



Financial  
Statements **2019**

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# Corporate position



## Board of Directors

**Luigi Lonfernini**

CHAIRMAN

**Emanuele Rossini**

DEPUTY CHAIRMAN

**Micaela Licia Menicucci**

GENERAL MANAGER

*in office since 14/09/2020*

## Councilors

**Wladimir Biasia****Giancarlo Protti****Francesco Gennari***in office since 30/07/2020*

## Board of Statutory Auditors

**Stefania Maria Gatti**

CHAIRMAN

*in office since 30/07/2020***Alberto Vaglio**

AUDITOR

**Giorgio Rusticali**

AUDITOR

*in carica dal 30/07/2020*

## General Management

**Micaela Licia Menicucci**

GENERAL MANAGER

*in office since 14/09/2020*

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# Shareholders' meeting



On **Thursday 30 July 2020** – first meeting at 5:00 p.m. **and second meeting at 5:30 p.m.**  
**venue:** meeting room – BANCA AGRICOLA COMMERCIALE – Istituto Bancario Sammarinese,  
Via 3 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 as of 31 December 2019 and relevant decisions;
- 2) Statutory amendments;
- 3) Appointment of a Director and determination of the relative remuneration;
- 4) Appointment of the Board of Statutory Auditors and determination of its remuneration;
- 5) 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, 26 June 2020

The Chairman of the Board of Directors  
Avv. Luigi Lonfernini

**Report  
of the board  
of directors**



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## Macroeconomic scenario

The sharp decline in the global economy in the last quarters of 2018 was also reflected in 2019. The pace of global economic activity remained weak to the extent that global manufacturing weakened significantly to the levels witnessed in the 2008-2009 global financial crisis. The world economy is paying the price of the tariff war, the world GDP increased by +2.9% in 2019 (-0.1% less than estimated in October) and is at its lowest since the great 2009 global financial crisis due to the uncertainty of trade policy, geopolitical tensions and idiosyncratic stress in key emerging market economies that continued to weigh on global economic activity, particularly manufacturing and trade, in the second half of 2019; in addition, the escalation of social unrest in several countries posed new challenges, as did climate emergencies: from hurricanes in the Caribbean to droughts and fires in Australia, floods in East Africa and drought in southern Africa. The beginning of 2020 characterized by the widespread of the COVID-19 virus, defined by WHO as a pandemic, pushed the world into a recession, creating uncertainty and harmful short and long-term prospects, estimates and scenarios are currently uncertain, the 2020 crisis will be far worse than the 2009 global financial crisis. The economic damage is increasing in all countries, due to the massive increase in new infections and the containment measures implemented by governments. China was the first nation to experience the full effect of the disease, with active cases confirmed at over 60,000 in mid-February. European countries such as Italy, Spain and France experienced the acute phase of the epidemic, followed by the United States where the number of active cases grew rapidly. In many emerging markets and developing economies, the epidemic appears to be only just beginning.

In Italy, the first country in Europe to be seriously affected, the government imposed a national blockade on March 9 to contain the spread of the virus. Consequently, the presence in public places and the use of electricity decreased dramatically, especially in northern regions where infection rates were considerably higher. The economic consequences of the pandemic are already hitting the United States with unprecedented speed and severity. Nearly 10 million people applied for unemployment benefits in the last two weeks of March. Such an abrupt and staggering increase has never been seen before, not even at the height of the 2009 global financial crisis.

The slight improvement in economic activity in China is reflected in daily satellite data on nitrogen dioxide concentrations in the local atmosphere, an indicator of industrial and transport activity (but also the density of pollution as a by-product of fossil fuel consumption). After a sharp drop from January to February during the acute phase of the pandemic, concentrations increased with the decrease in the number of new cases, allowing China to gradually ease its strict containment measures. The recovery in China, although limited, is encouraging, suggesting that containment measures may be able to control the epidemic and pave the way for a resumption of economic activity. But there is enormous uncertainty about the future path of the pandemic and a resurgence of its spread in China and other countries cannot be ruled out.

In order to overcome this pandemic, a global and coordinated health and economic policy effort is needed in the Eurozone which is currently affected by the contrasts and personalisms of the economically stronger states not yet seriously affected by the epidemic.

According to the latest IMF estimates, for 2020 the world growth forecast reduced downwards to -3% with a rebound to +5.8% in 2021, assuming the pandemic disappears in the second half of 2020 and that containment efforts can be gradually eased as economic activity normalizes, aided by political support. In the title of the report, it is summarized as: "The Great Lockdown" <sup>(1)</sup>.

**In advanced economies**, a recession of -6.1% is expected in 2021, mainly due to the spread of the virus, in the US -5.9%, the Eurozone -7.5% and the UK -6.5%, in addition to the downgrading of other advanced economies in Asia: Russia -5.5% and Brazil -5.3%. Although it is essential to impose blockages and restrictions in order to contain the virus, they weigh heavily on economic prospects. Advanced economies with stronger care capabilities and better access to international

<sup>(1)</sup> The World Economic Outlook (WEO) April 2020.

liquidity will have comparatively lower lending rates and will be better equipped to fight the health crisis, meet large financing needs and undertake supportive policies. In the Eurozone, where many countries are particularly affected by outbreaks, there is significant targeted European support integrated with national policies, which would help meet the funding needs arising from the huge and exogenous common shock.

In the **United States**, the recorded growth of 2.9% in 2019 will drop to -5.9% in 2020 with a subsequent increase of +4.7% in 2021.

**Growth in the Eurozone will drop** from 1.2% in 2019 to -7.5% in 2020, with a recovery up to 4.7% in 2021. The WEO projections of April 2020 forecast -7.2% for France, -9.1% for Italy; even in Germany, where manufacturing activity was already declining, the estimate is -7%.

In the **United Kingdom**, the decrease is expected to be -6.5% in 2020 and up to 4% in 2021. The forecasts for exit from the European Union, followed by a gradual transition to a new economic relationship will need to be reviewed and reshaped.

**Japan's** growth rate is expected to drop to -5.2% in 2020 with a recovery up to 3% the following year.

**In emerging markets and developing economies**, the policy objectives are more or less the same, but the resources to achieve them are more constrained due to the more limited capacity of the health system and the tightening of constraints on access to loans. In addition, the growing demand for investment assets, deteriorated financial conditions led to an increase in spreads which, when added to the already high levels of debt in some countries, may limit the scope of the fiscal stimulus. In order to meet growing demands for public health and related essential expenditures, some countries may need to redistribute existing spending to support the most vulnerable population groups, and some economies may soon be overwhelmed by the crisis. External support will be crucial, so it will be essential to help countries with financial problems facing health and financial shocks.

For 2020 the drop will be -5.3% for Brazil, -5.5% for Russia, while for **India** and **China** the growth, although very down compared to 2019, will be positive and are +1.9% and +1.2% respectively.

Inflation, which began to regain momentum in advanced economies after the 2008-2009 crisis, which reached 1.9% in 2019, is forecast to drop to 0.5% in 2020, while in emerging economies, excluding Venezuela, it will reach 4.6% compared to 5% in 2019. This average is a reflection of a significant heterogeneity among different countries from their cyclical positions as well as the impacts of the amortization of energy sources, primarily oil. In some countries, interruptions in the supply chain could lead to prolonged price increases and trigger expectations of rising inflation; in others, persistently weak demand could lead to deflation.

The accommodative monetary measures will still be necessary in those countries where inflation is still low if launched carefully, well communicated and dependent on accurate data analysis.

In the United States, inflation is expected to decrease to 0.6% in 2020, whereas it closed at 1.8% in 2019. The Federal Reserve launched extraordinary measures in late March 2020 in order to support loan to employers, consumers and businesses through the creation of new programs that together will provide up to 300 billion dollars in new funding. The Treasury Department, using the Exchange Stabilization Fund (ESF), will provide an additional 30 billion dollars to businesses and workers. It also announced a 0.5% interest rate cut, also decreasing the *target range* of interest rates on *federal funds* by -50 basis points, bringing them in a band between 1 and 1.4%.

In the **United Kingdom**, due to the depreciation of the pound sterling, inflation settled at 1.2% in 2020, down compared to 1.8% in 2019; the Bank of England also decided to cut interest rates to 0.10%, after the last upward adjustment in August 2018.

In **China** the Central Bank softened monetary conditions, favouring a further decrease in interbank rates to 4.050% in April.

Inflation closed at 1.2% **in the Eurozone** in 2019, down compared to 2018 and the 2020 forecast is 0.6%. The European Central Bank (ECB) announced that it supports measures taken by national banking authorities in the Eurozone to address the impact of the coronavirus epidemic on the

financial sector and assessed the notifications submitted by the national banking authorities, particularly on capital requirements, by issuing a non-opposition decision, thus supporting the measures taken to reduce capital requirements, including the countercyclical capital buffer.

The measures announced by national macroprudential authorities as of 11 March 2020 will free up more than € 20 billion of Common Equity Tier 1 capital held by Eurozone banks.

In early March 2020, the Governing Council of the ECB surprised the entire market that expected an interest rate cut, considered necessary in light of the disruptive impact of the coronavirus, leaving the cost of money unchanged but reported an increase in QE (quantitative easing) and important support to businesses.

The Eurozone unemployment rate was estimated at 10.4% in 2020, worsening from 7.6% in 2019.

The **Italian economy GDP** is expected to drop by -9.1%, in January, before the outbreak of the pandemic, the IMF estimated a growth of 0.3% in 2020.

Estimates indicate that between March and July the additional liquidity needs of companies may reach 50 billion, it is therefore necessary to ensure a rapid deployment of the emergency response instruments. The whole interventions launched by the Government to deal with the Covid-19 emergency, adding the guaranteed loans to businesses and credit moratoriums already activated, currently sum up to € 750 billion.

The inflation rate of 0.6% recorded in 2019 was revised downwards to 0.2% for 2020.

Unemployment will reach 12.7% in 2020, an increase of +2.7% compared to 2019 (10%).

MACROECONOMIC SCENARIOS (changes and percentage points)	REAL GDP**			INFLATION**			UNEMPLOYMENT**		
	Forecast			Forecast			Forecast		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
MONDO	3,6%	2,9%	-3,0%	-	-	-	-	-	-
<b>Advanced countries</b>	<b>2,2%</b>	<b>1,7%</b>	<b>-6,1%</b>	<b>2,0%</b>	<b>1,4%</b>	<b>0,5%</b>	<b>5,1%</b>	<b>4,8%</b>	<b>8,3%</b>
<b>USA</b>	<b>2,9%</b>	<b>2,4%</b>	<b>-5,9%</b>	<b>2,4%</b>	<b>1,8%</b>	<b>0,6%</b>	<b>3,9%</b>	<b>3,7%</b>	<b>10,4%</b>
<b>Euro Area</b>	<b>1,9%</b>	<b>1,2%</b>	<b>-7,5%</b>	<b>1,8%</b>	<b>1,2%</b>	<b>0,2%</b>	<b>8,2%</b>	<b>7,6%</b>	<b>10,4%</b>
Germany	1,5%	0,5%	-7,0%	2,0%	1,3%	0,3%	3,4%	3,2%	3,9%
France	1,7%	1,2%	-7,2%	2,1%	1,3%	0,3%	9,0%	8,5%	10,4%
<b>Italy</b>	<b>0,8%</b>	<b>0,00%</b>	<b>-9,1%</b>	<b>1,2%</b>	<b>0,6%</b>	<b>0,2%</b>	<b>10,6%</b>	<b>10,0%</b>	<b>12,7%</b>
Japan	0,3%	0,9%	-5,2%	1,0%	0,5%	0,2%	2,4%	2,4%	3,0%
Great Britain	1,3%	1,2%	-6,5%	2,5%	1,8%	1,2%	4,1%	3,8%	4,8%
<b>San Marino**</b>	<b>1,0%</b>	<b>1,1%</b>	<b>-12,2%</b>	<b>1,8%</b>	<b>1,0%</b>	<b>0,3%</b>	<b>8,0%</b>	<b>7,7%</b>	<b>10,3%</b>
<b>Emerging countries</b>	<b>4,5%</b>	<b>3,9%</b>	<b>-1,0%</b>	<b>4,8%</b>	<b>5,0%</b>	<b>4,6%</b>	-	-	-
China	6,7%	6,1%	1,2%	2,1%	2,9%	3,0%	3,8%	3,6%	4,3%
India	6,1%	4,2%	1,9%	3,4%	4,5%	3,3%	-	-	-
Russia	2,5%	1,3%	-5,5%	2,9%	4,5%	3,1%	4,8%	4,6%	4,9%
Brazil	1,3%	1,1%	-5,3%	3,7%	3,7%	3,6%	12,3%	11,9%	14,7%
<b>World Trade Volume (goods and services)*</b>	<b>2018</b>	<b>Ftc 2019</b>	<b>Ftc 2020</b>						
World*	3,8%	0,9%	-3,0%						
Advanced countries	3,3%	1,4%	-12,2%						
Emerging countries	4,6%	0,8%	-8,9%						
<b>Consumer prices*</b>	<b>2018</b>	<b>Ftc 2019</b>	<b>Ftc 2020</b>						
Advanced countries	2,0%	1,4%	0,5%						
Emerging countries	4,8%	5,0%	4,6%						
<b>London Interbank Offered Rate*</b>	<b>2018</b>	<b>Ftc 2019</b>	<b>Ftc 2020</b>						
On U.S. Dollar Deposits (6 month)	2,5%	2,3%	0,7%						
On Euro Deposits (3 month)	-0,3%	-0,4%	-0,4%						
On Japanese Yen Deposits (6 month)	0,00%	0,00%	-0,1%						
<b>Eurozone interest rates</b>	<b>2019</b>	<b>2020</b>							
Marginal interest rate	0,21%	0,20%							
Main refinancing rate	0,00%	0,00%							
Deposit rate	-0,43%	-0,50%							
Euribor 3M - e.o.p.	-0,38%	-0,32%							
Eonia - e.o.p.	-0,33%	-0,33%							

## NOTES

\* Source: FMI, WEO\_Update\_April 2020 - WEO update october 2019

\*\* WEO October 2019

## San Marino macroeconomic scenario

San Marino is facing major challenges due to the state of health emergency following the coronavirus epidemic, called COVID-19, which has also affected the Republic since February 2020, with heavy impacts on the local population and businesses. The short-term efforts of the Authorities are rightly focused on limiting and containing adverse social and economic effects, also through the redistribution of resources in favour of the health system.

The medium-term growth prospects are expected to be weak due to the credit crunch and the substantially weaker external economic environment. The high uncertainty about the extent and duration of the COVID-19 infections presented the country's system with major challenges to overcome the difficulties caused by the context in which it operates.

The IMF Executive Board Concludes of April 2020 stresses the need for pension reforms, the introduction of VAT as well as measures to rationalize tax exemptions, better targeting social benefits to increase their efficiency.

On 10 April 2020, the rating agency Fitch revised the medium/long-term San Marino rating from BBB- to BB+ with a negative Outlook. The key rating drivers that led to the revision in the BB+ class are attributable to the same critical issues expressed by the International Monetary Fund.

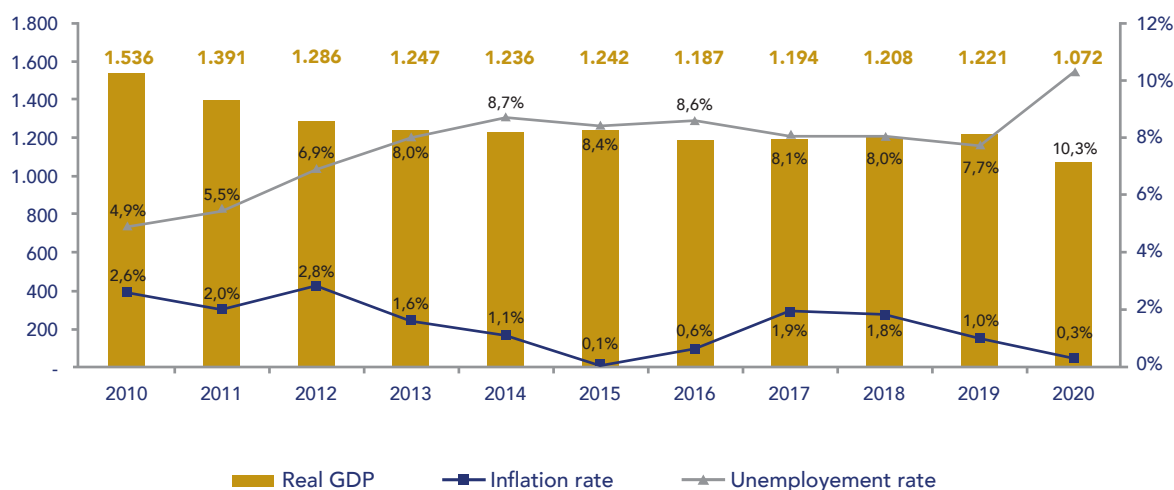
Based on the latest IMF estimates, the country's **real GDP**, which saw an increase of +1.1% in 2019, is estimated to decrease to -12.2% in 2020, in line with the reduction forecasts that affect all countries affected by the pandemic.

The inflation rate was **+1%** in 2019 and is expected to be **+0.3%** in 2020.

The unemployment rate was **7.7%** in 2019 and IMF projections see a worsening rate of **10.3%** in 2020.

Some positive aspects of the San Marino economic system should be underlined: the workforce increased by +562 units in 2019 (from 22,405 employed in December 2018 to 22,967 in December 2019), in addition, the per capita GDP placed the country at the top of the world rankings for years.

### Macroeconomic Indicator Trends - San Marino



From the country's system competitive analysis, through the World Bank ranking, the Republic of San Marino ranked **92** in early 2019 "The Ease of Doing business", i.e. in the ease of conducting an economic activity in improving by 1 point compared to 2018 (Rank 93). The analysis takes into account a total panel of 190 countries, where New Zealand ranked first (Rank 1) and Italy ranked fifty-eighth (Rank 58).

	2019	2019	2019
Topics Doing business DB 2018	San Marino Rank 92	New Zealand Rank 1	Italy Rank 58
Starting a Business	20	1	28
Dealing with Construction Permits	15	7	30
Getting Electricity	4	48	15
Registering Property	24	2	11
Getting Credit	24	1	29
Protecting Investors	24	3	20
Paying Taxes	9	9	34
Trading Across Borders	4	63	1
Enforcing Contracts	20	23	33
Resolving Insolvency	21	36	20

## The regulatory framework evolution and compliance activity

### San Marino legislation and regulations and compliance activities

In 2019, the BAC Group Compliance Function adjusted its internal regulations, procedures and business 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 the Function's operations 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 **CBSM Regulation 2019/01** "*Miscellany on interventions designed to review current supervisory provisions*", which came into force on 01/03/2019, the Central Bank introduces new requirements for corporate officers, provides for the formation of the contract by means of an IT document for opening online accounts, the introduction of deposit accounts to avoid operations with virtual cash, the possibility of putting "income" on assets acquired for debt collection, as well as rules on the freedom to provide services for foreign institutions.

### Banking and financial legislation

#### Delegated Decree no.61 of 29 March 2019

"*Provisions on markets in financial instruments and market abuse in implementation of Directives 2014/65/EU and 2014/57/EU and related Regulations (EU) no. 600/2014 and no. 596/2014*". The measure launches the implementation of the following EU directives and regulations in the Republic of San Marino: the so-called MIFID II Directive 2014/65/EU on markets in financial instruments and the MIFIR Regulation (EU) no. 600/2014 on markets in financial instruments; the so-called MAD II Directive 2014/57/EU on market abuse and the related MAR Regulation (EU) no. 596/2014 supplemented by Directive (EU) 2015/2392 implementing procedures for reporting violations (whistleblowing) and Regulation (EU) no. 2016/522.

#### Delegated Decree no. 68 of 25 April 2019 – Ratification of Delegated Decree no. 18 of 25 January 2019

"*Provisions on the mandatory automatic exchange of information in the tax sector*". The main provisions are as follows: Article 3: From the 2019 tax period, each company resident for tax purposes in the Republic of San Marino, the parent company of a multinational group, is required to submit a country-by-country report to the Tax Office, in compliance with requirements referred to in Article 5, with reference to the reporting period, within the deadline referred to in Article 6. Article 4: Within the deadline for submitting the tax return relating to the reporting period, the entity belonging to the group, resident for tax purposes in the Republic of San Marino, which is required to submit a country-by-country report in its capacity as parent company, alternate parent company or designated entity, shall notify the Tax Office. Article 6: The country-by-country report, based on the models attached to this delegated decree, shall be sent to the Tax Office by 31 December of the year following the reporting period.

#### Law no. 88 of 30 May 2019

"*Change in the State budget and the enlarged public sector entities for the 2019 financial year, amendments to Law no. 173 of 24 December 2018*". The provisions of interest for the banking and financial sector are as follows: agreements for subsidized loans, extraordinary extension for submitting declarations by legal entities, extraordinary banking and financial transactions, extension



of deadline for the adoption of the decree referred to in Law no. 171/2018, additional provisions on the obligation to elect a digital domicile and on notification by means of electronic certified delivery service and coordination with other regulations implementing the European Union's legal acts in financial matters.

#### **Law no. 102 of 14 June 2019**

*"Bank crisis resolution tools to protect the financial system's stability"*, this Law is aimed at introducing specific provisions to protect the stability of the Republic's financial system, granting CBSM new powers and tools to pursue the purposes referred to in Article 37 of Law 165/2005 and subsequent amendments.

#### **Law no. 115 of 16 July 2019**

*"Urgent interventions to protect the financial system's stability, guarantee of social security funds and second change to the state budget for the 2019 financial year"*. The purpose of this Law is to safeguard the Pension Funds, support the bank account holder's interests and the stability of the Republic's economic and financial system in applying the banking crisis resolution tools to protect the stability of the financial system referred to in Law no.102 of 14 June 2019. It specifically provides for public intervention for financial stabilization with the specific purpose of guaranteeing and protecting the Pension Management Fund and the FONDISS, proceeding with the segregation of the total liabilities of Banca CIS S.p.A. towards the same Pension Funds and part of the assets of the same Banca CIS in a specially created public entity.

#### **Law no. 123 of 5 August 2019**

*"Amendments to the regulations on trusts"*. The main provisions are as follows: Article 2: If the deed is signed inter vivos, the public deed is required without the presence of witnesses, or of the deed with signature authenticated by a notary who asserts its legality. Article 6: The trustee must deposit all bearer securities with banks or other depositories authorized to hold valuables and required to comply with anti-money laundering regulations. Article 12: The trustee establishes, updates and keeps the Book of Events, in which it records any event relating to the trusts required by law and the deed of establishment, as well as any other event relating to the trusts for which it deems appropriate to keep a record.

#### **Decree Law no. 124 of 5 August 2019**

*"Urgent measures to support depositors of banks under resolution"*, additional provisions were introduced to Law no. 102 of 14 June 2019 to protect depositors, the moratorium referred to in Article 2 of Decree Law no. 186 of 28 November 2011 continues to be granted to customers of banks under resolution, also for debts due after the launch of the resolution procedure, for the time strictly necessary to transfer the related liabilities to other banks.

#### **Law no. 157 of 19 November 2019**

*"Estimated State budgets and public bodies for the 2020 financial year and multi-year budgets 2020/2022"*. The main innovations introduced are as follows: Article 15 - Revision of the General Income Tax and reorganization of incentives: The Congress of State shall launch a legislative process by September 2020 for a review of tax regulations referred to in Law 166/2013, in order to align them with international regulations. Article 17 - Amendments to the rules of the trusts: Determination of the profitability coefficient. Article 18 - Reform of indirect taxes: The Congress of State activated a legislative process in June 2020 for indirect tax reforms which provides for the transition from a single-phase tax to a value added tax, in order to provide the Republic of San Marino with an evolved indirect tax system and in line with EU regulations. Article 19 - Extraordinary tax on real estate: The Congress of State issued a Delegated Decree in 31 March 2020 in which the real estate to be taxed and the exemptions to be provided are identified, in order to update the application provisions of the extraordinary tax on real estate held by companies that do not constitute a place of business activity. Article 24 - New mission of Banca Nazionale Sammarinese S.p.A.: The Congress of State issued a Delegated Decree in February 2020 in agreement with the



Central Bank of the Republic of San Marino and the parties directly involved, for the definition of the new mission of Banca Nazionale Sammarinese S.p.A.

## Anti-money laundering provisions and regulations

### Law no. 21 of 31 January 2019

*"Establishment of bodies engaged in the fight against international terrorism"*. The new provisions apply to all BAC Group companies. The purpose of the law is to prevent and combat terrorism in all its forms and manifestations, establishing: a) the Permanent Counter-Terrorism Commission; b) the Counter-Terrorism Operational Unit; c) the Counter-Terrorism Crisis Unit.

### Law no. 57 of 29 March 2019

*"Measures to prevent, combat and curb the financing of terrorism, the proliferation of weapons of mass destruction and the activity of countries that threaten international peace and security"*. The new provisions apply to all BAC Group companies. The purpose of the law is to promptly implement the restrictive measures ordered against any individual, group or entity designated by the United Nations Security Council or the Restrictive Measures Committee, pursuant to United Nations Resolution 1373 (2001).

### Regulation no.13 of 20 November 2019

*"Regulation referred to in Article 2 Paragraph 2 of Law no.57 of 29 March 2019 - Measures to prevent, counter and curb the financing of terrorism, the proliferation of weapons of mass destruction and the activity of countries that threaten international peace and security"*.

### Regulation no.14 of 27 November 2019

*"Regulations referred to in Article 2 of Law no. 21 of 31 January 2019 - Establishment of bodies engaged in the fight against international terrorism"*.

**FIA Instruction 2019/05** *"Business organization, policies, procedures, controls and training"*. The new provisions also apply to all BAC Group companies and concern "Governance", i.e. they regulate the requirements and powers of corporate entities and control functions in order to ensure effective risk prevention and anti-money laundering measures. The main changes concern the powers of the Board of Directors, General Manager, Board of Statutory Auditors, the establishment of the Anti-Money Laundering Committee, the rules of conduct for anti-money laundering purposes for Agents, consultants or other subjects linked to the person designated by contractual obligations for the products offered, anti-money laundering obligations in Groups, requirements, appointment and replacement of the Anti-Money Laundering Officer as well as training and information obligations..

**FIA Instruction 2019/06** *"Reporting and communication obligations"*. The new provisions also apply to all BAC Group companies. The Instruction deals with the reporting and communication obligations provided for by Law 92/2008 with focus on the obligation to report suspicious transactions which is the point of arrival to which the application of the appropriate verification measures is prearranged. In summary, the reporting obligations relate to suspicious transaction reports (see Article 36 of Law 92/2008) and reports of violations of the anti-money laundering Whistleblowing legislation (see Article 40 sexies Law 92/2008).

The communication obligations concern the communications to FIA related to the inconsistency of the declaration of the beneficial owners (see Article 20 of FIA Instruction 2019/01), the objective communications pursuant to Article 40 quarter of Law 92/2008, the communications relating to the violation of the limitation to the use of cash and bearer securities pursuant to Article 32 of Law 92/2008, the timely communications to FIA relating to facts that may constitute serious or repeated or systematic or multiple violations of the current provisions of the Law, the Instructions and the FIA Circulars pursuant to Article 40 ter Paragraph 1 letter b) of the Law.

**FIA Instructions 2019/07** *"Provisions on restrictive measures"*.

The new provisions concern the fight against the financing of terrorism, the proliferation of weapons of mass destruction and implementation of Law 57/2019. FIA Instruction 2019/07 regulates the reporting obligations in case of positive feedback from persons included in the United Nations or national list and the consequent obligations to freeze funds.

**Circular no. 2019/02** *"Indices and Anomaly schemes for financial entities"*.

The new provisions also apply to all BAC Group companies. The Circular updates the anomaly indices which support the RIA and the operators who are required to report suspicious transactions, and introduces "anomaly patterns", i.e. models representative of anomalous behaviour that identify the connection between particular sequences of transactions, facts and behaviour that experience indicates as potentially attributable to certain criminal phenomena.

