	**84.167.481**	**-7.360.876**	**-8,75%**
Core capital	**70.516.728**	**73.876.145**	**-3.359.417**	**-4,55%**
A. WEIGHTED RISK ASSETS				
A.1 Credit and counterpart risk	**449.336.899**	**462.676.445**	**-13.339.546**	**-2,88%**
net of risk positions deducted from supervisory capital	3.954.488	5.099.098	-1.144.610	-22,45%
B. TOTAL CAPITAL REQUIREMENTS				
B.1 Credit and counterpart risk	**49.427.059**	**50.894.409**	**-1.467.350**	**-2,88%**
B.2 Operating risk	**3.074.296**	**3.673.664**	**-599.368**	**-16,32%**
C. SUPERVISORY RATIOS				
C.1 Supervisory capital/weighted assets	**17,09%**	**18,19%**		

Banca Agricola Commerciale Spa risk activity

	31/12/2018	Weighting factor	31/12/2018	31/12/2017	Weighting factor	31/12/2017	CHANGE	
	RISK ASSETS		WEIGHTED VALUE	RISK ASSETS		WEIGHTED VALUE	Absolute	%
Balance sheet assets	**728.810.685**		**442.748.483**	**730.892.379**		**455.926.536**	**-13.178.053**	**-3%**
Cash	6.149.218	0%	-	5.251.835	0%	0	n.d.	n.d.
Loans secured by collaterals	8.585.810	0%	-	8.166.841	0%	0	n.d.	n.d.
Loans secured by collaterals	-	20%	-	-		0	n.d.	n.d.
Loans to or secured by States	193.051.292	0%	-	179.760.198	0%	0	n.d.	n.d.
Loans to credit entities	25.066.280	20%	5.013.256	26.487.494	20%	5.297.499	-284.243	-5%
Loans to supervised financial companies	3.563.001	20%	712.600	8.072.653	20%	1.614.531	-901.930	-56%
Loans to simplified supervised financial companies (SFOL)	-	40%	-	-	40%	0	n.d.	n.d.
Mortgage loans to individuals	37.356.131	50%	18.678.065	40.610.408	50%	20.305.204	-1.627.139	-8%
Leases - on fixed assets	43.357.724	50%	21.678.862	49.994.692	50%	24.997.346	-3.318.484	-13%
Loans to individuals	284.786.677	100%	284.786.677	317.202.313	100%	317.202.313	-32.415.636	-10%
Stocks, shares	6.515.446	100%	6.515.446	3.705.871	100%	3.705.871	2.809.575	76%
Stocks, shares		150%	-			0		
Cash values	616.471	20%	123.294	888.562	20%	177.712	-54.418	-31%
Accrued income	76.450	50%	38.225	32.314	50%	16.157	22.068	137%
Other assets	9.371.723	100%	9.371.723	5.653.869	100%	5.653.869	3.717.854	66%
Financial instruments to States	44.954.994	0%	-	32.725.096	0%	0	n.d.	n.d.
Financial instruments to Multilateral Development Banks		0%	-		0%	0	n.d.	n.d.
Financial instruments to Banks	-	20%	-	-	20%	0	n.d.	n.d.
Financial instruments to supervised financial companies		20%	-		20%	0	n.d.	n.d.
Financial instruments to other issuers	-	100%	-	-	100%	0	n.d.	n.d.
Non-performing loans	60.941.733	150%	91.412.600	49.231.601	150%	73.847.402	17.565.198	24%
Non-performing loans on leases	4.417.733	100%	4.417.733	3.108.632	100%	3.108.632	1.309.101	42%
Off-balance sheet assets	**190.585.428**		**10.542.904**	**195.319.352**		**11.849.007**	**-1.306.103**	**-11%**
Guarantees given and low risk commitments	171.967.813	0%	0	175.970.607	0%	0	n.d.	n.d.
Guarantees given and medium-low risk commitments		20%	-		20%	0	n.d.	n.d.
Guarantees given and medium risk commitments	15.052.030	50%	6.977.319	13.845.803	50%	6.346.065	631.254	10%
Guarantees given and full risk commitments	3.565.585	100%	3.565.585	5.502.942	100%	5.502.942	-1.937.357	-35%
Total weighted assets	919.396.113		453.291.387	926.211.731		467.775.543	-14.484.157	-3%
Risk positions deducted from supervisory capital to be deducted			3.954.488			5.099.098	-1.144.610	-22%
Total weighted risk assets net of doubtful results			**449.336.899**			**462.676.445**	**-13.339.546**	**-3%**

Relations with subsidiaries and associated concerns

The transactions with investee companies are part of the ordinary operations of the bank. The following tables provide information about the relations and contracts entered into with the companies of the Group:
Bac Fiduciaria Spa opened current accounts with the bank for the current management of its assets, whose amount was € 0.011 million at the end of 2018.
San Marino Life Spa opened current accounts with the bank for the current management of its assets, whose amount was € 1.175 million at the end of 2018.
IBS Immobiliare Srl opened current accounts for € 0.011 million with the bank and SAL leasing agreements for a total of € 11.924 million.
Finally, we confirm the strict observance of the provisions contained in part VII of Regulation 2007/07 on contractual relations with related parties and entities in terms of obligations of corporate officers, shareholders and companies of the Banking Group.

Major risks	31/12/2018	31/12/2017
Individual limit (25% of the supervisory capital)	19.201.651	21.041.870
Total limit (8 times as much as supervisory capital)	614.452.844	673.339.850
Contractual relations with related parties		
Individual limit (20% of the supervisory capital)	15.361.321	16.833.496
Total limit (60% of the supervisory capital)	46.083.963	50.500.489
Limit to medium and long term investments		
Limit to investments (supervisory capital)	76.806.605	84.167.481
BAC medium and long term investments	101.574.999	101.496.901
Limit to medium and long term loans		
Limit to medium and long term loans (surplus + medium and long term deposits)	200.208.484	214.661.260
Medium and long term loans (residual life of loans and leasing)	206.975.916	209.914.272

The table below provides details of the economic relations with companies of the Group.

Assets and liabilities to parent company, subsidiaries and investee companies

	31/12/2018	31/12/2017
Assets		
loans to banks	**117.996.548**	**98.944.294**
- CENTRAL BANK	117.996.548	98.944.294
loans to customers	**12.730.645**	**13.856.918**
- SSIS SPA	805.725	859.231
- BAC FIDUCIARIA SPA		8.840
- IBS RENT SPA		2.491
- IBS IMMOBILIARE SRL	11.924.920	12.986.356
bonds and other debt financial instruments	**-**	**-**
Shareholdings	**4.840.804**	**4.768.052**
- SSIS SPA	447.197	446.778
- CHAMBER OF COMMERCE	1.033	1.032
- TECNO SCIENCE PARK SAN MARINO - ITALIA	-	11.000
- BANCA CENTRALE SM	4.059.241	4.059.241
- CENTRO SERVIZI	333.333	250.000
Investments in bank group companies	**7.723.975**	**7.453.232**
- BAC FIDUCIARIA SPA	689.965	681.516
- IBSRENT Srl	-	22.689
- SAN MARINO LIFE SPA	6.467.437	6.429.012
- IBS IMMOBILIARE SRL	315.000	320.015
- BACINVESTMENTS SG SPA	251.573	-
Other Companies	**-**	**-**
- TP@Y SPA	-	-
TOTAL ASSETS	**143.291.972**	**125.022.496**
Liabilities		
amounts due to customers	**1.580.481**	**1.864.939**
- BAC FIDUCIARIA SPA	11.670	-
- IBSRENT Srl	-	5.755
- SAN MARINO LIFE SPA	1.175.976	1.320.533
- IBS IMMOBILIARE SRL	11.124	-
- SSIS SPA	88.862	235.127
- TECNO SCIENCE PARK SAN MARINO - ITALIA	-	303.525
- BACINVESTMENTS SG SPA	292.849	
payables represented by financial instruments	**-**	**-**
- BAC FIDUCIARIA SPA		-
other liabilities	**-**	**-**
- BAC FIDUCIARIA SPA	-	-
TOTAL LIABILITIES	**1.580.481**	**1.864.939**
Guarantees and commitments	0	0
- guarantees given		
- commitments		

Revenues and expenses to related parties: subsidiaries and parent company

	31/12/2018	31/12/2017
Interest income and similar revenues	**-**	**-**
- SAN MARINO LIFE SPA		
Interest expense and similar charges	**-**	**-**
- BAC FIDUCIARIA SPA		
- IBS LEASING SPA		
- SAN MARINO LIFE SPA		
Dividends	**345.822**	**475.415**
- BAC FIDUCIARIA SPA	-	-
- SAN MARINO LIFE SPA	345.822	475.415
Interest margin	**345.822**	**475.415**
- SAN MARINO LIFE SPA	256.886	215.000
- BACINVESTMENT SG SPA	111.832	
Commission expense		
Profit and losses from financial transactions		
Other net proceeds	**47.222**	**47.659**
- BAC FIDUCIARIA SPA	38.333	38.330
- BACINVESTMENT SG SPA	38.000	
- SAN MARINO LIFE SPA	8.889	9.329
Service margin	**649.930**	**738.074**
Intermediation margin	**649.930**	**738.074**
a) Personnel expenses	**-**	**-**
b) Other administrative expenses	**-**	**-**
OPERATING RESULT	**649.930**	**738.074**

In order to strengthen the Group's governance on subsidiaries, it should be noted that the following company representatives are present in the Board of Directors of the aforementioned companies in the interest of the Parent Company BAC:

Bac Fiduciaria Spa

- **members of the Board of Directors:** Chairman: Marco Perotti; Director: Emanuele Rossini and Daniele Savegnago;
- **members of the Board of Statutory Auditors:** Chairman: Corrado Taddei; Auditor: Roberto Protti; Auditor: Vaglio Alberto.

San Marino Life Spa

- **members of the Board of Directors:** Chairman: Marco Perotti; Deputy Chairman: Emanuele Rossini; Directors: Wlademir Biasia, Claudio Maugeri, Cesare Silvio Rizzini Bisinelli; Chief Executive Officer: Daniele Savegnago.
- **members of the Board of Statutory Auditors:** Chairman: Corrado Taddei; Auditor: Lombardi Andrea; Auditor: Andrea Belluzzi.

Bac Investments SG Spa
- **members of the Board of Directors:** Chairman: Wlademir Biasia, Directors: Marco Perotti, Silvio Cesare Rizzini Bisinelli;
- **members of the Board of Statutory Auditors:** Chairman: Stefania Maria Gatti, Auditor: Marco Petrucci, Alberto Vaglio.

IBS Immobiliare Srl
Chairman: Emanuele Rossini, Director: Tiberio Serafini; Auditor Unico: Stefania Maria Gatti.

Communication, marketing and commercial activity

During the first half of 2018, the Bank strengthened a communication plan aimed at consolidating the new image of the Group, according to the "BAC, the bank you want" headline. This was made by maintaining two communication campaigns, one visible at the Bank's facilities and the other through newspapers, the web, TV, radio and social networks.
The first campaign declines the concept of "Bank, how and when the customer wants", articulating it through the availability of the home service, web and mobile channels for autonomous access to the information services and devices of the Bank; the self-service areas for deposits, wire transfers and withdrawals, accessible 24h a day, 7 days a week. The second campaign conveys the message "Drop by BAC", intended both as an "invitation to meet us" and as an incentive to "change your bank". The aforementioned communication activity was accompanied by constant commercial activity, which involved the entire sales network towards achieving excellent results.
In the second half of the year, the Bank continued communicating the solid image of the BAC Group through the daily newspaper "La Serenissima", which publishes the yields of the subsidiary BAC Investments SG S.p.A. and the weekly returns of the products of San Marino Life S.p.A. Attention was also paid to the image of BAC and the Group and our visibility was increased monthly by communicating the new products offered and by publicizing the most recent company in the group, BAC Investments SG S.p.A.
The entire group devoted more and more attention to communicating the image also on social media, opening further pages both on Facebook and on LinkedIn. This allowed us to increase visibility and keep ourselves more updated, competitive and closer to the customer.
In October BAC was also the official sponsor of the sporting event "Rally Legend of the Republic of San Marino". The concession to set up a stand in our premises allowed us to carry out commercial activities on site and to disseminate the image of the Bank internationally.
Moreover, as in the previous semester, the commercial already produced for the aforementioned "BAC, the bank you want" campaign continued to be broadcast on SMTV at 7.30 pm each evening.
At the end of 2018 the bank won the C.F.I. "Best Bank Governance" award for the second consecutive year; therefore, new communication campaigns are being planned in conjunction with the centenary of the birth of BAC.

Organizational activity and operational structure

The organizational and operational activities started and monitored for the suitable functioning of the facilities and services provided by the Bank were mainly related to the constant monitoring of internal production processes in order to develop their efficiency levels through technological and functional interventions, the adjustments depending on the standard evolution time to time issued by Competent bodies, as well as the management of projects focused on the organizational structure development.

Operational structure and Projects

During the year the organizational structure was further developed with a view to pursuing a continuous process of operational efficiency. The upgrading work concerned both the composition of the management structures and some operational processes, which are summarized as follows:
- the representation in the Organization Chart of the role of General Manager (previously it provided for the reference to the Chief Executive Officer);
- the attribution of supervision powers over the Subsidiaries to the General Manager (previously under the responsibility of the Deputy General Manager);
- the establishment of two new committees, the Management Committee and the Customer Committee respectively, in addition to those already existing;
- the establishment of the Sales Manager figure, who coordinates the activities of the Foreign and Bad Credit Management Units, as well as of the branches through the new structure called Branch Coordination Unit;
- the formalization of the Development Manager figure, initially performed by the Deputy General Manager who was further evolved during the new financial year (2019) into the role of Subsidiaries Development Manager, performed by the General Manager;
- the formalization of the Finance Manager figure (which includes the duties previously provided for the C.F.O. Chief Financial Officer), who is responsible for the competent structures (Planning and Management Control, Trading, Securities Back Office, Depositary Bank, Asset Management and Treasury). This figure replaces the Administration and Finance Department and is performed by the Deputy General Manager;
- the elimination of the Centralized Services Unit whose main activities (primarily commercial portfolio processing) were assigned to the Accounting and Financial Reporting Unit (formerly known as the Budget and Taxation Unit). Further activities were reassigned to other organizational units (Credits, Organization and Securities Back Office);
- the establishment of two separate structures, responsible for Secretariat and Personnel activities respectively, defined as General and Corporate Affairs Secretariat and Personnel Unit (previously merged into the General and Personnel Secretariat);
- the establishment of the Corporate Identity Unit for specific aspects (previously included in the activities under the responsibility of the Deputy General Manager), dealing in particular with the management of the BAC Banking Group brands;
- the update of the participants in the Committees provided for by the Regulation based on the changes represented above

Consequently, the bank updated the "General Regulations of the Corporate Bodies, the General Management and the Peripheral Facilities" as regards the organizational Structure and the related activities, the attributions regarding the "Assignment of Signature, Management and Credit Delegation Powers" in accordance with the changes described above.

In the field of technology, the **evolution of the Bank Information System (SIB Gesbank)** continued, whose main actions involved operating processes in relation to the applicable regulations, as summarized below:

- the update of IT procedures and related functional processes to implement the directives relating to the CIT Check Image Truncation procedure, which regulates the new methods of negotiating checks in the Italian payment system;
- the update of the regulatory provisions relating to the management of banknotes and coins in €/Currency dependent on the amendment of CBSM Regulation no. 2013-04;
- the update of the operational obligations relating to the "General income tax" introduced by D.D. no. 114 of 27/9/2017;
- the definition of activities resulting from the "provisions to facilitate the return of assets and the emergence of certain assets held abroad" introduced by D.D. no. 15 of 1/2/2018.

Specific upgrades were also activated to improve IT efficiency and/or integrate new features and services, including:

- the start of the operational process for the placement of funds managed by the group company BAC Investments SG Spa and the Depositary Bank activities, accompanied by the issue of specific internal regulations (Depositary Bank Regulations and operational provisions for the placement of funds);
- the placement of insurance policies in the "non-life branch" to implement the Insurance Product Distribution Agreement signed by the Bank with NET Insurance Spa and NET Insurance Life Spa in Rome.

In addition to the above measures, the revision and integration of the Disaster Recovery project relating to technological safeguards for the operational continuity of the Bank's information systems was started. The operation will represent a further streamlining of the technological structure and foresees various implementation steps, whose completion is estimated to take place during 2019.

During the year, three main projects in the e-money area were completed, namely: 1) the issue of new credit cards, 2) the activation of the new POS acquiring service and 3) the activation of the new GT-ATM service (automated teller machine terminal manager), through the payment institution T.P@Y S.p.A. and the company Centro Servizi Srl (both legal entities are jointly owned by the main banks of San Marino). In addition, the bank is implementing the project to define the new Bancomat/PagoBancomat debit card (issued by the bank by virtue of its participation in the Italian Bancomat/PagoBancomat Consortium - COBAN), which will replace the card currently in use, introducing additional features and accessory services.

In view of the aforementioned projects and the related investments, as well as the negative extraordinary items incurred during the year (including the 2017 capital tax paid in 2018 amounting to € 271,337 and the liquidation of the 2017 AQR charges communicated in 2018 equal to at € 195,858), structural costs (administrative costs and depreciation of capital goods) were nevertheless optimized and decreased significantly compared to those incurred in the previous year (- 2.51% compared to 2017), as shown in the detailed table below:

Description	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Administrative expenses	5.129.653	5.291.562	-161.910	-3,06%
indirect taxes	302.108	37.341	264.766	709,04%
Depreciations on instrumental assets	1.689.275	1.975.177	-285.902	-14,47%
	7.121.036	**7.304.081**	**-183.045**	**-2,51%**

Regarding **Regulatory adjustments**, in addition to the evidence already expressed above, we report the following:

- the issue of the "Own Real Estate Regulation";
- the issue of the "Internal Committee Regulation";
- the update of the "General Regulation of the Corporate Bodies, the General Management and Peripheral Facilities" in the light of the organizational changes already mentioned in the previous paragraph "Organizational structure Projects" including updates on the "signing powers" and "management powers for the authorization of bank transfers";
- the update of the "Spending Regulation";
- the update of the "Credit Regulation";
- the issue of the "Organization and IT Unit Regulation";
- the issue of the "Technical common reporting standard regulation";
- the update of the "Internal Control System Regulation";
- the update of the "Internal Audit Regulation";
- the update of the "Anti-Money Laundering Manager and AML Unit Regulation";
- the update of the operating circular for the activation of the CIT (check truncation) procedure);
- the update of the contents of the "Organizational and Management Model pursuant to article 7 of Law 99/2013 on the administrative/criminal liability of legal persons";
- the issue of internal policies on the "Requirements of integrity for the Banking Group".

Additional internal regulatory provisions were also issued, including:

- the update of the operations of the Bad Credit Management and Litigation and Credit Recovery units;
- the review of operating processes with regard to the following activities: "Taxation of bank contracts", "Management of usury threshold rates" and "Commercial portfolio processing";
- the update of the operating methods of "supplying credit card services" as well as the "POS Service", etc.";
- the update of the policies on the "Use of IT systems".

The **logistic** operations worth mentioning are:

- the active management of assets in non-functional properties, both as regards the technical/operational aspects and the commercial ones (maintenance, sales and rentals), further implemented with a specific "Real Estate Function" within the Organization and IT Unit;

- the constant update of the functional structures (General Management and Branches) to guarantee the correct performance of the operating activities;
- the update of the main security safeguards in the physical field (tools for the management of values, extraordinary maintenance of alarm and anti-intrusion devices) and logic (evolution of dedicated software).

Staff

Evolution and composition of the staff

The Staff in service at 31 December 2017 totaled 123 units, with a decrease of 10 resources compared to the previous year.
This difference is due to the exit of 8 resources due to voluntary resignations (of which 3 Directors, 2 Executives, 1 Manager and 2 Office Workers), the transfer of 1 resource to a company of the Group, the termination for retirement of an office worker and the entry of 2 new resources (2 Office Workers).
The number of resources seconded (Law 131/2005) to Group companies is 5 units, while 1 unit was seconded to BAC from a Group company.
Absences from service due to leave and union secondment amounted to a total of 6 units; part-time work was carried out by 4 resources.
The full time equivalent stood at 111.87 resources.
At the end of the year, the workforce saw the presence of 2 Directors representing 1.63% of the total, 15 Executives equal to 12.20 % of the workforce, 17 Managers equal to 13.82% of the total personnel and 89 Office Workers who accounted for 72.36% of the overall workforce.
The average age of personnel is 44.18 years.
51.79% of staff is included in the Sales Network, while 48.21% in the General Management and in the Organizational Units.
The following tables show the composition of the workforce by qualification, by age group, by length of service and by educational qualification.

Composition by Position

	Men	Women	Total	% Incidence
Directors	2	0	2	1,63
Executives	10	5	15	12,2
Managers	15	2	17	13,82
Office Workers	44	45	89	72,36
total	71	52	123	100

Composition by Age

	Men	Women	Total	% Incidence
Over 50	13	5	18	14,63
from 41 to 50	37	29	66	53,66
from 31 to 40	19	17	36	29,27
up to 30	2	1	3	2,44
total	71	52	123	100

Composition by Length of Service

	Men	Women	Total	% Incidence
Over 30	5	2	7	5,69
from 21 to 30	20	20	40	32,52
from 11 to 20	35	25	60	48,78
up to 10	11	5	16	13,01
total	71	52	123	100

Composition by Educational Qualification

	Men	Women	Total	% Incidence
University degree	22	13	35	26,72
School diploma	55	39	94	71,76
Other	2	0	2	1,53
total	79	52	131	100

Training

Aware of the importance of personnel growth and development, BAC intensified training activities that allowed a valid growth and a continuous upgrade of the technical-professional skills of the people who work there.
2018 saw total training hours of 5,230, with a considerable increase compared to 2017. Whether technical and vocational or compulsory, training was provided through internal and external courses and in the e-learning mode, the latter allowing the participation of a significant number of resources.
The Bank promoted the participation of some professional figures in specialist courses concerning Risk Management, Anti-Money Laundering and Management Control, availing itself of highly qualified associations such as ABI, AIRA, APB. Particular attention was paid to the topic of Privacy GDPR entered into force on 25 May in the European Community; on the insurance side, training initiatives were activated to certify and maintain the professional skills necessary to provide customers with appropriate advice.
With regard to credit, the activity of strengthening skills in the process of analysis and

assessment of creditworthiness continued in line with previous years.
The Bank supported the training initiative promoted by ABS on the new legal institutions introduced by the Italian and European legislatures following the recent financial crisis, which changed the reference regulatory framework and designed an innovative platform with which San Marino credit institutions will have to comply.

Trade union relations

The dialogue with trade unions and trade union representatives took place in an environment of constructive confrontation.

Charity

BAC has always paid great attention to socially oriented charitable initiatives characterized by high ethical values. Therefore, also in the past 2018 and in compliance with the resolution of the Shareholders' Meeting on 05/05/2018, the Bank's Board of Directors supported the following associations during the past financial year:

- Associazione Oncologica Sammarinese,
- Guardia d'Onore del Cuore Immacolato di Maria.
- APAS animal protection association
- San Marino brain aging pathology support association
- Festa di Casole Committee
- Carità senza confini
- San Marino for the children
- Associazione Sammarinese cuore e vita
- Festa di san Rocco Committee

Important facts occurred after year end

No such significant events occurred after year end as to require adjustments to the financial statements or notes.
In January 2019, the International Monetary Fund (hereinafter also the "IMF") carried out the usual follow-up after the mission undertaken in 2016 in our Republic, to assess its rating, economic palatability and financial system solidity in the light of possible funding operations. At the meeting the main statistical data of the Bank were presented, resulting in an effective comparison on the main topics of the financial and banking sector.
The IMF mission also requested the Supervisory Authority to update the data relating to the exercise of the Asset Quality Review on the evidence as at 31/12/2018 and the information with the required details and segmentations was transmitted by February 2019.
However, the San Marino Executive Committee underlined the intention to maintain a strong involvement of the banking and financial system in the bank's development projects.

Business outlook

In 2019 the Bank will continue renewing and improving the efficiency of the Banking Group through the following directories:

- Strong determination in the commercial development of subsidiaries, in particular *AC Investments SG*.
- Development of the customer base through:
- the increase in acquisitions thanks to the players represented by affluent managers, small businesses and developers;
- contact through stakeholder;
- improved customer journey by multiplying opportunities for contact between the customer and the bank through digital interaction;
- use of business intelligence and customer relationship management development tools;
- strengthening of up-selling and cross-selling tools to seize the opportunities given by the strong existing customer base;
- internalization project relating to current agreements with foreign institutional counterparties;

Strong concentration on the most profitable business priorities with less capital absorption through:

- Wide advisory offer to families;
- Specialized offer on managed savings;
- Use of the tailor-made offer of the subsidiaries (Bac Investments SG, Bac Fiduciaria Spa and San Marino Life Spa);
- Development of wealth management with the mission of creating a new offer center (asset management/insurance/services); personalized management of important assets through an advanced consulting model with an approach based on complete assistance for family assets;
- Increase in IT investments (evolution of the distribution model, e.g. opening of online current accounts).
- Careful management of the credit provision process through a new selection of investment opportunities;
- Accurate "in-house" management of the NPL stock, whose net value is expected to be significantly reduced;
- Focus on real estate for the purpose of orderly disposal and/or shrewd income making.
- Further significant provisions for credit risk funds, even in the light of the exercise of the Asset Quality Review;
- Further reduction in management expenses, with a consequent reduction in the cost-income ratio;
- Full recognition of the expected profits to increase the regulatory capital.

In light of the objectives set in the budgeting process, the Bank expects to close the future years profitably. Therefore, it will be able to fully absorb the loss generated in 2018.

We wish to express our heartfelt and sincere thanks to the General Management and all the Bank staff for their fruitful cooperation and commitment in carrying out the activity.
We extend an esteemed appreciation also to the Board of Auditors, which has provided a careful, rigorous and appreciated collaboration to the Management and the Board of Directors.
Last but not least, our most sincere gratitude goes to our customers for the preference granted towards the services and products offered by the Bank.

Proposal for the approval of the financial statements and the allocation of results for the year

We hereby ask you to approve the financial statements for the year closed as at 31/12/2018 along with this report and to deliberate on carrying forward the 2018 loss in the year 2019 (- € 3.721 million) and to cover the 2016 and 2017 losses carried forward by using the ordinary reserve fund for - € 3.800 million.
With the aforementioned approval, the composition of corporate assets will be as follows:

NET EQUITY	31/12/2018
Share capital - subscribed and paid-up shares	20.880.080
Ordinary reserve fund	54.595.023
Extraordinary reserve fund	0
Share premium reserve fund	0
Own share reserve fund	14.378
Revaluation reserves	14.831.669
Retained loss	
Result for the year	-3.721.039
Total	**86.600.111**

The number of own shares held in portfolio by the bank is 553 and their nominal value is € 14,378.

San Marino, 27 March 2019

The Chairman of the Board of Directors

Subjective and objective conditions

According to article 6 of Law no. 47 of 02.23.2006, all the members of the Board of Directors of Banca Agricola Commerciale of the Republic of San Marino S.p.A. declare under their own responsibility that the subjective and objective conditions remain for holding the office of Chairman and Directors.

San Marino, 27 March 2019

5.

Board of Statutory Auditors' Report

BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

"Board of Statutory Auditors' Report to the Shareholders' Meeting of Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A. pursuant to article 83 L. 47/2006 as amended"

Dear Shareholders,

with this Report the Board of Statutory Auditors reports on the supervisory activity carried out during the year ended 31 December 2018, in compliance with current legislation, taking into account the behavioral principles recommended by Professional Associations and referring to the Articles of Association and Legislative Regulations governing the formation of the Financial Statements.

The text of the Report that we submit to the Assembly includes news, data and information that this Board deemed, in its independent assessment, appropriate to provide to the Bank's shareholders.

The Board examined the draft financial statements for the year ended on 31 December 2018, which were prepared by the Directors and submitted to the Board, together with the management report, the tables and the annexes.

During the year, we carried out our assignment and monitored the observance of the law and company by-laws, in compliance with the principles of correct administration, the adequacy of the internal control system and the administrative-accounting system, as well as the reliability of the latter in correctly representing management facts on the modes of effectively implementing corporate governance rules. We report on this activity through this document that we submit to the Meeting.

1. Results of the year

The financial statements as at 31 December 2018, which are submitted to the approval of the Shareholders' Meeting, present a loss of € 3,721,039, resulting from the positive and negative income components analytically indicated in the Profit and Loss Account and broadly illustrated in both the Management Report of the Board of Directors and the Explanatory Notes, documents to which the Board of Statutory Auditors refers.

In particular, the Bank's financial statements for the year ended 31 December 2018 show:
- net equity of € 86,600,111;
- own funds for supervisory purposes equal to € 76,806,605;
- "total capital ratio" solvency ratio of 17.09%;
- allocation of the lump-sum and analytical devaluations fund equal to € 46,197,267. The loan coverage degree at the end of the 2018 financial year is equal to 7.01% of the previous year.

The burden incurred for value adjustments on loans, increasing compared to the previous year, still has a decisive influence on the economic result.

2. Activities of the Board of Statutory Auditors

With regard to the modes of carrying out our institutional activity, we formulate the following considerations.

The information acquired on the most important economic, financial and equity transactions carried out by the Bank made it possible to ascertain compliance with the Law and the Articles of Association and compliance with the corporate interest; we also believe that these operations, fully described in the Management Report, do not require specific observations by the Board.

We acquired adequate information on transactions with related parties. No transactions of an atypical or unusual nature with related parties or with third parties were carried out.

We examined the report on the financial statements issued on 16 April 2019 by the auditing company BDO Italia S.p.A., which does not highlight any findings, exceptions or reservations. The auditing firm refers to the salient elements regarding the information provided by the Directors in the management report and in the notes to the financial statements concerning the assumptions relating to the credits of the Delta Group and to the results of the Asset Quality Review (AQR). Furthermore, pending the formalization of the new multi-year Strategic Plan, the auditing company provides what was reported by the Directors in the specific explanatory notes to the financial statements regarding the business outlook: "In light of the objectives set in the budgeting process, the Bank expects to profitably close future years…".

The auditing company, as per previous meetings, reported on the work carried out for the audit and the absence of situations of uncertainty and limitations in the audits carried out.

We hereby acknowledge that during the year no complaints were filed with the Board of Statutory Auditors pursuant to article 65 of Law n. 47/2006 as amended.

During the financial year 2018, we participated in 21 meetings of the Board of Directors, and obtained, in compliance with current legislation, timely and appropriate information on the general management trend and its foreseeable evolution, as well as on the most significant transactions, by size or characteristics, carried out by the Bank.

In particular, the decision-making process of the Board of Directors appeared to us to be correctly inspired by the respect for the fundamental principle of acting knowledgeably.

In 2018, we held 23 meetings of the Board of Statutory Auditors.

We monitored compliance with the principles of correct administration, through direct observations, gathering of information from the heads of company functions, constant connection with the auditing company, the internal audit function, the compliance and anti-money laundering function, and the risk management function, for the purpose of the mutual exchange of relevant data and news. In particular, we took note of the work done by the internal audit and compliance functions, of which we attest to hierarchical and functional independence. We examined the general aspects, the management processes and the methods of measuring the risks inherent in and connected to the Bank's activities, as well as their suitability and effectiveness in dealing with the emergence of serious, persistent, widespread and generalized difficulties. We followed the evolution of the management according to the pre-established strategic objectives, as well as the evolution of the organizational changes in line with the aforementioned objectives, also verifying that the constant updating of the information apparatus was maintained.

All this was thanks to our participation in the meetings of the Board of Directors, the documentation and timely information received from the various management bodies in

relation to the transactions carried out by the Bank, as well as periodic analyzes and audits.
The information acquired made it possible to verify that the actions resolved and implemented were compliant with the Law and the Articles of Association and that they were not manifestly imprudent or risky, in potential conflict of interests or in conflict with the resolutions adopted by the Shareholders' Meeting, or detrimental to the rights of members and third parties.
The Management Report summarizes the relationships with the group companies. Also in 2017, a significant number of internal regulations, which also complied with the provisions of the regulations and general regulations of the Supervisory Authorities, were produced and adopted.
In line with the current regulations, the Bank adopted a system of internal controls that is suitable for detecting, measuring and verifying the risks typical of its activity.
The internal control system is periodically subject to ascertainment and adjustment in relation to the evolution of company operations and the reference context. In particular, internal auditing is performed by the internal audit function, which reports the results of its activities directly to the Board of Directors and the Board of Statutory Auditors.
We believe that this system is adequate to the Bank's management characteristics and meets the requirements of efficiency and effectiveness in monitoring risks and in compliance with internal and external procedures and provisions.
To the extent of our competence, we evaluated the reliability of the administrative and accounting system in correctly incorporating and representing management events both by means of direct surveys on accounting documents, and through information obtained from the managers of the various functions, periodic meetings with the auditing firm and the analysis of the results of the work carried out by the same.
We acknowledge that our supervisory activity took place on a normal basis and that no significant facts emerged that would require mentioning in our report.

3. Remarks and proposal regarding the financial statements and their approval

As for the monitoring of the correct keeping of accounts and recording of management events in the accounting records, as well as the correspondence checks between the financial statement information and the results of the accounting entries and the compliance of the financial statements with the law, it should be noted that these tasks are entrusted to the auditing company BDO Italia S.p.A. For our part, we monitored the general approach given to the financial statements.
In particular, having first established, through our meetings with the heads of the departments involved and the independent auditors, the adequacy of the administrative and accounting system to correctly incorporate and represent the management facts and translate them into reliable data systems for external information, we monitored its general structure and compliance with the law as regards its formation and structure, and in this regard the Board of Statutory Auditors has no particular remarks to make.
We believe that the information submitted to the Assembly meets the provisions and contains a faithful, balanced and comprehensive analysis of the Bank's situation, the progress and the operating result.

Dear Shareholders,
taking into account all the foregoing and considering the content of the Report prepared by the auditing company and the reference to disclosure, the Board of Statutory Auditors finds no impediment to the approval of the financial statements for the year ended 31 December 2018, as prepared by the Directors.

San Marino, 7 May 2019.

Rag. Gian Enrico Casali (Chairman)

Dott.ssa Stefania Gatti (Auditor)

Avv. Alberto Vaglio (Auditor)

Subjective and objective conditions

According to article 6 of Law no. 47 of 02.23.2006, all the members of the Board of Statutory Auditors of Banca Agricola Commerciale of the Republic of San Marino S.p.A. declare that the subjective and objective conditions remain for holding the office of Mayor.

San Marino, 7 May 2019
Rag. Gian Enrico Casali

Dott.ssa Stefania Gatti

Avv. Alberto Vaglio

6.

2018 Financial Statements

BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

A. Statement of assets

Item code	Asset items	31/12/2018	31/12/2017
10	**Cash and cash equivalents**	**6.765.689**	**6.140.397**
20	**Treasury Securities and other financial instruments eligible for refinancing with central banks**	**-**	**-**
	Treasury Securities and other similar financial instruments		
	Other financial instruments eligible for refinancing with central banks		
30	**Loans to banks**	**139.463.756**	**121.200.553**
	At sight	88.871.346	67.301.684
	Other credits	50.592.410	53.898.869
40	**Loans to customers**	**411.036.916**	**446.368.389**
	At sight	175.687.063	186.734.960
	Other credits	235.349.853	259.633.429
50	**Bonds and other debt financial instruments**	**44.954.994**	**32.725.096**
	Public issuers	44.954.994	32.725.096
	Banks		
	Investors (investment firms)		
	Other issuers		
60	**Stocks, shares and other capital instruments**	**9.422.747**	**6.809.007**
70	**Shareholdings**	**4.840.804**	**4.768.052**
	Financial enterprises	4.059.241	4.059.241
	Non-financial enterprises	781.563	708.811
80	**Investments in bank group companies**	**7.723.975**	**7.453.232**
	Financial enterprises	7.408.975	7.110.528
	Non-financial enterprises	315.000	342.704
90	**Intangible fixed assets**	**1.237.337**	**1.598.958**
	Financial leases		
	- of which assets being constructed		
	Assets awaiting financial lease for lease termination		
	- of which for breach by tenant		
	Assets from credit recovery		
	- of which assets for credit discharge through settlement agreement		
	Goodwill		
	Start-up costs		
	Other intangible fixed assets	1.237.337	1.598.958
100	**Tangible fixed assets**	**184.951.693**	**190.195.291**
	Financial leases	88.532.498	93.809.146
	- of which assets being constructed	13.153.334	14.253.575
	Assets awaiting financial lease for lease termination	3.325.980	2.620.786
	- of which for breach by tenant	3.325.980	2.620.786
	Assets from credit recovery	64.010.782	63.536.379
	- of which assets for credit discharge through settlement agreement	64.010.782	63.536.379
	Land and buildings	28.630.976	29.507.601
	Other tangible fixed assets	451.457	721.379
110	**Subscribed share capital not paid-in**		
	- of which called capital		
120	**Own shares or stocks**	**14.378**	**14.378**
130	**Other assets**	**118.355.047**	**109.498.985**
140	**Accrued income and prepaid expenses**	**456.119**	**469.861**
	Accrued income and prepaid expenses	76.450	32.314
	Prepaid expenses	379.669	437.547
150	**Total assets**	**929.223.455**	**927.242.199**

A. Statement of liabilities

Item code	Liability items	31/12/2018	31/12/2017
10	**Amounts due to banks**	**1.137.069**	**784.447**
	At sight	1.137.069	784.447
	Term or with notice		
20	**Amounts due to customers**	**434.007.160**	**413.157.964**
	At sight	406.094.112	394.485.471
	Term or with notice	27.913.048	18.672.493
30	**Paybles represented by financial instruments**	**282.563.618**	**293.871.718**
	Bonds		
	Certificates of deposit	282.563.618	293.871.718
	Other financial instruments		
40	**Other liabilities**	**114.973.902**	**114.078.939**
	- of which outstanding checks and similar securities	604.644	845.016
50	**Accrued expense and deferred income**	**72.752**	**78.517**
	Accrued expense and deferred income	7.239	12.511
	Deferred income	65.513	66.006
60	**Severance**	**529.374**	**609.394**
70	**Reserves for risks and charges**	**1.328.615**	**2.366.203**
	Provision for pensions and similar obligations		
	Tax reserves	266.401	916.930
	Other reserves	1.062.214	1.449.273
80	**Provisions for risks on credits**		
90	**Provisions for general banking risks**		
100	**Subordinate liabilities**	**8.010.853**	**12.016.144**
110	**Share capital**	**20.880.080**	**20.880.080**
120	**Share premium reserves**		
130	**Reserves for risks and charges**	**58.410.046**	**58.410.046**
	Ordinary reserves	58.395.668	58.395.668
	- of which tax-suspended Riserves	1.227.968	1.227.968
	Own share reserves	14.378	14.378
	Extraordinary reserves		
	Other reserves		
140	**Revaluation reserves**	**14.831.669**	**14.789.392**
150	**Retained earnings (losses) (+/-)**	**-3.800.644**	**-3.793.060**
160	**Net income (loss) for the period (+/-)**	**-3.721.039**	**-7.585**
170	**Total liabilities**	**929.223.455**	**927.242.199**

A. Guarantees and commitments

Item code	Items	31/12/2018	31/12/2017
10	**Guarantees given**	**15.000.232**	**17.704.978**
	Acceptances	953.311	2.340.201
	Other guarantees	14.046.921	15.364.777
20	**Commitments**	**5.257.749**	**3.418.819**
	For specific use		
	- of which financial instruments		
	or unspecific use	4.387.383	2.163.767
	- of which financial instruments		
	Other commitments	870.366	1.255.052
30	**Total**	**20.257.981**	**21.123.797**

A. Profit and loss account

Item code	Profit and Loss Account items	31/12/2018	31/12/2017
10	**Interest income and similar revenues**	**16.384.610**	**19.660.079**
	On amounts due from banks	161.433	82.390
	On loans to customers	15.674.469	19.041.146
	On debt securities	548.708	536.543
20	**Interest expense and similar charges**	**4.392.412**	**4.923.553**
	on amounts due to banck	845,00	1.627
	On payables to customers	1.057.549,00	839.331
	On bond payables	3.334.018,00	4.082.595
	- of which on subordinate liabilities	145.449,00	212.212
	Interest margin	**11.992.198**	**14.736.526**
30	**Dividends and other revenues**	**345.822**	**475.415**
	On stocks, shares and other variable-income securities	-	
	On shares	-	
	On group company shares	345.822	475.415
40	**Commission income**	**4.506.328**	**4.465.221**
50	**Commission expense**	**797.729**	**841.463**
60	**Profit (losses) on financial transactions (+/-)**	**79.889**	**397.399**
70	**Other operating income**	**14.509.346**	**16.806.786**
80	**Other overhead costs**		
	Intermediation margin	**30.635.854**	**36.039.884**
90	**Administrative expenses**	**14.310.429**	**14.927.927**
	Personnel expenses	8.878.669	9.599.023
	- salary and wages	6.415.108	6.897.365
	- welfare contributions	1.647.041	1.769.013
	- severance	576.955	618.979
	- Dormancy and similar	-	
	- directors and auditors	166.837	254.563
	- other personnel expenses	72.728	59.103
	Other administrative expenses	5.431.760	5.328.904
100	**Intangible asset adjustments**	**495.845**	**739.939**
110	**Tangible asset adjustments**	**13.801.205**	**16.388.476**
120	**Provisions for risks and charges**	**533.099**	**71.000**
130	**Provisions for risks on credits**	**-**	
140	**Value adjustments for loans and provisions for guarantees and commitments**	**5.083.858**	**4.691.353**
150	**Writebacks on loans and on provisions for guarantees and commitments**	**-**	
160	**Financial asset adjustments**	**293.229**	
170	**Financial asset writebacks**	**-**	
180	**Operating income (loss)**	**-3.881.811**	**-778.811**
190	**Extraordinary income**	**627.555**	**1.131.081**
200	**Extraordinary expense**	**145.811**	**132.894**
210	**Extraordinary income (loss)**	**481.744**	**998.187**
220	**Taxation for the year**	**320.972**	**226.961**
230	**Variations in general banking risk reserves (+/-)**		
240	**Income (loss) for the period**	**-3.721.039**	**-7.585**

7.

Explanatory Notes

PART A - Accounting principles
Section 1 - Illustration of accounting principles
Section 2 - Adjustments and tax provisions
PART B - Information on the Statement of Assets and Liabilities
PART C - Information on the Profit and Loss Account
PART D - Other information

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Structure and content of the financial statements

The financial statements for the year 2018 were prepared in accordance with the provisions of the Regulation no. 2008-02 about the preparation of the financial statements of banks issued on 23 September 2008 by the Central Bank of the Republic of San Marino, pursuant to article 39 of Law no. 165 of 17 November 2005.
As in previous years, particular attention was paid, on both form and content basis, to clarity, as well as to the truthful and correct representation of the Bank's real asset and financial situation.
The accounting principles established by the applicable law were also applied.
The financial statements comprise the Statement of Assets and Liabilities, the Profit and Loss Account, laid out in such a way that the sub-totals are also shown, the statement of Guarantees and Commitments and the Explanatory Notes. They are completed by Directors' report on operations, Auditors' Report and Independent Auditors' Report.
The statement of assets and liabilities and the profit and loss account are comprised of items (marked in Arab numbers), sub-items (marked by letters) and further details (the "of which" of the items and sub-items). The items, sub-items and relative details constitute the financial statements.
The addition of new items is allowed, on condition that their content cannot be traced back to any of the items already included in the schedules, and only if it is for a significant amount. Further information is provided in the explanatory notes.
The sub-items envisaged by the schedules may be grouped when they satisfy one of the two following conditions:
a) the amount of the sub-items is negligible;
b) the grouping aids the clarity of the financial statements; in this case the explanatory notes must provide a separate indication of the sub-items that were grouped.
For each account on the statement of assets and liabilities and on the profit and loss account the amount of the previous fiscal year is indicated. If the accounts are not comparable, those relative to the previous year must be adapted; any incomparability and adaptation or the impossibility of performing the latter must be indicated and commented upon in the explanatory notes.
The statement of assets and liabilities and the profit and loss account also contain accounts for which no amounts were recorded in both the fiscal year to which the financial statements refer and those of the previous year.
If an element in the statement of assets or liabilities is classified under different items of the balance sheet, the fact that it refers to items other than that under which it was posted must be indicated in the explanatory notes when such is necessary to the comprehension of the financial statements.
The various entries in the Financial Statements correspond to the company's accounts which were drawn up in correspondence to the administrative transactions that occurred during the year.
In general, no conditions arose that entailed changing the way that the entries in the financial statements, or the relative criteria, are represented with respect to the previous year. In the cases in which this occurred, clear information is provided in the analysis of the single entry.
The accounts on the first day of the fiscal year correspond to those carried forward from the financial statements approved for the previous year.
The financial statements and the explanatory notes were drawn up in Euros, without decimal figures.
The recognition of incomes and charges was made on an accrual basis, regardless of the date of collection or payment, and in accordance with the principle of prudence.
The latter principle presides, unless the formation of non-explicit reserves is envisaged.
In order to not reduce the information content of the financial statements figures, implementing principles of truthfulness and clarity, income and expenses were not offset.
The write-down, depreciation and amortization of asset items were exclusively made by means of a direct adjustment decreasing the value of said items.
Assets acquired in the name or on behalf of third parties are not shown in the financial statements.
Assets managed by the credit or financial body in the latter's name but on behalf of third parties are shown in the financial statements only if the body in question is the title holder; unless specified otherwise, the amount of said assets is indicated in the explanatory notes, broken down into the various asset and liability items.
The tables of the explanatory notes set out in the 2017/03 application circular of Reg.2016/02 are not given in this document if they are zero and not significant for Banca Agricola Commerciale Spa, for the illustration of the Stock and Flow data of the activity carried out by the company.

PART A - Accounting principles

Section 1 - Illustration of accounting principles

Balance sheet and off-balance sheet assets and liabilities are valued according to the principle of prudence and on a going concern basis.

Cash and cash equivalents (asset item no. 10): this item includes currencies with legal tender, including banknotes and foreign coins, money orders, bankers' orders and postal orders, as well as equated securities, coupons and on-demand securities. Included are also collectable coins and medals as well as gold, silver and stamped values.

Loans to Credit Institutions (asset item no. 30): this item shows all loans to banks, whatever their technical form is, except for those represented by financial instruments, which require posting under item no. 50 "Bonds and other debt financial instruments".
Loans to credit institutions also contain the counter value of carry-over operations and repurchase agreements for which the transferee bank has a sale back obligation to the selling bank on the maturity of the securities. The amount posted is equal to the spot price paid. The spot transferred assets continue to be shown in the portfolio of the selling bank.

Loans to customers (asset item no. 40): this item shows the loans deriving from financing contracts with customers, whatever their technical form is, on condition that, and to the extent to which the loan was effectively granted. The loans that have not been disbursed yet, even though recorded in the accounts on the "contracting date", are not included in this item, but in the item concerning commitments. The loans represented by financial instruments are recorded in item 50 "Bonds and other debt financial instruments". The partial contributions received for matured or disputed loans are directly reduced by the value of the same loans. The contributions received in advance for loans not yet matured must be posted under the liability item "amounts due to customers" or "other liabilities", depending on whether these contributions are interest bearing or not.
This item must include also the loans deriving from financial lease agreements for expired and not yet received rental charges and the connected loans for default interest.
"Loans to customers" comprise the counter value of carry-over operations and repurchase agreements in which the customer is obliged to the reverse repurchase of the securities

spot transferred to the bank. The amount posted is equal to the spot price paid. The loans are recorded in the financial statements at their estimated realizable value, calculated on the basis of the borrower's state of solvency, as well as the overall difficulty in servicing debt in countries where the borrowers reside.
The estimated realizable value is calculated on the basis of a valuation of all factors that characterize the history of the relationships in question, supported by assets, economic and financial information on borrowers, the nature of the economic activity performed and any guarantees issued.
More specifically:
Non-performing loans: are a category of loans, regardless of the expectation or otherwise of possible losses, made to borrowers in a state of insolvency, even if not legally ascertained, or in similar situations. This item represents the full exposure, including interest recorded and the expenses incurred for collection activities, adjusted by the portion of interest that is considered unrecoverable. Non-performing loans are valued analyzing the likelihood of their recovery on an analytical basis and calculating the relative presumed loss.
Impaired loans: are loans to borrowers suffering temporary difficulties, which are likely to be overcome in an acceptable period of time. They are valued on an analytical basis. Furthermore, by virtue of CBSM Regulation no. 2007-07, impaired loans now also include loans that have fallen due and have not been repaid, even only partially, as follows:
- 3 six-monthly instalments or 5 quarterly instalments for loans with an original term exceeding 36 months.
- 2 six-monthly instalments or 3 quarterly instalments for loans with a term equal to or less than 36 months. If the depreciation plan for the loan envisaged monthly instalments, the number of instalments due and unpaid considered is as follows:
- 7 instalments for loans with a term exceeding 36 months.
- 5 instalments for loans with a term of less than 36 months.