**FIA 2019 Guidelines** *"Self-assessment of money laundering and terrorist financing risks"* – Law no. 21 of 31 January 2019 "Establishment of bodies engaged in the fight against international terrorism" - "Programs for the proliferation of weapons of mass destruction and their financing". Pursuant to Article 16 quinquies of Law 92/2008, these guidelines are intended to provide the designated entities with useful information on the methodology and self-assessment model. The purpose is to adopt adequate policies, controls, procedures and corrective measures to manage and mitigate the risks identified. The guidelines represent a mere operational suggestion and are addressed to all BAC Group companies.

**FIA Newsletter no. 1 January 2019**

On 13 February 2019 FIA published Newsletter bearing the latest publications on the combating of money laundering and terrorism financing in order to provide useful information for risk prevention and mitigation.

**FIA Newsletter no. 2 aprile 2019**

On 9 May 2019 FIA published Newsletter bearing the latest publications on the combating of money laundering and terrorism financing in order to provide useful information for risk prevention and mitigation.

**In-depth documents FIA-January 2019**

On 8 January 2019 FIA published the document *"Weapons of Mass Destruction proliferation programs and their financing"*.

**In-depth documents FIA-April 2019**

On 30 April 2019 FIA published the document *"Non-profit institutions and the risk of terrorism financing"*.

## FIA legislation, instructions and publications on anti-money laundering

DATE	TYPE	TITLE
08/01/19	Publications January 2019	Weapons of mass destruction proliferation programs and their financing
31/01/19	Law no. 21 of 31 January	Establishment of Bodies engaged in the fight against international terrorism
31/01/19	Guidelines 2019/01	Self-assessment of money laundering and terrorist financing risks
11/02/19	Instructions 2019/05	Business organization, policies, procedures, controls and training
13/02/19	FIA Newsletter January 2019	Latest news relating to the fight against money laundering and terrorist financing published on the main national and international websites
29/03/19	Law no. 57 of 29 March	Measures to prevent, counter and suppress the financing of terrorism, the proliferation of weapons of mass destruction and the activity of countries that threaten international peace and security
30/04/19	Publications April 2019	Non-profit institutions and the risk of terrorist financing
09/05/19	FIA Newsletter April 2019	Latest news relating to the fight against money laundering and terrorist financing published on the main national and international websites
10/05/19	Instructions 2019/06	Reporting and communication obligations
13/06/19	Circular 2019/02	Indices and anomaly schemes for financial entities
20/11/19	Regulation no. 13 of 20 November 2019	Regulation pursuant to art. 2 paragraph 2 of the Law of 29 March 2019 n. 57 Measures to prevent, counter and suppress the financing of terrorism, the proliferation of weapons of mass destruction and the activity of countries that threaten international peace and security
22/11/19	Instructions 2019/07	Provisions on restrictive measures
27/11/19	Regulation no. 14 of 27 November 2019	Regulation referred to in Article 2 of Law no.21 of 31 January 2019 Establishment of Bodies Engaged in the fight against international terrorism

## Banking provisions and regulations

REGULATIONS	SUBJECTS
Delegated Decree no. 61 of 29 March 2019	Provisions on markets in financial instruments and market abuse in implementation of Directives 2014/65 / EU and 2014/57 / EU and related regulations (EU) no. 600/2014 and n. 596/2014
Delegated Decree no. 68 of 25 April 2019	Ratification of the Delegated Decree no. 18 Provisions concerning the mandatory automatic exchange of information in the tax sector
Regulation no. 2019 01	Miscellaneous interventions aimed at revising the current supervisory provisions
Law no. 88 of 30 May 2019	Change to the budget of the State and of the entities of the enlarged public sector for the financial year 2019 - amendments to Law 173/2018
Law no.102 of 14 June 2019	Banking crisis resolution tools to protect the stability of the financial system
Law no. 115 of 16 July 2019	Urgent interventions to protect the stability of the financial system, guarantee of social security funds and II change to the state budget for the financial year 2019
Law no. 123 of 5 August 2019	Amendments to the legislation on trust
Decree Law no. 124 of 5 August 2019	Urgent measures to support depositors of banks under resolution
Law no. 123 of 5 August 2019	Budget Law 2020 "Estimated budgets of the state and public bodies for the financial year 2020 and multi-year budgets 2020/2022"

## Main legislative actions in San Marino's regulatory framework

- Delegated Decree no. 2 of 11 January 2019 "Economic condition for equity-ICEE indicator".
- Council Decree no. 8 of 21 January 2019 Ratification of the European Convention Decree on Cybercrime Delegated Decree no. 9 of 21 January 2019 "Updating the rent of buildings for professional use".
- Delegated Decree no.10 of 21 January 2019 "Update of real estate rentals for residential use".
- Law no.15 of 25 January 2019 "Rules on innovative businesses and sectors, simplified residence, residence for economic reasons, residence permit for business reasons, facilitation of economic activities in the field of various business activities".
- Decree Law no.16 of 25 January 2019 "Urgent measures to support operations to protect the financial system".
- Delegated Decree no.18 of 28 January 2019 "Provisions on the compulsory automatic exchange of information in the tax sector".
- Delegated Decree no. 19 of 28 January 2019 – Ratification of Delegated Decree no. 138 of 31 October 2018 - "Simplification for the presentation of the financial statements of economic operators".
- Law no.21 of 31 January 2019 "Establishment of institutions engaged in the fight against international terrorism".
- Delegated Decree no. 24 of 31 January 2019 - Revisions and additions to Law no. 140 of 14 December 2017 - "New consolidated urban planning draft, building laws and subsequent amendments".
- Delegated Decree no. 27 of 11 February 2019 "Changes in the cost of living pursuant to Law no. 15 of 11 February 1983 and subsequent amendments".
- Delegated Decree no. 28 of 11 February 2019 "Determination of maximum annual salary for calculating pension pursuant to Law no. 15 of 11 February 1983 and subsequent amendments".
- Delegated Decree no.31 of 18 February 2019 "Regulations for the simplification of administrative procedures regarding posting workers and overtime work".
- Delegated Decree no.37 of 27 February 2019 "Regulations on blockchain technology for businesses".
- Delegated Decree no. 40 of 28 February 2019 "Deferment of deadlines for the simplification of revenue certification procedures for private parties (amendment of Article 39 of Law no. 173 of 24 December 2018)".
- CBSM Regulation 2019-01 "Miscellaneous interventions aimed at reviewing the current supervisory provisions".
- Regulation no.4 of 11 March 2019 "Amendments to Regulation no.4 of 30 March 2016 -Definition of the cadastral documentation necessary for the purposes of the request for building conformity and habitability".
- Resolution of the State Congress no.11 of 11 March 2019 "International tax cooperation – update of jurisdictions list in CRS application".

- Delegated Decree no. 50 of 26 March 2019 Ratification Delegated Decree no. 176 of 28 December 2018 "Provisions on access to credit institutions activity and on prudential and supplementary supervision of the financial sector in implementation of Directive 2002/87/EC and Directive 2013/36/EU".
- Council Decree no. 51 of 26 March 2019 "Ratification of the agreement establishing the European Bank for Reconstruction and Development".
- Law no. 57 of 29 March 2019 "Measures to prevent, combat and curb the financing of terrorism, the proliferation of weapons of mass destruction and the activity of countries that threaten international peace and security".
- Delegated Decree no. 61 of 29 March 2019 "Provisions on markets in financial instruments and market abuse in implementation of Directives 2014/65/EU and 2014/57/EU and related regulations (EU) no. 600/2014 and no. 596/2014".
- Delegated Decree no. 65 of 12 April 2019 "Economic condition for equity-ICEE indicator".
- Decree Law no.67 of 19 April 2019 Ratification of Decree Law no.16 of 25 January 2019 "Urgent measures to support operations to protect the financial system".
- Delegated Decree no. 68 of 25 April 2019 Ratification of Delegated Decree no. 18 of 25 January 2019 "Provisions on compulsory automatic exchange of information in the tax area".
- Delegated Decree no.69 of 29 April 2019 "Bureaucratic simplification regulations for businesses".
- Delegated Decree no.70 of 29 April 2019 Ratification of Delegated Decree no.24 of 31 January 2019 Revisions and additions to Law no.140 of 14 December 2017 - "New Consolidated urban planning draft, building laws and subsequent amendments".
- Decree Law no. 71 of 30 April 2019 "Deferment of deadlines for registration in the public register of digital domiciles".
- Delegated Decree no. 72 of 30 April 2019 "Amendments to Article 21 Delegated Decree no. 72 of 25 June 2018 - Provisions on subsidized credit to support businesses and Article 68 of Law no. 166 of 16 December 2013 and subsequent amendments - General income tax".
- Regulation no. 6 of 8 May 2019 "Amendments to Regulation no. 9 of 28 December 2018 on incentives for internationalization initiatives".
- Regulation no. 7 of 15 May 2019 "Regulation for the submission of applications for the disbursement of loans pursuant to Article 13 of the Delegated Decree no.72 of 25 June 2018 and subsequent amendments".
- Delegated Decree no. 77 of 17 May 2019 Ratification to Delegate Decree no. 31 of 18 February 2019 "Regulations for the simplification of administrative procedures regarding the posting of workers and overtime".
- Law no. 78 of 17 May "Amendment of Law no.118 of 28 June 2010 and subsequent amendments (Law on the entry and stay of foreigners in the Republic)".
- Delegated Decree no.80 of 20 May 2019 Ratification of Delegated Decree no.65 of 12 April 2019 "Economic condition for equity – ICEE indicator".
- Decree Law no. 81 of 20 May 2019 - Ratification of Decree Law no. 71 of 30 April 2019 "Deferment of deadlines for registration in the public register of digital domiciles".
- Delegated Decree no. 84 of 23 May 2019 - "Contribution relief for the recruitment of workers registered on job start-up lists".
- Law no. 88 of 30 May 2019 "Change to the State budget and entities of the enlarged public sector for the 2019 financial year - amendments to Law 173/2018".

- Delegated Decree no. 90 of 31 May 2019 "Determination of fees and attendance fees for members of the supervisory authority responsible for the protection of personal data and the right to be paid in case of complaints".
- Delegated Decree no. 97 of 13 June 2019 "Regulations for the use of the redundancy fund for cause 3) retraining, production conversion, organizational restructuring of Law no. 73 of 31 March 2010 and subsequent amendments".
- Law no. 102 of 14 June 2019 "Bank crisis resolution tools to protect the financial system's stability".
- Delegated Decree no. 105 of 18 June 2019 "Purchase of buildings by foreign citizen".
- Delegated Decree no. 109 of 28 June 2019 "Provisions on extraordinary property tax".
- Decree Law no. 111 of 2 July 2019 "Urgent interventions in the field of social safety nets and sustainability of employment and early retirement benefits".
- Delegated Decree no. 112 of 2 July 2019 "Tax relief for the recruitment of workers registered on the job start-up lists".
- Delegated Decree no. 113 of 2 July 2019 "Amendments to Decree no. 156 of 8 November 2005 and provisions on the use of certified electronic delivery and certified e-mail services".
- Law no. 115 of 16 July 2019 "Urgent interventions to protect the financial system's stability, guarantee of social security funds and second change to the state budget for the 2019 financial year".
- Errata corrige to Law no. 115 of 16 July 2019 "Urgent interventions to protect the financial system's stability, guarantee of social security funds and second change to the state budget for the 2019 financial year".
- CBSM Regulation no. 2019-02 "Regulation on the procedures for feeding and keeping debtors' personal data"
- Delegated Decree no. 118 of 2 August 2019 - Ratification of Delegated Decree no.69 of 29 April 2019 "Regulations of bureaucratic simplification for businesses".
- Law no. 123 of 5 August 2019 "Amendments to the regulations on trusts".
- Decree Law no. 124 of 5 August 2019 "Urgent measures to support bank depositors subject to resolution".
- Delegated Decree no.130 of 28 August 2019 "Amendments to Delegated Decree no.146 of 6 August 2010 and subsequent amendments - Intervention dossier for activities with greater fire risk".
- Decree Law no. 135 of 5 September 2019 "Extension of deadlines for the submission of the application for building permit in extraordinary amnesty and adjustment of the related terms".
- Delegated Decree no. 143 of 19 September 2019 "Issue of public debt securities - 2% fixed rate 29 November 2029".
- Law no. 148 of 23 September 2019 "Authentic interpretation of the provisions on the effects of the declaration of insolvency and authentic interpretation of Article 9 of Law no. 102 of 14 June 2019".
- Decree Law no. 149 of 25 September 2019 "Reiteration of Decrees Law no.111, 124 and 135 of 2019".
- Delegated Decree no. 151 of 27 September 2019 "Definition of the maximum spread and nominal interest rate to be applied until 30 September 2020 to loans backed by the government grant".
- Delegated Decree no. 152 of 27 September 2019 "Reiteration of Delegated Decree no.109 of 2019".

## Branches abroad

The Bank has no branches outside the San Marino territory.



## Introduction

Dear shareholders,

Before commenting on the 2019 accounts, it is important to recall how the past financial year was still particularly complex and difficult for the entire San Marino banking system.

The frequent distress significantly affected all the main economic indicators of the financial system which led to capital outflows from the Republic of San Marino.

Even Banca Agricola could not escape the outflow of capital, largely due to the media resonance of press reports that involved the work of some managerial figures of the bank. The Board of Directors carried out a renewal of the General Management figures in August 2019 with the waiver of the powers of the then General Manager and Deputy General Manager and the contextual appointment of a new General Manager (later resigned due to the hypothesis of incompatibility with the previous position) and concluded in October 2019 with the entry into the workforce of a new Deputy General Manager with vicarious functions. At the same time, the selection procedures for the position of the General Manager still in progress due to the health emergency that heavily involved the Republic in 2020 were started; the Bank is continuing to search for the best candidate, while the Vicarious functions assigned to the Deputy General Manager guarantee the institution the guidance of the executive structure and an adequate supervision of the corporate functions.

Management reform was followed by a strengthening of the Bank's internal control system, a review of the Organizational Structure and the definition of the Bank's new General Regulations, also in light of the interventions of the Supervisory Authority's inspection visit. In this updated context, the new Business Plan which is valid for a three-year period (2020-2022), was prepared and approved, based on customer-oriented development drivers, focused on managed deposits, insurance products, Web-Based services, customer assistance in introducing new products/services and improving the Bank's customer experience; the Plan revised the provisioning policies on Non-Performing Loans, with the completion of the AQR adjustments and the entry of severe value adjustments on non-performing loans in the 2019 financial statements in the light of the AQR financial year, whose outcomes and relative calculation methods were definitively established during the year. As requested by the Supervisory Authority, BAC took steps to consider the effects on Supervisory Capital as of 31 December 2019 of the full incorporation of the implicit risks from the AQR financial year, thus including the value adjustments still suspended pursuant to the legal provision (Article 40 of Law no. 173/2018) in this calculation which allowed their distribution to the Profit and Loss Account over a period of 10 years, as per the reasoned application approved by the Supervisory Authority (Prot. 20/5553 of 19/06/2020). This simulation showed a lack of capital for prudential supervision purposes, which will be made up for by issuing a Subordinated Bond Loan, which will constitute a component of the Bank's supplementary capital for the purposes of calculating regulatory capital, as approved by the Central Bank by letter Prot.20/5598 of 22 June 2020. Furthermore, purely accounting information is provided in the Explanatory Notes to which reference is made.

The Bank also submitted a specific request to the Supervisory Authority, pursuant to Article VII.II.12 of Regulation 2007 – 07 in order to take advantage of an exemption from the deduction, in full, the participation of BAC LIFE S.p.A (€ 6.5 million) which represents a solid participatory reality and unique in the panorama of San Marino Banking Groups and which, pursuant to Regulation 2008 - 01, is subject to the measurement of the fully respected solvency margin. If accepted, the shortage of capital for prudential supervision of the bank would be zero, exceeding the required regulatory solvency limit of 11%.

Finally, in support of the Republic's financial system, BAC actively participated in the resolution procedure, provided for by Law 102 /2019 – Banking crisis resolution tools to protect the stability of the financial system - of Banca Cis - Credito Industriale Sammarinese S.p.A. in A.S. Together with two other local banks and under the supervision of the Supervisory Authority, Bac was identified as transferee party of the Block Sale Agreement signed on 11 September 2019 between Banca

Nazionale Sammarinese (formerly Credito Industriale Sammarinese S.p.A. in A.S.), and BAC, BSM and BSI; the completion of this complex containment operation took place by means of two closings:

- the first closing with which they took charge of Protected Relationships (i.e. amounts due to customers represented by deposits not exceeding € 100,000), for a total of € 25,452,429, against the acquisition of 122 units of an NPL Fund called "Fondo Odisseo" for a total of € 12,209,728 was finalized on 16 September 2019;
- the second closing relating to the sale of employment relationships, finalized on 13 December 2019, limited to loans, leases and current accounts for € 10,434,773, and completed in the first months of 2020.

The subsidiary BAC Investments SG, established in 2018, 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 regulations (already authorized by the Central Bank of the Republic of San Marino). With the aim of expanding the range of asset management products offered to customers, the company launched the authorization process for the placement of two additional UCITS compliant funds in the first four months of 2020.

The BAC Group also includes:

- BAC Fiduciaria SpA, a wholly-owned and operating in the Trust sector, for which it was decided to transfer the mandates to BAC, in light of the rapid evolution of the reference market and the related regulations, assessed the progressive reduction in the interest shown by customers for the specific product - directly expressed by the significant reduction in the stocks managed in recent years - and the increase in interest shown towards the Trust institution, and the maintenance by BAC Fiduciaria of the sole activity of Trustee Finanziario Professionale, a solution that will optimize the Trust activity, benefiting on the one hand from savings in operating costs and accounting and information requirements, on the other hand preserving the quality of services offered and ensuring the best assistance to customers, with separation of the activity of Trustee Professionale from the other activities carried out by the BAC Parent Company.
- San Marino's main Insurance Company BAC Life Spa, whose entire share capital was acquired in 2012 and for which BAC has also acted as an intermediary since 2009, the year the Company was founded.
- BAC Real Estate srl (formerly IBS Immobiliare srl), established in 2011 by IBS Spa for the management of assets, especially real estate ones.ri.

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<sup>(4)</sup> 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	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>Interest margin</b>	<b>10.857.511</b>	<b>12.338.018</b>	<b>-1.480.507</b>	<b>-12,00%</b>
Net commission	4.651.185	3.708.599	942.586	25,42%
Profits and losses on financial transactions	1.265.379	79.889	1.185.490	1.483,92%
Other revenues	1.218.377	1.926.611	-708.235	-36,76%
<b>Revenues from intermediation</b>	<b>7.134.941</b>	<b>5.715.100</b>	<b>1.419.841</b>	<b>24,84%</b>
<b>Intermediation margin</b>	<b>17.992.452</b>	<b>18.053.118</b>	<b>-60.666</b>	<b>-0,34%</b>
Personnel expenses	-8.494.845	-8.878.670	383.824	-4,32%
Administrative expenses	-4.862.907	-5.431.760	568.853	-10,47%
Tangible and intangible asset adjustments	-1.404.561	-1.714.315	309.753	-18,07%
<b>Operating costs</b>	<b>-14.762.313</b>	<b>-16.024.744</b>	<b>1.262.431</b>	<b>-7,88%</b>
<b>Operating result</b>	<b>3.230.139</b>	<b>2.028.373</b>	<b>1.201.765</b>	<b>59,25%</b>
Provisions and net adjustments on credits and financial assets	-5.169.530	-5.910.186	740.656	-12,53%
Write-backs on loans and fixed financial assets	-	-	-	-
Margin on investment securities / Tax on income	282.711	481.745	-199.034	-41,32%
Tax on income	-	320.972	320.972	-100,00%
<b>Result for the year</b>	<b>-1.656.680</b>	<b>-3.721.039</b>	<b>2.064.359</b>	<b>55,48%</b>

It should be noted that brokerage income, which, on the basis of the reporting formats required by the Supervisory Authority, see Reg. CBSM 2016/02, include principal and interest on leasing instalments paid by customers, are shown net of the relative component to the amortization of these leases, recorded under value adjustments on tangible fixed assets.

## Balance sheet data

DATI PATRIMONIALI	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>Total assets</b>	<b>857.148.933</b>	<b>929.209.077</b>	<b>-72.060.144</b>	<b>-7,75%</b>
Loans to customers	428.124.150	502.895.394	-74.771.244	-14,87%
• of which impaired loans	91.719.352	120.447.654	-28.728.302	-23,85%
Financial assets	65.758.910	54.377.741	11.381.169	20,93%
<b>Amounts due to customers and outstanding securities</b>	<b>653.118.124</b>	<b>716.570.778</b>	<b>-63.452.654</b>	<b>-8,86%</b>
• of which amounts due	417.893.549	434.007.160	-16.113.611	-3,71%
• of which outstanding securities	235.224.575	282.563.618	-47.339.043	-16,75%
<b>Interbank net position (including securities)</b>	<b>105.886.173</b>	<b>138.209.544</b>	<b>-32.323.371</b>	<b>-23,39%</b>
<b>Net equity (including net result)</b>	<b>84.932.870</b>	<b>86.585.733</b>	<b>-1.652.864</b>	<b>-1,91%</b>

## Financial assets of customers

	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>A) Direct deposits</b>	<b>658.177.703,85</b>	<b>725.186.274,54</b>	<b>-67.008.570,69</b>	<b>-9,24%</b>	<b>100%</b>	<b>100%</b>
Savings deposits	3.122.094	3.605.783	-483.689	-13,41%	0,47%	0,47%
Customers' euro and foreign currency accounts	398.985.858	402.488.328	-3.502.470	-0,87%	60,62%	55,50%
Repurchasing agreements	15.785.597	24.087.145	-8.301.548	-34,46%	2,40%	3,32%
Other funds	-	3.825.903	-3.825.903	-100,00%	0,00%	0,53%
Certificates of deposit	235.224.575	282.563.618	-47.339.043	-16,75%	35,74%	38,96%
Internal cheques	1.054.415	604.644	449.771	74,39%	0,16%	0,08%
Subordinate liabilities	4.005.165	8.010.853	-4.005.688	-50,00%	0,61%	1,10%
<b>B) Managed deposits (market value)</b>	<b>12.509.484</b>	<b>26.303.424</b>	<b>-13.793.940</b>	<b>-52,44%</b>		
of which cash	4.781.471	14.347.349	-9.565.878	-66,67%		
of which Subordinate Loans	240.000	480.000	-240.000	-50,00%		
<b>C) Administered deposits (market value)</b>	<b>523.913.192</b>	<b>515.332.859</b>	<b>8.580.333</b>	<b>1,67%</b>		
of which BAC Investments SG Funds	105.109.356	45.387.830	59.721.525	131,58%		
of which Subordinate Loans	3.760.000,00	7.520.000,00	-3.760.000,00	-50,00%		
<b>D) Depository bank activity</b>	<b>105.160.130</b>	<b>45.495.135</b>	<b>59.664.995</b>	<b>131,15%</b>		
of which cash	8.147.742	950.104	7.197.638	757,56%		
of which Subordinate Loans	-	-	-	-		
<b>Total Deposits</b>	<b>1.282.831.297</b>	<b>1.289.020.240</b>	<b>-6.188.943</b>	<b>-0,48%</b>		

**MAIN INDICATORS**

	31/12/2019	31/12/2018
<b>Structure data</b>		
Number of employees e.o.p.	121	123
Number of branches	10	10
<b>Credit risk ratios</b>		
Net non-performing loans/Net loans to customers	11,26%	13,00%
Net doubtful loans/Net loans to customers	21,40%	23,95%
Coverage on total loans	13,63%	10,91%
<b>Supervisory capital and ratios</b>		
Supervisory capital	32.415.394	76.806.605
Weighted risk assets	368.027.834	449.336.899
Supervisory capital/weighted assets (total capital ratio)	8,81%	17,09%
<b>Total assets</b>	<b>857.148.933</b>	<b>929.209.077</b>

**PROFITABILITY INDICATORS**

	31/12/2019	31/12/2018
Financial margin / Intermediation margin	60,34%	68,34%
Service margin / Intermediation margin	39,66%	31,66%
Cost / Income ratio	82,05%	88,76%
Operating result / Intermediation margin	17,95%	11,24%
Leverage (medium assets / medium equity)	10,09	10,73
ROA e.o.p.	-0,19%	-0,40%
ROE e.o.p.	-1,95%	-4,30%

## Reclassified financial statement schemes

RECLASSIFIED ASSETS	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
Cash and cash equivalents	7.413.660	6.765.689	647.971	9,58%	0,86%	0,73%
Loans to banks	107.140.384	139.463.756	-32.323.371	-23,18%	12,50%	15,01%
Loans to customers	428.124.150	502.895.394	-74.771.244	-14,87%	49,95%	54,12%
Financial assets	65.758.910	54.377.741	11.381.169	20,93%	7,67%	5,85%
Shareholdings	12.805.281	12.564.779	240.501	1,91%	1,49%	1,35%
Tangible fixed assets	95.308.530	93.093.216	2.215.314	2,38%	11,12%	10,02%
Intangible fixed assets	1.513.963	1.237.337	276.626	22,36%	0,18%	0,13%
Other assets	139.084.055	118.811.166	20.272.889	17,06%	16,23%	12,79%
<b>Total assets</b>	<b>857.148.933</b>	<b>929.209.077</b>	<b>-72.060.144</b>	<b>-7,75</b>	<b>100,00%</b>	<b>100,00%</b>

RECLASSIFIED LIABILITIES	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
Amounts due to banks	1.254.211	1.137.069	117.142	10,30%	0,15%	0,12%
Amounts due to customers	417.893.549	434.007.160	-16.113.611	-3,71%	48,75%	46,71%
Payables represented by securities	235.224.575	282.563.618	-47.339.043	-16,75%	27,44%	30,41%
Payables represented by securities	1.609.302	1.857.990	-248.688	-13,38%	0,19%	0,20%
Non-adjusting provision for risks on credits	17.857.990	-	17.857.990	100,00%	2,08%	0,00%
Other liabilities	94.371.271	115.046.654	-20.675.382	-17,97%	11,01%	12,38%
Subordinate liabilities	4.005.165	8.010.853	-4.005.688	-50,00%	0,47%	0,86%
Net equity	84.932.870	86.585.733	-1.652.864	-1,91%	9,91%	9,32%
- Capital and reserves	90.310.588	94.107.416	-3.796.828	-4,03%	10,54%	10,13%
- Retained losses	-3.721.039	-3.800.644	79.605	2,09%	-0,43%	-0,41%
- Result for the year	-1.656.680	-3.721.039	2.064.359	55,48%	-0,19%	-0,40%
<b>Total liabilities</b>	<b>857.148.932</b>	<b>929.209.077</b>	<b>-72.060.145</b>	<b>-7,75</b>	<b>100,00%</b>	<b>100,00%</b>

RECLASSIFIED PROFIT AND LOSS ACCOUNT	31/12/2019	% Intermed. margin	31/12/2018 pro forma	% Intermed. margin	CHANGE	
					ABSOLUTE	%
<b>Interest income and similar charges</b>	<b>14.546.131</b>	<b>80,85%</b>	<b>16.384.609</b>	<b>90,76%</b>	<b>-1.838.478</b>	<b>-11,22%</b>
<i>of which:</i>						
a) interest income to customers	13.754.016	76,44%	15.674.469	86,82%	-1.920.453	-12,25%
b) interest income to banks	100.272	0,56%	161.433	0,89%	-61.160	-37,89%
c) interest income on debt securities	691.843	3,85%	548.708	3,04%	143.136	26,09%
<b>Interest expense and similar charges</b>	<b>-3.688.620</b>	<b>-20,50%</b>	<b>-4.392.413</b>	<b>-24,33%</b>	<b>703.793</b>	<b>-16,02%</b>
<i>of which:</i>						
a) interest expense to customers	-927.136	-5,15%	-1.057.549	-5,86%	130.413	-12,33%
b) interest expense on payables represented by securities	-2.761.196	-15,35%	-3.334.018	-18,47%	572.822	-17,18%
c) interest expense to banks	-287	-0,00%	-845	-0,00%	558	-66,02%
<b>Interest margin</b>	<b>10.857.511</b>	<b>60,34%</b>	<b>11.992.196</b>	<b>66,43%</b>	<b>-1.134.685</b>	<b>-9,46%</b>
Dividends and other revenues	-	0,00%	345.822	1,92%	-345.822	-100,00%
<b>Financial margin</b>	<b>10.857.511</b>	<b>60,34%</b>	<b>12.338.018</b>	<b>68,34%</b>	<b>-1.480.507</b>	<b>-12,00%</b>
Net commission	4.651.185	25,85%	3.708.599	20,54%	942.586	25,42%
<i>of which:</i>						
a) commission income	5.897.253	32,78%	4.506.328	24,96%	1.390.925	30,87%
b) commission expense	-1.246.068	-6,93%	-797.729	-4,42%	-448.339	56,20%
Profit and losses on financial transactions	1.265.379	7,03%	79.889	0,44%	1.185.490	1483,92%
<i>of which:</i>						
a) on securities	918.428	5,10%	-214.756	-1,19%	1.133.184	527,66%
b) on exchanges	346.951	1,93%	294.645	1,63%	52.306	17,75%
c) on other operations	-	0,00%	-	0,00%	-	0,00%
Other revenues netti *	1.218.377	6,77%	1.926.611	10,67%	-708.235	-36,76%
<b>Service margin</b>	<b>7.134.941</b>	<b>39,66%</b>	<b>5.715.100</b>	<b>31,66%</b>	<b>1.419.841</b>	<b>24,84%</b>
<b>Intermediation margin</b>	<b>17.992.452</b>	<b>100,00%</b>	<b>18.053.118</b>	<b>100,00%</b>	<b>-60.666</b>	<b>-0,34%</b>
<b>Operating costs</b>	<b>-14.762.313</b>	<b>-82,05%</b>	<b>-16.024.744</b>	<b>-88,76%</b>	<b>1.262.431</b>	<b>-7,88%</b>
<i>of which:</i>						
a) personnel expenses	-8.494.845	-47,21%	-8.878.670	-49,18%	383.824	-4,32%
b) other administrative expenses	-4.862.907	-27,03%	-5.431.760	-30,09%	568.853	-10,47%
c) tangible and Intangible fixed assets adjustments*	-1.404.561	-7,81%	-1.714.315	-9,50%	309.753	-18,07%
<b>Operating result</b>	<b>3.230.139</b>	<b>17,95%</b>	<b>2.028.373</b>	<b>11,24%</b>	<b>1.201.765</b>	<b>59,25%</b>
Provisions and net adjustments on credits	-4.901.789	-27,24%	-5.083.858	-28,16%	182.070	-3,58%
Provisions for risks and charges	-256.000	-1,42%	-533.099	-2,95%	277.099	-51,98%
Financial fixed asset adjustments	-11.741	-0,07%	-293.229	-1,62%	281.488	-96,00%
<b>Income from ordinary activities</b>	<b>-1.939.391</b>	<b>-10,78%</b>	<b>-3.881.812</b>	<b>-21,50%</b>	<b>1.942.421</b>	<b>50,04%</b>
Extraordinary profit (loss)	282.711	1,57%	481.745	2,67%	-199.034	-41,32%
Variation of the General banking risk fund (+/-)	-	0,00%	-	0,00%	-	0,00%
Tax on income	-	0,00%	-320.972	-1,78%	320.972	100,00%
<b>Result for the year</b>	<b>-1.656.680</b>	<b>-9,21%</b>	<b>-3.721.039</b>	<b>-20,61%</b>	<b>2.064.359</b>	<b>55,48%</b>

\* net of the share capital accrued during the year, relating to the lease payments for the assets covered by the financial leasing agreements.