Restructured loans: cash and "off-balance sheet" exposures for which the bank, due to the worsening of debtor's economic-financial conditions, allows to change the original contract conditions (for example, terms rescheduling, debt and/or interest reduction, etc.) resulted in a loss. Exposures towards companies expected to close (e.g. for voluntary liquidation or similar situations) are not included. Anomalous exposures especially concerning the Country risk are also excluded. A hypothetical credit restructuring of non-performing loans is mainly aimed at liquidation; consequently, it does not come within the definition of restructured loans, but non-performing ones. The same method is applied to impaired loans, if the re-negotiation of the contract conditions is aimed at paying part of the exposure (liquidation purpose).
Past due and/or overdrawn loans: refer to exposures towards customers with individual cash and off-balance sheet loans that, unlike impaired or non-performing loans, are past due or overdrawn in a continuative manner for more than 90 days at the reference date; if this exposure represents 20% of the overall exposure, these commitments are subject to arbitrary write-down.
Loans to "at-risk" countries: refer to exposures to borrowers coming from Zone B countries; this category represents a residual part of the commitments and was consequently subject to arbitrary write-down.
Performing loans: these are written-down on an overall basis, in order to guarantee a hedging from the so called "physiological risk"; the write-down is made prudentially in a way to be able to face any unforeseen losses. Flat-rate value adjustments are made based on all information evidence available, which allow a valuation of the risk level of the homogeneous category of loans considered and its outlook and take into account the risk that historically lies under the loan portfolio. In determining these adjustments, any analytical write-downs already made with regard to individual positions are taken into account. In the absence of adequate historical series that can ensure statistical robustness, the flat-rate write-down is left to the prudent evaluation of the administrative bodies.
Bonds and other financial instruments (asset item no. 50): The own securities portfolio is comprised of investment securities held for investment properties and trading securities held for treasury and trading. This item shows all the financial debt instruments in the bank's portfolio, both long- and short-term, such as government securities, bonds, certificates of deposit and the other fixed or variable income financial instruments, which are index-linked on the basis of predetermined parameter (e.g. the interbank interest rate). The securities include only reacquired and tradable securities issued by the bank itself. The financial instruments in the investment portfolio and the trading portfolio are recorded in the assets for an amount that includes (excludes) the accrued portion of the negative (positive) differences between the purchase cost and the repayment value upon the maturity of the same financial instruments.
The value of the tradable financial instruments is determined with reference to the average value of the last month before the valuation.
The financial instruments are considered as financial fixed assets and therefore subject to the valuation rules pursuant to article III.II.3 of CBSM Regulation 2008-02, only if they are destined to stable investments by the bank.
More specifically:
- Long-term financial instruments represent a financial fixed asset and are made according to the parameters established by the management body. The final balance of investment securities was therefore valued at the weighted average cost, for instruments that had already been included in the investment portfolio the previous year, while their purchase cost was recorded for new acquisitions during the year.

The accrued portion of the difference between the book value or purchase value and the lower/higher repayment value of the security is also recognized by recording it in the assets under item no. 50 "Bonds and other financial instruments" with respect to the value of each specific security. In the event of the lasting deterioration of the issuer's state of solvency, or the ability to repay the debt by the country of residence of the latter, investment securities are written down. Other write-downs may be recorded to take the following into account:
the relevant share prices of securities listed on regulated markets;
market trends, for other securities.
Should the reasons for the write-down no longer subsist, write-downs made for long-term value losses are written back.
- Trading financial instruments are held for trading or for treasury requirements; they are valued on the basis of assumed market trends as expressly specified under paragraph 5 of art. III.II.5 of CBSM Regulation 2016-02:

a) the market value of listed financial instruments is represented by the market price, namely, the weighted average of the prices recorded in the last month prior to valuation, and consequent recognition of both losses and gains.
b) the market value of unlisted financial instruments is calculated on the basis of the value of similar listed and unlisted instruments, or, if the latter is not possible, on the basis of reasonable estimates.
c) the own shares held by the Institute are recorded at their par value.
The cost is calculated using the "average weighted rolling cost" formula on a daily basis,

adjusted by the portion of the accrued net underwriting spread. Any losses or gains, limited to listed securities, which emerge from the comparison between the average rolling cost, as illustrated above, and the market value, are recorded in the profit and loss account.

Shareholdings (asset items no. 70 and 80).
Shareholdings in subsidiaries representing financial fixed assets since held as assets for the purpose of stable investment are valued by the equity method, if necessary adjusted in the presence of accrued impairment losses deemed to be permanent. Should the reasons for the write-down no longer subsist, the write-downs made for impairment losses are written back.
Dividends paid by subsidiary companies are recorded on an "accrual" basis, as allowed by the current accounting principles.
Dividends paid by companies which do not have the above characteristics are recorded on a "cash" basis, namely, in the period in which they are resolved upon, which usually coincides with the period in which they are collected.
Shareholdings in other uncontrolled companies representing financial fixed assets are valued at purchase cost. They are written down in the event of permanent deterioration of the issuer's situation and are written back if the reasons originating them no longer subsist.

Intangible fixed assets (asset item no. 90).
Intangible fixed assets are recorded in the financial statements at inclusive cost of additional charges and are usually amortized within five years. Assets with a high technological obsolescence are amortized over three years. The amortization of assets is made systematically by direct adjustment of their value, using the rates provided for by tax law no. 166 of 16/12/2013.
The cost of intangible fixed assets with a limited use over time is systematically amortized every year by directly adjusting their value in accordance with the residual useful life.
Until the depreciation is completed, dividends can be distributed only if there are available reserves sufficient to cover the non-amortized costs.

Tangible fixed assets (asset item no. 100).
Tangible fixed assets are recognized at purchase cost, inclusive of additional charges and any other incremental expenses. Assets are depreciated systematically by directly adjusting their value using the rates established by the tax law no.166 of 16/12/2013, deemed appropriate and representative of the value corresponding to the residual useful life of the asset.
If assets demonstrate an impairment value which is lower than its cost, this is written down. Should the assumptions supporting the original write-down no longer subsist, write-downs made in previous periods are not maintained.

Financial lease transactions (leasing – asset item no. 100).
The amount of assets subject (or awaiting to be subject) to financial lease is recorded in asset item 100 "Tangible fixed assets" in case of tangible assets.
Loans relative to financial lease transactions are calculated according to the financial methodology and are recorded in the assets as the algebraic balance obtained from the difference between the financed capital or historic cost of the asset and the relative accumulated depreciation; the latter increases thanks to the principal of the various instalments accrued. Furthermore, the instalments accrued during the year are entered under interest income and similar revenues for the part regarding the interest, and under other operating income for the part regarding the capital. At the same time, the bank reduces the value of the leased asset by the principal, posting a cost (equal to the principal) in the profit and loss account and directly reducing the value of the leased asset.
At year end, the cost item used becomes part of item 110 "Value adjustments to tangible assets" depending on the nature of the leased asset.

Assets and liabilities in foreign currency.
Assets and liabilities denominated in foreign currency and off-balance sheet transactions are recognized at the spot exchange rate in effect at year end, according to art.III.II.7.
Off-balance sheet transactions in foreign currency are recognized at the spot exchange rate in effect at year end, if such regards spot transactions which have not been settled or forward transactions to "hedge" spot transactions. In the latter case, the differentials between forward exchange rate and spot exchange rate of the expiring contracts are recorded in the profit and loss account on an accrual basis and include the interests generated by covered assets and liabilities: this is to be recorded in the profit and loss account item 10-20 "Interest income (expenses) and similar revenues (charges)".

"Off balance sheet" transactions (other than those on currencies).
Off-balance sheet transactions are recognized according to the same criterion adopted for assets/liabilities recorded in the financial statements, depending on whether these are posted as fixed assets or current assets.
Any trading contracts for securities (spot or forward) which have not been settled at year end are valued using criteria that are consistent with those adopted to value portfolio securities.
Derivative contracts set in place to cover assets or liabilities are valued in coherence to covered assets or liabilities. The differentials are recorded pro-rata temporis under the profit and loss account items 10-20 relating to "interest income (expenses) and similar revenues (charges), consistent with the costs and income generated by the covered elements.
Derivative trading contracts directly listed on regulated markets, as well as those using listed parameters or parameters taken from the standard information circuits used at international level as reference, are recognized at market value, which also means the price recorded on the last working day of the month in question, or, in the absence thereof, the last recorded price.
The difference between the current value of assets and liabilities and the off-balance sheet transactions and the book value of the same elements and transactions is included in the profit and loss account in the balance of item 60 "Profits (losses) on financial transactions".

Amounts due to Credit Institutions (liability item no. 10): This item shows all the amounts due to national or foreign banks whatever their technical form, except for those represented by bonds or other securities which require to be posted under liability item no. 30 and 100.
The amounts due to banks include the equivalent value of the financial instruments received by the selling bank as spot in repo and carry-over transactions for which the transferee bank is obliged to forward resale

Amounts due to customers (liability item no. 20)
This item shows all the amounts due to customers whatever their technical form, except

for those represented by financial instruments which require to be posted under liability item no. 30.
The amounts due to customers include the equivalent value of the financial instruments received by the selling bank as spot in repo and carry-over transactions for which the transferee customer is obliged to forward resale.
The above items are recorded at nominal value.

Payables represented by financial instruments (liability item no. 30)
In addition to bonds and certificates of deposit, this item includes, under the sub-item "other financial instruments", its traced acceptances and the atypical securities according to article II.III.8 of CBSM Regulation 2007/07. It should be noted that in this item the bank has exclusively entered those certificates of deposit issued. Debt financial instruments which are past due but have not yet been repaid upon the reference date are also included.

The spot value of "repurchasing agreements" is indicated in the specific liability item, while the underlying securities are represented in the assets under the item "Bonds and other debt securities". The forward value of the above transactions is recorded under the item "Commitment to exchange financial instruments of specific use" reclassified under Guarantees and Commitments.

Other assets - Other liabilities (asset item 130 – liability item 40)
This item contains all the assets and liabilities that are not associated to other assets or liability items. It also includes any (negative or positive) balances for items in transit and suspended that are not attributed to the relevant accounts. Payment means issued by the banks, such as bankers' drafts, are posted under other liabilities.
Non-interest bearing cash deposits held at clearing organizations for transactions on derivative contracts (known as margin calls) are also included. Any revaluations of off-balance sheet transactions on financial instruments, currencies, interest rates, stock exchange indexes or other assets are also recognized, regardless of their use for hedging or trading purposes.

Accruals and deferrals (asset item no. 140 and liability item no. 50)
These are recognized according to the same accrual principle also adopted for the recognition of all income and charges, the portions of interest income and expense and other income and expense.
Accruals and deferrals are recorded separately in the profit and loss account in specific asset sub-items.
The Bank directly adjusts the asset accounts or liability accounts to which the accrued income and prepayments refer, increasing or decreasing them, in the following cases:
a) in asset accounts, in relation to interest accrued on loans and securities;
b) in liability accounts, in relation to interest accrued on payables, represented or not represented by securities, which include "advanced" interest, including the issue discount for bonds and certificates of deposit.
In any case, the material adjustments are illustrated in the explanatory notes.
Accruals and deferrals related to differentials or margins arising from derivative contracts to hedge the interest rate risk of interest-bearing assets and liabilities are considered as an increase or decrease of such assets and liabilities.

Severance (liability item no. 60)
The personnel severance fund fully covers the seniority of all employees of this company accrued at year end.

Provisions for risks and charges (liability item no. 70)
These provisions exclusively cover losses, changes or payables of a set nature, of probable or certain existence, but which have no set amount or date of occurrence at year end. These mainly include:
- the provisions for taxes, comprising allocations made for direct current taxation.

These represent a reasonable forecast of the tax charges for the period calculated on the basis of current tax legislation.
The provisions for risks and charges also include the fund for charity and events of a religious or cultural nature and a further three newly-established funds listed below:
- the provision for claims and revocation actions.
- the provision for unused holidays.
- the fund for contractual rises in employee wages in view of the gap between contracts existing until 31/12/2010.

Provisions for risks on credits (item no. 80)
The provisions for credit risks include all the funds that are destined to cover only possible credit risks and therefore do not have an adjustment function. The provisions for risks on credits are made through specific allocations charged to the profit and loss account item no. 130 "Provisions for risks on credits" and not through the allocation of the profit for the year.

Reserves (liability item no. 130)
The ordinary reserve consists of the allocation of profits formed in previous years as required by the articles of association. Furthermore, it contains the reconstruction of the suspended taxation reserve following the extraordinary demerger operation by reverse incorporation of the company Istituto Bancario Sammarinese Spa, which occurred in November 2012, in application of the law deriving from the tax deduction for increases of the own capital established by Delegated Decree no. 172 of 26/10/2010, subsequently replaced with the law 166/2013 art.74. According to the aforementioned legislation, article 78 establishes that the suspended taxation reserves recorded in the last financial statements of the demerged company must be reconstituted by the beneficiaries according to the proportional shares. In the event of a partial demerger, the reserves of the demerged company are reduced accordingly. If the tax suspension depends on events concerning specific assets of the demerged company, the reserves must be re-established by the beneficiaries who acquire such elements.

Guarantees (item 10)
This item includes all the personal guarantees presented by the bank as well as the assets provided as guarantee for third-party obligations.

Commitments (item 20)
This item includes all the irrevocable commitments of specific or unspecific use, which may lead to credit risks (e.g. the margins available on irrevocable credit lines granted to customers or banks). The commitments arising from derivative contracts are valued on the basis of their notional value.

Deferred taxes

To truly represent a real economic situation of the Bank, it has been used the deferred taxation. This is determined considering the fiscal effect connected with temporal differences between accounting value of assets and liabilities and their fiscal value that will determine taxable amounts in the future.

To this end, "temporal differences" mean those differences which will result in taxable income, namely, deductions from taxable income in the future periods.

In particular, they are registered assets for in-advance taxes when exists the reasonable certainty that they will be paid. They are registered liabilities for deferred taxes when it is likely that they will become an effective cost. In advance taxes are part of the item "other assets", whereas deferred taxes are part of the item "taxation fund".

The case law of the Bank dealt with recording in the financial statements the deferred tax assets arising from deductible temporary differences and representing taxes paid in advance which will be recovered in future years.

Section 2 – Adjustments and tax provisions

Value adjustments to receivables comprise: positions posted to losses in the profit and loss account, since the collection of the said credit is impossible, the concomitant use of the "Provision for loan adjustment" for an equal amount and of the portion of forfeit allocation to the aforementioned Provision as established with reference to the internal statistical statements about loan losses, in combination with internal statistical data on losses on loans and the estimated loss as calculated by the Litigation and Credit Recovery Unit for impaired positions. Allocations to the "Exempt Provision for risks on credits" are made within the limits established by tax legislation but in any events its function is to adjust the value of the loans whose recoverability is uncertain, including the principal and arrears interest. The provision for taxation is comprised of allocations made on the basis of forecast tax charges for the period calculated on the basis of current tax legislation.

PART B - Information on the Statement of Assets and Liabilities

Asset item no. 10

Table 1.1 – Breakdown of item 10 "Cash and Cash equivalents"

	31/12/2018	31/12/2017	CHANGES	
Cash and cash equivalents:			**amount**	**%**
€ cash	4.477.979	3.720.912	757.067	20,35%
Foreign currency cash	914.595	754.409	160.186	21,23%
ATM cash	725.355	732.595	-7.240	-0,99%
€/foreign currency cheques	616.471	888.562	-272.091	-30,62%
Other	31.289	43.919	-12.630	-28,76%
Total	**6.765.689**	**6.140.397**	**625.292**	**10,18%**

Asset item no. 30

Table 3.1 – Loans to Credit Institutions

A. Breakdown of item 30 in asset postings: "Loans to credit institutions" (2.1)	31/12/2018		31/12/2017	
Details by technical form/currency	**In EUR**	**In foreign currency**	**In EUR**	**In foreign currency**
At sight	83.092.476	5.778.870	64.106.019	3.195.665
Reciprocal accounts opened for services rendered	80.547.799		61.560.864	
Current accounts	2.544.677	5.778.870	2.545.155	3.195.665
Other				
Other loans	50.592.410	-	50.396.539	3.502.330
Time deposits	50.592.410		50.396.539	3.502.330
Current accounts				
Repurchasing agreements				
Other				
TOTAL	133.684.886	5.778.870	114.502.558	6.697.995
GENERAL TOTAL		**139.463.756**		**121.200.553**

The breakdown of Loans to credit institutions shows increasing sight deposits on current accounts for services of € 18,986,935 and on the item Current accounts for € 2,582,726 due to the repositioning of past due and not renewed loans and to a slight increase in the amount of direct deposits that mark an increase for the first time, after years of capital outflow attributable to the return of capital to Italy for the so-called "Voluntary disclosure", launched in 2015 and the microeconomic dynamics that still saw the Republic suffer from a systemic crisis. In this perspective BAC maintained an extremely liquid treasury position. The composition of other loans from credit institutions also remains stable. It should be noted that the item Time deposits includes the time deposit for the Mandatory Reserve with the Central Bank amounting to € 28,318,278, established by decree no. 162 of 3 December 2009, whose contribution percentage was increased by a bps from November 2017 and three-month deposits on Central Bank for € 20,000,000.

Table 3.2 – Situation of cash loans to credit institutions

B. Situation of cash loans to credit institutions (3.2)	31/12/2018			31/12/2017		
Categories/Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans	-	-	-	-	-	-
- of which from financial leasing transactions			-			-
Non-performing loans						
- of which from financial leasing transactions						
Substandard loans						
- of which from financial leasing transactions						
Restructured loans						
- of which from financial leasing transactions						
Past due/overdrawn loans			-			-
- of which from financial leasing transactions			-			-
Unsecured loans to at-risk countries			-			-
Performing loans	**139.463.756**		**139.463.756**	**121.200.553**		**121.200.553**
- of which from financial leasing transactions						
TOTAL	**139.463.756**		**139.463.756**	**121.200.553**		**121.200.553**
- of which from financial leasing transactions						

Table 3.3 – Dynamics of doubtful loans to credit institutions

C. Dynamics of doubtful loans to credit institutions (3.3)	31/12/2018					31/12/2017				
Reason codes / Categories	**Non-performing loans**	**Sub-standard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Non-performing loans**	**Sub-standard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**
Opening gross exposure										
- of which for accrued interest										
Increases	-	-	-	-	-	-	-	-	-	-
Inflows from performing loans										
Accrued interests										
Other increases										
Decreases	-	-	-	-	-	-	-	-	-	-
Outflows to performing loans										
Cancellations										
Collections										
Sales revenues										
Other decreases										
Closing gross exposure as of 31 Dec 2018	-	-	-	-	-	-	-	-	-	-
- of which for accrued interest										

Table 3.4 – Dynamics of total value adjustments of Loans to Credit Institutions

D. Dynamics of total value adjustments of "Loans to credit institutions" (3.4)	31/12/2018						31/12/2017					
Reason codes / Categories	Non-performing loans	Substandard loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries	Performing loans	Non-performing loans	Substandard loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries	Performing loans
Opening value adjustments												
Increases	-	-	-	-	-	-	-	-	-	-	-	-
Value adjustments												
- of which for accrued interest												
Utilizations of risk provisions for loans												
Transfers from other credit categories												
Other increases												
Decreases	-	-	-	-	-	-	-	-	-	-	-	-
Writebacks from valuation												
- of which for accrued interest												
Writebacks from collection												
- of which for accrued interest												
Cancellations												
Transfers to other credit categories												
Other decreases												
Closing value adjustments as of 31 Dec 2018	-	-	-	-	-	-	-	-	-	-	-	-
- of which for accrued interest												

Table 3.5 – Breakdown of Loans to Credit Institutions based on residual life

Maturity	31/12/2018	31/12/2017
At sight	88.871.346	67.301.684
From 1 day to 3 months	22.274.132	23.502.331
From 3 to 6 months		
From 6 months to 1 year		
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted	28.318.278	30.396.538
TOTAL	**139.463.756**	**121.200.553**

The maturity band not assigned includes the ROB deposit constituted at Central Bank. As a result of the new provisions of the Supervisory Authority, it must be reclassified here; the ROB deposit in 2017 amounted to € 28,125,985.

Asset item no. 40

Table 4.1 – Breakdown of item 40 Loans to customers

Categories / Currencies	31/12/2018		31/12/2017	
	In EUR	In foreign currency	In EUR	In foreign currency
At sight / non-revolving	**174.277.158**	**1.409.905**	**184.882.397**	**1.852.563**
Current accounts	38.498.336	144	50.041.185	451
Other	135.778.822	1.409.761	134.841.212	1.852.112
Other Loans	**235.309.878**	**39.975**	**259.633.429**	**-**
Current accounts	5.005.843		5.033.022	
Discounted and s.t.c. portfolio	5.006.451		4.828.743	
Repurchasing agreements				
Other loans	225.297.584	39.975	249.771.664	
TOTAL	**409.587.036**	**1.449.880**	**444.515.826**	**1.852.563**
GENERAL TOTAL		**411.036.916**		**446.368.389**

The loans outlined above are presented at the expected sale value, inclusive of arrears interest on non-performing and doubtful exposures calculated starting from 01/01/2008.

Table 4.2 – Guaranteed loans to customers

The following table shows all types of guaranteed loans

Categories / Currencies	31/12/2018		31/12/2017	
	In EUR	In foreign currency	In EUR	In foreign currency
From mortages	**107.964.441**		**108.109.800**	
From lien on:	**13.393.335**	**-**	**20.518.448**	**-**
Cash deposits	4.559.949		6.724.738	
Securities	2.430.436		5.894.181	
Other	6.402.950		7.899.529	
From guarantees:	**259.384.348**	**-**	**283.004.092**	**-**
Public administrations	42.703.647		46.068.910	
Monetary financial institutions	3.589.533		3.858.620	
Investment funds other than money market funds				
Other financial institutions				
Insurance companies				
Pension funds				
Non-financial companies	182.084.381		197.283.293	
Households and non-profit institutions serving households	27.434.019	-	34.476.239	-
Households and family businesses	27.434.019		34.476.239	
Non-profit institutions serving households				
Other	3.572.769		1.317.030	
Total	**380.742.125**	**-**	**411.632.340**	**-**

Table 4.3 – Situation of cash loans to customers

C. Situation of cash loans to customers (4.3)	**31/12/2018**			**31/12/2017**		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans	**164.411.783**	**43.964.128**	**120.447.655**	**157.518.110**	**38.412.426**	**119.105.683**
- of which from financial leasing transactions	21.794.702	4.173.111	17.621.591	24.371.160	4.389.216	19.981.944
Non-performing loans	94.861.822	29.502.356	65.359.466	78.260.197	25.919.964	52.340.233
- of which from financial leasing transactions	12.120.727	2.889.165	9.231.562	9.205.239	2.546.222	6.659.017
Bad loans	36.244.483	4.299.930	31.944.553	56.128.963	7.192.920	48.936.043
- of which from financial leasing transactions	8.884.809	1.205.029	7.679.780	15.165.921	1.842.994	13.322.927
Restructured loans	30.556.982	9.888.184	20.668.798	22.798.067	5.296.220	17.501.847
- of which from financial leasing transactions			-			-
Past due / overdrawn loans	2.741.397	273.649	2.467.748	319.106	3.309	315.797
- of which from financial leasing transactions	789.166	78.917	710.249			-
Unsecured loans to at-risk countries	7.099	9	7.090	11.777	14	11.763
Performing loans	**384.680.877**	**2.233.138**	**382.447.739**	**426.217.627**	**2.524.989**	**423.692.638**
- of which from financial leasing transactions	81.332.110	1.826.443	79.505.667	83.544.463	2.081.785	81.462.678
TOTAL	**549.092.660**	**46.197.266**	**502.895.394**	**583.735.737**	**40.937.415**	**542.798.321**
- of which from financial leasing transactions	103.126.812	5.999.554	97.127.258	107.915.623	6.471.001	101.444.622

For the non-performing and doubtful loans, the expected loss was calculated analytically. This has been based on the quality of the individual borrowers, namely their specific ability to fulfill the obligations undertaken, also calculated on the basis of all available information on their asset, economic and financial situation. The expected loss was calculated also considering the collateral and personal guarantees submitted. In addition to the analytical write-downs as specified on the accounting principles, an arbitrary write-down was calculated on the entire loans, based on the situation of difficulty in servicing the debt by the borrower countries of residence and considering the negative economic trends concerning similar loan categories, such as the area of business. Moreover, in the absence of adequate time series that can ensure statistical robustness, the write-down was carried out and established prudentially by the administrative bodies. When reclassifying impaired loans to customers, interest was calculated on non-performing loans deemed by the bank as prudentially not recoverable, for € 45,977 and € 357,174 on impaired loans which were analytically written down as illustrated above.

Table 4.4 – Dynamics of doubtful loans to customers

D. Dynamics of doubtful loans to customers (4.4)	**31/12/2018**				
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**
Opening gross exposure	**78.260.197**	**56.128.963**	**22.798.067**	**319.106**	**11.777**
- of which for accrued interest	1.675.227	1.044.292			
Increases	**23.764.278**	**13.078.157**	**41.301.531**	**2.961.620**	**438.808**
Inflows from performing loans	165.508	7.195.561	8.278.943	2.702.100	
Inflows from other categories of doubtful loans	21.265.980	19.435		109	
Accrued interest	45.977	357.174		810	6
Other increases	2.286.813	5.505.987	33.022.588	258.601	438.802
Decreases	**7.162.653**	**32.962.637**	**33.542.616**	**539.329**	**443.486**
Outflows to performing loans		4.063.392		140.625	
Outflows to categories of doubtful loans	73.150	21.237.764		47.604	109
Cancellations	2.632.907	499.866			
Collection	3.926.675	4.695.450	33.542.616	338.853	443.377
Sales revenues					
Other decreases	529.921	2.466.165		12.247	
Closing gross exposure as of 31 Dec 2018	**94.861.822**	**36.244.483**	**30.556.982**	**2.741.397**	**7.099**
- of which for accrued interest	1.695.516	893.630			

As for non-performing loans, the rigorous reclassification and evaluation undertaken in recent years continued, so this policy is the cause of the increasing non-performing positions deriving from the transfer from impaired positions, which were conversely highly reduced.

As regards deteriorated loans, the following was recorded:
- collections on non-performing loans for € 3,926,675 and € 4,695,450 for impaired positions,
- write-offs for € 2,632,907 on non-performing loans and € 499,866 on impaired loans.

D. Dynamics of doubtful loans to customers (4.5)	**31/12/2017**				
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**
Opening gross exposure	**67.919.851**	**72.755.065**	**17.334.779**	**122.058**	**4.256**
- of which for accrued interest	1.695.710	840.686			
Increases	**22.578.780**	**33.676.139**	**5.626.888**	**425.740**	**1.432.842**
Inflows from performing loans	1.130.532	14.981.756	5.626.844	337.487	
Inflows from other categories of doubtful loans	19.554.948	11.115		473	
Accrued interest	77.133	449.751		1.093	8
Other increases	1.816.167	18.233.517	44	86.687	1.432.834
Decreases	**12.238.434**	**50.302.241**	**163.600**	**228.692**	**1.425.321**
Outflows to performing loans		856.186		6.227	
Outflows to categories of doubtful loans		19.374.180		26.341	473
Cancellations	943.354	413.857			
Collection	6.478.548	20.216.393	163.600	192.405	1.424.848
Sales revenues					
Other decreases	4.816.532	9.441.625		3.719	
Closing gross exposure as of 31 Dec 2017	**78.260.197**	**56.128.963**	**22.798.067**	**319.106**	**11.777**
- of which for accrued interest	1.675.227	1.044.292			

2018 showed stable net impaired loans amounting to € 120,447,654, with a slight increase of 1.1% over 2017, reflecting the virtuous effects triggered by the management of the quality of loans through a scrupulous policy undertaken in the last few years. We also point out that following the amendment of Regulation 2007/07 implementing Miscellany 2013/06, tangible assets affected by early termination of leasing contracts due to the borrower's failure were reclassified on a statistical basis among impaired loans. We hereby specify that the amount of these fixed assets is equal to € 3,325,980 and their changes are explained in the relevant table below.
Impaired loans have a coverage degree of 26.74% compared to 24.39% in the previous year, confirming that the write-downs made prudentially cover all categories of loans as detailed in table 4.5 below. The category of restructured loans includes the position concerning the Delta/Surplus Group according to the clear-cut instructions to all the parties authorized to carry on reserved activities, forwarded by the Supervisory Authority with letter Prot. 14/2086. The adhering creditors approved, at the end of 2018, the sale of part of the portfolio (the so-called Arcade portfolio) to a specialized credit recovery company (Cerberus European Investments LLC) at a price of 0.092%; as requested by the Supervisory Authority, BAC made a further adjustment to the position for € 4,568,000, amortizing it in 5 years pursuant to article 40 of the 2018 financial law no. 173.

Table 4.5 – Dynamics of total value adjustments of loans to customers

E. Dynamics of total value adjustments of Loans to customers (4.5)	**31/12/2018**					
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Performing loans**
Opening total adjustment balance	**25.919.964**	**7.192.921**	**5.296.220**	**3.309**	**14**	**2.524.988**
Increases	**8.098.462**	**1.915.434**	**4.595.423**	**273.340**	**9**	**500.469**
Value adjustments	4.081.632	1.887.932	4.584.938	269.708	9	127.235
- of which for accrued interest						
Utilizations of risk provision on credits						
Transfers from other credit categories	4.006.353	27.502	10.485	3.632		373.234
Other increases	10.477					
Decreases	**4.516.070**	**4.808.425**	**3.459**	**3.000**	**14**	**792.319**
Writebacks from valuation	723.850	302.503	3.459	1.086	14	758.720
- of which for accrued interest						
Writebacks from collection	1.140.839					10.477
- of which for accrued interest						
Cancellations	2.632.902	497.684				
Transfers to other credit categories	18.479	4.008.238		1.914		23.085
Other decreases	-					37
Closing total adjustment value as of 31 Dec 2018	**29.502.356**	**4.299.930**	**9.888.184**	**273.649**	**9**	**2.233.138**
- of which for accrued interest	1.690.515					

E. Dynamics of total value adjustments of Loans to customers (4.5)	**31/12/2017**					
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Performing loans**
Opening total adjustment balance	**21.724.584**	**8.765.016**	**5.289.181**	**1.221**	**5**	**2.238.202**
Increases	**7.118.392**	**3.160.804**	**56.268**	**3.206**	**13**	**615.057**
Value adjustments	3.529.936	3.153.299	50.184	2.808	13	492.431
- of which for accrued interest	77.133					
Utilizations of risk provision on credits						
Transfers from other credit categories	3.541.444	7.322	6.084	398	-	122.626
Other increases	47.012	183				
Decreases	**2.923.012**	**4.732.899**	**49.229**	**1.118**	**4**	**328.271**
Writebacks from valuation	1.061.575	923.690		784	4	266.843
- of which for accrued interest						
Writebacks from collection	917.313	-	49.229	-	-	47.013
- of which for accrued interest						
Cancellations	943.354	413.857				
Transfers to other credit categories	770	3.395.352		334	-	14.415
Other decreases						
Closing total adjustment value as of 31 Dec 2017	**25.919.964**	**7.192.921**	**5.296.220**	**3.309**	**14**	**2.524.988**
- of which for accrued interest	1.675.227					

The dynamics of value adjustments also underline the Bank's commitment to continue with the disposal of impaired loans, raising the adjustment fund to € 46,197,266 in 2018, compared to € 40,937,416 in 2017 which, net of uses for write-offs, was provisioned, during the year, with € 5,083,858. Therefore, the total coverage is equal to 8.41% of which: 0.58% on performing loans, 9.98 on past due loans, 32.36% on restructured loans, 11.86 on impaired loans and 31.10 on non-performing loans.

Table 4.6 – Breakdown of Loans to customers based on residual life

Maturity	31/12/2018	31/12/2017
At sight	104.520.514	118.156.642
From 1 day to 3 months	34.677.004	36.759.111
From 3 to 6 months	16.866.040	22.265.759
From 6 months to 1 year	21.613.326	24.813.464
From 1 year to 18 months	20.152.469	22.901.729
From 18 months to 2 years	18.636.018	19.980.712
From 2 to 5 years	84.006.803	94.478.787
Over 5 years	134.949.112	143.133.921
Maturity not posted	67.474.108	60.308.197
TOTAL	**502.895.394**	**542.798.321**

The residual life obtained from loans gross of value adjustments corresponds to the time between the reference date and the contractual term of each transaction. Since 2009, the Bank has been aligning the assets and liabilities maturities on individual time buckets, improving in this way the structural liquidity situation.

Table 4.7 – Distribution of Loans to customers by business sector

Items / Values	31/12/2018	31/12/2017
Public administrations	**14.671.200**	**16.763.234**
Financial companies other than credit institutions	**15.478.429**	**19.385.546**
Monetary financial institutions (excluding credit institutions)	-	
Investment funds other than mutual investment funds	2.528.122	3.483.594
Other financial institutions	12.867.905	15.811.070
Insurance companies	82.402	90.882
Pension funds	-	
Non-financial companies	**325.566.171**	**350.010.885**
of which entities cancelled from Resoaut	-	
Industry	136.867.841	151.132.584
Constructions	22.276.934	25.387.255
Services	158.989.147	165.849.056
Other non-financial companies	7.432.249	7.641.990
Households and non-profit institutions serving households	**147.179.594**	**156.638.656**
Households and family businesses	147.010.637	156.451.774
Non-profit institutions serving households	168.957	186.882
Other		
TOTAL	**502.895.394**	**542.798.321**

Asset items 50 - 60

Table 5.1 – Breakdown of investment and trading financial instruments

Items / values as of 31-dec	31/12/2018		31/12/2017	
	Investment	Trading	Investment	Trading
Bonds and other debt financial instruments:	**31.434.308**	**13.520.686**	**25.489.532**	**7.235.564**
Public issuers	31.434.308	13.520.686	25.489.532	7.235.564
Credit institutions				
Financial companies other than credit institutions				
Other issuers				
Shares, stocks and other capital financial instruments:	**2.654.357**	**4.154.650**	**2.654.357**	**4.154.650**
Scudo Loan Management		4.003.864		4.154.650
Tower Credit Opportunities LT	5.418.883		2.654.357	
Total	**36.853.191**	**17.524.550**	**28.143.889**	**11.390.214**

The securities in the investment portfolio are recorded at their purchase value or the market price upon their transfer to the investment portfolio, with subsequent recording of the accrued amounts of the positive and negative differences between the above value and the redemption value as at maturity of the securities.
Trading securities are recorded at the market value expressed by the monthly average of the prices recorded in December 2018, under item "Bonds and other debt financial instruments", while item "Shares, stocks and other capital financial instruments" includes the provision portion deriving from the administrative compulsory liquidation of Credito Sammarinese Spa, for the agreement underwritten by the banks participating in the bulk disposal of legal relationships occurred in October 2011, obtaining fiscal benefits described in the law 11 October 2011 n.169. As of 31/12/2018, the provision market counter-value was € 4,003,863, so BAC recorded a further capital loss amounting to € 150,787, which was reclassified in other assets under the item "Temporary differences in loans management fund shares" pursuant to letter Prot.14/2288 issued by the Supervisory Authority, whose item rises to € 6,894,137.

Table 5.2 – Breakdown of investment financial instruments

B. Breakdown of "investment financial instruments" (5.2)	31/12/2018			31/12/2017		
Items / Values	**Book value**	**Book value**	**Fair value**	**Book value**	**Valore di bilancio**	**Fair value**
Debt financial instruments	**-**	**31.434.308**	**30.652.111**	**-**	**25.489.532**	**25.052.035**
Bonds	**-**	**31.434.308**	**30.652.111**	**-**	**25.489.532**	**25.052.035**
Listed		31.434.308	30.652.111		25.489.532	25.052.035
Unlisted						
Other debt financial instruments	**-**	**-**	**-**	**-**	**-**	**-**
Listed						
Unlisted						
Capital financial instruments	**-**	**5.418.883**	**-**	**-**	**2.654.357**	**-**
Listed						
Unlisted		5.418.883			2.654.357	
TOTAL	**-**	**36.853.191**	**30.652.111**	**-**	**28.143.889**	**25.052.035**

During 2017, the establishment of the English Fund for small and medium-sized Italian companies was finalized, of which BAC subscribed shares up to an amount of 10,000,000. The subscription partner is Quadrivio Spa, a leader in the Italian SME finance sector, which represents a strategic development opportunity for BAC in this business.
The Tower Credit Opportunities PLC fund will be dedicated to supporting the growth of Italian SMEs by funding investment programs, extraordinary finance operations and interventions to support the financial structure. The expected duration will be 12 years from the final date of the last closing. During the year, BAC signed nine tranches for the counter-value shown in the financial statements, in accordance with the agreement signed.

Table 5.3 – Annual changes in investment financial instruments

Items / Values	**31/12/2018**	**31/12/2017**
Opening balance	**28.143.889**	**25.521.429**
Increases	**8.739.785**	**2.658.221**
Purchases	8.714.070	2.654.357
- of which debt financial instruments	5.949.544	
Riprese di valore		
Transfers from trading portfolio		
Other changes	25.715	3.864
Decreases	**30.483**	**35.761**
Sales		
- of which debt financial instruments		
Redemptions		
Value adjustments		
- of which permanent writedowns		
Transfers to trading portfolio		
Other changes	30.483	35.761
Closing balance	**36.853.191**	**28.143.889**

We note that in 2018 another government security was purchased, thus maintaining the same composition of the investment portfolio as in the previous year, consisting of five government-issued securities that incorporate a higher risk appetite and a progressively higher profit target with duration compatible with the VAR limits imposed by our internal regulations and with the further goal of maintaining a consistent plafond for the Repurchasing Agreement operations to Customers.
We point out that the increases in purchases are represented by the subscription of the nine tranches of the Tower Credit Opportunities Fund, as explained above, in addition to the purchase of the government security, while in the decreasing variations the immobilization deviations are noted.

Table 5.4 – Breakdown of trading financial instruments

Items / Values	31/12/2018	31/12/2017
	Fair value	Fair value
Debt financial instruments	**13.520.686**	**7.235.564**
Bonds	**13.520.686**	**7.235.564**
Listed	13.520.686	7.235.564
Unlisted		
Other debt financial instruments	**-**	**-**
Listed		
Unlisted		
Capital financial instruments	**4.003.864**	**4.154.650**
Listed		
Unlisted	4.003.864	4.154.650
TOTAL	**17.524.550**	**11.390.214**

The free portfolio was also increased, through further purchases aimed at diversifying cash investments and creating coupon cash flows, as well as seizing market opportunities that generated capital gains. The portfolio consists of the participation in the alternative close investment fund subscribed at the end of December 2012, two Italian public issuance securities and the San Marino security issued with Delegated Decree no. 17 of 23/02/16.

Table 5.5 – Annual changes in trading financial instruments

Items / Values	31/12/2018	31/12/2017
Opening balance	**11.390.214**	**37.588.482**
Increases	**18.041.911**	**6.166.058**
Purchases	17.855.710	6.034.381
- of which debt financial instruments	17.526.849	4.312.153
- of which capital financial instruments	328.861	1.722.227
Writebacks and revaluations	14.342	
Transfers from investment portfolio		
Other increases	171.859	131.677
Decreases	**11.907.575**	**32.364.326**
Sales and redemptions	11.537.371	32.112.779
- of which debt financial instruments	11.041.883	30.183.003
- of which capital financial instruments	495.489	1.974.776
Value adjustments and writedowns	370.204	113.776
Transfers to investment portfolio		
Other decreases		137.771
Closing balance	**17.524.550**	**11.390.214**

Asset items 70 - 80

Table 6.1 – Shareholdings

Name	Legal form (acronym)	General partner (yes/no)	Registered office	Activity carried out	Share capital	Net equity	Profit / Loss	% capital share	Book value (b)	Fair value	Net equity share (a)	Comparison (a-b)
Group companies									**7.723.975**			
Bac Fiduciaria	S.p.a.	NO	Via Tre Settembre n° 316 47891 Dogana (R.S.M.)	Financial company	500.000	689.965	8.449	100,00%	689.965		689.965	-
SAN MARINO LIFE	S.p.a.	NO	Via Tre Settembre n° 316 47891 Dogana (R.S.M.)	Insurance	6.000.000	6.813.259	384.247	100,00%	6.467.437		6.467.437	-
IBS IMMOBILIARE	S.r.l.	NO	Via Tre Settembre n° 316 47891 Dogana (R.S.M.)	Real estate	75.000	292.887	-27.128	100,00%	315.000		315.000	-
BAC Investiment SG Spa	S.p.a.	NO	Via Tre Settembre n° 316 47891 Dogana (R.S.M.)	Other financial institutions	500.000	251.573	-248.427	100,00%	251.573		251.573	-
Related companies									**780.530**			
Società Servizi Informatici Sammarinese S.S.I.S	S.p.a.	NO	Strada Cardio, 22 47899 Serravalle (R.S.M.)	Automatic data processing services	490.637	841.190	837	50,00%	447.197		447.197	-0
Centro Servizi	S.r.l.	NO	Via XXV Marzo, 58 47895 Domagnano (R.S.M.)	Automatic data processing services	74.886	434.781	13.715	33,00%	333.333		333.333	0
Other investee companies									**4.060.273**			
Central Bank of the Republic of San Marino	S.p.a.	NO	Via del Voltone, 120 47890 San Marino (R.S.M.)	Banking	12.911.425	75.638.636	-2.173.521	5,00%	4.059.241		3.651.121	-408.120
Chamber of Commerce	S.p.a.	NO	Strada di Paderna, 2 47895 Fiorina Domagnano (R.S.M.)	Services	77.469	542.275	9.607	1,33%	1.032		9.532	8.500

It should be noted that the net equity valuations in the following table refer to the company data as of 31.12.2018 if already available for all the companies and with a holding percentage higher than 50%

Investee companies

In 2018, the 10% stake in Techno Science Park San Marino Italia SpA, issued by the state and other San Marino credit institutions and fully owned back by the government by Resolution of the State Congress no. 25 of 01/03/2018, was divested.
The shareholding in San Marino Central Bank (previously San Marino Credit Institution) remained unchanged. It accounts for 5% of the share capital of the associate bank and is represented by 125 shares of € 5,164 each. In the balance sheet closed as of 31/12/2013, its monetary revaluation was made according to Finance Law no. 174 art. 75 of 20/12/2013. The value of the share recorded in the balance sheet after its revaluation corresponds to the results obtained by its recalculation using the shareholder's equity method on the basis of the Central Bank's assets included in the financial statements on the 31 December 2013. The credit balance of the revaluation was necessarily recorded in a revaluation equity reserve equal to € 3,004,030.
The interests held in S.S.I.S S.p.a. (Società Sistemi Informatici Sammarinese), compared to the previous fiscal year, remained unchanged and represent 50% of the affiliate bank's capital. We are founding shareholders together with Cassa di Risparmio della Repubblica di San Marino, which holds the remaining 50% of the capital. This investment was likewise revaluated in 2018 net equity. This implied a revaluation of € 418 since the 2018 profit will be fully capitalized among reserves, according to the draft budget approved at the session of the general meeting on 08/04/2019.

Our investment in the Chamber of Commerce of San Marino Republic (previously Agency for Economic Promotion and Development) remains unchanged and is represented by 4 shares of 300 total shares constituting the Share Capital with a percentage of 1.33%. Banca Agricola Commerciale also holds a 25% stake in Centro Servizi srl, acquired in 2016, subject to authorization by the Central Bank, whose main activity consists in IT operations, with particular reference to production, development, maintenance and commercialization of application software, management of services related to the use of electronic payment instruments, and the sale and rental of hardware, since it is also the technological manager, in an exclusive form, of the SMaC platform; the investment was recorded at the 2016 acquisition value, corresponding to the estimated market value of the company at the time of acquisition; then in 2018 it acquired an additional portion deriving from the allocation of the portion of Asset Banca Spa, placed in administrative compulsory liquidation.

Group shareholdings

In 2018, the company BAC Investments SG Spa was established with an initial equity of € 500,000 and a subsequent write-down of € 248,427 based on the net equity values expressed in the first financial statements for the year ended 31/12/2018. The company that manages five open-ended mutual funds will make for a further development of the Group's commercial activities.

The share in the entire share capital of BAC Fiduciaria S.p.A. (established in 2002) was maintained, 500 shares with a nominal value of € 1,000 each. As at 31/12/2018, the net equity of our investee company amounted to € 689,965 inclusive of € 8,449 of profit for the year. Therefore, we made a revaluation of € 8.449 with an increase in the revaluation reserve of the same amount, as per 2018 budget approved on 08/05/2019, which provides for the complete capitalization of the ordinary reserve profit.

For IBS Immobiliare, BAC discharged the € 5,015 revaluation fund established in 2017, since the loss for the year 2018 equal to € 27,128 will be repaid for the difference of € 22,113 by the single shareholder BAC as per 2018 draft budget approved on 08/05/2019, expressing therefore the investment in the net equity.

Also for San Marino Life, BAC made an adjustment to the net equity of the investee based on the results of 2018. The Shareholders' Meeting resolved the distribution of 90% of the profit to the single shareholder BAC, while the remaining 10% will be set aside in the reserve.
Among investments, IBSRent Srl, which was acquired through the merger of IBS Leasing in 2014, was liquidated. The company was placed in voluntary liquidation in 2013 and based on the liquidation balance approved in 2014 it liquidated all debts and credits in 2018 following the cancellation at the Court Registry on 26/02/2018.

Please see attached below the details of the movements of BAC Fiduciaria Spa, SM Life Spa, SSIS Spa and IBS Immobiliare Srl, besides the tables of the aggregate movements.

Table 6.2 – Breakdown of item 70 Shareholdings

B. Breakdown of item 70 in asset postings "Shareholdings" (6.2 - 24)	31/12/2018			31/12/2017		
Items / Values	**Purchase price**	**Book value**	**Fair value**	**Purchase price**	**Book value**	**Fair value**
In credit institutions	-	**4.059.241**	-	-	**4.059.241**	-
listed						
Unlisted		4.059.241			4.059.241	
In other financial companies	-	-	-	-	-	-
listed						
Unlisted						
Other	-	**781.563**	-	-	**708.811**	-
listed						
Unlisted		781.563			708.811	
TOTAL	-	**4.840.804**	-	-	**4.768.052**	-

Table 6.4 – Annual changes in item 70 Shareholdings

Items / Values	**31/12/2018**	**31/12/2017**
Opening balance	**4.768.052**	**4.730.450**
Increases	**83.752**	**37.602**
Purchases	83.333	11.000
Writebacks		
Revaluations	419	26.602
Other changes		
Decreases	**11.000**	-
Sales	11.000	
Value adjustments		
- of which permanent writedowns		
Other changes		
Closing balance as of 31 Dec 2017	**4.840.804**	**4.768.052**
Total revaluations as of 31 Dec 2017	**419**	
Total adjustments as of 31 Dec 2017		

Table 6.3 – Breakdown of and changes in item 80 Shareholdings

C. Breakdown of item 80 in asset postings "Shareholdings in bank group companies" (6.5)	31/12/2018			31/12/2017		
Items / Values	**Purchase price**	**Book value**	**Fair value**	**Purchase price**	**Book value**	**Fair value**
In credit institutions	-	-	-	-	-	-
listed						
Unlisted						
In other financial companies	-	**7.408.975**	-	-	**7.110.528**	-
listed						
Unlisted		7.408.975			7.110.528	
Other	-	**315.000**	-	-	**342.704**	-
listed						
Unlisted		315.000			342.704	
TOTAL	-	**7.723.975**	-	-	**7.453.232**	-

Table 6.5 – Annual changes in item 80 Shareholdings

Items / Values	**31/12/2018**	**31/12/2017**
Opening balance	**7.453.232**	**7.330.401**
Increases	**546.874**	**122.831**
Purchases	500.000	
Writebacks	46.874	
Revaluations		122.831
Other changes		
Decreases	**276.131**	**-**
Sales		
Value adjustments	276.131	
- of which permanent writedowns	22.689	
Other changes		
Closing balance as of 31 Dec	**7.723.975**	**7.453.232**
Total revaluations as of 31 Dec		
Total adjustments as of 31 Dec	**276.131**	**0**

As previously said, item Writebacks includes the revaluation of the investee companies San Marino Life Spa, Bac Fiduciaria S.p.A. and IBS Immobiliare srl.

The following tables show details of the shareholdings of the bank group.

BACInvestments SG Spa	**31/12/18**	**Profit allocation**	**Partner settlement**	**Net equity 31/12/2018**
Share capital	500.000			500.000
Legal reserve				0
Other reserves				
To partner				
Profit for the year	-248.427			-248.427
	251.573	**-**	**-**	**251.573**

BACFiduciaria Spa	**31/12/18**	**Profit allocation**	**Net equity 31/12/2018**
Share capital	500.000		500.000
Legal reserve	181.516	8.449	189.965
Other reserves			
To partner			
Profit for the year	8.449	-8.449	
	689.965	**-**	**689.965**

SM Life Spa	**31/12/18**	**2028 Profit allocation**	**Dividend proposal**	**Net equity 31/12/2018**
Share capital	6.000.000			6.000.000
Legal reserve	342.217	38.424		380.641
Other reserves	86.796			86.796
Retained earnings / losses				
Profit for the year	384.247	-38.424	-345.823	0
	6.813.260	**-**	**-345.823**	**6.467.437**

IBS IMMOBILIARE Srl	**31/12/18**	**2018 profit forwarding**	**Partner settlement**	**Net equity 31/12/2018**
Share capital	75.000,00			75.000,00
Legal reserve				-
Other reserves	245.015	-5.015		240.000,00
To partner				-
Profit for the year	-27.128	5.015	22.113	-
	292.887	**-**	**22.113**	**315.000**

Table 6.6 – Assets and liabilities with investee companies

Items / Values	**31/12/2018**	**31/12/2017**
Assets	**118.802.273**	**99.803.525**
Loans to credit institutions	117.996.548	98.944.294
- of which subordinate		
- of which to related businesses		
- of which subordinate		
Loans to other financial companies		
- of which subordinate		
- of which to related businesses		
- of which subordinate		
Loans to other companies	805.725	859.231
- of which subordinate		
- of which to related businesses		
- of which subordinate		
Bonds and other debt financial instruments		
- of which subordinate		
- of which to related businesses		
- of which subordinate		
Liabilities	**88.862**	**538.651**
Amounts due to credit institutions		
- of which to related businesses		
Amounts due to other companies	88.862	538.651
- of which to related businesses		
Payables represented by financial instruments		
- of which to related businesses		
Subordinate liabilities		
- of which to related businesses		
Guarantees and commitments	**-**	**-**
Guarantees given		
Commitments		

Loans to banks amounting to € 117,996,548 include reciprocal transaction accounts with Central Bank for € 67,410,941, € 28,318,278 of ROB time deposit still at Central Bank and € 22,267,326 of other deposits still at the Supervisory Authority; while € 805,725 presents loans for property and securities leasing agreed with our investee SSIS. Among liabilities is the balance of the current account held by SSIS S.p.a. for € 88,862.