<b>RECLASSIFIED PROFIT AND LOSS ACCOUNT</b>	<b>31/12/2019</b>	<b>31/12/2018 pro forma</b>
Tax rate	0,00%	-9,44%
Cost / Income	82,05%	88,76%
Interest margin / Intermediation margin	60,34%	66,43%
Service margin / Intermediation margin	39,66%	31,66%
Operating result / Intermediation margin	17,95%	11,24%
Roe	-1,95	-4,30%
PERSONNEL EXPENSES / INTERMEDIATE MARGIN	47,21%	49,18%
ADMINISTRATIVE EXPENSES (total) / INTERMEDIATE MARGIN	74,24%	79,27%
ADMINISTRATIVE EXPENSES (other expenses) / INTERMEDIATE MARGIN	27,03%	30,09%
Roa	-0,19%	-0,40%

## Financial year results and performance for the period

### Profit and loss account

#### Operating result structure

(The figures refer to the reclassified profit and loss account).

The Profit and Loss Account for 2019 closed with an operating result of - € 1.657 million, an increase of € 2.064 million compared to the previous year (- € 3.721 million as of 31 December 2018).

This negative result was affected by the significant *net value adjustments on loans* (€ 4.902 million), slightly down by € 0.182 million (-3.6%) compared to the previous year.

The consolidated results of the Banking Group, of which Bac is the parent company, confirm the Bank's performance, achieving an *intermediation margin* of € 20.494 million (up by +6.16% compared to 2018) at a consolidated level in 2019, an operating result of € 4.337 million, up by € 1.811 million compared to 2018 and a final result of - € 0.523 million, a significant increase compared to the previous year (- € 3.679 million).

Please refer to the following paragraphs for the analysis of the margins, i.e. the progressive results that contributed to the calculation of the final result for the year.

#### Financial margin

The financial margin stood at € 10.857 million compared to € 12.338 million in 2018 (- € 1.480 million).

The decrease in the margin is primarily affected by the different method of accounting for dividends from the Group's operating companies which, from 2019, takes place in the year in which the distribution to shareholders is approved by the competent corporate bodies (cash principle) and no longer with reference to the year in which they were formed (accruals principle); therefore, the negative change is partly due to the valuation alignment of the BAC financial statements with international and national accounting standards on this item (OIC 21). In 2018 the dividend contribution stood at € 0.345 million.

Secondly, the financial margin was affected by the net interest rate drop recorded for - € 1.135 million, to be read taking into account: the dynamics of financial market rates which, as mentioned in the introduction, sees the Euribor continue its descent downwards, the decrease of gross loans with a stock down by € 52.902 million, as a result of a prudent selection of loans to customers; the drop in interest margin decreases the interest expense thanks to the constant policy of reducing the average cost of funding.

FINANCIAL MARGIN	31/12/2019	31/12/2018	CHANGE		% INCIDENCE ON INTEREST MARGIN	
			ABSOLUTE	%	31/12/2019	31/12/2018
Interest income on loans to customers	13.754.016	15.674.469	-1.920.453	-12,25%	126,68%	127,04%
Interest expense on amounts due to customers	-686.880	-834.003	147.122	-17,64%	-6,33%	-6,76%
Interest expense on payables represented by securities (CD bonds)	-2.761.196	-3.334.018	572.822	-17,18%	-25,43%	-27,02%
<b>ORDINARY CUSTOMER MARGIN</b>	<b>10.305.939</b>	<b>11.506.448</b>	<b>-1.200.509</b>	<b>-10,43%</b>	<b>94,92%</b>	<b>93,26%</b>
Interest income on debt securities	691.843	548.708	143.136	26,09%	6,37%	4,45%
Interest expense on payables represented by securities (repurchasing agreements)	-240.256	-223.547	-16.709	7,47%	-2,21%	-1,81%
<b>FINANCIAL INVESTMENT MARGIN</b>	<b>451.587</b>	<b>325.161</b>	<b>126.427</b>	<b>38,88%</b>	<b>4,16%</b>	<b>2,64%</b>
<b>BANKING MANAGEMENT MARGIN</b>	<b>10.757.526</b>	<b>11.831.609</b>	<b>-1.074.082</b>	<b>-9,08%</b>	<b>99,08%</b>	<b>95,90%</b>
Interest income on credit institutions	100.272	161.433	-61.160	-37,89%	0,92%	1,31%
Interest expense on credit institutions	-287	-845	558	-66,02%	-0,00%	-0,01%
<b>INTERBANK MARGIN</b>	<b>99.985</b>	<b>160.587</b>	<b>-60.602</b>	<b>-37,74%</b>	<b>0,92%</b>	<b>1,30%</b>
Dividends and other revenues	-	345.822	-345.822	-100%	0,00%	2,80%
<b>FINANCIAL MARGIN</b>	<b>10.857.511</b>	<b>12.338.018</b>	<b>-1.480.507</b>	<b>-12,00%</b>	<b>100,00%</b>	<b>100,00%</b>

### Intermediation margin

At the end of December 2019, the *intermediation margin* stood at € 17.992 million, down slightly by € 0.060 million (-0.34%) compared to the previous year. The analysis of the tables below shows that the increase in intermediation proceeds mitigated the negative performance on the interest margin. The shrewd composition policy of the investment portfolio benefited from market increases, with profits from sales and valuation transactions for € 0.901 million net, plus income from currency trading for € 0.347 million. These positive performances contributed to a reduction of the weight of the interest margin on the formation of the intermediation margin from 66.43% to 60.34%, resulting in a speculative growth in intermediation proceeds to 39.66% of this item.

This trend, 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 2019. On the other hand, the Eurozone economy was showing signs of a decline supported by ECB monetary line, aimed at supporting companies with low interest rate policies and with the unconventional measures taken for the first time since 2015.

The commission margin as of December 2019 stood at € 7.134 million, a significant increase compared to the final balance of 2018 (+24.84%) remains good despite the decrease in funding and lending volumes.

PROFIT & LOSS	31/12/2019	31/12/2018	CHANGE		% INCIDENCE ON INTEREST MARGIN	
			ABSOLUTE	%	31/12/2019	31/12/2018
Interest margin	10.857.511	11.992.196	-1.134.685	-9,46%	60,34%	66,43%
Dividends and other revenues	-	345.822	-345.822	-100%	0,00%	1,92%
Revenues from intermediation e diversi	7.134.941	5.715.100	1.419.841	24,84%	39,66%	31,66%
<b>Intermediation margin</b>	<b>17.992.452</b>	<b>18.053.118</b>	<b>-60.666</b>	<b>-0,34%</b>	<b>100,00%</b>	<b>100,00%</b>



INTERMEDIATION REVENUES AND OTHER	31/12/2019	31/12/2018	CHANGE		% INCIDENCE ON INTEREST MARGIN	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>Net commission</b>	<b>4.651.185</b>	<b>3.708.599</b>	<b>942.586</b>	<b>25,42%</b>	<b>65,19%</b>	<b>64,89%</b>
<b>Commission income</b>	<b>5.897.253</b>	<b>4.506.328</b>	<b>1.390.925</b>	<b>30,87%</b>	<b>82,65%</b>	<b>78,85%</b>
• guarantees given	93.698	91.121	2.578	2,83%	1,31%	1,59%
• investment services	471.436	709.303	-237.867	-33,54%	6,61%	12,41%
<i>of which reception and transmission of orders</i>	442.439	532.449	-90.010	-16,90%	6,20%	9,32%
<i>of which portfolio management of financial instruments</i>	28.998	176.854	-147.857	-83,60%	0,41%	3,09%
• distribution of services and products of third parties other than placement	1.006.872	1.063.913	-57.042	-5,36%	14,11%	18,62%
<i>of which insurance products</i>	185.718	256.886	-71.168	-27,70%	2,60%	4,49%
<i>of which other services or products</i>	821.154	807.027	14.126	1,75%	11,51%	14,12%
• cash-in and payment services	1.810.945	1.229.555	581.390	47,28%	25,38%	21,51%
• depository bank services	86.132	16.884	69.248	410,14%	1,21%	0,30%
• storage and administration of financial instruments	328.946	325.906	3.040	0,93%	4,61%	5,70%
• currency trading	327.293	301.865	25.428	8,42%	4,59%	5,28%
• trust services	-	20.794	-20.794	-100,00%	0,00%	0,36%
• other services	1.771.932	746.987	1.024.944	137,21%	24,83%	13,07%
<i>of which current accounts</i>	1.187.258	324.386	862.872	266,00%	16,64%	5,68%
<i>of which cash-ins and payments</i>	44.042	39.087	4.955	12,68%	0,62%	0,68%
<i>of which fees</i>	115.09	133.806	-18.716	-13,99%	1,61%	2,34%
<i>of which loans granted</i>	301.489	159.708	141.781	88,77%	4,23%	2,79%
<b>Commission expense</b>	<b>-1.246.068</b>	<b>-797.729</b>	<b>-448.339</b>	<b>56,20%</b>	<b>-17,46%</b>	<b>-13,96%</b>
• cash-in and payment services	-869.394	-367.454	-501.940	136,60%	-12,19%	-6,43%
• management services, intermediation, cons.	-302.743	-352.826	50.083	-14,19%	-4,24%	-6,17%
• currency trading	-45.142	-48.804	3.662	-7,50%	-0,63%	-0,85%
• other services	-28.789	-28.645	-144	0,50%	-0,40%	-0,50%
<b>Profits and losses on financial transactions</b>	<b>1.265.379</b>	<b>79.889</b>	<b>1.185.490</b>	<b>-1483,92%</b>	<b>17,73%</b>	<b>1,40%</b>
On securities:	918.428	-214.756	1.133.184	527,66%	12,87%	-3,76%
• security trading	1.033.365	155.446	877.919	-564,77%	14,48%	2,72%
• security valuation	-114.937	-370.202	255.265	-68,95%	-1,61%	-6,48%
• currency trading	346.951	294.645	52.306	17,75%	4,86%	5,16%
• on other operations	-	-	-	-	0,00%	0,00%
<b>Operating income and charges</b>	<b>1.218.377</b>	<b>1.926.611</b>	<b>-708.235</b>	<b>-36,76%</b>	<b>17,08%</b>	<b>33,71%</b>
• other revenues	1.064.104	1.695.639	-631.536	-37,24%	14,91%	29,67%
• expense recovery	154.273	230.972	-76.699	-33,21%	2,16%	4,04%
• foreign expense recoveries	121.298	121.298	-	0,00%	1,70%	2,12%
<b>SERVICE MARGIN</b>	<b>7.134.941</b>	<b>5.715.100</b>	<b>1.419.841</b>	<b>24,84%</b>	<b>100,00%</b>	<b>100,00%</b>

## Operating result

The operating result improved significantly compared to 2018, remaining positive at € 3.230 million (+59.25%), after having incurred structural operating costs of € 14.762 million.

PROFIT & LOSS	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>Intermediation margin</b>	<b>17.992.452</b>	<b>18.053.118</b>	<b>-60.666</b>	<b>-0,34%</b>
Administrative expenses	-13.357.752	-14.310.430	952.678	-6,66%
• Personnel expenses	-8.494.845	-8.878.670	383.824	-4,32%
• Spese generali	-4.822.103	-5.129.653	307.550	-6,00%
• Indirect taxes and duties	-40.804	-302.108	261.304	-86,49%
<b>Rettifiche di valore su immob. materiali ed immateriali</b>	<b>-1.404.561</b>	<b>-1.714.315</b>	<b>309.753</b>	<b>-18,07%</b>
<b>Totale costi operativi</b>	<b>-14.762.313</b>	<b>-16.024.744</b>	<b>1.262.431</b>	<b>-7,88%</b>
<b>Operating result</b>	<b>3.230.139</b>	<b>2.028.373</b>	<b>1.201.765</b>	<b>59,25%</b>

## Operating costs

At the end of December 2019, total operating costs stood at to € 14.762 million, recording a sharp decrease of approximately € 1.262 million (-7.88%) compared to the same period of the previous year.

Personnel expenses, amounting to € 8.494 million, show a decrease of approximately € 0.383 million (-4.32%) compared to the same period of 2018. The decrease is mainly due to the evolution of the workforce, which continues its reorganization, reaching 121 resources at the end of 2019, showing a decrease of -2 resources compared to the previous year, in addition to -8 resources in 2018, due to interruptions in employment.

Other administrative expenses recorded a value of € 4.862 million, down by € 0.568 million (-10.47%) compared to the previous year. This decrease is due to the policy of reducing structural costs and rationalizing the organizational structure. In general, all categories of administrative expenses benefited from reductions, in particular the most significant decrease items are due to: Supervisory expenses (- € 0.301 million), as in 2018 non-repeatable cost components were allocated, such as the costs of the Central Risks Department for € 0.213 million and additional expenses for the AQR financial year; consultancy (- € 0.138 million) and, finally, indirect taxes (- € 0.271 million), as 2018 was affected by the extraordinary equity tax on shareholders' equity, established by Delegated Decree no. 17 of 25 June 2018.

Value adjustments on tangible and intangible fixed assets, calculated on the basis of the residual possibility of use and coinciding with the tax amortization coefficients imposed by the tax reform pursuant to Law 166/2013, amount to € 1.404 million, down by € 0.309 million (-18.07%) compared to the corresponding item in 2018.

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

At the end of December 2019, net adjustments on loans and provisions for guarantees and commitments amounted to € 4.902 million, broken down as follows: € 5.924 million for provisions and value adjustments on loans and € 1.022 million for write-backs, down by -3.58% compared to the previous year. Specifically, in 2019 the definition of the Adjustments from the Asset Quality Review (AQR) started in 2016 and updated in subsequent periods was concluded with the Supervisory Authority; consequently, in addition to the amount already recorded in 2018, amounting to € 4.598 million and relating to the loan due from Plusvalore (whose underlying customer loan portfolio was included in the sale of the Delta Loans package, authorized by the Creditors Adhering to the Restructuring Agreement, including BAC with a share of 2, 543%), further analytical adjustments on loans amounting to € 24.281 million were recorded in 2019 with the residual amount of € 17.83 million posted to item 80 of the Liability "Provision for credit risks", as of today, no impaired credit positions worthy of further write-downs have been identified. The Bank availed itself of the right to

charge to the profit and loss account the results of the audit of assets from the AQR financial year over a period of ten years pursuant to the provisions of Article 40 of Law 173/2018, supplemented by express authorisation from the Supervisory Authority.

It should also be noted that there is also a provision of € 0.633 million for risks and charges, set up in previous years to deal with potential risks from lawsuits and proceedings in progress and this provision was increased during the year for a further € 0.256 million.

For a detailed analysis on the dynamics of the so-called "Credit Quality", please refer to the appropriate paragraph of this Report.

On the other hand, no write-downs were recorded on the subsidiaries in 2019: Group companies, i.e. the Supervised Entities BAC SG Spa, BAC Life Spa and BAC Fiduciaria Spa, approved the 2019 Financial Statements in profit and the consequent dividend distribution policies, as explained above, will determine their own effects, in cash, in 2020.

### **Results of ordinary activities**

The *result of ordinary activities* is negative by € 1.939 million but a significant increase by € 1.942 million (+50.04%) compared to 2018, which is substantially affected by the important provisions made as adjustments on loans.

### **Extraordinary revenues and charges**

The Bank recorded *extraordinary revenues* amounting to € 0.522 million and *extraordinary charges* for - € 0.240 million.

It should be noted that extraordinary revenues include € 0.140 million from collections on impaired or past-due credit positions that were passed into losses and settled in previous years, € 0.250 million for capital gains on the sale of a real estate property owned by the company (former Città Centro Storico abandoned branch).

Extraordinary charges include € 0.182 million for civil lawsuits in which the bank was unsuccessful, as well as € 0.023 million for extinction of customer relations and the closure of debt items that are no longer collectible.

### **Income tax**

The tax rate is 0% and is an expression of the counting of payable taxes in compliance with tax standards. From the 2019 fiscal year, the standards relating to provisions exceeding 5% of total Loans to customers were revised by Law no. 154 of 03 October 2019, with which Article 11, the dichotomy was finally removed between statutory and fiscal financial statements which, based on the previous Law 166/2013, imposed taxation of the provision for credit risks on more than 5% of loans to customers, in contrast to the supervisory regulations which impose specific write-downs on impaired and lump-sum loans on performing loans to deal with the risk of unexpected losses.

BAC also boasts a tax credit of approximately € 1.399 million, pursuant to Decree Law 174/2011 relating to the buyout of legal relations from a bank placed in compulsory administrative liquidation, as well as an additional tax credit, which arose in 2019 following the acquisition of Fondo Odisseo shares for € 1.412 million, as the transferee of legal relations en-bloc by BNS S.p.A. (formerly Banca Cis - Credito Industriale Sammarinese S.p.A.) subject to bank crisis resolution proceedings pursuant to Law no. 102 of 14 June 2019.

## 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 2019 data.

PROFIT AND LOSS ACCOUNT	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>Operating result</b>	<b>3.230.139</b>	<b>2.028.373</b>	<b>1.201.765</b>	<b>59,25%</b>
<b>Provisions and value adjustments</b>	<b>-5.169.530</b>	<b>-5.910.186</b>	<b>740.656</b>	<b>-12,53%</b>
• Provisions and value adjustments on credits	-5.924.307	-8.024.805	2.100.498	-26,18%
• Write-backs on loans and provisions	1.022.518	2.940.947	-1.918.428	-65,23%
• Provisions for risks and charges	-256.000	-533.099	277.099	-51,98%
• Financial fixed asset adjustments	-11.741	-293.229	281.488	-96,00%
Financial fixed asset adjustments	-	-	-	-
<b>INCOME FROM ORDINARY ACTIVITIES</b>	<b>-1.939.391</b>	<b>-3.881.812</b>	<b>1.942.421</b>	<b>50,04%</b>
Margin on investment securities	-	-	-	0,00%
Extraordinary revenues	522.846	627.556	-104.710	-16,69%
Extraordinary charges	-240.135	-145.811	-94.324	64,69%
Extraordinary revenue and charge balance and margin on investment securities	282.711	481.745	-199.034	-41,32%
Profit before tax	-1.656.680	-3.400.067	1.743.387	51,28%
Tax on income	-	-320.972	320.972	-100,00%
<b>Net result</b>	<b>-1.656.680</b>	<b>-3.721.039</b>	<b>2.064.359</b>	<b>55,48%</b>

The 2019 financial year ended with a net loss of € 1.656 million, compared with a negative result of € 3.721 million recorded at the end of December 2018.

## Statement of Assets and Liabilities

### Loans to customers

Net loans to customers as of 31 December 2019 amounted to € 428.541 million, decreasing by € 74.354 million compared to the previous year.

#### Loans to customers

DESCRIPTION	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
Current accounts in credit	39.183.981	50.503.971	-11.319.990	-22,41%	7,9%	9,2%
Discounted and s.t.c. portfolio	53.330.813	61.327.847	-7.997.034	-13,04%	10,7%	11,2%
Repurchasing agreements and repos	-	-	-	-	0,00%	0,00%
Leasing	75.449.113	91.006.085	-15.556.972	-17,09%	15,2%	16,6%
Loans	135.152.217	141.256.498	-6.104.281	-4,32%	27,2%	25,7%
Personal loans	8.752.026	10.291.730	-1.539.704	-14,96%	1,8%	1,9%
Foreign currency loans	21.615.245	21.755.615	-140.370	-0,65%	4,4%	4,0%
Factoring	-	-	-	-	0,00%	0,00%
Loans subject to transfer of 1/5 of the salary or pension	-	-	-	-	0,00%	0,00%
Other	68.004.932	78.089.092	-10.084.160	-12,91%	13,7%	14,2%
<b>Non-performing loans (gross values)</b>	<b>94.701.974</b>	<b>94.861.822</b>	<b>-159.848</b>	<b>-0,17%</b>	<b>19,1%</b>	<b>17,3%</b>
<b>TOTAL (gross values)</b>	<b>496.190.301</b>	<b>549.092.660</b>	<b>-52.902.359</b>	<b>-9,63%</b>	<b>100,0%</b>	<b>100,0%</b>
Current accounts in credit	35.549.466	43.504.322	-7.954.856	-18,29%	8,3%	8,7%
Discounted and s.t.c. portfolio	52.998.579	61.187.547	-8.188.968	-13,38%	12,4%	12,2%
Repurchasing agreements and repos	-	-	-	-	0,00%	0,00%
Leasing	72.325.118	87.895.696	-15.570.578	-17,71%	16,9%	17,5%
Loans	132.749.827	139.966.589	-7.216.762	-5,16%	31,0%	27,8%
Personal loans	8.638.034	10.208.264	-1.570.230	-15,38%	2,0%	2,0%
Foreign currency loans	21.509.015	21.687.069	-178.054	-0,82%	5,0%	4,3%
Factoring	-	-	-	-	0,00%	0,00%
Loans subject to transfer of 1/5 of the salary or pension	-	-	-	-	0,00%	0,00%
Other	56.515.042	73.086.441	-16.571.399	-22,67%	13,2%	14,5%
<b>Outstanding loans (gross values)</b>	<b>380.285.081</b>	<b>437.535.928</b>	<b>-57.250.847</b>	<b>-13,08%</b>	<b>88,7%</b>	<b>87,0%</b>
<b>Non-performing loans (gross values)</b>	<b>48.256.258</b>	<b>65.359.466</b>	<b>-17.103.208</b>	<b>-26,17%</b>	<b>11,3%</b>	<b>13,0%</b>
<b>TOTAL (gross values)</b>	<b>428.541.339</b>	<b>502.895.394</b>	<b>-74.354.055</b>	<b>-14,79%</b>	<b>100,00%</b>	<b>100,00%</b>

At the end of 2019, **gross impaired loans** amounted to € 155.792 million, decreasing by € 8.619 million (-5.24%) compared to the previous year.

In 2019, BAC continued making substantial provisions and value adjustments on "Non-Performing Loans", as already described in the paragraph dedicated to Operating Costs.

These additional provisions from the valuations of the estimated realisable value on the loan portfolio, also in light of the implementation of indications relating to the AQR financial year, increased the total value adjustments by € 21.451 million compared to 2018.

## 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.

With the worsening of the crisis which affected the San Marino economic system and consequently the deterioration of the debtors' ability to repay their exposures, the Supervisory Authority launched the process of Review and Mapping of the Quality of Assets of the Banking System as early as 2016 (AQR financial year). The Bank, following various comparisons and in-depth analysis with the Central Bank on the quality of its Loan portfolio, the Bank integrated the AQR adjustments in 2019, increasing the already existing write-downs on the Impaired portfolio and the performing portfolio by a further € 24.281 million. These write-downs (cumulative total of € 28.879 million) were taken to the Profit and Loss Account through accruals allowed by Article 40 of Law 173/2018, over a period of 10 years starting from 2019. In addition, to complete the adjustments from the remaining AQR financial year, item 80 of Liabilities "Provision for Credit Risks" for € 17.857 million (also accrued from 2019 to the Profit and Loss Account in 10 years) was replenished, therefore not proceeding with the adjustment of individual impaired positions, as they cannot be identified to this day. The supporting collateral guarantees and the significant collections determined by the acquisition of real estate as collateral credit positions, suggest that the further aforementioned write-downs are based on particularly prudent criteria.

In 2020, BAC will continue to constantly monitor credit positions in order to make the necessary value adjustments which will at the same time constitute uses of the fund referred to under item 80 of the liabilities.

The adoption of Centrale Rischi (hereinafter referred to as "CR") launched in 2017 and its consolidation in the last two financial years, contributed significantly to a more coordinated classification of risk positions in the San Marino banking system. The effective management of impaired positions was deemed crucial for the achievement of the overall profitability objectives. The attention dedicated to non-performing loans thus generated very substantial collections of € 7.365 million on non-performing and substandard loans in 2019 alone.

In this context, the impact of non-performing loans (at gross values) is equal to 19.09% of total loans to customers, (compared to 17.28% at the end of 2018) compared to a nominal value of € 94.701 million, almost unchanged compared to the previous year (€ 94.861 million), while watchlist positions represent 6.26% for € 36.061 million (6.60% at the end of 2018, nominal value of € 36.244 million).