Table 6.7 – Assets and liabilities with investee companies belonging to the bank group

Items / Values	**31/12/2018**	**31/12/2017**
Assets	**11.924.920**	**12.997.687**
Loans to credit institutions		
- of which subordinate		
Loans to other financial companies		12.997.687
- of which subordinate		
Loans to other companies	11.924.920	
- of which subordinate		
Bonds and other debt financial instruments		
- of which subordinate		
Liabilities	**1.491.619**	**1.326.288**
Amounts due to credit institutions		
Amounts due to other companies	1.491.619	1.326.288
Payables represented by financial instruments		
Subordinate liabilities		
Guarantees and commitments	**-**	**-**
Guarantees given		
Commitments		

Item "Loans to other companies" consists entirely of SAL leasing contracts activated by IBS Immobiliare. Item "Amounts due to other financial companies" consists of current account balances of San Marino Life Spa for € 1,175,976, SG BAC Investments for € 292,849, IBSImmobiliare srl for € 11,123 and Bacfiduciaria Spa for € 11,670.

Asset item 90

Table 7.1 – Movements of item 90 Intangible assets

Annual changes	31/12/2018	Financial leasing	of which assets being constructed	Assets awaiting lease for lease termination	of which for breach of tenant	Assets from credit recovery	of which assets for credit discharge through settlement agreement	Goodwill	Start-up costs	Other intangible fixed assets
Opening balance	**1.598.958**									**1.598.958**
Increases	**134.223**	-	-	-	-	-	-	-	-	**134.223**
Purchases										134.223
Writebacks										
- of which for credit worthiness	-									
Revaluations	-									
Other increases	-									
Decreases	**495.844**	-	-	-	-	-	-	-	-	**495.844**
Sales	-									
Value adjustments	495.844									495.844
- of which depreciations	495.844									495.844
- of which permanent writedowns	-									
- of which for credit worthiness	-									
Other decreases	-									
Closing balance as of 31 Dec 2017	**1.237.337**	-	-	-	-	-	-	-	-	**1.237.337**

These are represented by the cost of: software purchase, refurbishment of leased facilities, Studies, Research, Training and long-term costs for Merger. Software is valued at cost price, inclusive of all expenses of analysis, installation and training. Furthermore, any fully depreciated intangible fixed assets are recorded as zero, by reducing the asset value and that of the relative provision (if present, they are stated as "Depreciated Asset"). The depreciation rates are calculated on the basis of their residual useful life. In particular, the previous balances are broken down and moved as follows:

a) Software

	2018	2017
Opening balance at purchase cost	**1.488.717**	**2.123.870**
Depreciated layer	-127.337	-730.129
Expenses for new programs or implementations	82.235	94.977
Advances on Software		
Closing balance at historic cost	1.443.615	1.488.717
Other decreases		
To deduct BAC depreciation fund	-1.323.439	-1.294.083
of which year depreciation value	-156.693	-282.036
Closing balance	**120.176**	**194.634**

b) Studies, Research, Training, leased facility refurbishment, long-term costs, start-up

	2018	2017
Opening balance at purchase cost	**2.234.498**	**2.582.464**
Depreciated layer	-784.444	-469.440
Expenses in the year	51.990	121.474
Closing balance at historic cost	1.502.044	2.234.498
To deduct depreciation fund	-1.229.038	-1.716.143
of which year depreciation value	-297.339	-416.090
Closing balance	**273.006**	**518.356**

c) Right of concession and underpass work

	2018	2017
Opening balance at purchase cost	**1.254.396**	**1.254.396**
Expenses in the year		
Closing balance at historic cost	1.254.396	1.254.396
To deduct depreciation fund	-410.241	-368.428
of which year depreciation value	-41.813	-41.813
Closing balance	**844.155**	**885.968**

The bank acquired from the Eccellentissima Camera the permit to construct an underpass to be used by the institute for thirty years; therefore, the costs incurred for the rights and construction works were posted under intangible fixed asset, to be amortized throughout the term of the permit, as clarified by San Marino Tax Authority.

Table 7.2 – Breakdown of item 90 Intangible assets

B. Movements of item 90 "Tangible assets" (7.2)- 31	**31/12/2018**			**31/12/2017**		
Annual changes	**Purchase price/ Production cost**	**Book value**	**Fair value**	**Purchase price/ Production cost**	**Book value**	**Fair value**
Financial leasing						
- of which assets being constructed						
Assets awaiting lease for lease termina-tion						
- of which for breach of tenant						
Assets from credit recovery						
- of which assets for credit discharge throughsettlement agreement						
Goodwill						
Start-up costs						
Other intangible assets	4.200.053	1.237.337		4.977.611	1.598.958	
Total	**4.200.053**	**1.237.337**	**-**	**4.977.611**	**1.598.958**	**-**

Asset item 100

Table 8.1 – Movements and description of item 90 Tangible assets

Annual changes	31/12/2018	Financial leasing	of which assets being constructed	Assets awaiting lease for lease termination	of which for breach of tenant	Assets from credit recovery	of which assets for credit discharge through settlement agreement	Land and buildings	Other tangible assets
Opening balance	**190.195.291**	**93.809.146**	**14.253.575**	**2.620.786**	**2.620.786**	**63.536.379**	**63.536.379**	29.507.601	**721.379**
Increases	**15.923.050**	**13.881.373**	**387.993**	**1.459.415**	**1.459.415**	**532.442**	**532.442**	**17.074**	**32.746**
Purchases	12.546.933	12.167.395				346.792	346.792		32.746
Writebacks	-								
- of which for credit worthiness	-								
Revaluations	-								
Other increases	3.376.117	1.713.978	387.993	1.459.415	1.459.415	185.650	185.650	17.074	
Decreases	**21.166.648**	**19.158.021**	**1.488.234**	**754.221**	**754.221**	**58.039**	**58.039**	**893.699**	**302.668**
Sales	4.393.955	4.101.183	1.488.234	256.835	256.835	33.000	33.000		2.937
Value adjustments	14.122.544	12.655.734		248.341	248.341	25.039	25.039	893.699	299.731
- of which depreciations	13.849.164	12.655.734						893.699	299.731
- of which permanent writedowns	25.039					25.039	25.039		
- of which for credit worthiness	248.341			248.341	248.341				
Other decreases	2.650.149	2.401.104		249.045	249.045				
Closing balance as of 31 Dec 2018	**184.951.693**	**88.532.498**	**13.153.334**	**3.325.980**	**3.325.980**	**64.010.782**	**64.010.782**	**28.630.976**	**451.457**

Annual changes	31/12/2017	Financial leasing	of which assets being constructed	Assets awaiting lease for lease termination	of which for breach of tenant	Assets from credit recovery	of which assets for credit discharge through settlement agreement	Land and buildings	Other tangible assets
Opening balance	**202.803.421**	**115.166.013**	**15.797.832**	**5.656.428**	**5.656.428**	**50.646.404**	**50.646.404**	30.330.395	**1.004.181**
Increases	**32.052.820**	**17.252.688**	**591.067**	**1.291.857**	**1.291.857**	**13.357.761**	**13.357.761**	**70.873**	**79.641**
Purchases	17.409.238	17.125.685	591.067			172.165	172.165	31.747	79.641
Writebacks	-								
- of which for credit worthiness	-								
Revaluations	-								
Other increases	14.643.582	127.003		1.291.857	1.291.857	13.185.596	13.185.596	39.126	
Decreases	**44.660.950**	**38.609.555**	**2.135.324**	**4.327.499**	**4.327.499**	**467.786**	**467.786**	**893.667**	**362.443**
Sales	3.162.392	718.024	424.278	2.026.285	2.026.285	397.211	397.211		20.872
Value adjustments	35.012.234	33.706.311		685	685	70.000	70.000	893.667	341.571
- of which depreciations	34.941.549	33.706.311						893.667	341.571
- of which permanent writedowns	-								
- of which for credit worthiness	685			685	685				
Other decreases	6.486.324	4.185.220	1.711.046	2.300.529	2.300.529	575	575		
Closing balance as of 31 Dec 2017	**190.195.291**	**93.809.146**	**14.253.575**	**2.620.786**	**2.620.786**	**63.536.379**	**63.536.379**	**29.507.601**	**721.379**

Fixed assets include: furniture, safes and plants, electronic machines and vehicles. Like intangible assets, any tangible fixed assets fully amortized are recorded as zero, by reducing the asset value and its relative fund (if present, they are stated with "Depreciated layer").

Below are the segments of the aforementioned fixed assets except for financial leases and assets awaiting leasing for lease termination, which are detailed in the tables of loans to customers (asset item 40) and explained previously. In General Accounting, fixed assets are managed separately in specific accounts and underwent the following changes during the 2018 financial year:

a) Own assets

	2018	2017
Opening balance (on which depreciation was calculated)	**103.752.390**	**90.573.815**
Closing balance at historic cost (on which depreciation was calculated)		-105.059
depreciations	-25.039,00	-70000
acquisitions	545.088	13.428.634
sales	-33.000	-75.000
Total historic cost	104.239.439	103.752.390
To deduct depreciation fund	-11.699.455	-10.805.756
of which year depreciation value	893.699	-893.667
Closing balance	**92.539.983**	**92.946.634**

b) Furniture safes plants

	2018	2017
Opening balance	**1.761.518**	**2.225.655**
Depreciated layer	-146.411	-518.781
Purchases made in the year	24.982	54.644
sales	-1.566	
Closing balance historic cost	1.638.523	1.761.518
To deduct depreciation fund	-1.266.782	-1.166.853
of which year depreciation value	-247.304	-271.323
Closing balance	**371.740**	**594.665**

c) boats under terminated contracts

	2018	2017
Opening balance	**97.345**	**420.133**
Acquisitions for leasing asset terminations	4.429	
Sales		-322.211
Write-offs		-576
Closing balance	**101.774**	**97.345**

d) vehicles

	2018	2017
Opening balance	**65.133**	**99.920**
Depreciated layer	-65.133	-
Divestments historic cost		-34.787
Purchases made in the year		
Closing balance historic cost		65.133
Depreciation fund		-65.133
of which year depreciation value		-13.027
Closing balance	**0**	**0**

e) safety systems

	2018	2017
Opening balance	**226.755**	**215.827**
Depreciated layer		
Divestments		-
Purchases made in the year	5.979	10.929
Closing balance historic cost	232.735	226.755
Depreciation fund	-178.583	-144.833
of which year depreciation value	-33.750	-34.013
Closing balance	**54.152**	**81.922**

f) office machines

	2018	2017
Opening balance	**119.771**	**118.156**
Depreciated layer	-23.244	-12.454
Purchases made in the year	1.785	14.069
Sales	-4.924	
Closing balance historic cost	93.388	119.771
Depreciation fund	-77.824	-84.980
of which year depreciation value	-18.678	-23.209
Closing balance	**15.565**	**34.792**

g) furniture and art objects

	2018	2017
Opening balance	**10.000**	**10.000**
Depreciated layer		
Acquisitions for IBS demerger		
Purchases made in the year		
Closing balance historic cost	10.000	10.000
Depreciation fund		
of which year depreciation value		
Closing balance	**10.000**	**10.000**

We point out that the item Assets awaiting lease includes fixed assets regained by the company, following termination of leasing contracts due to borrowers' failure, also included in the table Breakdown of loans to customers, as required by the 2008/02 regulations of the Supervisory Authority on the preparation of the financial statements CBSM Reg. 2008/02. The item Own assets includes € 63. of acquisitions made over the years through waiver agreements and write-off of receivables from insolvent customers classified as non-performing. These are non-operating assets, and therefore they are not subject to depreciation. We specify that these fixed assets are managed by a dedicated unit that takes care of their maintenance, relocation and sale.

Table 8.2 – Breakdown of item 100 Tangible assets

B. Breakdown of item 100 "Tangible assets" (8.2)	**31/12/2018**			**31/12/2017**		
Annual changes	**Prezzo di acquisto/ Costo di produzione**	**Valore di bilancio**	**Fair value**	**Prezzo di acquisto/ Costo di produzione**	**Valore di bilancio**	**Fair value**
Financial leasing	176.281.009	88.532.498		178.994.387	93.809.146	
- of which assets being constructed	15.467.675	13.153.334		16.830.839	14.253.575	
Assets awaiting lease for lease termination	8.284.198	3.325.980		6.793.076	2.620.786	
- of which for breach of tenant	8.284.198	3.325.980		6.793.076	2.620.786	
Assets from credit recovery		64.010.782	64.010.782		63.536.379	63.536.379
- of which assets for credit discharge throughsettlement agreement		64.010.782	64.010.782		63.536.379	63.536.379
Land and buildings	41.617.852	28.630.976		41.953.353	29.507.601	
Other tangible assets	2.183.178	451.457		3.089.691	721.379	
Total	**228.366.237**	**184.951.693**	**64.010.782**	**230.830.507**	**190.195.291**	**63.536.379**

Table 8.3 – Breakdown of item 100 Tangible assets – Assets acquired from credit recovery

C. Assets from credit recovery (8.3)	31/12/2018		31/12/2017	
Items / Values	**Book value**	**Fair value**	**Book value**	**Fair value**
Assets from recovery of credit deriving from financial lease contracts	**63.615.415**	**63.615.415**	**63.143.879**	**63.143.879**
- immovable assets	63.513.640	63.513.640	63.046.533	63.046.533
- of which for residential use	17.971.639	17.971.639	14.816.773	14.816.773
- of which for non-residential use	45.542.001	45.542.001	48.229.760	48.229.760
- movable assets:	101.775	101.775	97.346	97.346
- of which vehicles				
- of which aircraft				
- of which other	101.775	101.775	97.346	97.346
Assets from recovery of credit deriving from other financing contracts	**395.367**	**395.367**	**392.500**	**392.500**
- immovable assets	395.367	395.367	392.500	392.500
- of which for residential use				
- of which for non-residential use	395.367	395.367	392.500	392.500
- movable assets:	-	-	-	-
- of which vehicles				
- of which aircraft				
- of which other				
Total	**64.010.782**	**64.010.782**	**63.536.379**	**63.536.379**

Assets acquired from credit recovery are booked in the balance sheet assets, following a settlement agreement with the customer, at the estimated appraisal value at the time of the agreement.

Table 8.4 – Breakdown of item 100 Tangible – intangible assets: Leasing capital residual credit – Leasing Overdue Rents

D. Leasing to credit institutions and customers (capital residual credit and rents overdue) (97)	31/12/2018			31/12/2017		
Descriptions	**Total**	**of which leasing to credit institutions**	**of which leasing to customers**	**Totali**	**of which leasing to credit institutions**	**of which leasing to customers**
Credit for leasing - Total	**97.127.258**	**-**	**97.127.258**	**101.444.622**	**-**	**101.444.622**
Credit for leasing - Rentals overdue	**5.268.780**		**5.268.780**	**5.014.690**		**5.014.690**
Credit for leasing - Capital residual credit	**91.858.478**	**-**	**91.858.478**	**96.429.932**	**-**	**96.429.932**
Intangible assets						
Financial leasing	-			-	-	-
Assets awaiting lease for lease termination	-			-	-	-
Tangible assets						
Financial leasing	88.532.498		88.532.498	93.809.146	-	93.809.146
Assets awaiting lease for lease termination	3.325.980		3.325.980	2.620.786	-	2.620.786

Asset item 120

Table 10.1 – Breakdown of company shares

	Number of shares	% on capital	Nominal value	Trading amount
Values as of 31 Dec 2017	**553**	**0,07%**	**14.378**	
Purchases				
Sales				
Values as of 31 Dec 2018	**553**	**0,07%**	**14.378**	
				Profit / Loss
Profit / Loss during trading of own shares (+/-)				

	Number of shares	% on capital	Nominal value	Trading amount
Values as of 31 Dec 2016	**553**	**0,07%**	**14.378**	
Purchases				
Sales				
Values as of 31 Dec 2017	**553**	**0,07%**	**14.378**	
				Profit / Loss
Profit / Loss during trading of own shares (+/-)				

Own shares are entered at their face value of 26 each, for a total counter-value equal to € 14,378.

Asset item 130

Table 11.1 – Breakdown of item 130 Other assets

Technical type	31/12/2018	31/12/2017
Guarantee margins		
Premiums paid for options		
Other	**118.355.047**	**109.498.986**
- of which Other debtors	5.442.295	9.731.388
- of which Other:	112.912.753	99.767.598
3.1. Advances to Tax Authorities for IGR of which redemption was requested	841.224	182.121
3.3. Management of commercial collection RID	1.002.350	755.888
3.6. Temporary tax differences of loans management fund shares	6.894.137	6.743.350
3.7. Technical accounts	777.858	695.092
3.8. Bills from correspondent banks	11.342.916	10.607.857
3.9. Bills from customers collection	63.716.760	61.004.906
3.10. Bills from customer cheques collection	15.363.144	14.017.027
3.11. Bills from customers after collection	3.195.590	2.406.099
3.12. Suspense accounts - items in transit	1.966.265	12.636
3.13. Loans from Credito Sammarinese	220.423	220.423
3.14. Receivables for tax advances	62.169	183.141
3.15. Tax receivables from Credito Sammarinese	1.923.186	2.531.176
3.16. Receivables from Chamber state interest rate	373.873	402.589
3.17. Deposits	1.554.458	5.293
3.17. Suspension of value adjustments law 173/2018 art.40	3.678.400	
TOTAL	**118.355.047**	**109.498.986**

In the item Other debtors there are all the assets that are not associated to other asset items. It also includes any balances for items in transit and suspended ones that are not attributed to the relevant accounts. We notice that as a result of the write-down of the closed-end loans management fund, BAC has accounted a capital loss equal to € 150,787 compared to 31/12/2017 which was reclassified in other assets under the item "Temporary differences in loans management fund shares" pursuant to letter Prot. 14/2288 issued by the Supervisory Authority and in compliance with Law no.74 of 27/10/2011, which rose to € 6,894,137.
This year, in relation to the incremental devaluation of € 4,598,000 on the positions of Plusvalore, following the sale of the Arcade portfolio, in compliance with the primary legislation (see 2018 financial law no. 173 art. 40), since credit is included in the Asset Quality Review portfolio, we divided the adjustment into five years and it was included in the other assets by 4/5, identified in item 3.18 "Suspension of value adjustments, law 173/2018 art.40" for € 3,678,400.

More in detail, the item Other debtors includes the following sub-items:

Technical type	31/12/2018	31/12/2017
Other debtors		
1.1. Administrative expenses - Adjustment entries	984.217	1.106.819
1.2. Interest, commission income and dividens, accrued and not collected	4.085	507.126
1.3. Deposits	601.297	1.394.191
1.5. IBSImmobiliare Share Capital Increase Advance		
1.6. Encoded customers	3.699.148	4.652.677
1.7. Suspense account ATM drawings	3.482	174.112
1.8. Supplier advances	146.802	486
1.9. Suspense customer positions	3.264	55.941
1.10 Credit card transitional account		1.840.036
TOTAL	**5.442.295**	**9.731.388**

For reasons of clarity, we point out that the encoded customer entries and the bills portfolio find algebraic offset with the postings respectively identified as Other liabilities.

Asset item 140

Item Accrued income consists of the following sub-items:

Table 12.1 – Breakdown of item 140 Accrued Income and Prepaid Expenses

Description	31/12/2018	31/12/2017
Accrued income		
On loans to customers	1.677	2.783
On loans to Banks	12.374	5.486
Other accrued income	62.399	24.045
Total accrued income	**76.450**	**32.314**
Prepaid expenses		
On rental expenses	40.118	39.160
On administrative expenses	339.551	398.387
Total prepaid expenses	**379.669**	**437.547**
Total accrued income and prepaid expenses	**456.119**	**469.861**

It should be noted that following the integration of article IV.I.13 of CBSM Regulation 2008/02 on the preparation of financial statements the relevant accruals have been deducted from the assets and liabilities since 2014.

Liability item 10

Table 10.1- Breakdown of item 10 Amounts due to credit institutions

A. Breakdown of item 10 in liability postings "Amounts due to credit institutions" (13.1)	**31/12/2018**		**31/12/2017**	
Details by technical form	**In EUR**	**In foreign currency**	**In EUR**	**In foreign currency**
At sight	1.137.069	-	784.447	-
Reciprocal accounts opened for services rendered	1.137.069		784.447	
Free deposits				
Other loans				
Trem or with notice	-	-	-	-
Current accounts				
Trem deposits				
Repurchasing agreements				
Other loans				
TOTAL	1.137.069	-	784.447	-
GENERAL TOTAL		**1.137.069**		**784.447**

Table 10.2 - Breakdown of Amounts due to credit institutions based on residual life

Maturity	31/12/2018	31/12/2017
At sight	1.137.069	784.447
From 1 day to 3 months		
From 3 to 6 months		
From 6 months to 1 year		
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted		
TOTAL	**1.137.069**	**784.447**

Liability items 20 - 30

Table 14.1 – Breakdown of Amounts due to customers

A. Breakdown of item 20 in liability postings "Amounts due to customers" (14.1)	31/12/2018		31/12/2017	
Category / Currencies	**In EUR**	**In foreign currency**	**In EUR**	**In foreign currency**
At sight	397.972.671	8.121.441	385.187.430	9.298.041
Current accounts	394.366.888	8.121.441	381.356.897	9.298.041
Savings deposits	3.605.783		3.830.533	
Other				
Term or with notice	27.913.048	-	18.672.493	-
Time current accounts				
Time savings accounts				
Repurchasing agreements	24.087.145		18.672.493	
Other funds	3.825.903			
TOTAL	425.885.719	8.121.441	403.859.923	9.298.041
GENERAL TOTAL		**434.007.160**		**413.157.964**

This table was completed with liability item 20. In reclassifying the amounts due to customers, internal checks merged with other liabilities for € 604,644 in 2018, while in 2017 they amounted to € 845,016. Moreover, deposits were broken down in favor of repurchasing agreements, which increased by € 5,414,652; on the contrary, certificates of deposit showed a sharp decrease for € 11,308,100, as explained numerically in the table below.

Table 15.1 – Breakdown of payables represented by financial instruments

A. Breakdown of item 30 in liability postings "Payables represented by financial instruments" (15.1)	31/12/2018		31/12/2017	
Items / Values	**In EUR**	**In foreign currency**	**In EUR**	**In foreign currency**
Bonds				
- of which held by credit institutions				
Certificates of deposit	282.563.618		293.871.718	
- of which held by credit institutions				
Other financial instruments				
- of which traded acceptances				
- of which outstanding cheques				
- of which atypical securities				
TOTAL	282.563.618	-	293.871.718	-
GENERAL TOTAL		**282.563.618**		**293.871.718**

Table 14.2 – Breakdown of Amounts due to customers based on residual life

Maturity	31/12/2018	31/12/2017
At sight	406.094.112	394.485.471
From 1 day to 3 months	11.466.092	2.743.023
From 3 to 6 months	1.150.754	762.084
From 6 months to 1 year	15.296.202	15.167.386
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted		
TOTAL	**434.007.160**	**413.157.964**

This table shows the scope of items 20 "Amounts due to customers", as shown in 14.1.

Asset item 40

Table 16.1 – Breakdown of item 40 Other liabilities

Technical type	31/12/2018	31/12/2017
Guarantee margins		
Premiums received for options		
Cheques in circulation	604.644	845.016
Other	114.369.258	113.233.923
- of which Other creditors	1.352.984	2.147.339
- of wich Other:	113.016.274	111.086.584
4.1 Transferors of bills after collection	4.910.925	4.273.501
4.2 Transferors of bills for collection	97.688.525	95.720.354
4.3 Account adjustments	932.835	1.394.440
4.4 Debts to Tax Authorities for withholding tax	559.354	692.551
4.5 Debts to Tax Authorities for various taxes	17.178	13.993
4.6 Suppliers to be paid	3.119.102	2.489.987
4.7 Funds under pledge	93.410	94.323
4.8 Cash surplus / ATM	7.014	7.754
4.9 Incoming/outgoing transfers	57.739	313.658
4.10 Italy/R.S.M. utilities	851.645	665.018
4.11 Operation of ATM/pos/cards	203.751	105.987
4.15 Securities operations	4.466	4.460
4.16 Other items	613.640	395.806
4.17 CS sold customers	261.542	261.641
4.18 Leasing fee invoices issued	3.695.148	4.653.111
TOTAL	**114.973.902**	**114.078.939**

The following table shows the details of the generic item Other creditors.