The coverage percentages of non-performing loans, due to the value adjustments made during the year, increased from 26.74% in 2018 to 41.13% in 2019.

As far as performing loans are concerned, which amounted to € 340.397 million at nominal value as at 31/12/2019 (€ 384.680 million as at 31/12/2018), value adjustments were updated for a total of € 3.575 million with an increase in the coverage by way of portfolio write-downs, carried out on the basis of statistical observation on the historical series of the transitions of positions from Performing to Non-Performing Loans (so-called transition matrices) from 2016 to 2018.

On the whole, therefore, total loans to customers stood at a nominal amount of € 496.19 million, upon which value adjustments were constituted for € 67.648 million, therefore the general coverage of loans to customers is high at 13.63%, compared to 8.41% as at 31/12/2018).

The following summary tables provide the reconstructed data for the years 2019 and 2018.



## Loans to customers – credit quality

DESCRIPTION	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>Total gross loans</b>	<b>496.190.301</b>	<b>549.092.660</b>	<b>-52.902.359</b>	<b>-9,63%</b>	<b>100,00%</b>	<b>100,00%</b>
Provisions for risk on credits	67.648.964	46.197.267	21.451.697	46,43%	13,63%	8,41%
Loss forecasts	64.072.993	43.964.129	20.108.864	45,74%	12,91%	8,01%
Analytical and flat-rate value adjustments	67.648.964	46.197.267	21.451.697	46,43%	13,63%	8,41%
Accrued interest value adjustments	-	-	-	0,00%	0,00%	0,00%
Coverage ratio	13,63%	8,41%	-	-	-	-
<b>Total loans net of provisions for risk on credits</b>	<b>428.541.337</b>	<b>502.895.393</b>	<b>-74.354.056</b>	<b>-14,79%</b>	<b>86,37%</b>	<b>91,59%</b>
<b>Loans net of non-performing loans</b>	<b>401.488.327</b>	<b>454.230.838</b>	<b>-52.742.511</b>	<b>-11,61%</b>	<b>80,91%</b>	<b>82,72%</b>
Non-performing/performing loans	19,09%	17,28%				
Non-performing loans net of advances	94.701.974	94.861.822	-159.848	-0,17%	19,09%	17,28%
Loss forecasts	46.445.716	29.502.356	16.943.360	57,43%	9,36%	5,37%
Analytical value adjustments	46.445.716	29.502.356	16.943.360	57,43%	9,36%	5,37%
Coverage ratio	49,04%	31,10%	-	-	-	-
Non-performing loans net of value adjustments	48.256.257	65.359.466	-17.103.209	-26,17%	9,73%	11,90%
Total impaired loans	31.061.523	36.244.483	-5.182.960	-14,30%	6,26%	6,60%
Loss forecasts	7.674.144	4.299.930	3.374.214	78,47%	1,55%	0,78%
Analytical value adjustments	7.674.144	4.299.930	3.374.214	78,47%	1,55%	0,78%
Coverage ratio	24,71%	11,86%	-	-	-	-
Impaired loans net of value adjustments	23.387.379	31.944.554	-8.557.174	-26,79%	4,71%	5,82%
Total past due loans	320.388	2.741.397	2.421.009	-88,31%	0,06%	0,50%
Loss forecasts	32.025	273.649	-241.624	-88,30%	0,01%	0,05%
Flat-rate value adjustments	32.025	273.649	-241.624	-88,30%	0,01%	0,05%
Coverage ratio	10,00%	9,98%	-	-	-	-
past due loans net of value adjustments	288.363	2.467.747	-2.179.384	-88,31%	0,06%	0,45%
Total restructured loans	29.704.296	30.556.982	-852.686	-2,79%	5,99%	5,56%
Loss forecasts	9.921.087	9.888.184	32.903	0,333%	2,00%	1,80%
Analytical value adjustments	9.921.087	9.888.184	32.903	0,333%	2,00%	1,80%
Coverage ratio	33,40%	32,36%	-	-	-	-
Eestructured loans net of value adjustments	19.783.209	20.668.798	-885.589	-4,28%	3,99%	3,76%
Total loans to at-risk countries	4.165	7.099	-2.935	-41,34%	0,00%	0,00%
Loss forecasts	21	9	11		0,00%	0,00%
Flat-rate value adjustments	21	9	11	119,98%	0,00%	0,00%
Coverage ratio	0,50%	0,13%	-	-	-	-
<b>Total faulty loans</b>	<b>155.792.345</b>	<b>164.411.783</b>	<b>-8.619.438</b>	<b>-5,24%</b>	<b>31,40%</b>	<b>29,94%</b>
Loss forecasts	64.072.993	43.964.129	20.108.864	45,74%	12,91%	8,01%
Value adjustments	64.072.993	43.964.129	20.108.864	45,74%	12,91%	8,01%
<b>Coverage ratio</b>	<b>41,13%</b>	<b>26,74%</b>	-	-	-	-
<b>Faulty loans net of value adjustments</b>	<b>91.719.352</b>	<b>120.447.654</b>	<b>-28.728.302</b>	<b>-23,85%</b>	<b>18,48%</b>	<b>21,94%</b>
Total performing loans	340.397.956	384.680.877	-44.282.921	-11,51%	68,60%	70,06%
Value adjustments	3.575.970	2.233.138	1.342.832	60,13%	0,72%	0,41%
Coverage ratio	1,05%	0,58%	0,47%	-	-	-

## Customers' deposits and securities

The year just ended saw total customer deposits reach € 1,282 million (including depository bank activity for BAC Investments SG SpA, operational since 2018), down 0.48% compared to the previous year.

The table below shows the customers' financial resources as of 31/12/2019, broken down by technical form and included in the aggregates of direct and indirect deposits compared to the 2018 data.

### Customers' deposits and securities

#### Customers' financial resources

DESCRIPTION	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>A) Direct deposits</b>	<b>658.177.703,85</b>	<b>725.186.274,54</b>	<b>-67.008.570,69</b>	<b>-9,24%</b>	<b>100,00%</b>	<b>100,00%</b>
Savings deposits	3.122.094	3.605.783	-483.689	-13,41%	0,47%	0,50%
Customers' euro and foreign currency accounts	398.985.858	402.488.328	-3.502.470	-0,87%	60,62%	55,50%
Repurchasing agreements	15.785.597	24.087.145	-8.301.548	-34,46%	2,40%	3,32%
Other funds	-	3.825.903	-3.825.903	-100,00%	0,00%	0,53%
Certificates of deposit	235.224.575	282.563.618	-47.339.043	-16,75%	35,74%	38,96%
Internal cheques	1.054.415	604.644	449.771	74,39%	0,16%	0,08%
Subordinate liabilities	4.005.165	8.010.853	-4.005.688	-50,00%	0,61%	1,10%
<b>B) Managed deposits (market value)</b>	<b>12.509.484</b>	<b>26.303.424</b>	<b>-13.793.940</b>	<b>-52,44%</b>	-	-
<i>of which cash</i>	4.781.471	14.347.349	-9.565.878	-66,67%	-	-
<i>of which Subordinate Loans</i>	240.000	480.000	-240.000	-50,00%	-	-
<b>C) Administered deposits (market value)</b>	<b>523.913.192</b>	<b>515.332.859</b>	<b>8.580.333</b>	<b>1,67%</b>	-	-
<i>of which BAC Investments SG Funds</i>	105.109.356	45.387.830	59.721.525	131,58%	-	-
<i>of which Subordinate Loans</i>	3.760.000,00	7.520.000,00	3.760.000,00	-50,00%	-	-
<b>D) Depository bank activity</b>	<b>105.160.130</b>	<b>45.495.135</b>	<b>59.664.995</b>	<b>131,15%</b>	-	-
<i>of which cash</i>	8.147.742	950.104	7.197.638	757,56%	-	-
<i>di Subordinate Loans</i>	-	-	-	-	-	-
<b>Total Deposits</b>	<b>1.282.831.297</b>	<b>1.289.020.240</b>	<b>-6.188.943</b>	<b>-0,48%</b>	-	-

Direct deposits amounted to € 658.177 million, decreasing by € 67.008 million (-9.24%) compared to the end of 2018.

More in detail:

- Sight deposits decreased by € 0.484 million;
- current accounts decreased by € 3.502 million;
- deposit repurchasing agreements with customers decreased by € 8.302 million;
- other funds decreased by € 3.826 million and represented the institutional deposits to the ISS Fund of the Republic of San Marino;
- certificates of deposit decreased by € 47.339 million;
- bonds issued by the bank decreased by € 4 million.

It should be noted that the Bank issued a subordinate loan in 2013 amounting to nominal € 20 million and maturing in March 2020, duly repaid, with a 20% annual repayment starting in 2016, summarized in the table above under direct deposits, for the residual amount of € 4 million as of 31/12/2019, in addition to being detailed as required by the Supervisory Authority, in the Indirect



deposits between Administered and Managed ones.

Indirect deposits amounting to € 641.582 million shows an increase of € 54.451 million (+9.27%) compared to € 587.131 million in 2018 mainly due to the depository bank activities. In particular the aggregate shows:

- an increase in administered savings amounting to € 8.580 million (+1.67%),
- a decrease in managed savings amounting to € 13.794 million (-52.44%),
- an increase of € 59.665 million for the "Depository Bank" activity for the five funds managed by the new Group company, BAC Investments SG SpA, and distributed through BAC's commercial network, which allowed the range of investment products to be extended to customers, in response to their diversification needs; it should be noted that deposits due to the Depository Bank's activity represent an "of which" in the aggregate of Administered Deposits.

An analysis of the data in the table shows that customers combined traditional direct deposits products with managed and administered deposit products; the latter includes the investment funds of the subsidiary Bac investments SG SpA.

## Financial investments

Financial investments recorded an increase of € 11.381 million (20.93%) deriving from the acquisition in trading financial assets of 122 units in the Fondo Odisseo for € 12.209 million, deriving from the en-bloc sale of legal relations by BNS S.p.A. (formerly Banca Cis - Credito Industriale Sammarinese S.p.A.) subject to a bank resolution procedure pursuant to Law no. 102 of 14 June 2019, as well as the purchase and sale of listed government bonds, for a total sum of + € 5.719 million.

The fixed financial assets segment, which recorded an increase of € 5.663 million, determined by purchases of listed government bonds, was negatively impacted by the value adjustment of the investment in the Loan Management fund (NAV of 31/12/2019). It should be noted that this write-down benefits from the conversion into a tax credit, pursuant to Delegated Decree no. 174 of 27 November 2011 "urgent measures to support savings protection operations", since the participation in the fund derives from the systemic rescue of a local bank, Credito Sammarinese SpA in compulsory administrative liquidation in 2012.

FINANCIAL ASSETS	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Investment securities	42.515.726	36.853.191	5.662.535	15,37%
of which bonds	36.391.477	31.434.308	4.957.170	15,77%
Trading securities	23.243.184	17.524.550	5.718.634	32,63%
of which bonds	9.154.456	13.520.687	-4.366.231	-32,29%
<b>Total financial portfolio</b>	<b>65.758.910</b>	<b>54.377.741</b>	<b>11.381.169</b>	<b>20,93%</b>

FINANCIAL ASSETS ISSUERS	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Investment securities	42.515.726	36.853.191	5.662.535	15,37%
of which public issuers	36.391.477	31.434.308	4.957.170	15,77%
of which credit issuers	-	-	-	00,00%
of which financial issuers	-	-	-	00,00%
of which others	6.124.248	5.418.883	705.365	13,02%
Trading securities	23.243.184	17.524.550	5.718.634	32,63%
of which credit issuers	-	-	-	00,00%
of which financial issuers	-	-	-	00,00%
of which public issuers	9.154.456	13.520.687	-4.366.231	-32,29%
of which others	14.088.728	4.003.863	10.084.865	251,88%
<b>Total debt securities</b>	<b>65.758.910</b>	<b>54.377.741</b>	<b>11.381.169</b>	<b>20,93%</b>

FINANCIAL ASSETS FIXED/VARIABLE RATE	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Investment securities	42.515.726	36.853.191	5.662.535	15,37%
of which fixed rate	36.391.477	31.434.308	4.957.170	15,77%
of which variable rate	6.124.248	5.418.883	705.365	13,02%
Trading securities	23.243.184	17.524.550	5.718.634	32,63%
of which fixed rate	3.065.234	8.816.928	-5.751.695	-65,23%
of which variable rate	20.177.951	8.707.622	11.470.329	131,73%
<b>Total debt securities</b>	<b>65.758.910</b>	<b>54.377.741</b>	<b>11.381.169</b>	<b>20,93%</b>

FINANCIAL ASSETS BONDS - RESIDUAL LIFE	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Investment securities	36.391.477	31.434.308	4.957.170	15,77%
- within 12 months	-	-	-	00,00%
- within 5 months	10.966.220	5.976.673	4.989.548	83,48%
- over 5 years	25.425.257	25.457.635	-32.378	-0,13%
Trading securities	9.154.456	13.520.687	-4.366.231	-32,29%
- within 12 months	-	-	-	00,00%
- within 5 months	-	4.996.779	-4.996.779	-100,00%
- over 5 years	9.154.456	8.523.908	630.548	7,40%
<b>Total debt securities</b>	<b>45.545.934</b>	<b>44.954.994</b>	<b>590.939</b>	<b>1,31%</b>

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 € 3 million and a public bank bond (Cassa Depositi e Prestiti) for a nominal value of € 2 million;
- at the same time, Italian government bonds were sold for a nominal value of € 10 million;
- the free financial instruments generated trading profits of € 1.033 million and valuation losses equal to € 0.114 million.

The free portfolio is also backed by two mutual funds under San Marino law for € 14.088 million; these are unlisted instruments as described below:

- Loan Management Fund for € 3.291 million, signed on 29/12/2012 following the system operation aimed at rescuing a local bank, Credito Sammarinese SpA in Administrative Compulsory Liquidation, which involved the sale of the active and passive legal relations; in compliance with the contractual terms, the transferee banks, including Bac, transferred the acquired loans to a Management Company established ad hoc under San Marino law. The fund recorded a decrease in NAV of € 0.100 million as of 31/12/2019; the write-down had no effect on the profit and loss account as it was recorded, as per regulations, under item "temporary tax differences", included under item 130 of Assets "other assets", to be subsequently transformed into a tax credit due to losses that will be ascertained according to the effective realization of the assets sold.
- Fondo Odisseo deriving from Bac's participation in a further rescue operation of a credit institution, together with two other San Marino banks, through the acquisition of Legal Relations en-bloc from BNS SpA (formerly Credito Industriale Sammarinese SpA) subject to bank resolution pursuant to Law no.102 of 14 June 2019. The finalization was through two closings, the first of which was finalized on 16/09/2019 with which Bac took over Protected

Relations for € 25.452 million, against 122 units in the Fondo Odisseo for a total of € 12.208 million, written down based on the NAV of € 1.412 million as of 31/12/2019. This write-down also had no effect on the profit and loss account, as it was recorded as a tax credit according to regulations governing the Fund (Law no. 72 of 27/06/2013). The first part of the subsequent second closing relating to employment relations was finalized at the end of 2019 and the second part in the first months of 2020.

The owned investment financial instruments were further increased in 2019 as detailed below:

- purchase of an Italian government bond for a nominal value of € 5 million;
- subscription of another two tranches of the "Tower Credit Opportunities PLC" Fund (value of € 6.124 million as of 31/12/2019).

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 investment portfolio consists of government-issued bonds, to which the fund described above is added.

## Shareholdings

SHAREHOLDINGS	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
Shareholdings	4.718.689	4.840.804	-122.115	-2,52%	36,85%	38,53%
Investments in group companies	8.086.592	7.723.975	362.617	4,69%	63,15%	61,47%
Total shareholdings	12.805.281	12.564.779	240.501	1,91%	100,00%	100,00%

A summary illustration of the main subsidiaries in the various areas of the Group's operations was given in the introductory notes to the Management Report to which reference should be made.

Equity investments in companies in the group showed an increase of € 0.240 million due to:

- the revaluation of BAC Investments SG SpA for € 0.013 million, for the allocation of the profit formed in 2019 to reserves, as per the results of the financial statements for the year ended as of 31/12/2019.
- the revaluation of BAC Fiduciaria SpA for € 0.001 million, for the allocation of the profit formed in 2019 to reserves, as per the results of the financial statements for the year ended as of 31/12/2019.
- the revaluation of BAC Life SpA for € 0.112 million, equal to the allocation of 10% of the profit earned in 2019 to the ordinary reserve, as approved by the Shareholders' Meeting for the financial statements for the year ended as of 31/12/2019. The dividend distributed to the parent company, equal to € 1.007 million and corresponding to 90% of the 2019 profit, will be recorded in the 2020 cash register.
  - the devaluation of SSIS SpA, held 50% with Cassa di Risparmio della Repubblica di San Marino SpA, for € 0.122 million deriving from the distribution of available reserves for € 0.300 million in a ratio of ½ and the allocation of the financial year profit of € 0.055 million to the ordinary reserve in a ratio of ½.
- the devaluation of BAC Real Estate Srl for € 0.011 million, equal to the negative result of 2019, as per the results of the financial statements for the year ended as of 31/12/2019.

The sum of the above adjustments was recorded to the dedicated reserve fund, reclassified under Net Equity, with the exception of the devaluation of BAC Real Estate Srl, which was recorded directly to the Profit and Loss Account.

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.

## Interbank

The Bank, as part of its financial activities, recorded a positive net inter-bank balance of € 105.886 million at the end of 2019. Compared to the corresponding figures at the end of 2018, the balance recorded a decrease in net assets of - € 32.323 million due to the combined effect of the decrease in direct deposits, partly converted into managed and administered deposits, and increases in the bank's own securities portfolio, for purchases of new financial instruments.

The level of net position testifies to the almost absence of interbank debt, confirming the constant monitoring on liquidity through the management and monitoring of inherent risks.

In this perspective of monitoring and updating, with respect to market variables and possible evolving micro and macroeconomic scenarios, the regulation of the Risk Appetite Framework was re-updated and approved by the Board of Directors in January 2020, i.e. the determination of the overall risks, including liquidity risk which the Bank is willing to assume in achieving the corporate value growth objectives, reflecting the company's risk appetite which in turn influences the value growth strategies and the adopted business model.

INTERBANK	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>Loans to banks</b>	<b>107.140.384</b>	<b>139.463.756</b>	<b>-32.323.371</b>	<b>-23,18%</b>	<b>100,00%</b>	<b>100,00%</b>
• in euro	103.510.722	133.684.886	-30.174.164	-22,57%	96,6%	95,9%
• in foreign currency	3.629.663	5.778.870	-2.149.207	-37,19%	3,4%	4,1%
<b>Amounts due to banks</b>	<b>1.254.211</b>	<b>1.137.069</b>	<b>117.142</b>	<b>10,30%</b>	<b>100,0%</b>	<b>100,0%</b>
• in euro	1.254.211	1.137.069	117.142	10,30%	100,0%	100,0%
• in foreign currency	-	-	-	0,00%	0,00%	0,00%
<b>Net position</b>	<b>105.886.173</b>	<b>138.326.686</b>	<b>-32.440.513</b>	<b>-23,45%</b>	<b>100,0%</b>	<b>100,0%</b>
• in euro	102.256.511	132.547.816	-30.291.306	-22,85%	96,6%	95,8%
• in foreign currency	3.629.663	5.778.870	-2.149.207	-37,19%	3,4%	4,2%

INTERBANK	31/12/2019	31/12/2018	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2019	31/12/2018
<b>Loans to banks</b>	<b>107.140.384</b>	<b>139.463.756</b>	<b>-32.323.371</b>	<b>-23,18%</b>	<b>100,00%</b>	<b>100,00%</b>
• short term (up to 12 months)	72.072.946	108.871.345	-36.798.399	-33,80%	67,3%	78,1%
• medium and long term (over 12 months)	35.067.438	30.592.410	4.475.028	14,63%	32,7%	21,9%
<b>Amounts due to banks</b>	<b>1.254.211</b>	<b>1.137.069</b>	<b>117.142</b>	<b>10,30%</b>	<b>100,0%</b>	<b>100,0%</b>
• short term (up to 12 months)	1.254.211	1.137.069	117.142	10,30%	100,0%	100,0%
• medium and long term (over 12 months)	-	-	-	0,00%	0,00%	0,00%
<b>Net position</b>	<b>105.886.173</b>	<b>138.326.686</b>	<b>-32.440.513</b>	<b>-23,45%</b>	<b>100,0%</b>	<b>100,0%</b>
• short term (up to 12 months)	70.818.735	107.734.276	-36.915.541	-34,27%	66,9%	77,9%
• medium and long term (over 12 months)	35.067.438	30.592.410	4.475.028	14,63%	33,1%	22,1%

## 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 of 31/12/2019 will amount to **€ 84.947** million, compared to € 86.600 million at the end of 2018, with a decrease of € 1.652 million.

The change in net equity is due to a negative result of - € 1.657 million in 2019 financial year.

The table below shows the Institution's assets in comparison with the 2018 data:

NET EQUITY	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>Capital and Reserves</b>	<b>90.324.966</b>	<b>94.121.794</b>	<b>-3.796.828,12</b>	<b>-4,03%</b>
Share capital - subscribed and paid-up shares	20.880.080	20.880.080	-	0,00%
Ordinary reserve fund	54.595.023	58.395.668	-3.800.644	-6,51%
Extraordinary reserve fund	-	-	-	-
Share premium reserve fund	-	-	-	-
Own share reserve fund	14.378	14.378	-	0,00%
Revaluation reserves	14.835.485	14.831.669	3.816	0,03%
Retained loss	-3.721.039	-3.800.644	79.605	-2,09%
Result for the year	-1.656.680	-3.721.039	2.064.359	55,48%
<b>Total</b>	<b>84.947.248</b>	<b>86.600.111</b>	<b>-1.652.864</b>	<b>-1,91%</b>

### 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 corresponding to 0.07% of the subscribed capital. It should be noted that in relation to own shares held in the portfolio, the Bank set up 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 € **32.415** million, as anticipated in the Introduction to this Management Report, the decrease compared to 31/12/2018 is due to the direct recognition of the Supervisory Capital of the suspensions deriving from the AQR adjustments made in 2018 (for € 4.598 million) and during the year (for € 24.281 million € +17.859 million under item "80 Provision for bad debts"), even if the bank decided to benefit, from a statutory point of view, from the faculty deriving from the Article 40 of Law 173/2018, which allows the distribution of the results of the AQR financial year to the Profit and Loss Account over a period of 10 years following a justified request authorised by the Supervisory Authority. The allocation of the suspended AQR adjustments, amounting to € 41.235 million, as a deduction from supervisory capital, is based on the express statute of limitations issued by the Supervisory Authority, with effect from the prudential supervisory reporting date of 31/12/2019.

The new method of calculating supervisory capital showed a Total Capital Ratio of 8.81%, below the required regulatory minimum of 11%.

The allocation of further analytical adjustments to Impaired Loans to item "80 Provision for bad debts", will result in an improvement in RWA (weighted assets) which will consequently be reflected in a lower lack of capital for prudential supervision purposes and an estimated ratio of 9.50%. The bank's lack of capital for prudential supervision purposes will be made up for by issuing and placing a Subordinated Loan already authorized for € 10 million to be included in the Supplementary Supervisory Capital by the Central Bank and dedicated to professional customers.

The Bank also submitted a specific request to the Supervisory Authority, pursuant to Article VII. II.12 of the Regulation 2007-07, in order to be able to take advantage of the exemption from the deduction of the participation of BAC LIFE SpA in full, which represents a solid participatory and unique reality in the panorama of San Marino Banking Groups and which is subject to the measurement of the fully respected solvency margin pursuant to the Regulation 2008-01. The capital requirement for the bank's prudential supervision would be zero, exceeding the required regulatory 11% solvency limit if accepted.

SUPERVISORY CAPITAL	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Supervisory capital	32.415.394	76.806.605	-44.391.212	-57,80%
A. WEIGHTED RISK ASSETS	-	-	-	0,00%
A.1 Credit and counterpart risk	368.027.834	449.336.899	-81.309.065	-18,10%
C. SUPERVISORY RATIOS	-	-	-	-
C.1 Supervisory capital/weighted assets	8,81%	17,09%	-	-

## Relations with subsidiaries and associated concerns

The transactions with subsidiaries 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 € 0.056 million at the end of 2019.
- **BAC Life SpA** opened current accounts with the bank for the current management of its assets, whose amount was € 3.00 million at the end of 2019.
- **BAC Real Estate Srl** opened current accounts for € 0.011 million with the bank and SAL leasing agreements for a total of € 12.072 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.

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

### ASSETS AND LIABILITIES TO PARENT COMPANY, SUBSIDIARIES AND INVESTEE COMPANIES

	31/12/2019	31/12/2018
<b>ASSETS</b>		
<b>Loans to banks</b>	<b>91.247.546</b>	<b>117.996.548</b>
• BANCA CENTRALE SPA	91.247.546	117.996.548
<b>Loans to clients</b>	<b>12.822.883</b>	<b>12.730.645</b>
• SSIS SPA	750.585	805.725
• BAC FIDUCIARIA SPA	-	-
• BAC REAL ESTATE SRL	12.072.298	11.924.920
<b>Bonds and other financial debt instruments</b>	-	-
<b>Shareholdings</b>	<b>4.718.689</b>	<b>4.840.804</b>
• SSIS SPA	325.082	447.197
• CAMERA DI COMMERCIO	1.033	1.033
• BANCA CENTRALE SM	4.059.241	4.059.241
• CENTRO SERVIZI	333.333	333.333
<b>Subsidiaries in the bank group</b>	<b>8.086.592</b>	<b>7.723.975</b>
• BAC FIDUCIARIA SPA	691.029	689.965
• BAC LIFE SPA	6.579.402	6.467.437
• BAC REAL ESTATE SRL	303.259	315.000
• BAC INVESTMENTS SG SPA	512.902	251.573
<b>Total assets</b>	<b>116.875.710</b>	<b>143.291.972</b>
<b>LIABILITIES</b>		
<b>Amounts due to customers</b>	<b>3.813.105</b>	<b>1.580.481</b>
• BAC FIDUCIARIA SPA	55.954	11.670
• BAC LIFE SPA	3.007.323	1.175.976
• BAC REAL ESTATE SRL	11.884	11.124
• SSIS SPA	121.550	88.862
• BAC INVESTMENTS SG SPA	616.393	292.849
<b>Payables represented by financial instruments</b>	-	-
• BAC FIDUCIARIA SPA	-	-
<b>Other liabilities</b>	-	-
• BAC FIDUCIARIA SPA	210.000	-
<b>TOTAL LIABILITIES</b>	<b>3.813.105</b>	<b>1.580.481</b>
<b>Guarantees and commitments</b>	-	-
- guarantees given	4.000	4.000
- commitments	-	-



## REVENUES AND EXPENSES TO RELATED PARTIES: SUBSIDIARIES AND PARENT COMPANY

DESCRIPTION	31/12/2019	31/12/2018
<b>Interest income and similar revenues</b>	-	-
• BAC LIFE SPA	-	-
<b>Interest expense and similar charges</b>	-	-
• BAC FIDUCIARIA SPA	-	-
• BAC LIFE SPA	-	-
<b>Dividends</b>	-	<b>345.822</b>
• BAC FIDUCIARIA SPA	-	-
• BAC LIFE SPA	-	345.822
<b>Interest margin</b>	-	<b>345.822</b>
<b>Commission income</b>	<b>712.421</b>	<b>256.886</b>
• BAC LIFE SPA	185.718	256.886
• BAC INVESTMENT SG SPA	526.703	111.832
<b>Commission expense</b>	-	-
<b>Other revenues netti</b>	<b>76.333</b>	<b>47.222</b>
• BAC FIDUCIARIA SPA	38.330	38.333
• BAC LIFE SPA	38.330	38.000
• BAC LIFE SPA	38.000	8.889
<b>Service margin</b>	<b>788.754</b>	<b>649.930</b>
<b>Intermediation margin</b>	<b>788.754</b>	<b>649.930</b>
<b>Operating costs</b>	<b>209.429</b>	<b>239.587</b>
<b>a) Personnel expenses</b>	<b>209.429</b>	<b>239.587</b>
• BAC FIDUCIARIA SPA distacchi in	53.659	53.659
• BAC INVESTMENT SG SPA distacchi out	116.341	96.241
• BAC LIFE SPA distacchi out	39.429	89.687
<b>b) Other administrative expenses</b>	-	-
<b>OPERATING RESULT</b>	<b>579.325</b>	<b>410.344</b>

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: appointed; Directors: Rossini Emanuele and Daniele Savegnago, Chief Executive Officer: Berti Lorenz.
- members of the Board of Statutory Auditors: Chairman: Corrado Taddei; Auditor: Roberto Protti; Auditor: Vaglio Alberto.

**BAC Life SpA**

- members of the Board of Directors: Chairman: Marco Perotti resigned since 10/10/2019; Daniele Savegnago appointed since 30/03/2020, Deputy Chairman: Emanuele Rossini; Directors: Wladimir Biasia, Claudio Maugeri, Cesare Silvio Rizzini Bisinelli; Chief Executive Officer: Daniele Savegnago.
- members of the Board of Statutory Auditors: Chairman: Corrado Taddei; Auditors: Lombardi Andrea, Andrea Belluzzi resigned since 02/01/2020, Alberto Vaglio appointed since 30/03/2020.



### **BAC Investments SG SpA**

- members of the Board of Directors: Chairman: Wladimir Biasia, Deputy Chairman: Andrea Ragagni; Directors: Silvio Cesare Rizzini Bisinelli, Daniele Savegnago.
- members of the Board of Statutory Auditors: Chairman: Stefania Maria Gatti, Auditors: Marco Petrucci, Alberto Vaglio.

### **BAC Real Estate Srl**

- members of the Board of Directors: Chairman: Emanuele Rossini, Director: Ignazio Gibiino.
- sole Auditor: Stefania Maria Gatti.

## **Communication, marketing and commercial activity**

During the year 2019, the Bank continued to communicate the image of the BAC Group through the daily newspaper "La Serenissima", in which the returns on the Mutual Investment Funds managed by the subsidiary BAC Investments SG SpA are published on a daily basis and the returns of BAC Life SpA policies are published on a weekly basis. This information channel was used to communicate new products offered by BAC, such as conventions with trade associations, Public Administration employees and financing on residential construction.

The daily advertising campaign of the BAC Group continued on the national television network "San Marino RTV", at peak audience hours before the evening news.

Daily promotion of the image of BAC and its subsidiary BAC Investments SG SpA on social media, Facebook and LinkedIn respectively, reaching its highest visibility on the former since the creation of the pages.

For the subsidiary, the results obtained in the first year of full activity were impressive, reaching managed amounts up to over € 100 million.

Press releases were issued throughout the year in response to negative news published in newspapers, updated agreements and product sheets.

Maintenance and update of the Banca Agricola Commerciale, BAC Investments SG and BAC Life websites continues.

As an ordinary member of AIPB - Associazione Italiana Private Banking, in order to further implement the visibility of the Institute, the BAC company profile, together with the image and products offered, was included in the "Annuario Generale Private Banking 2019", both in printed and digital versions. Confirming the attention that BAC reserves to the San Marino territory, many initiatives were sponsored, these were selected with regard to the topics covered such as: the San Marino Green Festival (environmental protection), the Corporate Run Giro del Monte and palestra Energia (wellness) support to sports federations, for the summer camps organized by them, and village festivals.

Between June and July, the Republic of San Marino was the host city of the UEFA European Under 21 Championship; the Bank participated in this event's publicity, also increasing its visibility even beyond the border, allowing the posting of advertising material on the two buildings located on the Customs border.

Another occasion of great visibility, thanks to the agreement made with Energia/San Marino Performance srl, was the presence of Bac at the 'Play DeeJay' event, organized by the Secretary of State for Tourism in collaboration with a well-known Radio DeeJay.

In October BAC was the official sponsor of the Rally Legend of the Republic of San Marino, thus allowing a constant presence of the Bank's image in an international event.

During the year some delicate moments were faced with enthusiasm, such as the resolution of former Banca Cis and the start of the replacement of all credit cards; in both cases the opportunity was taken to demonstrate the quality, efficiency and attention that BAC reserves to its customers, giving quick and comprehensive answers thanks to the willingness granted by employees to receive customers even outside business hours, with dedicated appointments and greater presence on Saturday opening days.

This operating mode got a positive feedback from customers: proof of this is the fact that almost all "former Banca Cis" customers maintained their relationship with BAC and credit card services were

renewed. The opportunity for resolution was also taken to increase the products offered, including the "BAC Minori" account, designed to meet specific savings needs for customers not yet of age. Following our insurance company's change of name, which became BAC Life SpA, all necessary activities were carried out to modify all the materials in use, including the signs and the website. The year ended with the organization of a conference held at its headquarters, titled: "Global Trends for 2020: the world will continue to change, how to face future challenges", with speaker being Board member Wladimir Biasia.

This initiative, much appreciated by those present (mainly private customers and/or major depositors, as well as stakeholders), was to be the first of a series of themed events in conjunction with the celebration of the Bank's 100th year of operations, which will take place in 2020. Unfortunately, the health emergency following the coronavirus epidemic (COVID-19), suspended all forms of meetings that could pose a health risk; BAC will be happy to resume the scheduled events once the emergency is over.

## The Bank's presence in the territory

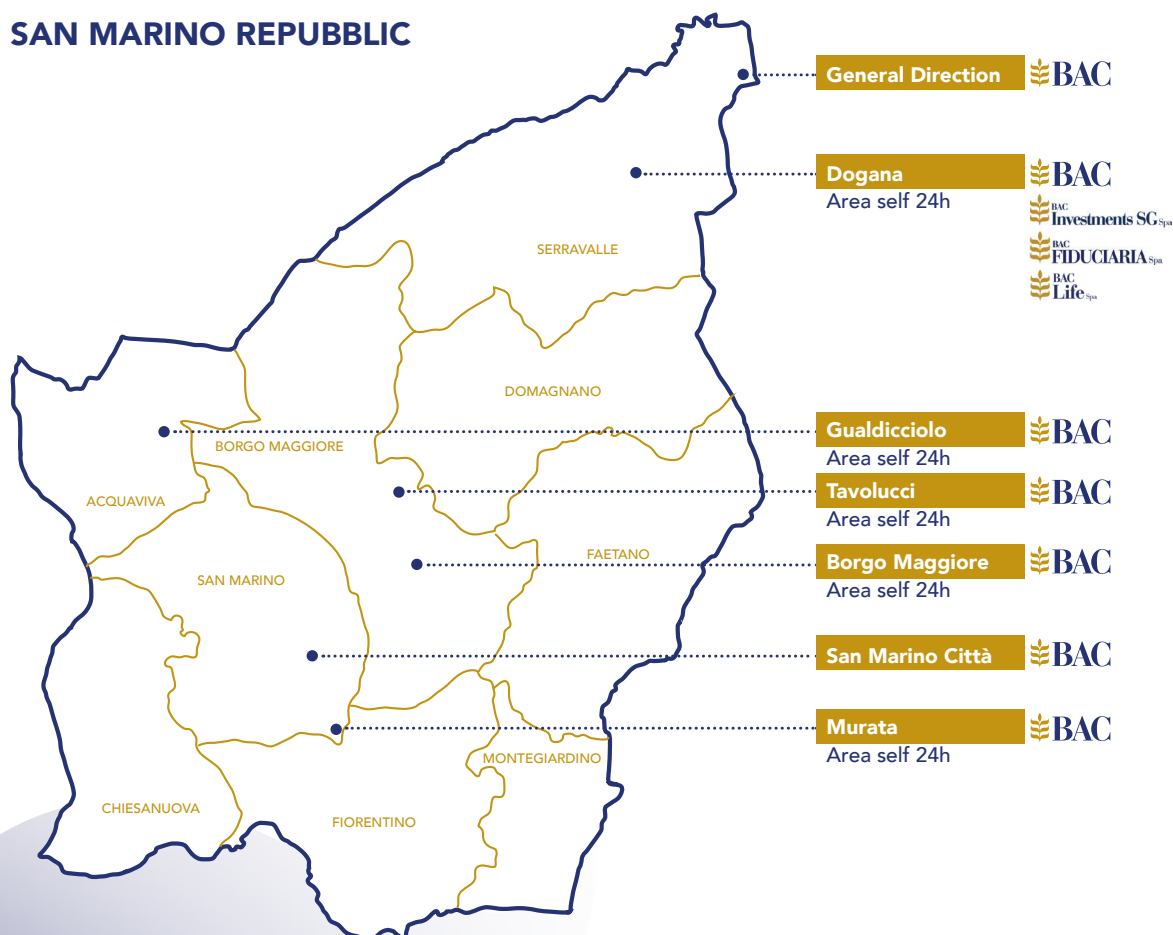
Thanks to its retail network, structured with a distribution model between the Hub and Spoke branches, BAC is widespread within the Republic, being able to provide quick answers and ensuring maximum flexibility.

- General Management together with three subsidiaries:

BAC Investments, BAC Life e BAC Fiduciaria.

- 5 branch offices and 3 information desks spread out to cover the entire San Marino territory.
- Internet Banking to always have your bank just a click away.
- Self-service Areas open 24 hours a day to guarantee a complete and constant service.

### SAN MARINO REPUBBLIC



## 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 in view of the constant pursuit of the objectives of process efficiency. The upgrading work concerned both the composition of the management structures and some operational processes, which are summarized as follows:

- the acceptance of the requirements referred to in Article 3 of FIA Instruction 5/2019 "Company organization, policies, procedures, controls and training", through the adoption of the following additions:
  - > adapting the duties and responsibilities of the Board of Directors with regard to the definition of strategic guidelines on the prevention and countering of money laundering and terrorist financing and approval of specific risk management policies also by virtue of the self-assessment addressed to all members of the Corporate structure;
  - > updating of the duties of the General Manager with the express reference to the formalization of the corporate strategy, approved by the Administrative Body, which analytically reports the salient aspects of these policies;
  - > establishing the ANTI-MONEY LAUNDERING COMMITTEE, which oversees the prevention and countering of money laundering and terrorist financing with decision-making powers;
  - > clarifying the independence of the role and additions of the specific powers of the Anti-Money Laundering Officer;
  - > renaming the Anti-Money Laundering Compliance and Legal unit into STAFF STRUCTURE Anti-Money Laundering Compliance, with support functions for the Anti-Money Laundering Officer and Compliance Officer respectively;
  - > modifying the duties of the General Secretariat and Corporate Affairs Unit, with the attribution of the function of "Legal Advice" and its consequent renaming to the General Secretariat and Corporate Affairs Unit.
- Together with the aforementioned amendments which depend on the anti-money laundering regulations and with a view to maximising the efficiency of business processes, the processes of the Credit Area were also updated, with particular attention to the management of "non-performing" loans by updating the competencies of the Litigation and Debt Recovery unit and the Problematic Credit Management unit.
- The establishment of further Committees, RISKS and BAD DEBT PROVISION and the reallocation of all the Committees related reports to the appropriate Departments/Structures (Board of Directors for ANTI-MONEY LAUNDERING, General Manager for MANAGEMENT, CREDITS, BAD DEBT PROVISION and RISKS, Deputy General Manager for FINANCE) were provided for.
- The reports of the various Organizational Units were also reviewed and updated, reassigned to the General Manager and Deputy General Manager according to their respective roles.

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 related to FIA Instruction 2018/04 on "Registration and Retention Obligations";
- the update of the regulatory provisions relating to the management of banknotes and coins in €/Currency dependent on the additions dictated by the CBSM Regulation 2019-01 "Miscellaneous", which partially modify Regulation 2013-04.

Specific technological interventions were launched to improve IT efficiency and/or integrate new features and services, including:

- the review of IT structures used by the subsidiaries, with a view to standardizing their requirements, a circumstance that will promote ease of management as well as the most efficient use of technical and economic resources;
- the start of the replacement and update of the entire PC fleet (hardware and software) with the adoption of the Windows 10 platform, specifying that the activities were completed in the first two months of 2020.

In addition to the above measures, there are further projects in progress:

- regulatory compliance activities of the SWIFT platform, related to the Customer Security Program project, which requires the adoption of new organizational and technological safeguards to better protect the use of this platform;
- adoption of the new regulations on the use of home banking platforms (so-called Strong Customer Authentication SCA) introduced by the European legislation on PSD2 payment systems;
- activation of the technological component (upgrade of the banking information and firewall system - security for the access of potential customers to the service via the Internet) relating to the project for opening on-line relations, for which regulatory investigations are still in progress.

A significant event that occurred in second half of 2019, the activities related to the "sale of relations/assets BNS SpA (former Banca CIS)" project, in which our bank was involved as purchasing counterparty together with BSM and BSI. The Agreement provided for the allocation of Liabilities (active current account balances for customers) and Assets (specific forms of investment) to the aforementioned Institutions (Transferee Banks) in substantially equal portions. The planning of the related operating processes was duly formalized in specific internal regulatory circulars.

During the year, further project activities in the **e-money** area were also defined and/or launched, namely:

- 1) the adaptation of Bancomat debit cards (previous version) to the directives (mandates) of the international circuits (VISA and Mastercard),
- 2) the activation of the new Bancomat/PagoBancomat debit card (issued by the Bank by virtue of its participation in the Italian Bancomat/PagoBancomat Consortium - COBAN), which therefore replaced the previous version of the debit card, introducing additional features and services,
- 3) the planning of the replacement (January 2020) of credit cards issued through the payment institution T.P.@Y S.p.A following the changes depending on the Institute's new technology supplier, coinciding with the natural (three-year) expiry date of the first cards issued; in this regard, it should be noted that the activity was completed in the first quarter of 2020.

In view of the aforementioned projects and related investments, the constant monitoring of costs and the maintenance and strengthening of the cost reduction trend that has been consolidated for several years was guaranteed also for the current year.

Operating costs (administrative expenses and amortization of capital goods) were significantly lower than those incurred in the previous year (-11.99% compared to 2018), as shown in the table below:

DESCRIPTION	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Administrative expenses	4.822.103	5.129.653	-307.550	-6%
Indirect taxes	40.804	302.108	-261.304	-86,49%
Depreciations on instrumental assets	1.404.561	1.689.27	-284.714	-16,85%
<b>Total</b>	<b>6.267.468</b>	<b>7.121.036</b>	<b>-853.567</b>	<b>-11,99%</b>

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

- the update of "Credit Powers Delegations";
- the update of "Risk Management Regulation";
- the update of "Spending Regulation";
- the update of "Credit Regulation";
- the update of "Internal Control System Regulation";
- the update of "Internal Auditing Regulation";
- the update of "Consolidated Law on Guarantees";
- the update of "Conferral of Signatory and Management Powers";
- the update of "Anti-Money Laundering Officer Regulation" and that of the "Compliance Officer" Function;
- the adaptation to the provisions on communications by electronic registered mail, introduced with the adoption of the "Register of digital domiciles (RSM Regulation 7/2018)".

In particular, it should be noted that the main provisions of a general and particular nature issued by the Supervisory Bodies were translated into Group directives which are listed below and ordered with respect to the date of issue of the corresponding internal regulations (Circulars):

INTERNAL LEGISLATION	SUPERVISORY PROVISIONS
CIR. 2019/07 FIA Instruction 2018/04	FIA Instruction 2018/04 "registration and retention obligations"
CIR. 2018/08 FIA Newsletter 01/2019	FIA Newsletter 01
CIR. 2019/10 CBSM Regulation 2013/04 Euro coins banknotes (rev_mar19)	<ul style="list-style-type: none"> <li>• CBSM Regulation 2013-04 on Euro banknotes and coins</li> <li>• Procedure for the withdrawal of suspected counterfeit / unfit euro banknotes and coins from circulation</li> <li>• Operational updates introduced.</li> </ul>
CIR. 2019/11 Law 57/2019 on terrorist financing	RSM Law 57/2019 on terrorism
CIR 2019/19 Whistleblowing reporting obligations	Reporting of suspicious transactions and reports of violation of the anti-money laundering legislation (whistleblowing) FIA Instruction 2019/06 - Indices.
CIR. 2019/23 Policies, procedures and controls Enhanced measures (Jan 2020)	Anti-Money Laundering Policies, Procedures and Controls. Strengthened minimum and additional customer due diligence measures - Countries.
CIR. 201/24 FIA Newsletter 2019/02	FIA Newsletter 02
CIR. 2019/40 Restrictive Measures	<ul style="list-style-type: none"> <li>• Provisions on restrictive measures FIA Instruction 2019/07</li> <li>• Senior Managers</li> <li>• Management of high and medium-high risk customers</li> <li>• Relationships</li> </ul>

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). In this regard, it is confirmed that in the first half of 2019 the sale of the real estate located in San Marino (Centro Storico Contrada del Collegio), previously used as a bank branch, was finalized, as well as the signing of new active lease agreements;
- the constant update of the functional structures (General Management and Branches) to ensure the proper conduct of operational activities;
- the update of the main security measures in the physical (value management tools, extraordinary maintenance of the security and burglar alarm systems) and logical (evolution of the dedicated software) environments.

## Staff

### Evolution and composition of the staff

The Staff in service at 31 December 2019 totaled 121 units, with a decrease of 2 resources compared to the previous year.

This difference was determined by the release of 4 resources (of which 2 Executives, 1 Official and 1 Employee) and the entry of 1 Executive and 1 Official. In addition, during the year there was the presence of a Manager, limited to the August-October period, with the role of General Manager. In fact, 2019 was affected by important changes in the Bank's General Management, following the well-known events in the news, which led the Board of Directors to take decisions aimed at updating the roles assigned to top management, with a complete replacement of the same; the selection procedure for the General Manager is still underway, while the Deputy General Manager's functions guarantee the Bank the guidance of the executive structure and adequate supervision of corporate functions.

The number of resources seconded (Law 131/2005) to Group companies is 3 units, while 1 unit was seconded to BAC from a Group company.

Every employee is on permanent contract. Absences from service due to leave and union secondment amounted to a total of 3 units; part-time work was carried out by 8 resources. The full time equivalent stood at 113.48 resources.

At the end of the year, the workforce saw the presence of 1 Director representing 0.83% of the total, 23 Executives equal to 19.01% of the workforce, 16 Managers equal to 13.22% of the total, and 81 Office Workers who accounted for 66.94% of the overall workforce.

The average age of personnel is 44.58 years.

49.14% of staff is included in the Sales Network, while 50.86% 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	%
Directors	0	1	1	0,83%
Executives	15	8	23	19,01%
Managers	13	3	16	13,22%
Office workers	39	42	81	66,94%
<b>Total</b>	<b>67</b>	<b>54</b>	<b>121</b>	<b>100%</b>

COMPOSITION BY AGE				
	MEN	WOMEN	TOTAL	%
Over 50	11	7	18	14,88%
from 41 to 50	36	29	65	53,72%
from 31 to 40	19	18	37	30,57%
up to 30	1	0	1	0,83%
<b>Total</b>	<b>67</b>	<b>54</b>	<b>121</b>	<b>100%</b>

COMPOSITION BY LENGTH OF SERVICE				
	MEN	WOMEN	TOTAL	%
Over 30	4	3	7	5,79%
from 21 to 30	21	19	40	33,06%
from 11 to 20	36	27	63	52,06%
up to 10	6	5	11	9,09%
<b>Total</b>	<b>67</b>	<b>54</b>	<b>121</b>	<b>100%</b>



COMPOSITION BY EDUCATION QUALIFICATION				
	MEN	WOMEN	TOTAL	%
University degree	18	16	34	28,10%
School Diploma	48	38	86	71,07%
Other	1	0	1	0,83%
<b>Total</b>	<b>67</b>	<b>54</b>	<b>121</b>	<b>100%</b>

It should be noted that, as of 1 January 2020, 1 resource was transferred to a Group company and that as of 1 February 2020, 4 employees were seconded to BAC pursuant to the Agreement signed with the SNB on the en bloc sale of legal relations.

It should also be noted that, following the legislative measures issued by the Government to contain the spread of the COVID-19, the Bank put in place all the necessary safety measures and safeguards to protect the health of workers, through periodic sanitization of workplaces and reorganization of business processes. From the date of entry into force of Decree Law 51/2020, the presence of workers within the company reduced to less than 50%, encouraging the use of holidays/permits, supporting "work at home" and guaranteeing workers exemption from service on a voluntary basis through recourse to the extraordinary redundancy fund.

### Training

The Bank continued to develop the skills of its employees through training activities which led to the provision of over 3,100 hours of training.

The training activity was aimed at typical banking business subjects and those with mandatory content.

In the credit area, in continuity with previous years, the activity of strengthening the skills on the process of analysing and assessing creditworthiness continued, with specific focus on optimising the credit relationship with companies with a view to minimising operational risks.

The Bank supported the training initiative promoted by ABS on the following topics: "Guarantees in the loan disbursement", "NPLs", "Assets: forms of segregation and means of preserving guarantees to protect the creditor".

On the insurance side, e-learning courses continued to be held for specific professional figures. This made it possible to certify the possession/maintenance of the professional skills necessary to provide appropriate advice to the Customer, including therefore the assessment of the adequacy of insurance products in relation to the specific needs of the same. Online courses are followed by classroom training days.

The participation of some private managers in the training course promoted by AIPB "A first technical-relational training for Private Bankers and Financial Consultants" was also promoted.

The Bank also promoted the participation in specific courses for the control functions provided by AIRA and ABI on the subject of Anti-Money Laundering, Rehabilitation for Less Significant Banks, and New Models for Corporate Control Functions.

As for anti-money laundering, the Anti-Money Laundering Officer had all staff in the classroom several times during the year and organized a specific session on the activity of adequate verification, reporting illustrative case studies of real working situations.

#### Trade union relations

There were numerous opportunities to meet with the Company's Trade Union Representatives and the Trade Unions in an atmosphere of constructive dialogue.

## Risk management and Control methodologies

The Internal Control System (hereinafter referred to as ICS) consists of a set of rules, procedures and organizational structures that aim to ensure compliance with corporate strategies and the achievement of effectiveness and efficiency of business processes, safeguarding the value of activities, the reliability and integrity of accounting and management information and the compliance of operations with the current applicable regulations.

The Bank structured its internal control system in a way to make sure that its activities are based on sound and prudent management and effective risk management which is in line with the strategies and policies adopted and enables it to achieve its corporate objectives in compliance with plans, procedures and internal regulations as well as with the law and supervisory regulations.

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

The control system is divided into three levels:

- line controls (first level), aimed at ensuring the right execution of operations. They are carried out by the same operating structures (for example, hierarchical controls) or incorporated into procedures or performed as part of back-office activities;
- risk management and compliance controls (second level), which aim to verify compliance with the limits assigned to the various operating functions, to check the compliance of the company's operations with the regulations, including those of self-regulation. They are entrusted to specific functions, in order to ensure the separation between operational and control functions;
- the internal audit activity (third level), which aims to assess the functionality of the overall internal control system and identify anomalous trends, violations of procedures and regulations. It is conducted continuously, periodically or by exception, including through on-site audits by the Internal Auditing Function.

The **Internal Auditing Function** (hereinafter referred to as IA) is responsible for assessing the completeness, adequacy and functionality of the internal control system and bringing possible improvements to risk management policies as well as measurement tools and procedures to the attention of the Board of Directors and the Head of the Executive Structure.

The IA also aims to contribute to the protection of the assets and Group stability and all its member companies and to provide a "reasonable guarantee" that the company organization can efficiently achieve its objectives.

The IA Officer reports directly to the Board of Directors, prepares the guidelines and the annual audit/inspection plan to be carried out with regard to the Bank and all Group entities and proposes them to the Board of Directors for approval.

All other control functions - **Risk Management, Compliance, Anti-Money Laundering** - also report directly to the Board of Directors, in compliance with current regulations.

The **Risk Management Function** deals with second-level controls in the risk management area, and contributes particularly to the definition of risk measurement methods, verifies compliance with the limits assigned to the various operating structures and checks the consistency of the operations of individual production areas with the assigned risk-return objectives. The Risk Management function has an overall view of all the risks assumed by the Bank and more so by the Group, and gathers the specific skills pertaining to the management of the various types of risk within it, ensuring the promotion of a risk culture at corporate level.

The **Compliance Officer** (Compliance Function), is the guarantor of the verification of the Bank's regulatory compliance and its Subsidiaries where applicable, with the provisions of the law, the articles of association, and the supervisory regulations, ensuring compliance with the same. In particular, he ensures the adequacy, functionality and reliability of the controls in line with legal



and regulatory requirements as well as internal policies and procedures. He provides consultancy on compliance to corporate bodies and staff and collaborates in the definition of internal policies, procedures and processes to ensure compliance and to manage the so-called "compliance risk". In addition, he manages the Complaints Department by carrying out the following activities: collecting and recording complaints submitted by customers, carrying out their investigation and involving the competent business units as well as preparing periodic reports.

As for the **Anti-Money Laundering Officer**, he is in charge of managing internal reports and carrying out in-depth analysis on them, moreover, he carries out the analysis of the transactions carried out by customers in order to search and acquire useful information for the analysis of the movements and, if the conditions are met, he transmits the relevant information to FIA. He acts as a liaison with the aforementioned Agency and responds promptly to any requests coming from it. Finally, he ensures that access to his archives is forbidden to unauthorized persons and is responsible for the confidentiality of the documents acquired and reports received.

During the year, the overall assessment of the Internal Control System was "Sufficiently adequate" on the basis of the results of the Internal Audit activity carried out during the period and the information regularly collected by the Internal Audit function; the activity carried out by the entire Organisational structure also continues to be efficient in closing the evidences found.

The **Internal Auditing** activity carried out in 2019 specifically followed the indications of the agreed planning (see "2019 Internal Audit Plan" approved by the Board of Directors of the Parent Company in the meeting of 27/3/2019, in addition to the specific plans made by the subsidiaries BAC Fiduciaria S.p.A. and BAC Life S.p.a., whose Internal Auditing activity is outsourced to the same function of the Parent Company BAC).

It should be noted that during the year the document relating to the "Internal Control System" (ICS) was updated with the issuance of the specific Regulation ("May 2019" edition) approved by the Board of Directors of the Parent Company in the meeting of 29/5/2019 together with the "Internal Auditing Regulation"; the adjustment was necessary following the changes in primary legislation or the issuance of the FIA Instruction 2019/05 "Company organization, policies, procedures, controls and training".

It should also be noted that within the Banking Group, the Parent Company carried out the following activities necessary for the exercise of Group governance:

- Regulatory functions: it translated the general and specific provisions issued by the Supervisory Bodies into its own binding directives for its subsidiaries and verified their compliance.
- Control functions: it equipped the Group with an Internal Control System, validated the control procedures and disclosed the criteria for measuring, managing and controlling all risks.

The outcome of checks shown in the "Report on assessments carried out by the Parent Company", pursuant to Article IX.II.2 paragraph 6 of CBSM Regulation 2007-07 and related to the interventions carried out at the Subsidiaries, made it possible to express a judgement of "sufficiently adequate" or higher degree on the Group's organisational and control measures and to assess "compliant" or higher degree of the resulting operational conduct with respect to internal regulatory provisions (see "Assessments carried out by the Parent Company - 2019 Internal Audit Report approved by the Board of Directors of the Parent Company at the meeting held on 31/3/2020").