Technical type	31/12/2018	31/12/2017
Other creditors		
1.1. Wages/Remuneration	1.309.275	1.606.609
1.7. Suspense items	13.709	10.730
1.4. Security deposits	30.000	530.000
TOTAL	**1.352.984**	**2.147.339**

As specified when commenting on Other items, the items Leasing fee invoices issued and Transferors of bills find algebraic offset with postings identified in Other items, respectively.

Liability item 50

Table 17.1 – Breakdown of item 50 Accrued Expenses and Deferred Income

Description	31/12/2018	31/12/2017
Accrued expenses		
Accrued expenses on derivative contracts	7.239	12.511
Total accrued expenses	**7.239**	**12.511**
Deferred income		
Foreign portfolio deferred income	6.061	7.345
Unsecured loans commission deferred income	25.333	22.261
Other deferred income	34.119	36.400
Total deferred income	**65.513**	**66.006**
Total accrued expenses and deferred income	**72.752**	**78.517**

As explained above, based on the new formulation of article IV.I.13 of CBSM Regulation 2008/02 on the preparation of financial statements, regarding accruals and deferrals, the assets and liabilities of banks are required to be adjusted directly with the evidence of accrued income and expenses; therefore, item 50 includes residual amounts that cannot be attributed to specific asset and liability items.

Liability items 60-70-80

Table 12.1 – Movements of item 60: Severance

Severance	31/12/2018	31/12/2017
Opening balance	609.394	1.008.210
Increases	597.025	625.208
allocations	597.025	625.208
other changes		
Decreases	677.044	1.024.023
utilizations	677.044	1.024.023
other changes		
Closing balance	**529.375**	**609.394**

Table 18.2 – Breakdown of item 70 Reserves for risks and charges

Items / Values	31/12/2018	31/12/2017
Other funds:		
1.2. Complaint and revocation fund	733.800	1.077.300
1.3. Provision for contractual increase	168.298	168.298
1.4. Fund for charity	30.619	25.919
1.5. Provision for unused holydays	129.497	177.756
Total	**1.062.214**	**1.449.273**

For the year 2018, the provision for tax reserves was made according to the tax regulation (Law no. 166 of 16/12/2013). In addition, since there are no current disputes, provisions for future taxes were considered as not necessary. With regard to this, we mention the current regulation on tax assessments, included in Law 166 2013 as amended, which states in article 115 that *"tax assessments should be notified by 31/12 of the second year following the year the declaration was submitted"*.
It should also be noted that the applicable rate is of 17%. The movements in the aforementioned reserves are listed below.

Tax reserves	31/12/2018	31/12/2017
Opening balance	916.930	1.044.172
Increases	200.000	213.072
allocations	200.000	213.072
other changes		
Decreases	850.529	340.314
utilizations	850.529	340.314
other changes		
Closing balance	**266.401**	**916.930**

Table 18.3: Movements in sub-item c) "other funds". Complaint and revocation fund 1.2

Compliant and revocation fund	31/12/2018	31/12/2017
Opening balance	1.170.300	1.170.398
Increases	533.099	69.062
allocations	533.099	69.062
other changes		
Decreases	876.599	162.160
utilizations	548.099	162.160
other changes	328.500	-
Closing balance	**733.800**	**1.077.300**

For the current year the provision previously described was endowed with € 533,099 due to increasing loss forecasts regarding outstanding cases. However, this provision was used for € 548,099 because BAC lost a case, while the other changes include changes to forecasts on some cases won by BAC. Facing a temporary difference between the statutory income and taxable income, € 62,169 was recorded among deferred tax assets, posted in item 120 of Other assets. It should be noted that the tax reserve includes the provision for taxes which should be paid to the fiscal authority for the year 2018.

Table 18.3 – Movements of sub-item c) "other funds". Provision for contractual increase 1.3

Provision for contractual increase	31/12/2018	31/12/2017
Opening balance	168.298	168.298
Increases	-	-
allocations		
other changes		
Decreases	-	-
utilizations		
other changes	-	-
Closing balance	**168.298**	**168.298**

Despite the macro and microeconomic downturn, it was not considered necessary to account a provision for the year 2017 because the fund was considered sufficient. It should be also noted that the expiry date of the collective work agreement was 31/12/2010 and is currently under negotiation.

Table 13.3: Movements of sub-item c) "other funds". Provision for unused holidays 1.5

Provision for unused holidays	31/12/2018	31/12/2017
Opening balance	177.756	226.964
Increases	-	-
allocations		
other changes		
Decreases	49.259	49.208
utilizations	49.259	49.208
other changes	-	-
Closing balance	**129.497**	**177.756**

Table 18.3 – Movements of sub-item c) "other funds". Fund for charity 1.4

Fund for charity	31/12/2018	31/12/2017
Opening balance	25.919	10.819
Increases		
allocations	15.000	22.000
other changes		
Decreases	10.000	6.900
utilizations	10.000	6.900
other changes	-	-
Closing balance	**30.919**	**25.919**

Table 18.5 – Movements of item 80 "Provisions for risks on credits"

Provisions for risks on credits	31/12/2018	31/12/2017
Opening balance		
Increase	-	-
Allocations		
Other changes		
Decreases	-	-
Utilizations		
Other changes		
Closing balance	**-**	**-**

Liability items 90 - 100

Table 19.1 – Breakdown of item 90 "Reserves for general banking risks"

Items / Values	31/12/2018	31/12/2017
Opening balance		
Allocations during the year		
Utilization during the year		
Closing balance	**-**	**-**

Table 19.2 – Breakdown of item 100 "Subordinate liabilities"

	31/12/2018	31/12/2017
Subordinate liabilities	8.010.853	12.016.144
- of which held by credit institutions		
- of which hybrid capitalization instruments	-	-

As indicated in the table above, the Bank, during 2013, issued a subordinated bond loan entirely subscribed and payable in instalments of 20% from 01/03/2016 until full refund on 01/03/2020, governed by a specific internal regulation and authorized by the Central Banking Authority; the variation between 2017 and 2018 is exclusively due to the refund.

Table 19.3 – Breakdown of item 110 Subscribed capital

	31/12/2018			31/12/2017		
Type of shares	Number of shares	Unit value	Total value	Number of shares	Unit value	Total value
Ordinary share	803.080	26	20.880.080	803.080	26	20.880.080
			-			-
			-			-
		Total	**20.880.080**		Total	**20.880.080**

Table 19.4 – Breakdown of item 120 "Share premium reserves"

	31.12.2018	31.12.2017	Absolute and % changes	
Share premiums	0	0	-	0%

Table 19.5 – Breakdown of item 130 "Reserves"

	31.12.2018	31.12.2017	Absolute and % changes	
a) ordinary reserve	58.395.668	58.395.668	0	0%
of which tax-suspended reserve	1.227.968	1.227.968	-	0%
b) extraordinary reserve			-	
c) own share reserve	14.378	14.378	0	0%
d) other reserves				
Total	**58.410.046**	**58.410.046**	**0**	**0%**

It should be noted that the ordinary reserve includes the tax-suspended reserve made up after reverse takeover of Istituto Bancario Sammarinese occurred in 2012, in accordance with the law deriving from tax deduction for own capital, introduced by Delegate Decree no. 172 26/10/2010, subsequently replaced with art. 74, law 166/2013.
In November 2012, IBS carried out a proportioned demerger in favor of BAC, which did not led to a net equity decrease through asset distribution, but assigned it to the recipient at book value.
As per legal literature, in accordance with article 14 of Legislative Decree 172/2010 and current legislation on corporate demergers (art. 78, Law 166/2013), the extraordinary tax transaction is neutral and the tax-suspended reserve amounting to € 1,227,968 to be assigned to recipient BAC was merged with BAC ordinary reserve by means of merger surplus. In fact, unavailable reserves were transferred (and not distributed) to the recipient. It has to be noted that the unavailable fund fee still exists at recipient BAC, so from demerger until now no reserve has been distributed, as shown in the above table.

Table 19.6 – Breakdown of item 140 "Revaluation reserves"

	31.12.2018	31.12.2017	Absolute and % changes	
Revaluation reserves	14.831.669	14.789.392	42.277	0,286%

The revaluation reserves underwent a positive change at the end of 2018 due to the combined effect of the 2018 revaluation of the net equity of the investee companies San Marino Life Spa, SSIS Spa, Bac Fiduciaria Spa and IBS Immobiliare srl.

Table 19.7 – Breakdown of item 150 "Retained earnings (losses)"

	31.12.2018	31.12.2017	Absolute and % changes	
Retained earnings (losses)	-3.800.645	-3.793.060	-7.585	100%

Table 19.8 – Breakdown of item 160 "Net income (loss) for the period"

	31.12.2018	31.12.2017	Absolute and % changes	
Profit (losses) for the year	-3.721.039	-7.585	-3.713.454	48957,86%

Table 19.9 – Changes in the net equity over the last 4 years

Balance as of:	Subscribed capital	Subscribed capital not paid in	Share premiums	Ordinary or legal reserve	Other reserves	Operating result (+/-)	Retained earnings (losses) (+/-)	Reserves for general financial risks	Revaluation reserve	Total
31-dec-2015	20.880.080			57.499.203	11.518	2.251.798			14.597.800	95.240.399
31-dec-2016	20.880.080			58.395.668	14.378		-3.793.060		14.651.105	90.148.171
31-dec-2017	20.880.080			58.395.668	14.378	-7.585	-3.793.060		14.789.392	90.278.873
31-dec-2018	**20.880.080**			**58.395.668**	**14.378**	**-3.721.039**	**-3.800.645**		**14.831.669**	**86.600.111**

Table 19.10: Breakdown of Public Savings Collection by business sector

Items / Values	31/12/2018	31/12/2017
Public administrations	**59.628.924**	**53.177.954**
Financial companies other than credit institutions and central banks	**85.192.915**	**98.299.184**
Monetary financial companies (excluding credit institutions and central banks)		
Investment funds other than money market funds	1.463.651	152.278
Other financial institutions	39.355.770	50.300.038
Insurance companies	44.373.494	47.846.868
Pension funds		
Non-financial companies	**105.037.259**	**94.282.492**
of which entities cancelled from the Register of Authorized Entities		
Industry	43.325.933	38.935.537
Constructions	2.604.876	2.532.097
Services	57.431.050	48.756.883
Other non-financial companies	1.675.400	4.057.975
Households and non-profit institutions serving households	**475.327.177**	**473.855.423**
Households and family businesses	470.223.915	469.919.042
Non-profit institutions serving households	5.103.262	3.936.381
Other		275.789
TOTAL	**725.186.275**	**719.890.842**

As can be seen from the table above, the concentration of deposits is in the retail segment.

Guarantees and Commitments

Table 20.1 – Breakdown of "Guarantees given"

Items / Values	31/12/2018	31/12/2017
Trading endorsement loans	12.387.957	14.542.237
Financial endorsement loans	1.278.994	1.829.460
Collateral assets:	1.333.281	1.333.281
- for third-party bonds	1.333.281	1.333.281
- for own bonds		
TOTAL	**15.000.232**	**17.704.978**

The guarantees given were classified according to their economic purpose, in:

- trading endorsement loans: personal guarantees securing specific commercial

transactions (such as documentary credits) or the proper implementation of contracts;
- financial endorsement loans: personal guarantees securing the proper fulfillment of the service of the debt by the payer;
- assets (such as securities or cash) pledged to guarantee third-party obligations.

Table 20.2: Breakdown of unsecured loans

Items / Values	31/12/2018	31/12/2017
Trading unsecured loans	**12.387.957**	**14.542.237**
Acceptances	953.311	2.340.201
Performance bonds and guarantees	11.434.646	12.202.036
Secured patronage		
Other		
Financial unsecured loans	**1.278.994**	**1.829.460**
Acceptances		
Performance bonds and guarantees	1.278.994	1.829.460
Secured patronage		
Other		
TOTAL	**13.666.951**	**16.371.697**

Table 20.3 – Situation of unsecured loans to credit institutions

C. Situation of unsecured loans to credit institutions (20.3)	31/12/2018			31/12/2017		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans			**-**			**-**
- of which Non-performing loans			-			-
- of which Substandard loans			-			-
- of which Restructured loans			-			-
- of which Past due/Overdrawn loans			-			-
- of which Unsecured loans to at-risk countries			-			-
Performing loans			**-**			**-**
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**

Table 20.4 – Situation of unsecured loans to customers

D. Situation of unsecured loans to customers (20.4 - 58)	31/12/2018			31/12/2017		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans	**162.568**		**162.568**	**162.568**		**162.568**
- of which Non-performing loans			-			-
- of which Substandard loans	500		500	162.568		162.568
- of which Restructured loans			-			-
- of which Past due/Overdrawn loans			-			-
- of which Unsecured loans to at-risk countries			-			-
Performing loans	**13.666.451**		**13.666.451**	**16.209.129**		**16.209.129**
TOTAL	**13.829.019**	**-**	**13.829.019**	**16.371.697**	**-**	**16.371.697**

Table 20.5 – Assets used as collaterals to own debts

Liabilities	Amounts of collaterals
-	-

The bank does not hold assets used as collaterals to its own debts.

Table 20.6 – Margins available on lines of credit

	31/12/2018	31/12/2017
A) Central Banks	-	-
b) Other Banks	-	-
c) Other Banks	-	-
Total	**0**	**0**

The Bank ordered the termination of the operating line of credit on the foreign sector granted by Cassa Centrale Banca Spa.

Table 20.7 – Breakdown of "Spot commitments"

Items / Values	31/12/2018	31/12/2017
Commitments to grant funds for specific use		
- of which commitments for loans to be granted		
Commitments to swap financial instruments for specific use		
Commitments to grant funds for unspecific use	**4.387.383**	**2.163.767**
- of which liability margins to be used on lines of credits	4.387.383	2.163.767
- of which put options issued		
Commitments to swap financial instruments for specific use		
Other commitments		**1.255.052**
TOTAL	**4.387.383**	**3.418.819**

Commitments of certain use are represented by commitments to disburse funds, whose use by the requesting party is not optional. These are binding commitments for both the granting bank and the requesting party. This category includes the acquisition of securities not yet settled and deposits and loans to be paid at a future given date.
Commitments of uncertain use are represented by commitments to disburse funds, whose use by the requesting party is optional. Therefore, it is not certain whether and to what extent the funds will be effectively disbursed. This category includes the commitments within the placement of securities.
The new methods of accounting off-balance sheet transactions required pursuant to the CBSM Regulation 2008-02 on the preparation of banks' financial statements, state that forward financial instruments and currency sale/repurchase contracts not yet settled, derivative contracts on securities and relating to currencies, derivative contracts without underlying securities related to interest rates, indices or other assets, spot or forward deposits or loans to be disbursed or to receive at a future given date, are reclassified under spot commitments.
It should be noted that, unlike the previous legislation, contracts involving the exchange of two foreign currencies (or the exchange rate differential between two foreign currencies) should be recorded only once with reference to the currency to be purchased. In addition, derivative contracts on interest rates are conventionally classified as purchases or sales, depending on whether they entail for the bank the purchase or the sale of the fixed exchange rate. Lastly, derivative contracts involving forward exchange of capital are measured according to the contract settlement price, whereas contracts not involving this exchange are measured according to the par value of the reference capital.
It should be noted that the decrease from 2017 to 2018 is due to the contraction of the operations to be settled on exchanges.
The item Other commitments for 2018 (notional value of derivative transactions) is specified in the following table (20.08).

Table 20.8 – Term commitments

	31/12/2018			31/12/2017		
Items / Values	**Hedging**	**Trading**	**Other operations**	**Hedging**	**Trading**	**Other operations**
Trades						
Financial instruments						
- purchases						
- sales						
Currencies						
- currencies against currencies						
- purchases against EUR						
- sales against EUR						
Deposits and loan						
to be granted						
to be received						
Derivative contracts						
With capital swaps						
- securities						
- purchases						
- Sales						
- currencies						
- currencies against currencies						
- purchases agaist EUR						
- sales against EUR						
- Other values						
- purchases						
- Sales						
Without capital swaps						
- currencies						
- currencies against currencies						
- purchases agaist EUR						
- sales against EUR						
- other values						
- purchases	870.366			1.255.051		
- sales						

This table lists all the off-balance sheet transactions in force at year-end. In particular: a) Forward financial instruments and currency sale/purchase contracts not yet settled; b) Derivative contracts with underlying securities; c) Derivative contracts on foreign currencies; d) Derivative contracts without underlying securities related to interest rates, indices or other assets; e) Spot or term deposits or loans to be disbursed or to receive at a future given date.
Other typologies, not included in the aforementioned table, shall be specifically indicated, if of a considerable amount.

The value attributed to the transactions is the following:

- the contracts' settlement price to financial instruments and currency sale/purchase contracts and derivative contracts involving forward exchange of capital (or other assets). For derivative contracts negotiated on organized markets that provide for daily liquidation of variation margins, the value is conventionally equal to the par value of the reference capital;
- the amount to be disbursed or to receive to deposit and loan contracts;
- the par value of the reference capital to derivative contracts not involving forward exchange of capital (such as contracts on interest rates and indices.

Contracts involving the exchange of two foreign currencies (or the exchange rate differential between two foreign currencies) should be recorded only once with reference to the currency to be purchased.

Contracts involving the exchange of both interest rates and currencies should be recorded only under contracts on currencies.

Derivative contracts on interest rates are conventionally classified as purchases or sales, depending on whether they entail for the bank the purchase or the sale of the fixed exchange rate.

In particular, it should be pointed out that among derivative contracts there are four IRS transactions executed with HVB on fixed-rate loans as hedge against the rate risk, besides a further derivative contract, executed with ICCREA on a disbursed loan, upon which we exchange the fixed rate gaining the floating one.

Table 20.9 – Financial derivatives

	31/12/2018			31/12/2017		
Items / Values	**Hedging**	**Trading**	**Other operations**	**Hedging**	**Trading**	**Other operations**
Derivative contracts						
With capital swaps						
Securities						
- purchases						
- sales						
Currencies						
- currencies against currencies						
- purchases against EUR						
- sales against EUR						
- Other values						
- purchases						
- Sales						
Without capital swaps						
- currencies						
- currencies against currencies						
- purchases agaist EUR						
- sales against EUR						
- other values						
- purchases	-63.344			-95.443		
- sales						

The same items and sub-items relating to derivative contracts of the previous table are listed in this table and valued at market. As it is a derivate not quoted, the fair value was calculated by the counterpart on the basis of the method mentioned in article III.II.5, paragraph 7 of CBSM Regulation no. 2016/02.

Table 20.10 – Derivative contracts on loans

	31/12/2018			31/12/2017		
Items / Values	**Hedging**	**Trading**	**Other operations**	**Hedging**	**Trading**	**Other operations**
Hedge purchases	-	-	-	-	-	-
With capital swaps						
Without capital swaps						
Hedge sales	-	-	-	-	-	-
With capital swaps						
Without capital swaps						

Memorandum accounts

Table 21.1 – Memorandum accounts

Items / Values	31/12/2018	31/12/2017
Asset management	**26.303.424**	**57.024.023**
Customer asset management	26.303.424	57.024.023
- of which cash	14.347.349	15.700.264
- of which cash deposited at the reporting institution	14.347.349	15.700.263
- of which debt securities	946.303	720.000
- of which debt securities issued by the reporting institution	480.000	720.000
- of which capital securities and CIUs	11.009.772	40.603.759
- of which capital securities issued by the reporting institution		
Own portfolio under third party management		
Custody and adminiistration of financial instruments	**568.624.825**	**577.372.601**
Third party financial instruments in deposit	515.332.859	537.724.722
- of which debt securities issued by the reporting institution	7.520.000	11.280.000
- of which debt securities issued by other reporting credit institutions		
- of which capital securities and other values issued by the reporting institution	90.190.631	90.060.532
- of which third party financial instruments deposited at third parties	344.589.607	436.384.190
Own financial instruments deposited at third parties	53.291.966	39.647.879
Financial instruments, cash and other assets related to depository banking activity	**45.495.135**	-
Cash	950.104	
- of which cash deposited at the reporting institution	950.104	
Debt securities	-	
- of which debt securities issued by the reporting institution	-	
Capital securities, CIUs, other financial instruments	44.545.031	
- of which capital securities issued by the reporting institution		
Assets other than financial instruments and cash		

In the table relating to the memorandum accounts, the financial instruments are related to the pertinent items, alternative to each other, on the basis of contracts signed with customers, respectively for asset management, custody and administration, trust agreement and custodian bank agreement. The aforementioned financial instruments are booked in the memorandum accounts at market value. We specify that following authorization to operate by the Supervisory Authority, BAC Investments SG Spa, established in the first months of the year, proceeded with the distribution and sale of its own issuing funds, through the commercial network of the parent company BAC, of which BAC is depositary for € 45,495,135, as highlighted in the section "Financial instruments, cash and other assets related to depositary bank activity. It should also be noted that the data indicated in the aforementioned Depositary Bank section represents an "of which", included in the Securities Custody and Administration aggregate.

Table 21.3 – Breakdown of Indirect Deposits by business sector

Items / Values	31/12/2018	31/12/2017
Public administrations		
Financial companies	**292.641.723**	**292.346.510**
Monetary financial companies		
Investment funds other than money market funds		
Other financial institutions	122.936.099	101.498.321
Insurance companies	169.705.624	190.848.189
Pension funds		
Non-financial companies	**106.850.813**	**102.709.853**
of which entities cancelled from the Register of Authorized Entities		
Industry	25.967.765	26.869.706
Constructions	1.941.438	
Services	8.427.289	6.554.949
Other non-financial companies	70.514.321	69.285.198
Households and non-profit institutions serving households	**164.341.429**	**171.640.247**
Households and family businesses	163.994.083	170.540.277
Non-profit institutions serving households	347.346	1.099.970
Other		**351.872**
TOTAL	**563.833.965**	**567.048.482**

Table 21.4 – Trust activity

	31/12/2018	31/12/2017
Description	**Total**	**Total**
1. Movable assets	-	-
1.1. financial instruments		
1.2. cash		
2. Equity investments	-	-
2.1. shares in joint stock companies		
2.2. shareholders financing		
2.3. cash		
3. Loans to third parties	-	-
3.1. loans		
3.2. cash		
4. Other movable or intangible assets	-	-
4.1. movable or intangible assets		
4.2. cash		
5. Total trust activity	-	-
5.1. of which total cash		

Table 21.5 – Assets held in the exercise of trustee function

	31/12/2018	31/12/2017
Description	**Total**	**Total**
Assets held in trust		
Assets held in trust		
Liabilities held in trust		
Difference between operating income and expense		

PART C – Information on the Profit and Loss Account

Profit and loss account item 10

Table 20.1 – Breakdown of item 10 "Interest income and similar revenues"

Items / Values	**31/12/2018**	**31/12/2017**
On Treasury Securities and other financial instruments eligible for refinancing with central banks	-	-
Treasury securities and other similar financial instruments		
Other financial instruments eligible for refinancing with central banks		
On loans to credit institutions	**161.433**	**82.390**
Current acounts	-6.678	-18.951
Deposits	168.110	101.341
Other loans		
- of which on leases		
On loans to customers	**15.674.469**	**19.041.146**
Current acounts	3.813.877	5.445.683
Deposits		
Other loans	11.860.592	13.595.463
- of which on leases	3.169.901	3.497.752
On debt securities issued by credit institutions	-	-
Certificates of deposit		
Bonds		
Other financial instruments		
On debt securities from customers (issued by other issuers)	**548.708**	**536.543**
Bonds	548.708	536.543
Other financial instruments		
Total	**16.384.609**	**19.660.079**

These items show, on an accrual basis, the interests, the revenues and similar charges relating to receivables and financial instruments, inclusive of the balance between default interests accrued during the fiscal year and the value adjustment corresponding to the portion prudentially considered as totally unrecoverable.
The table shows a contraction in interest income attributable to the customer segment due to the downsizing of lending volumes.

Profit and loss account item 20

Table 20.2 – Breakdown of item 20 "Interest expense and similar charges"

Items / Values	**31/12/2018**	**31/12/2017**
On amounts due to credit institutions	**845**	**1.627**
Current accounts	845	1.627
Deposits		
Other debts		
On amounts due to customers	**1.057.549**	**839.331**
Current accounts	823.224	731.517
Deposits	10.778	4.640
Other debts	223.547	103.174
On payables represented by financial instruments to credit institutions		
- of which certificates of deposit		
On payables represented by financial instruments to customers	**3.188.569**	**3.870.383**
- of which certificates of deposit	3.188.569	3.870.383
On subordinate liabilities	**145.449**	**212.212**
Total	**4.392.413**	**4.923.553**

However, the decrease in interest income is accompanied by a reduction in interest expense attributable to a more efficient management of deposit rates.