The **Risk Management Function** carried out its activities in the manner and frequency provided for by internal regulations. Since September 2019, in accordance with international best practices, the risk management function has been reporting directly to the Board of Directors. A Gap Analysis activity was carried out in 2019 with the consulting firm KPMG Advisory SpA in order to understand the degree of adherence of the Bank's risk management processes, activities and controls with respect to the reference regulations, as well as any points of improvement that could be highlighted by comparing the Group's performance with market best practices.

The results of the strategic-management risk control activity confirm an adequate monitoring of the limits set by the supervisory regulations.

In carrying out the assurance activity on the management of the risk of non-compliance to which the Bank is exposed, the **Compliance Function** carried out verification activities regarding the Legislative

and Regulatory Provisions issued by the Supervisory Authority, the Internal Provisions concerning the Consolidated Financial Statements, Operating Manuals, Circulars, Service Communications and contracts in general. Full organizational and regulatory compliance was noted on all of them. Control interventions were also carried out within specific areas and the analyses showed that the activity complied with the provisions.

In accordance with internal regulations and the initiative plan, the function carried out a constant and continuous monitoring of the risks in terms of preventing and countering money laundering and terrorist financing.

The **resolutions of the Congress of State** were regularly brought to the attention of the Administrative Body in compliance with the provisions concerning the fight against money laundering and terrorist financing.

All the control functions maintain a continuous critical interaction through periodic moments of discussion and mutual exchange of information in the management of the control processes in order to pursue a full awareness of the risks.

During the year, the **Anti-Money Laundering Officer** was the guarantor of all activities established by current legislation regarding the prevention and countering of money laundering, terrorist financing and the proliferation of weapons of mass destruction. The Anti-Money Laundering Officer received internal reports on suspicious transactions and carried out an in-depth analysis of them and if deemed justified, forwarded the same report to FIA. He carried out the analysis of the transactions by customers by searching and acquiring the information on his own initiative and, in case the anomalies detected were deemed to be actually attributable to a suspicion, he forwarded the report to FIA. He acted as a liaison with FIA, responding promptly to requests coming from the FIA and representing the link between the Company Network and FIA. He drafted the annual report on the activities carried out, including the control plan, submitting it to the Board of Directors for approval, subject to the favourable opinion of the Board of Statutory Auditors, annually proposed a training plan for all employees of the Banking Group to the Anti-Money Laundering Committee, aimed at achieving an ongoing update of senior management, employees and collaborators, according to the tasks performed, analysing the "unexpected" transactions characterized by unusually high amounts and those on which there were doubts about the purposes for which they were actually intended. He oversaw the forwarding of communications on violations of the rules on limitations to the use of cash and bearer securities, on the inconsistency of the declaration of the beneficial owner, on the freezing of funds and objective communications to the FIA. The Anti-Money Laundering Officer also received reports of violations of the anti-money laundering "whistleblowing" regulations, ensuring all employees, collaborators and company representatives can send a report and took care of forwarding these reports to the FIA.

## **Risk management policies**

Concerning the overall management of risks to which it is exposed, the Bank defined the map of significant risks which constitutes the framework within which the risk assessment, measurement, monitoring and mitigation activities are developed. To this end, it identified all the significant risks to which it is, or could be exposed to that could jeopardize its operations, the pursuit of its strategies and the achievement of corporate objectives. For each type of risk identified, the relative sources of generation are identified (also for the purposes of the subsequent definition of the instruments and methodologies to monitor the relative measurement and management) and the structures responsible for management.

On the subject of monitoring and managing risks (credit, market, liquidity, interest rate, exchange rate, counterparty and operational), the Risk Committee met periodically to assess the level reached by the risk indicators as defined by the Board of Directors and to define any return strategies in case of limits being exceeded. If the limits were exceeded, the Board of Directors was informed.

## **Credit and counterparty risk**

Credit risk is defined as the risk that, as part of a credit transaction, the debtor does not fulfil his obligations to repay the principal and/or pay interest, even partially, to his creditor. The definition of credit risk also includes the risk of downgrading of the debtor, i.e. the possibility that the creditworthiness of a counterparty turns out to be lower than originally estimated by the creditor. The procedures for managing and monitoring this risk are governed by the current Credit Regulations. The document defines the Bank's policies on credit disbursement and sets out the guidelines that must guide the lending activity, the organisation of the lending process, the functions involved and the risks associated with it. Concerning strategic limits, the document contains their definition, the permitted level, the monitoring methods and the management of any excesses.

The Prudential Supervisory Regulations (CBSM Regulation 2007-07) require the bank to maintain a level of regulatory capital sufficient to cover 11% of the total risk-weighted assets to cover the risk of loss due to default by debtors. These credit risk weighting coefficients applied to the exposure net of value adjustments, are differentiated according to three parameters and, particularly, debtor counterparties, country risk and guarantees received.

In order to focus more on the management and monitoring of non-performing loans, the Bank adopted regulations relating to doubtful loans. The document defines the procedures for classification, management and assessment of doubtful loans. Impaired loans are assigned to specific internal organisational units. In order to reduce the risk of generating non-performing loans and analyse predictive signs of insolvency situations, checks are carried out on anomalous trends, with consequent communication to the organisational units in charge of restoring correct operations.

The credit risk limits that are monitored by the Risk Management function concern: duration limits, limits on the maximum amount financed for mortgage loans compared to the estimated value of the property, as well as specific limits on financial leasing transactions, such as duration, amount of advance rent and amount of final redemption. Monitoring is carried out during the resolution phase. As a result of the significant presence of fixed credit assets credit risk represents a strategic focus of attention as specified below.

Controls aimed at monitoring credit risk were strengthened in 2019 through the use of the bank's management application and other IT tools in use.

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

### **Market and exchange rate risk**

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

In order to adequately manage and monitor this type of risk, in line with the level of available capital, the Bank defined policies within the Finance Regulations for carrying out financial activities relating to treasury management and the securities portfolio. The document sets out the structure of the finance process, the functions involved, the types of risk involved, the rules for evaluating the securities in the own portfolio, the strategic limits and the related control methods.

The Risk Management Function is responsible for assessing the strategic limits defined in the Regulations and reports the results to the Risk Committee and also informing the Board of Directors in case of excesses. The market risk limits that are monitored by the Risk Management Function concern the own portfolio (securities and banks) and in particular the Maximum Acceptable Loss, the VAR (Value At Risk), the maximum composition limits. Monitoring is carried out by means of market risk analysis (VAR, Duration) provided by an external Servicer and by means of extractions from the information system integrated with market data extrapolated from the Bloomberg infoprovder.

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

### **Rate risk – Banking portfolio**

The bank's financial statement is subject to the risk due to fluctuations in interest rates. These fluctuations have an impact on both the economic and equity level, due to the different composition of assets and liabilities in terms of interest rates (fixed or variable) and in terms of repricing times.

The Risk Management Function is responsible for monitoring the aforementioned interest rate risk through ALM (Asset Liability Management) models, both in the short-term (impact on interest margin) and in the medium/long term (impact on equity), with the aim of measuring the impact of fluctuations in market rates on the bank's earnings and economic value. The interest rate risk analysis is performed on the basis of reports provided by an external Servicer.

The results of the interest rate risk monitoring, in case of excesses, were submitted to the Risk Committee as well as to the Board of Directors.

### **Liquidity risk**

An adequate level of liquidity is essential for the proper functioning of the all bank operations in both the short and medium to long term. In order to face this risk, it is therefore advisable to have an adequate level of liquid or readily liquid assets in the short term and to be part of a correct ratio between assets and liabilities maturing in the medium-long term. The liquidity level is also monitored by the Supervisory Authority, which for some time now required banks to send specific reports, first on a daily basis and from November 2019 on a weekly basis.

The Bank defined its internal strategic limits whose management and monitoring are established in the Finance Regulations approved by the Board of Directors. The liquidity risk limit monitored by the Risk Management Function is the coverage ratio of sight deposits. The indicator expresses the bank's ability to cope with any reductions in demand deposits. Monitoring is carried out on the basis of data extrapolated from the liquidity report sent to CBSM.

The results of liquidity risk monitoring were submitted to the Risk Committee as well as the Board of Directors, in case of failure to comply with the established limit.

### **Operational risk**

Operational risk is inherent to the exercise of banking activity as it is generated transversally by all company processes; the main sources of operational risk are attributable to possible internal fraud, malfunctioning of information systems, professional obligations towards customers or the nature or characteristics of the products offered.

The Bank defined the responsibilities and articulated organisational powers, both on the top management bodies and on the company's organisational units, aimed at controlling the risk in question.

The internal audit function, within the broader scope of its own control activities, carries out specific and targeted checks on operational risks.

In terms of capital absorption, current legislation on Prudential Supervision (CBSM Regulation 2007-07) provides for the application of the so-called Basic method of Basel (Basic Indicator Approach). In particular, the minimum capital coverage required is equal to 15% of the average gross intermediation margin of the last three financial years.

## Charity

BAC has always paid great attention to socially oriented charitable initiatives characterized by high ethical values. In the past 2019 and in compliance with the resolution of the Shareholders' Meeting on 15/05/2019, the Bank's Board of Directors supported the following associations during the past financial year:

- Associazione Oncologica Sammarinese;
- Associazione Sammarinese Cuore Vita;
- Soroptimist International San Marino;
- Guardia d'onore del cuore Immacolato di Maria;
- Pubblicazione Volume Biografia Renata Tebaldi Zecchini Editore;
- Associazione Sammarinese Sostegno Patologie e Invecchiamento Celebrale;
- Carità senza confini;
- Comitato Palio Don Bosco;
- Comitato Festa di San Rocco;
- Comitato Festa di Casole;
- Centro Ricreativo Aziendale Dipendenti.

## Important facts occurred after year end

The recent global health emergency due to the Covid-19 pandemic saw the Republic of San Marino affected by emergency measures (namely Decree – Law no.44 of 8 March 2020, Decree - Law no.51 of 14 March 2020, Decree - Law no.52 of 20 March 2020, Decree - Law no.55 of 29 March 2020, Decree - Law no.59 of 4 April 2020, Decree - Law no.62 of 17 April 2020, Decree Law no.63 of 21 April 2020, Decree - Law no.67 of 3 May 2020, Decree Law no.68 of 3 May 2020, Decree Law no.76 of 15 May 2020, Decree Law no.96 of 31 May 2020, and the Resolutions of the Congress of State no.10 of 17/03/2020, no.4 of 24/03/2020, no.7 of 7 April 2020, no.1 of 17 April 2020).

Provided and considering that:

- the risk factors and uncertainties associated with the pandemic are completely evident and generalized;
- it is equally evident that the risks and uncertainties are significant;
- at present, it is not possible to draw up specific plans to deal with these risks, while waiting to know more reliably what the pandemic's trend will be, but it should be noted that at the moment there are no significant reductions in revenues, while, at the same time, credit deterioration is likely considering the extent of the pandemic worldwide;
- the Bank, with a view on business continuity, implemented all appropriate measures to guarantee an adequate level of customer services, even with a reduced workforce on its premises through the use of smart working for safety reasons aimed at limiting the spread of the infection;
- the Bank also implemented all appropriate measures to protect the health of workers by periodically sanitizing the workplace and reorganising company processes in order to reduce the presence of workers within the company to less than 50%, as provided for by Decree Law 52/2020 mentioned above;
- the Bank, in agreement with the institutions associated with the ABS, on the basis of the Decree Law no.55 of 29 March 2020, contributed to ensure a first necessary economic support to individuals and San Marino companies that are facing financial liquidity problems due to the international health emergency. Therefore, in order to deal with this situation, various moratorium facilities and extraordinary liquidity loans were implemented;



- the Bank, as explained in the introduction, actively participated in the resolution procedure, provided for by Law 102/2019 - Bank Crisis Resolution Tools to protect the stability of the financial system - of Banca Cis - Credito Industriale Sammarinese S.p.A. with the signing of the 2nd Part of the second Closing of the Sale Agreement on 14/02/2020 and with Private Agreement on 31/03/2020, it finalized and concluded the transfer of the remaining employment relations provided for in the General Block Sale Agreement.

- The Supervisory Authority, with its letter Prot. 20/3582 of 6 April 2020, in view of the exceptional situation created by the COVID-19 health emergency, provided for measures to support the financial stability of the San Marino system such as:

- Possibility of exceptions in terms of ROB;
- transfers - under specific conditions - of financial instruments from the free portfolio to the investment portfolio;
- exceptions in terms of prudential supervision, with particular regard to the weighting factor to be applied - under specific conditions - to subsidised loans granted to parties other than related parties, qualified as unsecured loans to be scaled down in accordance with the provisions of the San Marino Banking Association press release of 18 March.

- The Bank, by resolution of the Board of Directors, on the basis of the provisions of the Supervisory Authority in support of the financial stability of the system (Prot. 20/3582 of 6 April 2020 referred to above), transferred nine securities from the freely owned portfolio to the investment portfolio for a book value of € 18.781 million, accounting for a capital gain of € 0.244 million in 2020.

Having said all this, it is believed that the conditions for the continuation of the activity are presently in place.

To strengthen the previous conclusions, a recommendation was issued on 7 April 2020 by the ODCEC (Order of Chartered Accountants and Accounting Experts) of the Republic of San Marino, concerning "The financial statement information relating to the (COVID-19) health emergency", of which BAC took appropriate vision.

Nevertheless, even in a broader perspective, having the parameters used by European banks as reference, these circumstances, extraordinary in nature and extent, which have direct and indirect repercussions on economic activity are constantly monitored in the course of the 2020 financial year, which despite serious events is still marking several positive performances. As for IAS 10 (non-adjusting event), the bank considers this event to be a post-balance sheet non-adjusting event.

All of the above leads us to believe that the analyses regarding the existence of the conditions related to the principle of business continuity as recommended by the ODCEC mentioned above, are satisfied.

As for the valuations of the 2019 financial statement items, the ordinary operating criteria were maintained, while the possible revision of the time horizon for some of the Bank's assets will be analysed in 2020, taking into account the trend of the epidemic.

Furthermore, in January 2020, the International Monetary Fund (hereinafter referred to as "IMF") carried out the usual follow-up, following the mission undertaken in 2016, in our Republic to assess its rating, economic attractiveness and the soundness of the financial system in the light of possible lending interventions; the meeting presented data on the quality of assets, equity, Solvency and Profit and Loss Account in the development of the Bank's 2020-2022 three-year Plan; an effective discussion on the main issues of the financial and banking sector emerged.

## Business Outlook

In 2020 BAC will revise the 2020-2022 three-year Development Plan, already outlined and approved by the Board of Directors first on 30/01/2020, then revised and approved again on 26/06/2020 to take into account the final implementation of the AQR adjustments, in light of the extraordinary pandemic events that occurred at the beginning of 2020 and already described in detail in the previous paragraphs; however, the already established guidelines for renewal and efficiency

improvement will remain the cornerstones of the following key pillars:

- the increase in Customer Base and volume;
- growth and development in sectors with a significant commission content and high margins;
- the focus on cost containment;
- the optimization of the risk profile;
- the complete offer of insurance, asset management and asset segregation products (such as trusts), on which Bac has a consolidated experience and adequate professional figures;
- the efficient management of the NPL credit portfolio.

Support for the company's development will also be guaranteed by the capital strengthening resulting from the issue and placement of a subordinated bond of € 10 million.

The Bank also submitted a specific request to the Supervisory Authority, pursuant to Article VII. II.12 of the Regulation 2007 - 07, in order to be able to take advantage of the exemption from the deduction, in full, of the participation of BAC LIFE SpA, which represents a solid participatory and unique reality in the panorama of San Marino Banking Groups and which, pursuant to the Regulation 2008 - 01, is already subject to the measurement of the fully respected solvency margin. If accepted, the shortage of capital for the bank's prudential supervision would be zero, exceeding the required regulatory solvency limit of 11%. If accepted, the bank's capital requirements would be reduced by approximately € 6.5 million.

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We wish to express our heartfelt and sincere thanks to all the Bank's staff for their fruitful cooperation and commitment in carrying out their activities during a particularly difficult year for the Bank as a result of the events that affected the General Management in office until August 2019 and the consequent changes in the Bank's management at the head of the executive structure, which became stable from October 2019.

We extend an esteemed appreciation to the Board of Statutory Auditors and the Supervisory Authority for the feedback and support provided.

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 of 31/12/19 along with this report and to deliberate on carrying forward the 2019 loss in the year 2020 (€ -1.656 million), as well as to cover the 2018 loss carried forward by using of the ordinary reserve fund for € -3.721 million.

With the aforementioned approval, the composition of corporate assets will be as follows:

NET EQUITY	31/12/2019
Share capital - subscribed and paid-up shares	20.880.080
Ordinary reserve fund	50.873.984
Extraordinary reserve fund	-
Share premium reserve fund	-
Own share reserve fund	14.378
Revaluation reserves	14.835.485
Retained loss	-
Result for the year	-1.656.680
<b>Total</b>	<b>84.947.248</b>

The number of own shares held in the portfolio by the bank is 553 for a nominal value of € 14,378 and represent 0.07% of the subscribed capital.

San Marino, 26 June 2020

Luigi Lonfernini  
The Chairman of the Board of Directors

## Subjective and objective conditions

Pursuant to article 6, paragraph 10, of Law no. 47 of 23/02/2006 and subsequent amendments and additions, all members of the Board of Directors of the Banca Agricola Commerciale of the Repubblica of San Marino S.p.A. declare the subjective and objective conditions provided for by law for holding the office of Chairman and Directors under their own responsibility.

San Marino, 26 June 2020

**Board  
Statutory  
Auditors' report**

**4**

## “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 super-visitatory activity carried out during the year ended 31 December 2019, 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 2019, 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 2019, which are submitted to the approval of the Shareholders' Meeting, present a loss of € 1,656,680, 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 show:

- net equity of € 84,947,248;
- own funds for supervisory purposes equal to € 32,415,394;
- “total capital ratio” solvency ratio, down to 8, 81% from the previous 17,09%, below the required regulatory minimum of 11,00%;
- allocation of the lump-sum and analytical devaluations fund equal to € 67,648,964. The loan coverage degree at the end of the 2019 financial year was 8.41% compared to 7.01% of the previous year.

The burden incurred for value adjustments on loans, increasing compared to the previous year: the coverage of impaired loans was further increased and went from 26.74% to 41.13%.

With regard to the solvency ratio, the Directors report that the shortage of the Bank's Prudential Supervisory Capital will be dealt with by the issue and placement of a subordinated loan reserved for professional customers, already authorized by the Central Bank for € 10 million for inclusion in the Supervisory Capital, and during 2020, with further analytical value adjustments on Impaired Loans deducted from the “Provision for credit risks”. The directors also report that if the request to waive the deduction of the value of the entire equity investment in BAC Life S.p.A by the Supervisory Board were accepted, “the bank's capital requirements for the purposes of prudential supervision would be zero, exceeding the required regulatory solvency limit of 11%”.

The Report on the Financial Statements issued on 20 July 2020 by the independent auditors AB&D S.p.A., does not highlight any findings, exceptions or reservations. In the Report, the independent

auditors refer to the salient elements in relation to the information provided by the Directors in the documents on the assumptions relating to: a) the completion of the adjustments deriving from the AQR (Asset Quality Review) financial year, b) to consider the effects on Supervisory Capital as of 31/12/2019 of the full implementation of the implicit risks from the AQR financial year, c) to provide information on the uncertainties regarding the foreseeable management evolution caused by the Covid-19 epidemic. In addition, the independent auditors also report what was reported by the Directors in the Management Report, and with reference to the foreseeable evolution, the revision of the 2020-2022 three-year development plan approved in the final version on 26 June 2020 to take into account the definitive implementation of the AQR adjustments and the extraordinary pandemic events that occurred in 2020.

The independent auditors, as per the meetings held, reported on the work carried out and the absence of situations of uncertainty and limitations in the checks carried out.

## 2. Activities of the Board of Statutory Auditors

During the year ended as of 31 December 2019, the Board of Statutory Auditors held 20 meetings and monitored compliance with the principles of proper administration up to the date of preparation of this Report, through direct observation, collection of information from the heads of corporate functions, with the internal audit, compliance, anti-money laundering and risk management functions, for the purposes of the mutual exchange of relevant data and news. During the same period, the Board of Statutory Auditors attended 20 meetings of the Board of Directors, obtaining, in compliance with current regulations, adequate information on the general management trend and their foreseeable evolution, as well as on the most significant transactions, due to their size or characteristics, carried out by the Bank.

In reporting on the activities for which it is responsible, the Board of Statutory Auditors reports:

- to have examined the general aspects, management processes and methods for measuring the risks involved in and connected to the Bank's activities, as well as their suitability and effectiveness when dealing with serious, persistent, widespread and generalised difficulties;
- to have followed the evolution of management according to the pre-established strategic objectives, as well as the evolution of organisational changes in line with the aforementioned objectives, also verifying through periodic analyses and checks, that the constant updating of the information system was maintained.

The Management Report summarises the relationships with the Group companies. 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 carried out by the Internal Audit function, which reports the results of its activities directly to the Board of Directors and the Board of Statutory Auditors.

The Board of Statutory Auditors took note of the appropriate initiatives adopted by the Bank with a view to gradually strengthening its organisational and management controls, particularly in the credit sector, also by updating internal regulations on the delegation of powers and credit disbursement, the management and classification of customers and the revocation of credit lines and the provisions concerning reinforced measures for the adequate customer verifications.

Interventions adopted by the Bank, accepting the recommendations made by the Supervisory Body following inspection visits, which also involved the replacement of the heads of the Internal Audit, Risk Management and Compliance functions and a renewal of the General Management figures, which are yet to be completed.

In the light of the measures adopted by the Board of Directors and the audits carried out, the Board of Statutory Auditors believes that the internal control system is appropriate 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.

As far as the Board of Statutory Auditors is concerned, it also assessed the reliability of the administrative and accounting system in order to correctly record and represent management events both through direct investigations of the accounting documents and through information provided by the heads of the various functions and the auditors.

The Board of Statutory Auditors acknowledges that no complaints were filed during the year pursuant to Article 65 of Law 47/2006 and subsequent amendments and that the supervisory activities were carried out in a normal manner and that no significant facts emerged that would require reporting herein.

### **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 independent auditors AB&D S.p.A.

The Board of Statutory Auditors supervised the general approach given to it, its general compliance with the Law as regards its formation and structure and, in this regard has no 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 2019, as prepared by the Directors.

San Marino, 27<sup>th</sup> July 2020

Rag. Gian Enrico Casali  
*Chairman*

Dott.ssa Stefania Gatti  
*Auditor*

Avv. Alberto Vaglio  
*Auditor*

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# 2019 Financial Statement



## STATEMENT OF ASSETS

CODE	ASSET ITEMS	2019	2018
10	Cash and cash equivalents with central banks and post offices	7.413.660	6.765.689
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	107.140.384	139.463.756
	At sight	64.265.018	88.871.345
	Other receivables	42.875.367	50.592.410
40	Loans to customers	351.624.085	411.036.916
	At sight	147.404.627	204.219.457
	Other receivables	175.687.063	235.349.853
50	Bonds and other debt financial instruments	45.545.934	44.954.994
	Public issuers	45.545.934	44.954.994
	Bank issuers	175.687.063	235.349.853
	Financial firms other than Banks	175.687.063	235.349.853
60	Shares, stocks and other capital financial instruments	20.212.977	9.422.747
70	Shareholdings	4.718.689	4.840.804
	Financial firms	4.059.241	4.059.241
	Non-financial businesses	659.448	781.563
80	Equity investments in group companies	8.086.592	7.723.975
	Financial firms	7.783.333	7.408.97
	Non-financial businesses	303.259	315.000
90	Intangible fixed assets	1.513.963	1.237.337
	Financial leasing	417.187	-
	• of which assets under construction	-	-
	Assets awaiting lease	-	-
	• of which due to default by the tenant	-	-
	Assets available from debt collection	-	-
	• of which assets available for credit extinction through a settlement agreement	-	-
	Goodwill	-	-
	Installation expenses	-	-
	Other intangible fixed assets	1.096.776	1.237.337
100	Tangible fixed assets	171.808.595	184.951.693
	Financial leasing	74.254.276	88.532.498
	• of which assets under construction	10.833.031	13.153.334
	Assets awaiting lease	2.245.789	3.325.980
	• of which due to default by the tenant	2.245.789	3.325.980
	Assets available from debt collection	67.920.954	64.010.782
	• of which assets available for credit extinction through a settlement agreement	67.920.954	64.010.782
	Lands and buildings	27.033.194	28.630.976
	Other tangible fixed assets	354.382	451.457
110	Capital subscribed and not paid-in		
	• of which called-up capital	-	-
120	Own shares or quotas	14.378	14.378
130	Other assets	138.736.791	118.355.047
140	Accrued income or prepaid expenses	347.264	456.119
	Accrued income	54.679	76.450
	Prepaid expenses	292.585	379.669
150	<b>Total assets</b>	<b>857.163.311</b>	<b>929.223.455</b>

## STATEMENT OF LIABILITIES

CODE	LIABILITY ITEMS	2019	2018
<b>10</b>	<b>Amounts due to Banks</b>	<b>1.254.211</b>	<b>1.137.069</b>
	At sight	1.254.211	1.137.069
	At term or with notice	-	-
<b>20</b>	<b>Amount due to customers</b>	<b>417.893.549</b>	<b>434.007.160</b>
	At sight	402.107.952	406.094.112
	At term or with notice	15.785.597	27.913.048
<b>30</b>	<b>Payables represented by financial instruments</b>	<b>235.224.575</b>	<b>282.563.61</b>
	Bonds	-	-
	Certificates of deposit	235.224.575	282.563.618
	Other financial instruments	-	-
<b>40</b>	<b>Other liabilities</b>	<b>94.276.538</b>	<b>114.973.902</b>
	• of which checks in circulation and similar securities	1.054.415	604.644
<b>50</b>	<b>Accrued expenses and deferred income</b>	<b>94.734</b>	<b>72.752</b>
	Accrued expenses	4.223	7.239
	Deferred income	90.512	65.513
<b>60</b>	<b>Severance</b>	<b>502.944</b>	<b>529.374</b>
<b>70</b>	<b>Reserves for risks and charges</b>	<b>1.106.357</b>	<b>1.328.615</b>
	Provisions for pensions and similar obligations		
	Tax reserves	106.828	266.401
	Other reserves	999.529	1.062.214
<b>80</b>	<b>Provisions for credit risks</b>	<b>17.857.990</b>	<b>-</b>
<b>90</b>	<b>Provision for general financial risks</b>	<b>-</b>	<b>-</b>
<b>100</b>	<b>Subordinate liabilities</b>	<b>4.005.165</b>	<b>8.010.853</b>
<b>110</b>	<b>Subscribed capital</b>	<b>20.880.080</b>	<b>20.880.080</b>
<b>120</b>	<b>Share premium reserve</b>	<b>-</b>	<b>-</b>
<b>130</b>	<b>Reserves</b>	<b>54.609.401</b>	<b>58.410.046</b>
	Ordinary or legal reserve	54.595.023	58.395.668
	• of which Reserve in tax suspension	1.227.968	1.227.968
	Reserve for own shares or quotas	14.378	14.378
	Statutory reserves	-	-
	Other reserves	-	-
<b>140</b>	<b>Revaluation reserves</b>	<b>14.835.485</b>	<b>14.831.669</b>
<b>150</b>	<b>Retained earnings (losses) carried forward</b>	<b>-3.721.039</b>	<b>-3.800.644</b>
<b>160</b>	<b>Profit (loss) for the year</b>	<b>-1.656.680</b>	<b>-3.721.039</b>
<b>170</b>	<b>Total liabilities</b>	<b>857.163.311</b>	<b>929.223.455</b>



## GUARANTEES AND COMMITMENTS

CODE	ITEMS	2019	2018
<b>10</b>	<b>Guarantees given</b>	<b>15.400.333</b>	<b>15.000.232</b>
	<i>of which:</i>		
	Acceptances	1.785.985	953.311
	Other guarantees	13.614.348	14.046.921
<b>20</b>	<b>Commitments</b>	<b>2.897.185</b>	<b>5.257.749</b>
	<i>of which:</i>		
	For specific use	-	-
	• <i>of which financial instruments</i>	-	-
	For unspecific use	2.270.276	4.387.383
	• <i>of which financial instruments</i>	-	-
	Other commitments	626.909	870.366
	<b>Total</b>	<b>18.297.518</b>	<b>20.257.981</b>

## PROFIT AND LOSS ACCOUNT

CODE	PROFIT AND LOSS ACCOUNT	2019	2018
<b>10</b>	<b>Interest income and similar revenues</b>	<b>14.546.131</b>	<b>16.384.609</b>
	On loans to Banks	100.272	161.433
	On loans to customers	13.754.016	15.674.469
	On debt securities	691.843	548.708
<b>20</b>	<b>Interest expense and similar charges</b>	<b>3.688.620</b>	<b>4.392.413</b>
	On amounts due to Banks	287	845
	On amounts due to customers	927.136	1.057.549
	On debts represented by financial instruments	2.761.196	3.334.018
	- of which on subordinate liabilities	7.362	145.449
<b>30</b>	<b>Dividends and other revenues</b>	<b>-</b>	<b>345.822</b>
	On stocks, quotas and other equity securities	-	-
	On shares	-	-
	On groupcompany shares	-	-
<b>40</b>	<b>Commission income</b>	<b>5.897.253</b>	<b>4.506.328</b>
<b>50</b>	<b>Commission expense</b>	<b>1.246.068</b>	<b>797.729</b>
<b>60</b>	<b>Profits (losses) on financial transactions (+/-)</b>	<b>1.265.379</b>	<b>79.889</b>
<b>70</b>	<b>Other operating income</b>	<b>13.068.684</b>	<b>14.509.346</b>
<b>80</b>	<b>Other overhead costs</b>	<b>-</b>	<b>-</b>
<b>90</b>	<b>Administrative expenses</b>	<b>13.357.752</b>	<b>14.310.430</b>
	Personnel expenses	8.494.845	8.878.670
	of which:		
	• salaries and wages	6.103.398	6.415.108
	• welfare contributions	1.641.015	1.647.041
	• severance	543.901	576.955
	• pensions and similar obligations	-	-
	• directors and auditors	150.246	166.837
	• other personnel costs	56.284	72.728
	Other administrative expenses	4.862.907	5.431.760
<b>100</b>	<b>Value adjustments on intangible fixed assets</b>	<b>319.239</b>	<b>495.845</b>
<b>110</b>	<b>Value adjustments on tangible fixed assets</b>	<b>12.935.629</b>	<b>13.801.205</b>
<b>120</b>	<b>Provisions for risks and charges</b>	<b>256.000</b>	<b>533.099</b>
<b>130</b>	<b>Provisions for credit risks</b>	<b>-</b>	<b>-</b>
<b>140</b>	<b>Value adjustments on loans and on provisions for guarantees and commitments</b>	<b>5.924.307</b>	<b>8.024.805</b>
<b>150</b>	<b>Write-backs on loans and provisions for guarantees and commitments</b>	<b>1.022.518</b>	<b>2.940.947</b>
<b>160</b>	<b>Value adjustments on financial fixed assets</b>	<b>11.741</b>	<b>293.229</b>
<b>170</b>	<b>Write-backs on financial fixed assets</b>	<b>-</b>	<b>-</b>
<b>180</b>	<b>Profit (loss) from ordinary activities</b>	<b>-1.939.391</b>	<b>-3.881.812</b>
<b>190</b>	<b>Extraordinary income</b>	<b>522.846</b>	<b>627.556</b>
<b>200</b>	<b>Extraordinary expenses</b>	<b>240.135</b>	<b>145.811</b>
<b>210</b>	<b>Extraordinary profit (loss)</b>	<b>282.711</b>	<b>481.745</b>
<b>220</b>	<b>Taxes for the year</b>	<b>-</b>	<b>320.972</b>
<b>230</b>	<b>Change in the provision for general financial risks</b>	<b>-</b>	<b>-</b>
<b>240</b>	<b>Profit (loss) for the year</b>	<b>-1.656.680</b>	<b>-3.721.039</b>

## CASH-FLOW STATEMENT

<b>FUNDS GENERATED AND DEPOSITED</b>	<b>2019</b>	<b>2018</b>	<b>FUNDS USED AND INVESTED</b>	<b>2019</b>	<b>2018</b>
<b>FUNDS GENERATED BY MANAGEMENT</b>	<b>18.390.218</b>	<b>20.239.169</b>	<b>VALUE RECOVERY AND USE OF FUNDS GENERATED BY MANAGEMENT</b>	<b>2.127.188</b>	<b>5.403.678</b>
Profit (loss) for the year	(1.656.680)	(3.721.039)	Use of provision for pension	-	-
Allocation to the pension fund	-	-	Use of provision for severance	589.845	677.044
Severance	563.415	597.025	Use of provisions for credit risk	-	-
Provision for credit risks	-	-	Use of provisions for risks and charges	514.825	1.785.687
Provision for credit risks	292.567	748.099	Decreases in the provision for bad debts	1.022.518	2.940.947
Increases in the provision for bad debts	5.936.048	8.318.034		-	-
Value adjustments on tangible and intangible fixed assets	13.254.868	14.297.050		-	-
<b>INCREASE IN FUNDS DEPOSITED</b>	<b>139.124</b>	<b>22.096.780</b>	<b>INCREASE IN FUNDS INVESTED</b>	<b>15.192.137</b>	<b>51.623.519</b>
Amounts due to banks	117.142	352.623	Cash and other values	647.971	625.292
Amount due to customers	-	20.849.196	Loans to banks	-	18.263.202
Payables represented by financial instruments	-	-	Loans to customers	-	-
Other liabilities	-	894.962	Bonds and other debt securities	590.939	12.229.898
Accrued expenses and deferred income	21.982	-	Shares, stocks and other equity securities	10.790.230	2.613.740
Subordinate liabilities	-	-	Shareholdings	-	72.752
			Equity investments in group companies	362.617	270.743
			Tangible and intangible fixed assets	276.626	8.691.830
			Other activities	2.523.754	8.856.061
			Capital subscribed and not paid-in	-	-
			Accrued income and prepaid expenses	-	-
<b>DECREASE IN FUNDS INVESTED</b>	<b>86.941.872</b>	<b>29.968.126</b>	<b>DECREASE IN FUNDS DEPOSITED</b>	<b>88.155.705</b>	<b>15.319.155</b>
Cash and other values	-	-	Amounts due to banks	-	-
Loans to banks	32.323.371	-	Amounts due to customers	16.113.611	-
Loans to customers	54.499.301	29.954.386	Payables represented by financial instruments	47.339.043	11.308.100
Bonds and other debt securities	1.641.015	-	Other liabilities	20.697.364	-
Shares, stocks and other equity securities	-	-	Accrued liabilities and deferred income	-	5.764
Shareholdings	122.115	-	Subordinate liabilities	4.005.688	4.005.293
Equity investments in group companies	-	-		-	-
Tangible and intangible fixed assets	(111.770)	-		-	-
Other activities	-	-		-	-
Capital subscribed and not paid-in	-	-		-	-
Accrued income and prepaid expenses	108.855	13.740		-	-
<b>CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>3.816</b>	<b>42.277</b>	<b>CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>
Increase "other reserves"	3.816	42.277		-	-
Capital payment	-	-		-	-
<b>Total funds generated and deposited</b>	<b>105.475.030</b>	<b>72.346.352</b>	<b>Total funds used and invested</b>	<b>105.475.030</b>	<b>72.346.352</b>

# Explanatory Notes

PART A	Accounting principles
SECTION 1	Illustration of accounting principles
SECTION 2	The acquisition of SNB Assets and Liabilities
PART B	Information on the Statement of Assets and Liabilities
PART C	Information on the Profit and Loss Account
PART D	Other information

## Structure and content of the financial statements

The financial statements for the year 2019 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 statement's figures, implementing principles of truthfulness and clarity, income and expenses were not offset.

The write-down, 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.

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## PART A - ACCOUNTING PRINCIPLES

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### 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 are 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.

Loans are recorded in the financial statements according at their estimated realizable value calculated on the basis of the borrower's state of solvency as well as on the basis of the capacity of the individual borrower to service the debt and regularly fulfil the obligations undertaken.

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 amortization 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 overdue 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 if the amount is small. For this reason, they are considered to be "small amounts" if they meet the following significance thresholds:

- value of the single gross exposure below 0.5% of PV;

- overall value of gross exposures subject to arbitrary write-down of less than 5% of the PV.

Otherwise, analytical write-down is carried out.

**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. Exposures are not subject to arbitrary write-downs if they are backed by collateral or personal guarantees by parties resident in Zone A countries and these guarantees are explicitly aimed at neutralising the country risk.

**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. Arbitrary write-downs are made on the basis of the actual probability distribution of the loss rates, the Bank reached the necessary temporal statistical depth of the observation database, the matrix, in fact, reached the depth of 4 years (March 2016-March 2020).

### **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.

## **SHARES, UNITS AND OTHER EQUITY FINANCIAL INSTRUMENTS (ASSET ITEM NO. 60)**

This item includes financial instruments which are in capital nature, such as shares and units in UCIs. They are valued at the market price (mid-price) on the last trading day available at the end of the period.

### **PSHAREHOLDINGS (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 a "cash" basis".

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 amortization 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.

No depreciation is applied to non-instrumental assets returned to ownership following early termination of leasing contracts.

### **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 of Regulation 2016/02.

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.

### **FPROVISIONS 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.

In 2019, the Fund for residual AQR adjustments (€ 17.86 million) was replenished by suspending 9/10 of Other Assets, in compliance with Law 173/2018, Article 40, paragraph 2, and as per the authorized request by the Central Bank Prot.20/5553 of 19/06/2020, i.e. recognizing the provision for 1/10 in the Profit and Loss Account.

### **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 et seq. 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.

### **INTEREST, COMMISSIONS, CHARGES AND INCOME**

Interest, commissions, charges and income are recorded on an accrual basis.

### **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.

### **VALUE ADJUSTMENTS ON LOANS AND TAX PROVISIONS**

Value adjustments on loans 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 "Provision for Risks on Credits" in any case 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.

## **SECTION 2 - The acquisition of SNB Assets and Liabilities**

The bank, in support of the financial system of the Republic, actively participated in the resolution procedure, provided for by Law 102/2019 – Bank crisis resolution tools to protect the stability of the financial system - of Banca Cis - Credito Industriale Sammarinese S.p.A. in A.S. Under the supervision of the Supervisory Authority, Bac was identified as transferee party, together with two other credit institutions, of the en bloc Sale Agreement signed on 11/09/2019 between Banca Nazionale Sammarinese (formerly Credito Industriale Sammarinese S.p.A. in A.S.), and BAC, BSM and BSI; the completion of this complex rescue operation took place through two closings:

- the first, finalized on 16/09/2019, with which Protected Relations were taken over (i.e. amounts due to customers represented by deposits not exceeding € 100,000), for a total of € 25,452,429, against the acquisition of 122 units of an NPL Fund called "Fondo Odisseo" for a total of € 12,209,728;
- the second closing relating to the sale of employment relations, finalized on 13/12/2019, limited to mortgage, leasing and current account relations for € 10,434,773, and completed in the first months of 2020.



## PART B - INFORMATION ON THE STATEMENT OF ASSETS AND LIABILITIES

### INFORMATION ON THE STATEMENT OF ASSETS AND LIABILITIES – ASSETS

#### 1. Cash and cash equivalents with central banks and post offices (asset item no. 10)

Table 1.1 - Detail of item 10 "Cash and cash equivalents with central banks and post offices"

CASH AND CASH EQUIVALENTS WITH CENTRAL BANKS AND POST OFFICES	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Cash and cash equivalents:	-	-	-	-
Vault cash	5.489.994	4.477.979	1.012.015	22,60%
Foreign currency Vault	874.375	914.595	-40.219	-4,40%
ATM	598.925	725.355	-126.430	-17,43%
Cheques in € / currency	420.091	616.471	-196.380	-31,86%
Other values	30.274	31.289	-1.015	-3,24%
<b>Total</b>	<b>7.413.660</b>	<b>6.765.689</b>	<b>647.971</b>	<b>9,58%</b>

#### 2. Treasury securities and other financial instruments eligible for refinancing with central banks (item no. 20)

Table 2.1 - Detail of item 20 "Treasury securities and other financial instruments eligible for refinancing with central banks"

Data not present.

#### 3. Loans to CREDIT INSTITUTIONS (asset item no. 30)

Table 3.1 - Detail of item 30 "Loans to CREDIT INSTITUTIONS"

LOANS TO CREDIT INSTITUTIONS	31/12/2019			31/12/2018			CHANGE	
	IN EURO	IN FOREIGN CURRENCY	TOTAL	IN EURO	IN FOREIGN CURRENCY	TOTAL	AMOUNT	%
A) At sight:	60.635.355	3.629.663	64.265.018	83.092.476	5.778.870	88.871.345	-24.606.327	-27,69%
A1. Reciprocal accounts opened for services rendered	59.112.189	-	59.112.189	80.547.799	-	80.547.799	-21.435.610	-26,61%
A2. Active current accounts	1.523.166	3.629.663	5.152.829	2.544.677	5.778.870	8.323.546	-3.170.718	-38,09%
A3. Other	-	-	-	-	-	-	-	-
B) Other receivables:	42.875.367	-	42.875.367	50.592.410	-	50.592.410	-7.717.044	-15,25%
B1. Fixed deposits	40.067.438	-	40.067.438	50.592.410	-	50.592.410	-10.524.972	-20,80%
B2. Active current accounts	-	-	-	-	-	-	-	-
B3. Repurchase agreement and active carryovers	-	-	-	-	-	-	-	-
B4. Other	2.807.928	-	2.807.928	-	-	-	2.807.928	100,00%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>107.140.384</b>	<b>-</b>	<b>-</b>	<b>139.463.756</b>	<b>-32.323.371</b>	<b>-23,18%</b>



The breakdown of loans to credit institutions shows decreasing sight deposits on accounts for services of € 21,435,610 and on the item current accounts for € 3,170,718 due to the combined effect of: decrease in deposits, due to outflow of capital, for the conversion of direct deposits into indirect deposits and increases in the securities portfolio, for purchases on own securities. BAC constantly monitored liquidity through targeted management and monitoring of liquidity risk. The composition of other loans from credit institutions also decreased by € 7,717,044. It should be noted that item "B.1 Time deposits" includes the time deposit for the Mandatory Reserve with the Central Bank amounting to € 32,789,081, established by decree no. 162 of 3 December 2009, whose contribution percentage was increased by a bps from November 2017, as well as by 3-month deposits with the Central Bank for € 5,000,000, while the item: "B4 Others" valued at € 2,807,928 represents the imbalance between Protected Liabilities and SNB Loans acquired with the first closing, which was offset by the completion of the Agreement through the second closing of the sale of additional SNB loans in early 2020 as specified in detail in the introduction.

Table 3.2 - Situations of cash loans to CREDIT INSTITUTIONS

CATEGORIES / VALUES	31/12/2019			31/12/2018		
	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE
<b>A) Doubtful loans</b>	-	-	-	-	-	-
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>A1. Non-performing loans</b>	-	-	-	-	-	-
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>A2. Substandard loans</b>	-	-	-	-	-	-
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>A3. Restructured loans</b>	-	-	-	-	-	-
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>A4. Past due / overdue loans</b>	-	-	-	-	-	-
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>A5. Unsecured loans to "at risk" countries</b>	-	-	-	-	-	-
<b>B) Performing loans:</b>	107.140.384	-	107.140.384	139.463.756	-	139.463.756
<i>of which deriving from financial leasing transactions</i>	-	-	-	-	-	-
<b>Total</b>	<b>107.140.384</b>	<b>-</b>	<b>107.140.384</b>	<b>139.463.756</b>	<b>-</b>	<b>139.463.756</b>
<i>of which total financial leasing transactions</i>						

Table 3.3 - Dynamics of doubtful loans to CREDIT INSTITUTIONS

Data not present.

Table 3.4 - Dynamics of total value adjustments of "Loans to CREDIT INSTITUTIONS"

Data not present.

Table 3.5 - Breakdown of "Loans to CREDIT INSTITUTIONS" based on residual life

MATURITY	31/12/2019	31/12/2018
At sight	64.265.018	88.871.345
Up to 3 months	10.086.286	22.274.132
From over 3 months to 6 months	-	-
From over 6 months to 1 year	-	-
From over 1 year to 18 months	-	-
From over 18 months to 2 years	-	-
From over 2 years to 5 years	-	-
Over 5 years	-	-
Maturity not attributed	32.789.081	28.318.278
<b>Total</b>	<b>107.140.384</b>	<b>139.463.756</b>

The ROB deposit set up in the Central Bank is included in the unassigned maturity band, as indicated by the Supervisory Authority.

#### 4. Loans to customers (Asset item no. 40)

Table 4.1 - Breakdown of item 40 "Loans to customers"

	31/12/2019			31/12/2018			CHANGE	
	IN EURO	IN FOREIGN CURRENCY	TOTAL	IN EURO	IN FOREIGN CURRENCY	TOTAL	AMOUNT	%
<b>A) At sight / revocation:</b>	144.546.808	2.857.819	147.404.627	174.277.157	1.409.905	175.687.063	-28.282.435	-16,10%
<b>A1. Active current accounts</b>	32.109.231	233	32.109.464	38.498.336	144	38.498.480	-6.389.016	-16,60%
<b>A2. Others</b>	112.437.577	2.857.586	115.295.163	135.778.822	1.409.761	137.188.583	-21.893.419	-15,96%
<b>B) Other credits:</b>	204.219.457	-	204.219.457	235.309.878	39.975	235.349.853	-31.130.396	-13,23%
<b>B1. Active current accounts</b>	3.440.002	-	3.440.002	5.005.843	-	5.005.843	-1.565.841	-31,28%
<b>B2. Discounted wallet and subject to collection</b>	4.908.830	-	4.908.830	5.006.451	-	5.006.451	-97.621	-1,95%
<b>B3. Repurchasing agreements and active carryovers</b>	-	-	-	-	-	-	-	-
<b>B4. Other financing</b>	195.870.625	-	195.870.625	225.297.584	39.975	225.297.584	-29.466.934	-13,08%
<b>Total</b>	<b>348.766.266</b>	<b>2.857.819</b>	<b>351.624.085</b>	<b>409.587.035</b>	<b>1.449.881</b>	<b>411.036.916</b>	<b>-59.412.831</b>	<b>-14,45%</b>

The loans outlined above are presented at their expected sale value, i.e. net of analytical and arbitrary write-downs made by the bank according to their classification.

Table 4.2 - Guaranteed loans to customers

	31/12/2019		31/12/2018		CHANGE	
	IN EURO	IN FOREIGN CURRENCY	IN EURO	IN FOREIGN CURRENCY	AMOUNT	%
<b>A) From mortgages</b>	102.524.906	-	107.964.441	-	-5.439.535	-5,04%
<b>B) From pledge on</b>	10.945.151	-	13.393.335	-	-2.448.183	-18,28%
<b>B1. Cash deposits</b>	4.032.974	-	4.559.949	-	-526.976	-11,56%
<b>B2. Securities</b>	1.617.962	-	2.430.436	-	-812.474	-33,43%
<b>B3. Other values</b>	5.294.216	-	6.402.950	-	-1.108.734	-17,32%
<b>C) From guarantees of</b>	220.656.356	-	259.384.348	-	-38.727.992	-14,93%
<b>C1. Public administrations</b>	42.226.648	-	42.703.647	-	-477.000	-1,12%
<b>C2. Monetary financial institutions</b>	3.354.170	-	3.589.533	-	-235.363	-6,56%
<b>C3. Investment funds other than money market funds</b>	-	-	-	-	-	-
<b>C4. Other financial institutions</b>	-	-	-	-	-	-
<b>C5. Insurance companies</b>	-	-	-	-	-	-
<b>C6. Pension funds</b>	-	-	-	-	-	-
<b>C7. Non-financial corporations</b>	150.294.842	-	182.084.38	-	-31.789.539	-17,46%
<b>C8. Families and non-profit institutions serving families</b>	20.519.558	-	27.434.019	-	-6.914.461	-25,20%
<b>8.1. Consumer and producer families</b>	20.519.558	-	27.434.019	-	-6.914.461	25,20%
<b>8.2 Non-profit institutions serving families</b>	-	-	-	-	-	-
<b>C9. Other</b>	4.261.139	-	3.572.769	-	688.370	19,27%
<b>Total</b>	<b>334.126.413</b>	<b>-</b>	<b>380.742.124</b>	<b>-</b>	<b>-46.615.710</b>	<b>-12,24%</b>

The table above shows all types of guaranteed loans expressed at net values. Analysis of the data shows that the amount of net loans backed by real and personal guarantees represents 77.97% of the overall net loans expressed in Table 4.3 below; moreover, 26.48% is backed by real guarantees (pledge + mortgage).

Table 4.3 - Situation of cash loans to customers

CATEGORIES / VALUES	31/12/2019			31/12/2018		
	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE
<b>A) Doubtful loans</b>	155.792.345	64.072.993	91.719.352	164.411.783	43.964.129	120.447.654
<i>of which deriving from financial leasing transactions</i>	15.882.258	5.184.699	10.697.559	21.794.702	4.173.111	17.621.592
<b>A1. Non-performing loans</b>	94.701.974	46.445.716	48.256.257	94.861.822	29.502.356	65.359.466
<i>of which deriving from financial leasing transactions</i>	12.100.586	4.283.366	7.817.220	12.120.727	2.889.165	9.231.563
<b>A2. Substandard loans</b>	31.061.523	7.674.144	23.387.379	36.244.483	4.299.930	31.944.554
<i>of which deriving from financial leasing transactions</i>	3.181.238	864.579	2.316.660	8.884.809	1.205.029	7.679.779
<b>A3. Restructured loans</b>	29.704.296	9.921.087	19.783.209	30.556.982	9.888.184	20.668.798
<i>of which deriving from financial leasing transactions</i>	594.198	36.130	558.068	-	-	-
<b>A4. Past due / overdue loans</b>	320.388	32.025	288.363	2.741.397	273.649	2.467.747
<i>of which deriving from financial leasing transactions</i>	6.235	624	5.612	789.166	78.917	710.250
<b>A5. Unsecured loans to at "risk countries"</b>	4.165	21	4.144	7.099	9	7.090
<b>B) Performing loans:</b>	340.397.956	3.575.970	336.821.985	384.680.877	2.233.138	382.447.739
<i>of which deriving from financial leasing transactions</i>	71.667.441	2.222.662	69.444.779	81.332.110	1.826.443	79.505.667
<b>Total</b>	<b>496.190.301</b>	<b>67.648.964</b>	<b>428.541.337</b>	<b>549.092.660</b>	<b>46.197.267</b>	<b>502.895.393</b>
<i>of which total financial leasing transactions</i>	<b>87.549.699</b>	<b>7.407.361</b>	<b>80.142.338</b>	<b>103.126.812</b>	<b>5.999.553</b>	<b>97.127.259</b>

The table in question includes, together with the so-called traditional loans to customers, also loans from financial leasing activities. It therefore expresses the sum of the balance sheet items "40 – Loans to customers", "90 a) - of which intangible financial leasing" and "90 b) - of which assets pending lease", "100 a) - of which tangible financial leasing" and "100 b) - of which tangible assets pending lease". Nonetheless, the residual debt of the fixed assets subject to leasing contracts expressed net of the relative depreciation funds are recorded in the accounts under tangible fixed assets. Financial assets classified as non-performing are composed of two main elements: loans connected with the overdue and unpaid instalments, included in the balance of the non-performing loans item in table 4.1 and the residual debt in principal which, although attributable to the underlying non-performing loan, is recorded in the financial statements pursuant to Law no. 115 of 19/11/2001, under the item "of which assets pending lease".

For non-performing loans, substandard loans, restructured loans and "past due" loans exceeding 0.5% of regulatory capital, the presumed impairment losses were calculated analytically based on the quality of the individual debtors, i.e. according to their ability to meet their obligations, on the basis of the information available on the equity, economic and financial situation of these parties. In determining the presumed loss of value, any real and personal guarantees acquired were also taken into account. For the other types of loans, as specified in the valuation criteria, an arbitrary write-down was calculated on the basis of statistical observation on the historical series from 2016 to 2019 of position transitions, in numerical and nominal terms, from the performing portfolio to the Non-Performing portfolio (transition matrices).

Table 4.4 - Dynamics of doubtful loans to customers

REASONS / CATEGORIES	NON-PERFORMING LOANS	SUBSTANDARD LOANS	RESTRUCTURED LOANS	PAST DUE / OVERDUE LOANS	UNSECURED LOANS TO "AT RISK" COUNTRIES
<b>A) Initial gross exposure</b>	94.861.822	36.244.483	30.556.982	2.741.397	7.099
<i>of which interest on arrears</i>	1.695.516	893.630	-	-	-
<b>B) Increases</b>	10.556.040	9.354.382	52.070.537	489.818	330.440
<b>B1. Income from performing loans</b>	27.982	3.679.830	-	320.837	-
<b>B2. Income from other categories of doubtful loans</b>	7.243.551	2.487.857	594.003	51	-
<b>B3. Interest on arrears</b>	46.911	463.528	482	342	39
<b>B4. Other increases</b>	3.237.595	2.723.167	51.476.051	168.588	330.401
<b>C) Decreases</b>	10.715.888	14.537.341	52.923.223	2.910.826	333.375
<b>C1. Expenditure on performing loans</b>	-	31.162	-	37.121	-
<b>C2. Expenditure on other categories of doubtful loans</b>	594.003	7.243.551	-	2.487.857	51
<b>C3. Cancellations</b>	2.195.853	935.494	-	-	-
<b>C4. Collections</b>	4.301.642	3.064.074	47.363.720	345.929	333.324
<b>C5. Income from sales</b>	-	-	-	-	-
<b>C6. Other decreases</b>	3.624.391	3.263.061	5.559.503	39.920	-
<b>D) Final gross exposure as of 31.12.19</b>	94.701.974	31.061.523	29.704.296	320.389	4.165
<i>of which interest on arrears</i>	1.583.656	1.124.393	-	-	-

Strict monitoring activities continued on loans to customers and the consequent checks on their classification; specifically, there was a significant increase in non-performing positions deriving mainly from the transfer from another category of doubtful (substandard) loans.

As regards deteriorated loans, the following was recorded:

- collections on non-performing loans for € 4,301,642 and € 3,064,074 for impaired positions,
- write-offs for € 2,195,853 on non-performing loans and € 935,494 on impaired loans.

2019 showed gross impaired loans decreasing by € 8,619,438, reflecting the constant and scrupulous policy of asset quality management undertaken in recent years. However, the significant decrease can be seen in the amount of net loans, which decreased by € 28,728,302, amounting to -23.85%, due to the significant value adjustments made in the current year. We would also point out that, following the amendment to CBSM Regulation 2007/07 which incorporated the CBSM Miscellany 2013/06, tangible fixed assets affected by early termination of leasing contracts due to 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 € 2,245,789 and their changes explained in the relevant table below.

Impaired loans have a coverage degree of 41.13%, compared to 26.74% in the previous year, confirming the important effort made by the bank to prudently assess its credit loans, as detailed in Table 4.5 below.