Profit and loss account item 30

Table 23.1 – Breakdown of item 30 "Dividends and other revenues"

Items / Values	**31/12/2018**	**31/12/2017**
On stocks, shares and capital financial instruments		
On investments		
On investments in bank group companies	345.822	475.415
Total	**345.822**	**475.415**

Item On investments in bank group companies includes the dividend recorded on an accrual basis by our subsidiary San Marino Life Spa for € 345,822.

Profit and loss account item 40

Table 24.1 – Breakdown of item 40 "Commission income"

Items / Values	**31/12/2018**	**31/12/2017**
Guarantees given	**91.121**	**113.772**
Credit derivatives		
Investment services:	**726.187**	**948.123**
order receipt and trasmission (lett. D1 All.1 LISF)	549.333	696.174
order execution (lett. D2 All.1 LISF)		
financial instrument portfolio management (lett. D4 All.1 LISF)	176.854	251.949
financial instrument placing(lett. D5 e D6 All.1 LISF)		
Financial instrument consulting		
Distribution of third party services and products other than placement	**1.063.913**	**758.320**
asset management		
insurance products	256.886	215.000
other services or products	807.027	543.320
Collection and payment services	**1.229.555**	**1.182.646**
Depository banking services		
Custody and administration of financial instruments	**325.906**	**342.482**
Trust services	**20.794**	**47.830**
Collection and receipt services		
Brokerage	**301.865**	**298.669**
Commissions for collective management services (lett. E and F Annex 1 LISF)		
Electronic money		
Issuance/management of credit cards/debit cards		
Other services	**746.987**	**773.379**
Total	**4.506.328**	**4.465.221**

Commission income remains stable despite the continuing microeconomic downturn. The commission segment for receipt and transmission of orders is downsized in favor of the distribution of BAC Investment SG Spa funds.

Profit and loss account item 50

Table 24.2 – Breakdown of item 50 "Commission expense"

Items / Values	**31/12/2018**	**31/12/2017**
Guarantees given	**55**	**88**
Credit derivatives		
Investment services:	**372.785**	**436.687**
order receipt and trasmission (lett. D1 All.1 LISF)	278.577	328.478
order execution (lett. D2 All.1 LISF)	40.411	35.008
financial instrument portfolio management (lett. D4 All.1 LISF)	6.210	10.619
- own portfolio		
- third party portfolio	6.210	10.619
financial instrument placing (lett. D5 e D6 All.1 LISF)	47.587	62.582
Financial instrument, product and service cold calling		
Collection and payment services	**368.617**	**320.944**
Distributors' fees		
Electronic money		
Issuance/management of credit cards/debit cards		
Other services	**56.273**	**83.744**
Total	**797.729**	**841.463**

Concurrently with the maintenance of commission income, there was a significant decrease in commission expense, the breakdown of which sees an increase in collection fees attributable to the collection and payment service sector in relation to the new San Marino provider Tp@y Spa and on the other hand, a decrease in securities brokerage commissions against the decrease in indirect funding volumes.

Profit and loss account item 60

Table 25.1 – Breakdown of item 60 "Profits (losses) on financial transactions"

	31/12/2018				**31/12/2017**			
Items / Operating segments / Values as of 31 Dec 2017	**Operations on financial instruments**	**Operation on currencies**	**Operations on precious metals**	**Other operations**	**Operations on financial instruments**	**Operation on currencies**	**Operations on precious metals**	**Other operations**
Revaluations					72.250			
Writedowns	370.202							
Other profits / losses (+/-)	155.446	294.645			-7.131	332.280		
Total by operating segment	-214.756	294.645	-	-	65.119	332.280	-	-
General total				**79.889**				**397.399**

Item 60 includes the net result obtained from purchases of financial assets and foreign currency by customers, from the management of the financial trading portfolio of the bank. With respect to 2017, we will have the following details:

B. Breakdown of Profits (losses) on valuations and tradings of the segment "Transactions on financial instruments" according to the financial instrument categories (25.1)	Items \ Values as of 31 Dec 2018	Items \ Values as of 31 Dec 2017
	Operations on financial instruments	Operations on financial instruments
Government securities (+/-)	-222.378	55.384
Other debt financial instruments (+/-)	6.122	8.992
Capital financial instruments (+/-)	1.500	743
Derivative contracts on financial instruments (+/-)		
Total (+/-)	**-214.756**	**65.119**

Securities management showed a negative result compared to the previous year following the volatility of market prices of government securities held in the free trading portfolio.

Profit and loss account items 70 - 80

Table 26.1 – Breakdown of item 70 "Other operating income" and item 80 "Other operating charges"

Description	31/12/2018	31/12/2017
Other operating income		
Real estate rental income	931.549	835.021
Insurance expense recovery	21.776	22.244
Commission income on relationships	764.091	792.788
Other expense recoveries	51.599	39.491
Leasing Rental Capital Share	12.740.331	15.117.242
Total operating income	**14.509.346**	**16.806.786**
Other operating charges		
Total operating charges	**-**	**-**

In accordance with the regulation on the preparation of the consolidated financial statements, we reiterate that the leasing instalments accrued during the fiscal year are recorded in the part concerning interests in the item Interest income and similar income, and in the part concerning the share capital in the item Other operating income. At the same time, the bank reduces the value of the asset covered by financial lease for the principal amount by recording the amortization, therefore, the capital shares accrued are recorded under the item Other income on assets leased, as well as redemptions and down-payments, whose amount is equal to € 12,740,332 in 2018 and € 15,117,242 in 2017.

Profit and loss account item 90

Table 27.1 – Number of employees by category and personnel costs

Items / Values	2018 average	Effective number as of 31 Dec 2018	2018 personnel costs	2017 average	Effective number as of 31 Dec 2017	2017 personnel costs
Directors	19,00	17	2.336.694	22,00	21	2.551.661
Managers	16,00	17	1.226.690	15,00	15	1.032.643
Remaining personnel	92,00	89	5.075.720	101,50	95	5.701.052
Clerks	92,00	89	5.075.720	101,50	95	5.701.052
Other personnel				0		
Total	**127,00**	**123**	**8.639.104**	**138,50**	**131**	**9.285.356**

It should also be noted that personnel expenses, detailed in the table above, do not include fees to corporate executives: directors, statutory auditors and managers, as reclassified in the Profit and Loss Account statement and required by article IV.IV.6 of CBSM Regulation 2016-02. Compared to the previous year, the total personnel cost, including fees, decreased by € 720,353 and the number of employees decreased by 8 units. That being said, the bank made no provision for MBO, namely, one-off bonuses paid to employees on the basis of the performances gained from the Network and Operating Units.

Table 27.2 – Breakdown of sub-item b) "Other administrative expenses"

Items / Values	31/12/2018	31/12/2017
Other administrative expenses:	**5.431.760**	**5.328.904**
- of which remuneration for independent auditors	63.500	62.000
- of which remuneration for services other than financial statement review		
- of which Other:	5.368.260	5.266.904
Expenses for professional services	716.888	779.325
Expenses for purchase of non-professional goods and services	1.407.769	1.576.301
Rental expenses and instalments	1.677.695	1.775.017
Insurance	176.270	180.029
Supervision charges	848.532	617.789
Charges for charity and sponsorships	43.900	83.350
Indirect taxes and taxes	302.107	37.342
Depositors guarantee fund contribution	195.099	217.751

Table 27.3 – Breakdown of item personnel expenses "Remuneration"

Items / Values	31/12/2018	31/12/2017
Directors	93.997	179.103
Auditors	72.840	75.460
Management	911.260	931.015
Total	**1.078.097**	**1.185.578**

Table 27.4 – Breakdown of item personnel expenses "Other personnel expenses"

Items / Values	31/12/2018	31/12/2017
Other personnel expenses:	**72.728**	**59.103**
- of which Training expenses		
- of which Other:	72.728	59.103
1.1. Travel and expense reimbursement	50.473	38.661
1.2. Various expenses	22.255	20.442

Profit and loss account items 100 - 110

Table 25.1 – Breakdown of items 100 - 110 "Value adjustments on intangible and tangible assets"

Items / Values	31/12/2018	31/12/2017
Intangible asset adjustments:	**495.845**	**739.939**
- on leased assets		
- on other intangible assets	495.845	739.939
1.1. Software	156.693	282.036
1.2. Studies, research and training	48.657	53.462
1.3. Various long-term costs	248.242	278.712
1.5. Expenses for rented premises	440	51.418
1.6. Concession rights and underpass works	41.813	41.813
1.7. Goodwill intangible assets		32.498
Tangible asset adjustments:	**13.801.205**	**16.388.476**
- on leased assets	12.582.735	15.083.238
- on other intangible assets	1.218.470	1.305.238
2.1. Furniture, safes and plants	217.091	228.141
2.2. Electronic machines	76.368	82.771
2.3. Vehicles		13.027
2.4. Buildings and land	893.699	893.667
2.5. Equipment and machines	6.273	17.632
2.6. Other assets	25.039	70.000
TOTAL	**14.297.050**	**17.128.415**

The contributions to the various amortization funds of the assets functional to the fiscal year constitute the sum of the shares accrued in 2018, calculated in relation to their residual possibility of utilization and coinciding with the percentages established by the new tax legislation 166/2013.

The applied rates are listed below:

Buildings	3%
Furniture, Safes and Plants	15%
Electronic Machines	20%
Vehicles	20%
Software	20%
Expenses for Rented Premises	20%
Studies, Research and Training	20%
Concession rights and underpass works	3%

The amortization rates include also the capital shares accrued during the fiscal year, relating to lease instalments of assets under financial leases, recorded as revenue in the other operating revenues as requested by the Reg. 2016/02 of Central Bank ref. article IV.V.5.

Profit and loss account item 120

Table 28.2 – Breakdown of item 120 "Reserves for risks and charges"

Items / Values	31/12/2018	31/12/2017
Provisions		
Provisions for legal disputes	533.099	71.000
Total	**533.099**	**71.000**

Provisions amounting to € 533,099 were made for reserves for risks and charges in accordance with the timely update on loss forecasts relating ongoing disputes.

Profit and loss account item 130

Table 28.3 – Breakdown of item 130 "Provisions for risks on credits"

Items / Values	31/12/2018	31/12/2017
Provisions		
Total		

Profit and loss account item 140

Table 28.4 – Breakdown of item 140 "Value adjustments on loans and provisions for guarantees and commitments"

Items / Values	31/12/2018	31/12/2017
Value adjustments for loans	**5.083.858**	**4.691.353**
- of which flat-rate adjustments for country risk	1	2
- of which other flat-rate adjustments	245.750	289.359
Provisions for guarantees and commitments		
- of which flat-rate provisions for country risk		
- of which other flat-rate provisions		
Total	**5.083.858**	**4.691.353**

In accordance with the CBSM Regulation 2008-02, as already explained before, the bank should carry out analytical write-downs on the basis of each debtor's solvency and portfolio write-downs on the basis of the performance of its own economic sector and of the analogue country's one.
The value adjustments made in 2018 increase the provision for credits adjusting assets to a value deemed suitable for the analytical write-downs related to the loss forecasts of each debtor and for the portfolio write-downs, as mentioned above, on the basis of the economic sector and the country risk, and are able to guarantee a 8.41% coverage of cash and off-balance-sheet loans.

Table 28.4 – Different types of movements in item 140 "Value adjustments on loans and provisions for guarantees and commitments"

	31/12/2018		31/12/2017	
Items / Values	**Analytical**	**Flat-rate**	**Analytical**	**Flat-rate**
Total cash credit writedowns	**4.838.108**	**245.750**	**4.401.992**	**289.361**
Credit writedown - non-performing	3.246.638		2.970.381	
Credit writedown - bad	473.193		824.296	
Credit writedown - other	1.118.277	245.750	607.315	289.361
Total cash credit losses	**-**	**-**	**-**	**-**
Non performing				
Bad				
Other				
Total cash credit value adjustments (B010+B020)	**4.838.108**	**245.750**	**4.401.992**	**289.361**
Total provisions for guarantees and commitments	-	-	-	-
Guarantees				
Commitments				
Total	4.838.108	245.750	4.401.992	289.361
General Total		**5.083.858**		**4.691.353**

During 2017, losses from bad debts were recorded for an amount of € 1,357,211, which was covered using risk provisions for credits adjusting assets.

Profit and loss account items 150 - 160 - 170

Table 28.6 – Breakdown of item 150 "Writebacks on loans and on provisions for guarantees and commitments"

Items / Values	31/12/2018	31/12/2017
Writebacks	-	-
On non-performing loans		
On bad loans		
On other loans		

Table 28.7 – Breakdown of item 160 "Financial fixed asset adjustments"

Items / Values	31/12/2018	31/12/2017
Value adjustments	**293.229**	-
- of which on investments	293.229	
- of which on investments in subsidiaries	293.229	
- of which on investments in related businesses		
- of which on investments valued at net equity		
- of which on other capital financial instruments		
- of which on debt financial instruments		
- of which on derivative financial instruments		

The item includes the write-down of the investment in BAC Investment SG Spa following the adjustment of the equity investment for € 248,427, of the equity investment in IBS Immobiliare srl for € 22,113, still following equity adjustment, and € 22,687 for settlement following the liquidation of the IBSRent investment.

Table 28.8 – Breakdown of item 170 "Financial fixed asset writebacks"

Items / Values	31/12/2018	31/12/2017
Writebacks	-	-
- of which on investments		
- of which on investments in subsidiaries		
- of which on investments in related businesses		
- of which on investments valued at net equity		
- of which on other capital financial instruments		
- of which on debt financial instruments		
- of which on derivative financial instruments		

No value adjustment or writeback was made in the investment portfolio.

Profit and loss account items 190 - 200

Table 26.4 – Breakdown of item 190 "Extraordinary income" and item 200 "Extraordinary charges"

Description	31/12/2018	31/12/2017
Extraordinary income		
Windfall gains	371.969	999.650
Collections on positions turned to losses	253.065	124.307
Redemption of customer relationships	221	2.771
Redemption of Complaint and Revocation Fund		
Other extraordinary income	2.300	4.353
Total extraordinary income	**627.555**	**1.131.081**
Extraordinary charges		
Operating damage		6.375
Repayment of interest income, commissions	3.841	41.601
Redemption of customer relationships	25.639	7.159
Other extraordinary charges	116.331	77.758
Total extraordinary charges	**145.811**	**132.893**

PART D – Other Information

Table 36.1 Payment operation volumes

	31/12/2018				31/12/2017			
Operation type	Amount of operations	Number of operations	Commissions received	Expense recoveries	Amount of operations	Number of operations	Commissions received	Expense recoveries
Credit cards								
Debit cards	64.081.844	745.593	28.645	27.036	61.530.534	692.034	27.114	27.049
Electronic money	708.005	17.240	768	6.646	17.888	251	167	105
Total	**64.789.849**	**762.833**	**29.413**	**33.682**	**61.548.422**	**692.285**	**27.281**	**27.154**

	31/12/2018	31/12/2017	Absolute and % changes	
Income tax for the year	320.972	226.961	94.011	41,42%
Total	**320.972**	**226.961**	**94.011**	**41,42%**

It should be noted that taxes were earmarked in accordance with the current tax legislation. The high volume is due to the taxation of the Provision for risks on credits over 5% of total loans, thus increasing the tax rate to 9.44%.

Table 31.1 - Prudential aggregates	31/12/18
	Amount
Supervisory capital	76.806.605
A1. Core capital	70.516.728
A2. Supplementary capital	17.653.340
A3. Items to be deducted	7.408.975
A.4 Risk asstes for shareholders	3.954.488
A4. Supervisory capital	**76.806.605**
Risk assets and supervisory ratios	
B1. Weighted risk assets	**449.336.899**
C1. Supervisory capital / Weighted risk assets	**17,09%**

For the drawing up of the items, the indications of the CBSM Regulation 2007/07 and the current prudential supervisory standards were followed. It is, in particular, worth to note the adequate Bank capital level and a solvency ratio equal to 17.09% which is by far higher than the regulatory limit of 11%.

Table 32.1 – Major risks

Major Risks	31/12/2018	31/12/2017	Changes	
Amount	61.458.470	53.510.705	7.947.765	14,85%
Number	6	5	1	20,00%

This table shows the total weighted amount and the number of risk positions that constitute a "major risk" according to the current supervisory standards. To that effect, it is to be noted that the bank complies with the required limits.

Table 32.2 – Risks to related parties

Risks to related parties	31/12/2018	31/12/2017	Changes	
Amount	12.181.387	20.268.772	-8.087.385	-39,90%
Number	7	8	-1	-12,50%

The table above shows the total weighted amount and the number of risk positions toward related parties and related parties thereof, according to the current supervisory standards. To that effect, it is to be noted that the bank complies with the required limits.

Table 33.1 – Time distribution of assets and liabilities

Items / Residual maturities as of 31 Dec 2018	**Total**	**At sight**	**Up to 3 months**	**From 3 months to 6 months**	**From 6 months to 1 year**	**From over 1 year to 18 months**		**From over 18 months to 2 years**		**From over 2 to 5 years**		**Over 5 years**		**Maturity not posted**
Fixed rate (F) / Variable rate (V)						**F**	**V**	**F**	**V**	**F**	**V**	**F**	**V**	
Assets														
Treasury securities and other financial instruments eligible for refinancing with central banks	-													
Loans to credit institutions	139.463.756	88.871.346	20.000.000											30.592.410
Loans to customers	502.895.394	104.520.514	34.677.004	16.866.040	21.613.326	1.105.983	19.046.486	850.125	17.785.893	1.582.511	82.424.293	1.292.328	133.656.784	67.474.107
Bonds and other debt financial instruments	44.954.994									10.973.452	-	29.277.784	4.703.758	
Off-balance operations	20.257.981	7.372.734	860.575	230.037	3.670.001	423.130		639.534		1.274.995		5.786.975		
Liabilities														
Amounts due to credit institutions	1.137.069	1.137.069												
Amounts due to customers	434.007.160	406.094.112	11.466.092	1.150.754	15.296.202	-	-	-	-	-	-	-	-	-
Debts represented by financial instruments:	282.563.618	1.127.086	109.165.596	81.580.849	52.863.123	13.401.408	9.903.020	3.526.300	3.856.293	3.456.634	3.683.309	-	-	-
Bonds	-													
Certificates of deposit	282.563.618	1.127.086	109.165.596	81.580.849	52.863.123	13.401.408	9.903.020	3.526.300	3.856.293	3.456.634	3.683.309	-	-	-
Other financial instruments	-													
Other liabilities: outstanding cheques and similar securities	604.644	604.644												
Subordinate liabilities	8.010.853	-	4.005.427	-	-	-	4.005.426	-	-	-	-	-	-	-
Off-balance operations	20.257.981	7.372.734	860.575	230.037	3.670.001	423.130		639.534		1.274.995		5.786.975		

Items / Residual maturities as of 31 Dec 2017	**Total**	**At sight**	**Up to 3 months**	**From 3 months to 6 months**	**From 6 months to 1 year**	**From over 1 year to 18 months**		**From over 18 months to 2 years**		**From over 2 to 5 years**		**Over 5 years**		**Maturity not posted**
Fixed rate (F) / Variable rate (V)						**F**	**V**	**F**	**V**	**F**	**V**	**F**	**V**	
Assets														
Treasury securities and other financial instruments eligible for refinancing with central banks	-													
Loans to credit institutions	121.200.553	67.301.684	23.502.331											30.396.538
Loans to customers	542.798.321	118.156.641	36.759.111	22.265.759	24.813.464	1.540.453	21.361.276	855.524	19.125.188	2.036.255	92.442.532	420.281	142.713.640	60.308.197
Bonds and other debt financial instruments	32.725.096									5.206.629		27.518.467		
Off-balance operations	21.123.797	7.898.022	3.036.338	227.326	705.701	439.651		443.334		1.839.003		6.534.423		
Liabilities														
Amounts due to credit institutions	784.447	784.447												
Amounts due to customers	413.157.964	394.485.471	2.743.023	762.084	15.167.386									
Debts represented by financial instruments:	293.871.718	515.508	103.071.868	70.060.975	38.694.790	39.322.665	14.128.098	8.832.982	5.911.915	2.708.109	10.624.808	-	-	-
Bonds	-													
Certificates of deposit	293.871.718	515.508	103.071.868	70.060.975	38.694.790	39.322.665	14.128.098	8.832.982	5.911.915	2.708.109	10.624.808			
Other financial instruments	-													
Other liabilities: outstanding cheques and similar securities	845.016	845.016												
Subordinate liabilities	12.016.144		4.005.382				4.005.381				4.005.381			
Off-balance operations	21.123.797	7.898.022	3.036.338	227.326	705.701	439.651		443.334		1.839.003		6.534.423		

The following table provides an overview of the pro-forma profit and loss account and the main indicators, noting that the other operating income was net of the component relating to amortization of lease rentals received during the year, equal to the capital share, which according to CBSM Reg. 2016/02 were included in the value adjustments on fixed assets. Therefore, the intermediation margin amounts to € 18,053,118 in 2018 compared to € 20,956,645 in the previous year.

PROFIT AND LOSS ACCOUNT	31/12/2018	% Intermed. Margin	31/12/2017	% Intermed. Margin	CHANGE	
					Absolute	%
Interest income and similar revenues	**16.384.609**	**-102,25%**	**19.660.080**	**93,81%**	**-3.275.471**	**-16,66%**
of which: a) Interest income to customers	15.674.469	86,82%	19.041.146	90,86%	-3.366.677	-17,68%
b) Interest income to banks	161.433	0,89%	82.390	0,39%	79.042	95,94%
c) Interest income on debt securities	548.708	3,04%	536.543	2,56%	12.164	2,27%
Interest expense and similar charges	**-4.392.413**	**-24,33%**	**-4.923.553**	**-23,49%**	**531.139**	**-10,79%**
of which: a) Interest expense to customers	-1.057.549	-5,86%	-839.331	-4,01%	-218.218	26,00%
b) Interest expense on payable represented by securities	-3.334.018	-18,47%	-4.082.595	-19,48%	748.576	-18,34%
c) Interest expense to banks	-845	0,00%	-1.627	-0,01%	782	-48,04%
Interest margin	**11.992.196**	**66,43%**	**14.736.527**	**70,32%**	**-2.744.331**	**-18,62%**
Dividends and other revenues	345.822	1,92%	475.415	2,27%	-129.592	-27,26%
Financial margin	**12.338.018**	**68,34%**	**15.211.942**	**72,59%**	**-2.873.923**	**-18,89%**
Net commissions	3.708.599	20,54%	3.623.757	17,29%	84.842	2,34%
of which: a) commission income	4.506.328	24,96%	4.465.221	21,31%	41.108	0,92%
b) commission expense	-797.729	-4,42%	-841.463	-4,02%	43.734	-5,20%
Profit and loss on financial transactions	79.889	0,44%	397.399	1,90%	-317.510	-79,90%
of which: a) On securities	-214.756	-1,19%	65.119	0,31%	-279.875	-429,79%
b) On exchanges	294.645	1,63%	332.280	1,59%	-37.635	-11,33%
Other operating income	0	0,00%	0	0,00%	0	0,00%
Other overhead costs	1.926.611	10,67%	1.723.547	8,22%	203.065	11,78%
Service margin	**5.715.100**	**31,66%**	**5.744.703**	**27,41%**	**-29.604**	**-0,52%**
Intermediation margin	**18.053.118**	**100,00%**	**20.956.645**	**100,00%**	**-2.903.527**	**-13,85%**
Operating costs	**-16.024.744**	**-88,76%**	**-16.973.104**	**-80,99%**	**948.359**	**-5,59%**
of which: a) Peronnel expenses	-8.878.670	-49,18%	-9.599.022	-45,80%	720.353	-7,50%
b) Other administrative expenses	-5.431.760	-30,09%	-5.328.904	-25,43%	-102.856	1,93%
c) Tangible and intangible asset adjustments	-1.714.315	-9,50%	-2.045.177	-9,76%	330.863	-16,18%
Operating result	**2.028.373**	**11,24%**	**3.983.541**	**19,01%**	**-1.955.168**	**-49,08%**
Allocations and net adjustments on credits	-5.083.858	-28,16%	-4.691.353	-22,39%	-392.505	8,37%
Provisions for risks and charges	-533.099	-11,92%	-71.000	-0,34%	-462.099	650,84%
Financial asset adjustments	-293.229	-1,62%	0	0,00%	-293.229	100,00%
Profit from operations	**-3.881.812**	**-21,50%**	**-778.812**	**-3,72%**	**-3.103.001**	**-398,43%**
Extraordinary profit (los)	481.745	2,67%	998.188	4,76%	-516.443	-51,74%
Change in reserves for general banking risks (+/-)	0	0,00%	0	0,00%	0	0,00%
Income tax	-320.972	-1,78%	-226.961	-1,08%	-94.011	41,42%
Net profit for the period	**-3.721.039**	**-20,61%**	**-7.585**	**-0,04%**	**-3.713.454**	**-48960,97%**
Tax rate	9,44%		103,46%			
Cost/income	88,76%		80,99%			
Interest margin/Intermediation margin	66,43%		70,32%			
Servicemargin/Intermediation margin	31,66%		27,41%			
Operating result/Intermediation margin	11,24%		19,01%			
Roe	-4,30%		-0,01%			
PERSONNEL EXPENSES/INTERMEDIATION MARGIN	49,18%		45,80%			
ADMINISTRATIVE EXPENSES (total)/INTERMEDIATION MARGIN	79,27%		71,23%			
ADMINISTRATIVE EXPENSES (other expenses)/INTERMEDIATION MARGIN	30,09%		25,43%			
Roa	-0,40%		0,00%			

San Marino, 27/03/2019

The General Manager

The Chairman of the Board of Directors

8.

Consolidated Balance Sheet - Financial Statements - 2018 Reports and Financial Statement

BAC BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

- Consolidated Balance Sheet - Financial Statements - 2018 Reports and Financial Statements Gruppo Bancario Banca Agricola Commerciale S.p.A. Istituto Bancario Sammarinese S.p.A.

In December 2018, the rating agency Fitch confirmed the medium-long term rating of San Marino **BBB-** as the economy of San Marino showed elements of recovery from 2016, but the momentum is slowing down again due to the uncertainties in the banking sector, with the considerable losses recorded by the largest bank in the Republic and the closure of a Credit Institution in the spring of 2017. The San Marino economic recovery remains contained, weighed down by the continuous reduction of the financial sector's debt.

As of 31/12/2018, the group has a consolidated value of total deposits of € **1,289** million (including the depositary bank activity for BAC Investments SG Spa), divided into direct and indirect deposits, for € 725 million and € 563 million respectively.

Total balance sheet assets as at 31/12/2018 amounted to € **1,136** million, compared to € 1,157 million as at 31/12/17, while loans to customers, expressed at their estimated realizable value (therefore already net of the risk provision for credits of € 46.197 million), fell from € 540 million to € 499.85 million, showing a decrease of 40.318 million in absolute terms.

In the year 2018, the group achieved a consolidated intermediation margin of € 31.887 million, showing a decrease of -5.409% compared to 2017.

Operating costs, equal to € 30.075 million, show a decrease of -7.56% compared to (- 33.305 million in 2017), and can basically be attributed to the amortization for the capital share of assets subject to financial leasing granted to customers, accounting for € 12.740 million on 2018 and € 15.083 million on 2017, while the effective adjustments on immovable fixed assets are equal to € 1.652 million in 2018, compared to € 2.143 million in 2017.

Personnel costs show a reduction of - € 0.587 million (- 5.80% compared to 31/12/17), while administrative expenses stabilized as a result of the rationalization processes undertaken in previous years, with a slight increase of + 3.23% (- € 0.191 million).

The Report shows a positive operating result of € 1.811 million, decreasing by - 54.61% million compared to 2017 (+ 3.991 million) and a consolidated result of - € 3.679 million after having made substantial provisions for risks on credits and provisions for risks and charges totaling - € 5.639 million, up by 18.42% on the previous year, as a result of a careful and rigorous assessment of the receivables of all the companies in the group.

The Report sets out the consolidated data for 2018, compared with the data for 2017, processed on the basis of the consolidation area.

The consolidated data were reconstructed according to the accounting principles pertaining to the consolidated balance sheet and were compared with those processed the previous year.

In consideration of the foregoing, reference should be made to the tables set out below and to the Report of the Parent Company for a summary overview of the Statement of Assets and Liabilities and the Profit and Loss Account consolidated as of 31 December 2018, which were drawn up according to the following stages:

- the individual accounting situation of BAC as of 31/12/2018, which was added to that of the subsidiaries 100% belonging to the group in order to obtain a first reference aggregate;

- the reciprocal balance sheets existing on 31/12/2018 were annulled and the reciprocal cost and revenue postings occurred during the year between the companies of the group were reversed;
- the items of the shareholders' equity of the subsidiaries were cancelled as a counter part of the values of the shareholding interests and the resulting difference (consolidated surplus) was attributed to the shareholders' equity of the parent company.

The scope of consolidation includes the companies BAFiduciaria Spa, SanMarino Life Spa, Bac Investments Spa and IBSImmobiliare srl, which are fully owned.

Financial statements

Asset items

Consolidated Financial Statements BAC - Bac Fiduciaria - San Marino Life - BACInvestments SG Spa - IBS Immobiliare Srl

Item code	Asset items	31/12/2018	31/12/2017	absolute change	percent change
10	**Cash and cash equivalents**	**6.766.608**	**6.140.884**	**625.724**	**10,19%**
20	**Loans to banks**	**147.862.435**	**126.619.672**	**21.242.763**	**16,78%**
	a. at sight	97.270.025	72.720.803	24.549.222	33,76%
	b. other receivables	50.592.410	53.898.869	-3.306.459	-6,13%
30	**Loans to customers**	**411.318.026**	**446.733.810**	**-35.415.784**	**-7,93%**
40	**Bonds and other debt financial instruments**	**194.923.094**	**179.980.532**	**14.942.562**	**8,30%**
	a. public issuers	113.925.997	84.387.988	29.538.010	35,00%
	b. bank issuers	-	-	-	-
	b.1. of which own financial instruments	-	-	-	-
	c. investors (investment firms)	-	-	-	-
	d. other issuers	80.997.097	95.592.544	-14.595.447	-15,27%
50	**Shares, stocks and other capital financial instruments**	**64.893.535**	**90.246.344**	**-25.352.809**	**-28,09%**
60	**Shareholdings**	**4.840.804**	**4.768.052**	**72.752**	**1,53%**
70	**Investments in bank group companies**	**-**	**22.689**	**-22.689**	**-100,00%**
80	**Intangible fixed assets**	**1.255.084**	**1.624.994**	**-369.910**	**-22,76%**
	a. of which goodwill	-	-	-	-
90	**Tangible fixed assets**	**185.217.084**	**190.443.407**	**-5.226.322**	**-2,74%**
	a. of which financial leases	88.532.498	93.809.146	-5.276.648	-5,62%
	b. of which assets awaiting lease	3.325.980	2.620.786	705.194	26,91%
100	**Subscribed paid capital not paid-in**	**-**	**-**	**-**	**-**
110	**Treasury shares or stocks**	**14.378**	**14.378**	**-**	**0,00%**
120	**Other assets**	**118.323.714**	**109.475.168**	**8.848.546**	**8,08%**
130	**Accrued income and prepaid expenses**	**933.836**	**995.728**	**-61.892**	**-6,22%**
	a. accrued income	548.525	553.430	-4.905	-0,89%
	b. prepaid expenses	385.311	442.298	-56.987	-12,88%
140	**Total assets**	**1.136.348.599**	**1.157.065.656**	**-20.717.057**	**-1,79%**

* expressed at the fair value (total adjustment provisions for credits amounting to € 46,197,267)

Liability and equity items

Item code	Liability items	31/12/2018	31/12/2017	absolute change	percent change
10	**Amounts due to banks**	**1.335.004**	**997.651**	**337.354**	**33,81%**
	a. at sight	1.137.069	784.447	352.623	44,95%
	b. term or without notice	197.935	213.204	-15.269	-7,16%
20	**Amount due to customers**	**432.754.888**	**412.137.170**	**20.617.718**	**5,00%**
	a. at sight	404.602.559	393.137.541	11.465.019	2,92%
	b. term or without notice	28.152.328	18.999.629	9.152.699	48,17%
30	**Paybles represented by financial instruments**	**282.563.618**	**293.871.718**	**-11.308.100**	**-3,85%**
	a. bonds	-	-	-	-
	b. certificates of deposit	282.563.618	293.871.718	-11.308.100	-3,85%
	c. other financial instruments	-	-	-	-
40	**Other liabilities**	**115.644.117**	**114.690.736**	**953.380**	**0,83%**
50	**Accrued expenses and deferred income**	**73.400**	**78.516**	**-5.116**	**-6,52%**
	a. accrued expenses	7.887	12.511	-4.623	-36,96%
	b. deferred income	65.513	66.006	-493	-0,75%
60	**Severance**	**565.152**	**641.851**	**-76.699**	**-11,95%**
70	**Reserves for risks and charges**	**1.514.814**	**2.546.290**	**-1.031.476**	**-40,51%**
	a. provision for pensions and similer obligations	-	-	-	-
	b. tax reserves	281.443	930.242	-648.799	-69,75%
	c. other reserves	1.233.371	1.616.048	-382.677	-23,68%
80	**Risk provisions for credits not adjusting assets**	**50.000**	**50.000**	**-**	**0,00%**
90	**Technical reserves**	**207.236.641**	**229.756.707**	**-22.520.066**	**-9,80%**
100	**Subordinate liabilities**	**8.010.853**	**12.016.144**	**-4.005.291**	**-33,33%**
110	**Share capital**	**20.880.080**	**20.880.080**	**-**	**0,00%**
120	**Share premium reserves**	**-**	**-**	**-**	**-**
130	**Reserves**	**58.410.046**	**58.410.046**	**-**	**0,00%**
	a. ordinary reserves	58.150.653	58.395.668	-245.015	-0,42%
	b. treasury and share reserves	14.378	14.378	-	0,00%
	c. extraordinary reserves	-	-	-	-
	d. other reserves	245.015	-	245.015	
140	**Revaluation reserves**	**14.836.684**	**14.784.377**	**52.307**	**0,35%**
150	**Retained earnings (losses) (+/-)**	**-3.800.644**	**-3.793.060**	**-7.585**	
160	**Net income (loss) for the period (+/-)**	**-3.679.180**	**115.247**	**-3.794.427**	**-3292,44%**
	Minority interests	-	-	-	-
	Merger surplus	-46.874	-117.816	70.942	-60,21%
170	**Total liabilities**	**1.136.348.599**	**1.157.065.656**	**-20.717.058**	**-1,79%**

Profit and loss account

Item code	Profit and Loss Account items	31/12/2018	31/12/2017	absolute change	percent change
	Insurance premiums	**33.847.042**	**25.160.783**	**8.686.259**	**34,52%**
10	**Interest income and similar revenues**	**17.724.374**	**21.155.432**	**-3.431.058**	**-16,22%**
	a. on loans to customers	15.662.415	19.028.182	-3.365.767	-17,69%
	b. on debt securities	1.900.480	2.044.841	-144.361	-7,06%
	c. on amounts due from banks	161.480	82.409	79.070	95,95%
20	**Interest expense and similar charges**	**-4.393.440**	**-4.923.533**	**530.093**	**-10,77%**
	a. on loans to customers	-1.057.501	-838.753	-218.749	26,08%
	b. on bond paybles	-3.334.018	-4.082.595	748.576	-18,34%
	c. on amounts due from banks	-1.920	-2.186	266	-12,16%
30	**Dividends and other revenues**	**-**	**-**	**-**	**-**
	a. on stocks	-	-	-	-
	b. on shares	-	-	-	-
	c. on group company shares	-	-	-	--
40	**Commission income**	**4.545.428**	**4.511.118**	**34.310**	**0,76%**
50	**Commission expense**	**-524.586**	**-627.105**	**102.519**	**-16,35%**
60	**Profits (losses) on financial transactions (+/-)**	**-7.704.172**	**3.854.959**	**-11.559.131**	**-299,85%**
70	**Other operating income**	**16.377.551**	**18.413.896**	**-2.036.345**	**-11,06%**
80	**Other overhead costs**	**-27.984.948**	**-30.248.867**	**2.263.919**	**-7,48%**
90	**Administrative expenses**	**-15.682.466**	**-16.078.775**	**396.308**	**-2,46%**
	a. personnel expenses	-9.550.013	-10.137.949	587.936	-5,80%
	a.1. salaries and wages	-6.781.605	-7.244.421	462.816	-6,39%
	a.2. welfare contributions	-1.745.286	-1.838.699	93.413	-5,08%
	a.3. severance	-618.614	-655.503	36.889	-5,63%
	a.4. dormancy and similar	-	-	-	
	a.5. directors and auditors	-331.428	-339.359	7.931	-2,34%
	a.6. other personnel costs	-73.157	-60.044	-13.112	21,84%
	b. other administrative expenses	-6.132.453	-5.940.826	-191.627	3,23%
100	**Intangible asset adjustment**	**-503.161**	**-751.360**	**248.199**	**-33,03%**
	of which on intangible assets leased			-	
110	**Tangible asset adjustments**	**-13.890.004**	**-16.474.895**	**2.584.891**	**-15,69%**
	of which on tangible assets leased	-12.740.332	-15.083.238	2.342.907	-15,53%
120	**Provisions for risks and charges**	**-533.099**	**-71.000**	**-462.099**	
130	**Provisions for risks on credits**			**-**	
140	**Value adjustments for loans and provisions for guarantees and commitments**	**-5.083.858**	**-4.691.353**	**-392.505**	**8,37%**
150	**Writebacks on loans and on provisions for guarantees and commitments**		**-**		
160	**Financial asset adjustments**	**-22.689**	**-**	**-22.689**	**100%**
170	**Financial asset writebacks**				
180	**Operating income (loss)**	**-3.828.028**	**-770.699**	**-3.057.329**	**-396,70%**
190	**Extraordinary income**	**670.041**	**1.307.510**	**-637.469**	**-48,75%**
200	**Extraordinary expense**	**-168.037**	**-134.105**	**-33.931**	**25,30%**
210	**Extraordinary income (loss)**	**502.004**	**1.173.404**	**-671.400**	**-57,22%**
220	**Variations in general banking risk reserves (+/-)**		**0**	**-0**	
230	**Taxation for the year**	**-353.157**	**-287.459**	**-65.698**	**22,85%**
240	**Income (loss) for the period**	**-3.679.180**	**115.247**	**-3.794.427**	**-3292,44%**

Guarantees and commitments

Item code	Items	31/12/2018	31/12/2017	absolute change	percent change
10	**Guarantees given**	**15.007.232**	**17.711.978**	**-2.704.746**	**-15,27%**
	a. acceptances	953.311	2.340.201	**-1.386.890**	**-59,26%**
	b. other guarantees	14.053.921	15.371.777	-1.317.856	-8,57%
20	**Commitments**	**5.257.749**	**3.519.262**	**1.738.487**	**49,40%**
	a. for specific use	-	-	-	
	a.1. of which financial instruments	-	-	-	
	b. for unspecific use	4.387.383	2.163.767	2.223.616	102,77%
	b.1. of which financial instruments	-	-	-	
	c. other commitments	870.366	1.355.494	-485.128	-35,79%
30	**Total**	**20.264.981**	**21.231.240**	**-966.259**	**-4,55%**

Deposits and Loans to customers

Deposits/Loans	31/12/2018	31/12/2017	absolute change	percent change
Amounts due from customers	**499.850.524**	**540.168.876**	**-40.318.352**	**-7,46%**
Coverage	**8,41%**	**7,01%**	**1,40%**	**19,97%**
Coverage on doubtful loans	**26,74%**	**24,39%**	**2,35%**	**9,65%**
Loans/direct deposits	**68,93%**	**81,73%**	**-12,80%**	**-15,67%**
Direct deposits	**725.186.275**	**660.913.159**	**64.273.115**	**9,72%**
of which CD	282.563.618	276.610.000	5.953.618	**2,15%**
of which Bonds	8.010.853	2.632.200	5.378.653	204,34%
of which deposits at sight	406.094.112	363.177.160	42.916.952	11,82%
Indirect deposits	**541.636.283**	**623.734.744**	**-82.098.461**	**-13,16%**
a. Administered deposits	515.332.859	255.470.568	259.862.291	101,72%
a.1. of which administered funds	-	-	-	-
b. Managed deposits	26.303.424	368.264.176	-341.960.752	-92,86%
b.1. of which managed funds	14.347.349	124.188.244	-109.840.895	-88,45%
b.2. of which insurance bank	480.000	225.736.795	-225.256.795	-99,79%
Total Deposits	**1.266.822.558**	**1.284.647.903**	**-17.825.345**	**-1,39%**

It should be noted that the data relating to the Depositary Bank Activity, for which BAC acts as a depositary of the funds of BAC Investments SG Spa, is an "of which" included in the administered deposits.

Reclassified consolidated profit and loss account

CONSOLITATED INCOME STATEMENT	31/12/2018	31/12/2017	CHANGE	
			Absolute	%
Interest margin	13.330.934	16.231.899	-2.900.965	-17,87%
Net commissions	4.020.842	3.884.013	136.829	3,52%
Profits and losses from financial transactions	-7.704.172	3.854.959	-11.559.131	-299,85%
Other revenues	-11.607.397	-11.834.971	227.574	-1,92%
Brokerage income	-15.290.727	-4.095.999	-11.194.728	-273,31%
Margin on insurance operacions	33.847.042	25.160.783	8.686.259	34,52%
Intermediation margin	31.887.249	**37.296.683**	**-5.409.434**	**-14,50%**
Personnel expenses	-9.550.013	-10.137.949	587.936	-5,80%
Administrative expenses	-6.132.453	-5.940.826	-191.627	3,23%
Tangible and intangible asser adjustments	-14.393.165	-17.226.254	2.833.090	-16,45%
- of which Value adjustments on tangible and intangible assets leased	-12.740.332	-15.083.238	2.342.907	-15,53%
Operating costs	**-30.075.631**	**-33.305.029**	**3.229.398**	**-9,70%**
Operating result	**1.811.618**	**3.991.654**	**-2.180.036**	**-54,61%**
Provisions and net adjustments on credits	-5.639.646	-4.762.353	-877.293	18,42%
Extraordinary profit	502.004	1.173.404	-671.400	-57,22%
Taxation on income for the year	-353.157	-287.459	-65.698	22,85%
Result for the year	**-3.679.180**	**115.247**	**-3.794.427**	**-3292,44%**

Aggregate data of the banking group and San Marino banking system – market share as of 31/12/2018 –

(Data in thousands of euro)

Description of items	System Aggregate Data	Aggregate data of the bank group	Group market share vs
	30/09/18	31/12/18	30/09/18
Main asset items			
Loans	2.988.765	549.093	18,37%
of which non-performing loans (gross of value adjustments)	575.529	94.862	16,48%
Bonds and debt securities	687.622	194.923	28,35%
Interests and equity securities	275.637	69.734	25,30%
Deposits			
Direct deposits	**3.915.312**	**725.186**	**18,52%**
of which deposits to customers at sight	1.933.577	406.094	21,00%
of which Certificates of Deposit	1.394.527	282.564	20,26%
of which Bonds	289.130	8.011	2,77%
Indirect deposits	**1.725.167**	**563.834**	**32,68%**
of which: administered securities	1.363.339	536.449	39,35%
of which: classical asset managements	319.579	27.385	8,57%
Total deposits	**5.640.479**	**1.289.020**	**22,85%**
Deposits and interbank loans			
Credits vs banks	366.198	147.862	40,38%
Debts vs banks	113.967	1.335	1,17%
Shareholders' equity and total assets			
Shareholders' Equity	354.086	86.600	
Total assets	4.710.281	1.136.349	
Operating indicators			
loans/direct deposits	76,34%	75,72%	
Gross non-performing loans/Gross loans	19,26%	17,28%	
Shareholders' equity/Total assets	7,52%	7,62%	

San Marino, 27 March 2019

The Chairman

9.

Auditing firm's report

BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

BANCA AGRICOLA COMMERCIALE

BAC S.p.A.

Auditing firm's report pursuant to article 33 of Law no. 165/2005, article 68 of Law no. 47/2006, Regulation 2007-07 and Regulation 2016-02.

Financial statements as of 31 December 2018

BDO

BDO

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40125 Bologna

Auditing firm's report
pursuant to article 33 of Law no. 165/2005, article 68 of Law no. 47/2006, Regulation 2007-07 and Regulation 2016-02.

To the shareholders of
BAC S.p.A.

Introduction

We audited the financial statements of BAC S.p.A. (hereinafter referred to as the Company or Bank), made up of the statement of assets and liabilities as at 31 December 2018, the profit and loss account for the year closed as at such date and the explanatory notes.

Scope of the legal audit

We carried out the audit in compliance with the regulations in force in the Republic of San Marino and, where applicable, with the international auditing standards. Our responsibilities under these principles are further described in the section of this report entitled Responsibilities of the auditing firm for the audit of financial statements. We are independent of the Company in compliance with the rules and principles on ethics and independence applicable in the San Marino system to the audit of financial statements. We believe that we acquired sufficient and appropriate audit evidence on which to base our judgment.

Responsibility of the directors and the board of statutory auditors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the legislation in force in the Republic of San Marino on their preparation, and within the terms provided for by law, for the part of internal audit 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 Company's ability to continue operating 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 Company or the interruption of business, or have no realistic alternatives to such choices.

The statutory auditors are responsible for supervising, within the terms provided for by law, the process of preparing the Company's financial policy.

Responsibility of the auditing firm for the audit of the financial statements

Our objective is 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 audit report that includes our judgment.

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 auditing standards, will always identify a significant error, if existing.

BDO

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 the 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, the international auditing standards, we exercised our professional judgment and maintained professional skepticism 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 imply the existence of collusion, forgery, intentional omissions, misleading representations or internal audit forcing;
- we acquired a relevant understanding of the 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 Company;
- we assessed the appropriateness of the accounting principles used, as well as the reasonableness of 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 Company's ability to continue operating as an operating entity;
- in the presence of significant uncertainty, we are required to draw the attention in the audit report to the related disclosure, or, if such disclosure is inadequate, to reflect this fact in the formulation of our judgment. 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 Company 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 found during the audit.

Judgment

In our opinion, the financial statements give a true and fair view of the equity and financial position of BAC S.p.A. as at 31 December 2018 and the economic result for the year closed as at such date, in accordance with the legislation in force in the Republic of San Marino which governs their preparation.

BDO

A note to public disclosure

Without prejudice to our judgment, we call attention to the information provided by the Directors in the explanatory notes and management report.

The category of restructured loans includes the position attributable to the Delta/Plusvalore Group as per clear indications to all the subjects authorized to carry out reserved activities sent by the Supervisory Authority with prot. letter 14/2086. The participating creditors approved, at the end of 2018, the sale of part of the portfolio (the so-called Arcade portfolio) to a company specializing in credit recovery (Cerberus European Investments LLC) at a price of 0.092%. As requested by the Supervisory Authority, BAC made a further adjustment of the position amounting to € 4.6 million, recording this adjustment in the profit and loss account for the first of the 5 years envisaged for the case in question by the 2018 financial law no. 173 article 40 and posting the residual 4/5 under the item "Other assets".

With regard to the inspections aimed at the Asset Quality Review, the Supervisory Authority recently transmitted the results of the update of the data on the evidence as at 30 June 2017. After duly assessing the effects of the results of this statistic exercise with reference to 31 December 2018, on both the Bank's assets and supervisory capital, the Directors continued the policies to set aside funds provided for in the 2017-2019 three-year plan for the preparation of the 2018 financial statements.

Pending the formalization of the new multi-year Strategic Plan, which shall take into account the accounting policies that will be adopted in accordance with the provisions of law regarding the final results of the Asset Quality Review being defined with the Supervisory Authority, in 2019 the Bank will continue its process of renewing and improving the efficiency of the Banking Group through the following guidelines, highlighted in detail in the Directors' Report on management:

- strong determination in the commercial development of subsidiaries, in particular BAC Investments SG and development of the customer base;
- strong focus on the most profitable business priorities absorbing less capital;
- careful management of the loan disbursement process through a prudent selection of investment opportunities;
- accurate "in-house" management of the NPL stock, whose net value is expected to be significantly reduced;
- on real estate for the purpose of orderly disposal and/or income generation;
- further significant provisions for credit risk funds, also in light of the exercise of the Asset Quality Review;
- further reduction in management expenses, with a consequent reduction in the cost-income ratio;
- full recognition of the expected profits to increase the regulatory capital.

In light of the objectives set in the budgeting process, the Bank expects to close the future financial years with a profit and therefore to be able to fully absorb both the loss generated in 2018.

Report on other provisions of law and regulations

Judgment pursuant to article 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 BAC S.p.A. are responsible for the preparation of the management report as at 31 December 2018, including its consistency with the related financial statements and its compliance with the Regulation.

BAC S.p.A. | Auditing firm's report

We carried out the procedures indicated in the Regulation and in the international auditing standard (SA Italia no. 720B), in order to express an opinion on the consistency of the management report with the financial statements of the BAC S.p.A. as at 31 December 2018 and on its compliance with the Regulation, as well as to issue a declaration on any relevant incorrect statements.

In our opinion, the management report is consistent with the financial statements of BAC S.p.A. as at 31 December 2018 and drafted in compliance with the Regulation.

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

Bologna, 24 April 2019

BDO Italia S.p.A.

Livio Mezzetti
Partner

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Istituto Bancario Sammarinese

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