We would like to point out that the Supervisory Authority started the process of reviewing and mapping the Quality of Assets of the banking system in 2016 (AQR exercise). The Bank, following various comparisons and in-depth analysis on the quality of its Loans portfolio with the Central Bank, integrated the AQR adjustments in 2019, increasing the already existing write-downs on the Impaired portfolio and the performing portfolio, by a further € 24,281,227. These write-downs (cumulative total of € 27,959,627) were taken to the Profit and Loss Account, by means of accruals allowed by article 40 of Law 173/2018, over a period of 10 years starting from 2019. In addition, to complete the adjustments from the remaining AQR financial year, item 80 of Liabilities "Provision for Credit Risks" for € 17,857,990 (also accrued from 2019 to the Profit and Loss Account over 10 years) was replenished, thus not proceeding with the adjustment of individual impaired loans, as of today not identifiable, when considering the collateral guarantees to support and the significant collections determined by the acquisition of real estate to guarantee the credit positions, the further write-downs mentioned above are deemed to be based on particularly prudent criteria. BAC will continue to constantly monitor credit positions in 2020, in order to proceed with the necessary value adjustments, which will at the same time constitute uses of the provision under item 80 of liabilities.

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

REASONS / CATEGORIES	NON-PERFORMING LOANS	SUBSTANDARD LOANS	RESTRUCTURED LOANS	PAST DUE / OVERDUE LOANS	UNSECURED LOANS TO "AT RISK" COUNTRIES	PERFORMING LOANS
<b>A) Initial overall adjustments</b>	29.502.356	4.299.930	9.888.184	273.649	9	2.233.138
<b>B) Increases</b>	20.013.745	5.472.284	45.178	32.002	11	1.452.545
<b>B1. Value adjustments</b>	18.651.527	5.164.912	33.133	31.769	11	1.442.960
of which interest on arrears	45.218	-	-	-	-	-
<b>B2. Use of provisions for credit risk</b>	-	-	-	-	-	-
<b>B3. Transfers from other credit categories</b>	914.812	186.717	12.045	233	-	9.585
<b>B4. Other increases</b>	447.407	120.655	-	-	-	-
<b>C) Decreases</b>	3.070.385	2.098.070	12.275	273.626	-	109.712
<b>C1. Value recoveries on valuations</b>	217.343	82.039	12.275	91.258	-	79.089
of which interest on arrears	-	-	-	-	-	-
<b>C2. Value recoveries from collection</b>	403.559	136.955	-	-	-	-
of which interest on arrears	-	-	-	-	-	-
<b>C3. Cancellations</b>	2.163.358	866.338	-	-	-	24.310
<b>C4. Transfers to other credit categories</b>	12.045	916.479	-	182.368	-	6.227
<b>C5. Other decreases</b>	274.079	96.259	-	-	-	86
<b>D) Final overall adjustments as of 31.12.19</b>	46.445.717	7.674.144	9.921.088	32.025	21	3.575.970
of which interest on arrears	1.580.810	-	-	-	-	-

The dynamics of value adjustments highlights the Bank's commitment to continue to monitor and hedge impaired loans, raising the adjustment provision to € 67,648,965 in 2019, compared to € 46,197,267 in 2018 whose net of utilizations for write-offs, was replenished during the year with provisions of € 5,924,307 and discharged for write-backs of € 1,022,518 whose algebraic balance is € 4,901,789 of which € 4,581,761 AQR adjustments for 1/10 as explained above. Therefore, the total coverage is 13.63% of which: on performing loans at 1.05%, on overdue loans at 10%, on restructured loans at 33.40%, on substandard loans at 24.71% and on non-performing loans at 49.04%.

We hereby specify that the chances of recovery were analytically assessed on non-performing loans, substandard loans and restructured loans. In the case of overdue and/or past due loans, an analytical evaluation was carried out on positions exceeding 0.5% of Regulatory Capital and an arbitrary assessment was carried out for those of a lower amount, with expected loss percentages of aggravated compared to those estimated for performing loans. This practice is pursued on condition that the aggregate subject to arbitrary assessment does not exceed 5% of Regulatory Capital, otherwise the analytical assessment of all the exposures is carried out. For unsecured loans from "at risk" countries, an arbitrary assessment equal to that calculated for performing loans was carried out, given the low exposure. For performing loans, an arbitrary assessment was carried out by applying the average percentage of the expected loss estimated on the Bank's loan portfolio, observed over a 4-year time horizon, and broken down according to their respective sector: - Government and Public Administration, - Financial firms, - Non-financial firms, - Private individuals, - Others. The transition matrix was constructed for each type of counterparty and the relative PD (Probability of Default) was determined, the average LGD (Loss given default) of the bank was also determined on the basis of the observation of the data over a 4-year timeframe, equal to 52% on non-performing loans and 7% on substandard loans; multiplying PD by LGD and then the EAD (Exposure at Default) assumed equal to the stock of performing loans, the expected loss on the performing portfolio was determined.

Table 4.6 - Breakdown of "Loans to customers" based on residual life

MATURITY	31/12/2019	31/12/2018
At sight	115.887.625	104.520.514
Up to 3 months	35.653.124	34.677.004
From over 3 months to 6 months	16.710.505	16.866.040
From over 6 months to 1 year	20.639.826	21.613.326
From over 1 year to 18 months	17.558.946	20.152.469
From over 18 months to 2 years	15.885.579	18.636.018
From over 2 years to 5 years	74.502.527	84.006.803
Over 5 years	81.425.825	134.949.112
Maturity not attributed	50.277.38	67.474.107
<b>Total</b>	<b>428.541.337</b>	<b>502.895.393</b>

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 - Breakdown of "Loans to customers" (net values) by business sector

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Public administrations	13.812.553	14.671.200	-858.647	-5,85%
Financial companies other than credit institutions	12.409.724	15.478.429	-3.068.705	-19,83%
• Monetary financial institutions	-	-	-	-
• Investment funds other than monetary market funds	2.696.565	2.528.122	168.443	6,66%
• Other financial institutions	9.588.767	12.867.905	-3.279.138	-25,48%
• Insurance companies	124.392	82.402	41.990	50,96%
• Pension funds	-	-	-	-
Non-financial corporations	269.654.561	325.566.171	-55.911.610	-17,17%
• of which subjects canceled from the Register of Authorized subjects	-	-	-	-
• Industry	123.038.017	136.867.841	-13.829.824	-10,10%
• Construction	16.862.071	22.276.934	-5.414.863	-24,31%
• Services	124.169.771	158.989.147	-34.819.376	-21,90%
• Other non-financial companies	5.584.702	7.432.249	-1.847.547	-24,86%
Families and non-profit institutions serving families	132.664.499	147.179.593	-14.515.094	-9,86%
• Consumer and producer families	132.417.882	147.010.637	-14.592.755	-9,93%
• Non-profit institutions serving families	246.617	168.956	77.661	45,97%
Other	-	-	-	-
<b>Total</b>	<b>428.541.337</b>	<b>502.895.393</b>	<b>-74.354.056</b>	<b>-14,79%</b>

Summary of loans to members of the respective administrative, management or control bodies.

	AGREED	USED
Auditors	232.404	190.850
Concilers	934.951	835.552
<b>Total</b>	<b>1.167.355</b>	<b>1.026.402</b>



It should also be noted that the transactions carried out by the company with related parties were concluded at normal market conditions as per the controls carried out by the Internal Audit unit and upon request during the preliminary investigation phase of the Loans unit.

## 5. Bonds and other financial debt instruments and Shares, accrued and other capital financial instruments (asset items: 50-60)

Table 5.1 - Breakdown of investment and trading financial instruments

ITEMS / VALUES	IMMOBILIZZATI	NON IMMOBILIZZATI
Bonds and other debt financial instruments	36.391.477	9.154.456
a) public issuers	36.391.477	9.154.456
b) credit institutions	-	-
c) financial companies other than credit institutions	-	-
d) other issuers	-	-
Shares, stocks and other capital financial instruments	6.124.248	14.088.728
a) Loan Management Shield	-	3.291.953
b) Tower Credit Opportunities LT	6.124.248	-
c) Fondo Odisseo	-	10.796.775
<b>Total</b>	<b>42.515.726</b>	<b>23.243.184</b>

The securities in the investment portfolio are recorded at their purchase value or market price upon their transfer to the investment portfolio, with subsequent recording of the accrued amounts of the positive or negative differences between the above value and the redemption value as at maturity of the securities under the item "Bonds and other debt financial instruments".

Trading securities are recorded at the market value expressed by the monthly average of the prices recorded in December 2019, under item "Bonds and other debt financial instruments".

The item "shares, accrued and other capital financial instruments", is composed of investment securities:

- from the Tower Credit Opportunities PLC Fund. The Tower Credit Opportunities PLC fund will be dedicated to supporting the growth of Italian SMEs, financing investment programs, extraordinary finance operations and interventions in support of the financial structure.

The item "shares, accrued and other capital financial instruments" is composed of trading securities:

- the share of the fund from the transfer of credits from the mandatory administrative liquidation of Credito Sammarinese Spa, as a result of the agreement reached between the banks participating in the block sale of legal relations signed in October 2011, obtaining the tax benefits pursuant to Law no. 169 of 11 October 2011. The market value of the fund, available as of 31/12/2019, is equal to € 3,291,953 for which BAC recorded a further capital loss of € 711,910 during the year, reclassified under other asset item "temporary differences of the accrued loan management fund" as indicated by the Supervisory Authority in letter Prot.14/2288 whose item amounts to € 7,606,047.

- From the accrued of the Fondo Odisseo acquired in 2019, as a result of the block sale of legal relations of Protected Deposits and Employment of Banca Nazionale Sammarinese (formerly Credito Industriale Sammarinese) subject to bank crisis resolution pursuant to Law no.102 of 14 June 2019, whose finalization took place through two closings, of which the first was finalized on 16/09/2019 with which BAC took over Protected Relations for € 25,452,429, accepting and purchasing 122 units of Fondo Odisseo for a total of € 12,209,728. The Fund was adjusted to the NAV (Net Asset Value) communicated to us as of 31/12/2019, and written down by € 1,412,953, the capital loss was recorded under other assets as a tax credit pursuant to Decree Law no. 72 of 27/06/2013.

Table 5.2 - Breakdown of "investment financial instruments"

ITEMS / VALUES	31/12/2019			31/12/2018		
	PURCHASE PRICE	BOOK VALUE	FAIR VALUE	PURCHASE PRICE	BOOK VALUE	FAIR VALUE
Financial debt instruments	36.403.724	36.391.477	38.075.110	31.353.828	31.434.308	30.652.111
1.1 Bonds	36.403.724	36.391.477	38.075.110	31.353.828	31.434.308	30.652.111
• listed	36.403.724	36.391.477	38.075.110	31.353.828	31.434.308	30.652.111
• not listed	-	-	-	-	-	-
1.2 Other financial debt instruments	-	-	-	-	-	-
• listed	-	-	-	-	-	-
• not listed	-	-	-	-	-	-
Equity financial instruments	6.124.248	6.124.248	5.466.606	5.418.883	5.418.883	5.418.883
• listed	-	-	-	-	-	-
• not listed	6.124.248	6.124.248	5.466.606	5.418.883	5.418.883	4.707.918
<b>Total</b>	<b>42.527.972</b>	<b>42.515.726</b>	<b>43.541.716</b>	<b>36.772.711</b>	<b>36.853.191</b>	<b>36.070.994</b>

Table 5.3 - Annual changes in investment financial instruments

	31/12/2019	31/12/2018
Opening balance	36.853.191	28.143.889
Increases	5.835.683	8.739.786
1. Purchases	5.657.854	8.714.070
• of which financial debt instruments	4.952.489	5.949.544
2. Value recoveries	-	-
3. Transfers from the investment portfolio	-	-
4. Other increases	177.829	25.715
Decreases	173.148	30.483
1. Sales	-	-
• of which financial debt instruments	-	-
2. Refunds	-	-
3. Value adjustments	-	-
• of which lasting devaluations	-	-
4. Transfers to the investment portfolio	-	-
5. Other increases	173.148	30.483
<b>Closing balance</b>	<b>42.515.726</b>	<b>36.853.191</b>

We note that in 2019 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.

The increases in purchases are represented by the subscription of the two 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	31/12/2019	31/12/2018
	FAIR VALUE	FAIR VALUE
<b>1. Financial debt instruments</b>	9.154.456	13.520.687
1.1 Bonds	9.154.456	13.520.687
• listed	9.154.456	13.520.687
• non listed	-	-
1.2 Other financial debt instruments	-	-
• listed	-	-
• not listed	-	-
<b>2. Equity financial instruments</b>	14.088.728	4.003.863
• listed	-	-
• not listed	14.088.728	4.003.863
<b>Total</b>	<b>23.243.184</b>	<b>17.524.550</b>

The free portfolio was also increased, through further purchases aimed at diversifying cash investments and creating coupon cash flows, as well as sales that made it possible to seize market opportunities generating capital gains.

The portfolio consists of the participation in the alternative closed-end mutual fund Loan Management Scudo Investimenti, subscribed at the end of December 2012, the Units of Fondo Odisseo, four bonds issued by the Italian Republic that can be readily liquidated and the San Marino government bond issued by Delegated Decree no. 17 of 23/02/16.

Table 5.5 - Annual changes in "trading financial instruments"

	31/12/2019	31/12/2018
Opening balance	17.524.550	11.390.214
<b>Increases</b>	<b>51.439.446</b>	<b>18.041.910</b>
<b>1. Purchases</b>	<b>50.372.995</b>	<b>17.855.710</b>
• of which financial debt instruments	43.176.287	17.526.849
• of which equity financial instruments	12.464.864	328.861
<b>2. Value recoveries and revaluations</b>	<b>13.540</b>	<b>14.341</b>
<b>3. Transfers from the investment portfolio</b>	<b>-</b>	<b>-</b>
<b>4. Other increases</b>	<b>1.052.911</b>	<b>171.859</b>
<b>Decreases</b>	<b>45.720.812</b>	<b>11.907.574</b>
<b>1. Sales and refunds</b>	<b>43.546.229</b>	<b>11.537.371</b>
• of which financial debt instruments	43.176.287	11.041.883
• of which equity financial instruments	369.942	495.489
<b>2. Value adjustments and write-downs</b>	<b>2.138.534</b>	<b>370.202</b>
<b>3. Transfers to the investment portfolio</b>	<b>-</b>	<b>-</b>
<b>4. Other increases</b>	<b>36.048</b>	<b>-</b>
<b>Closing balance</b>	<b>23.243.184</b>	<b>17.524.550</b>

## 6. Shareholdings (asset items: 70-80)

Table 6.1 - Shareholdings and investments in group companies

COMPANY NAME	LEGAL STATUS	REGISTERED OFFICE	ACTIVITIES CARRIED OUT	SHARE CAPITAL	NET EQUITY*	PROFIT / LOSS	SHARE CAPITAL %	BOOK VALUE (B)	FAIR VALUE	SHARE OF NET EQUITY (A)	COMPARISONS (A-B)
<b>GROUP COMPANIES</b>											
<b>BAC Fiduciaria</b>	S.p.a.	Via Tre Settembre, 316 47891 Dogana (R.S.M.)	Financial Company	500.000	691.029	1.064	100,00%	691.029	-	691.029	-
<b>BAC Life</b>	S.p.a.	Via Tre Settembre, 316 47891 Dogana (R.S.M.)	Insurance Activities	6.000.000	7.587.089	1.119.652	100,00%	6.579.402	-	7.587.089	1.007.687
<b>BAC Real Estate</b>	S.r.l.	Via Tre Settembre, 316 47891 Dogana (R.S.M.)	Real estate trading activities	75.000	303.259	-11.741	100,00%	303.259	-	303.259	-
<b>BAC Investiments SG</b>	S.p.a.	Via Tre Settembre, 316 47891 Dogana (R.S.M.)	Other Financial Institutions	500.000	512.902	12.902	100,00%	512.902	-	512.902	-
<b>ASSOCIATED COMPANIES</b>											
<b>Società Servizi Informatici Sammarinese S.S.I.S</b>	S.p.a.	Strada Cardio, 22 47899 Serravalle (R.S.M.)	Automatic data processing services	500.000	950.163	55.770	50,00%	325.082	-	475.082	150.000
<b>Centro Servizi</b>	S.r.l.	Via XXV Marzo, 58 47895 Domagnano (R.S.M.)	Automatic data processing services	74.886	435.751	970	33,33%	333.333	-	145.236	-188.098
<b>OTHER INVESTEE COMPANIES</b>											
<b>Banca Centrale della Repubblica di San Marino</b>	S.p.a.	Via del Voltone, 120 47890 San Marino (R.S.M.)	Banking Activities	12.911.425	60.798.852	-	5,00%	4.059.241	-	3.039.943	-1.019.299
<b>Camera di Commercio</b>	S.p.a.	Strada di Paderna, 2 47895 Domagnano (R.S.M.)	Services	77.469	839.729	123.032	1,33%	1.033	-	11.168	10.135

It should be noted that the net equity valuations in the following table refer to the company data as of 31/12/2019 if already available for all the companies and with a holding percentage higher than 50%.

### INVESTEE COMPANIES

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 2019 net equity. This resulted in a write-down of € 150,000 for available reserves, the distribution of which was approved, and a revaluation of € 27,885 for the year's profit allocated to reserves as per the financial statements approved at the shareholders' meeting held on 23/03/2020, the imbalance of € 122,115 was deducted from the dedicated revaluation reserve replenished over the years.

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 33.33% stake in Centro Servizi Srl, acquired in 2016 at 25%, whose main activity consists in the exercise of IT activities, with particular reference to production, development, maintenance and marketing of application software, management of services related to the use of electronic payment instruments and in the trade and rental of

hardware; being also the exclusive technology manager of the SMaC platform; the shareholding was recorded at the 2016 acquisition value, corresponding to the company's estimated market value at the time of purchase; subsequently, in 2018, it acquired an additional share deriving from the distribution of the share of Asset Banca Spa, which was placed in compulsory administrative liquidation.

### GROUP SHAREHOLDINGS

In 2019 the company BAC Investments SG Spa, in its second year of activity, closed the year with a profit of € 12,902, allocating it to reserves, as per the financial statements approved on 25/06/2020, the bank aligned the value of the shareholding to the Net Equity by revaluing it and entering the counterpart in the revaluation reserve. The company manages five open-ended mutual funds and in this general context, in its second year of activity, the funds managed by the company grew in terms of total assets, all reporting mainly positive management performance which will allow 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 of 31/12/2019, the net equity of the subsidiary amounted to € 691,029 including € 1,064 of profit for the year, therefore, a revaluation of € 1,064 was carried out with an increase in the revaluation reserve of the same amount, as shown in the 2019 financial statements. We hereby specify that the Boards of Directors of BAC Fiduciaria and the Parent Company BAC, in the meetings held on 18 December 2019 and 14 January 2020, respectively, resolved to transfer the mandates of BAC Fiduciaria Spa to BAC, in light of the rapid evolution of the reference market and the related regulations, assessed the progressive reduction in the interest shown by customers for the specific product and the increase in interest in the Trust institution, with BAC Fiduciaria retaining the sole activity of Trustee Professional BAC Fiduciaria will therefore become a Trustee Company, with the transfer en bloc of all activities relating to the management of fiduciary mandates and waiver of the related reserved activity to the Parent Company.

For BAC Real Estate Srl a write-down of € 11,714 was made, equal to the loss realized in the year, as shown in the 2019 financial statements.

Also, for the shares in BAC Life Spa, an adjustment to the subsidiary's net equity was made on the basis of the 2019 results. The Shareholders' Meeting, on 16/06/2020, resolved to distribute 90% of the profit to the sole shareholder BAC, which will be paid in cash in 2020 for € 1,007,687, with the remaining 10% allocated to reserves.

The following tables provide information on the aggregate movements of the shares held.

Table 6.2 - Breakdown of item 70 "Shareholdings"

ITEMS / VALUES	31/12/2019			31/12/2018		
	PURCHASE PRICE	BOOK VALUE	FAIR VALUE	PURCHASE PRICE	BOOK VALUE	FAIR VALUE
In credit institutions	645.571	4.059.241	-	645.571	4.059.241	-
• listed	-	-	-	-	-	-
• not listed	645.571	4.059.241	-	645.571	4.059.241	-
In other financial firms	36.403.724	36.391.477	38.075.110	31.353.828	31.434.308	30.652.111
• listed	-	-	-	-	-	-
• not listed	645.571	4.059.241	-	645.571	4.059.241	-
Others	584.363	659.448	-	584.363	781.563	-
• listed	-	-	-	-	-	-
• not listed	584.363	659.448	-	584.363	781.563	-
<b>Total</b>	<b>1.229.935</b>	<b>4.718.689</b>	<b>-</b>	<b>1.229.935</b>	<b>4.840.804</b>	<b>-</b>

Table 6.4 - Annual changes in item 70 "Shareholdings"

	31/12/2019
Opening balance	4.840.804
Increases	-
Purchases	-
Value recoveries	-
Revaluations	-
Other increases	-
Decreases	122.115
Sales	-
Value adjustments	122.115
of which lasting devaluations	-
Other increases	-
Closing balance	4.718.689
Total revaluations	-
Total adjustments	-

Table 6.3 - Breakdown and changes in item 80 "Investments in group companies"

ITEMS / VALUES	31/12/2019			31/12/2018		
	PURCHASE PRICE	BOOK VALUE	FAIR VALUE	PURCHASE PRICE	BOOK VALUE	FAIR VALUE
In credit institutions	-	-	-	-	-	-
• listed	-	-	-	-	-	-
• not listed	-	-	-	-	-	-
In other financial firms	7.000.000	7.783.333	-	7.000.000	7.408.975	-
• listed	-	-	-	-	-	-
• not listed	7.000.000	7.783.333	-	7.000.000	7.408.975	-
Others	75.000	303.259	-	75.000	315.000	-
• listed	-	-	-	-	-	-
• not listed	75.000	303.259	-	75.000	315.000	-
<b>Total</b>	<b>7.075.000</b>	<b>8.086.592</b>	<b>-</b>	<b>7.075.000</b>	<b>7.723.975</b>	<b>-</b>

Table 6.5 - Annual changes in item 80 "Investments in group companies"

	31/12/2019
Opening balance	7.723.975
Increases	374.359
Purchases	-
Value recoveries	125.932
Revaluations	-
Other increases	248.427
Decreases	11.741
Sales	-
Value adjustments	11.741
of which lasting devaluations	-
Other decreases	-
Closing balance	8.086.592

As illustrated above, item "B2. Writebacks" includes the revaluation of the subsidiaries BAC Life Spa, Bac Fiduciaria S.p.A.

The following tables show details of the shareholdings of the Bank Group

<b>BAC Fiduciaria spa</b>	<b>31/12/2019</b>	<b>2019 Profit allocation</b>	<b>31/12/2019 Net equity</b>
Share capital	500.000	-	<b>500.000</b>
Legal reserve	189.965	1.064	<b>191.029</b>
Other reserves	-	-	-
To shareholders	-	-	-
Profit for the year	1.064	-1.064	-
	<b>691.029</b>	-	<b>691.029</b>

<b>BAC Life spa</b>	<b>31/12/2019</b>	<b>2019 Profit allocation</b>	<b>31/12/2019 Net equity</b>
Share capital	6.000.000	-	6.000.000
Legal reserve	380.641	111.965	492.606
Other reserves	86.796	-	86.796
To shareholders	-	1.007.687	1.007.687
Profit for the year	1.119.652	-1.119.652	-
	<b>7.587.089</b>	-	<b>7.587.089</b>

<b>Bac Real Estate srl</b>	<b>31/12/2019</b>	<b>31/12/2019 Net equity</b>
Share capital	75.000	<b>75.000</b>
Legal reserve	-	-
Other reserves	240.000	<b>240.000</b>
To shareholders	-	-
Profit for the year	-11.741	<b>-11.741</b>
	<b>303.259</b>	<b>303.259</b>

<b>Bac Investments SG spa</b>	<b>31/12/2019</b>	<b>2019 Profit allocation</b>	<b>31/12/2019 Net equity</b>
Share capital	500.000	-	<b>500.000</b>
Legal reserve	-	1.290	<b>1.290</b>
Other reserves	-	11.612	<b>11.612</b>
To shareholders	-	-	-
Profit for the year	12.902	-12.902	-
	<b>512.902</b>	-	<b>512.902</b>



Table 6.6 - Assets and liabilities with investee companies (item 70)

	31/12/2019	31/12/2018
<b>Assets</b>	<b>91.998.131</b>	<b>118.802.273</b>
- loans to Banks	91.247.546	117.996.548
• of which subordinates	-	-
• of which associated companies	-	-
of which subordinates	-	-
- loans to other financial companies	-	-
• of which subordinates	-	-
• of which associated companies	-	-
of which subordinates	-	-
- loans to other companies	750.585	805.725
• of which subordinates	-	-
• of which associated companies	-	-
of which subordinates	-	-
- bonds and other financial debt instruments	-	-
• of which subordinates	-	-
• of which associated companies	-	-
of which subordinates	-	-
<b>Liabilities</b>	<b>121.550</b>	<b>88.862</b>
- amounts due to credit institutions	-	-
• of which associated companies	-	-
- amounts due to other companies	121.550	88.862
• of which associated companies	-	-
- payables represented by financial instruments	-	-
• of which associated companies	-	-
- Subordinate liabilities	-	-
• of which associated companies	-	-
<b>Guarantees and commitments</b>	<b>-</b>	<b>-</b>
- guarantees given	-	-
- commitments	-	-

Loans to banks amounting to € 91,247,546 includes reciprocal transaction current accounts held with the Central Bank for € 51,189,060, and € 32,789,081 of ROB time deposit and € 7,269,404 of other deposits still at the Supervisory Authority; while € 750,585 are loans for real estate and securities leasing agreed with our subsidiary SSIS. Among liabilities is the balance of the current account held by SSIS S.p.a. for € 115,435 and the balance of the current account held by Centro Servizi Srl for € 6,115.



Intangible fixed assets consist of: software purchase, refurbishment of leased facilities, studies, research, training and long-term costs for Merger. Software is valued at cost price, including all analysis, installation and training costs. 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 were calculated on the basis of their residual life.

The bank acquired the permit to construct an underpass to be used by the institute for thirty years from the Eccellentissima Camera; 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.

### Diritti concessori ed opere di sottopasso

	31/12/2019	31/12/2018
Opening balance at purchase cost	1.254.395	1.254.396
Expenses incurred during the year	-	-
Closing balance at historical cost	1.254.395	1.254.396
To deduct depreciation fund	-452.052	-410.241
of which depreciation charge for the year	-41.813	-41.813
Closing balance	802.343	844.155

Table 7.2 - Breakdown of item 90 "intangible fixed assets"

ITEMS / VALUES	31/12/2019			31/12/2018		
	PURCHASE PRICE / PRODUCTION COST	BOOK VALUE	FAIR VALUE	PURCHASE PRICE	BOOK VALUE	FAIR VALUE
Financial leasing	417.187	417.187	-	-	-	-
of which assets under construction	-	-	-	-	-	-
Assets awaiting lease termination	-	-	-	-	-	-
of which due to default by the tenant	-	-	-	-	-	-
Assets available from debt collection	-	-	-	-	-	-
of which assets available for credit extinction by means of a settlement agreement	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Start-up costs	-	-	-	-	-	-
Other intangible fixed assets	3.167.728	1.096.776	-	4.200.053	1.237.337	-
<b>Total</b>	<b>3.584.915</b>	<b>1.096.776</b>	<b>-</b>	<b>4.200.053</b>	<b>1.237.337</b>	<b>-</b>

## 8. Tangible fixed assets (assets item 100)

Tabella 8.1 - Movements and description of item 100 "Tangible fixed assets"

ANNUAL CHANGES	31.12.19	FINANCIAL LEASING	OF WHICH ASSETS UNDER CONSTRUCTION	ASSETS AWAITING LEASE TERMINATION	OF WHICH DUE TO DEFAULT BY THE TENANT	ASSETS AVAILABLE FROM DEBT COLLECTION	OF WHICH ASSETS AVAILABLE FOR CREDIT EXTINCTION BY MEANS OF A SETTLEMENT AGREEMENT	LANDS AND BUILDINGS	OTHER INTANGIBLE FIXED ASSETS
Opening balance	184.951.694	88.532.498	13.153.334	3.325.980	3.325.980	64.010.782	64.010.782	28.630.976	451.457
Increases	17.801.847	12.213.709	332.271	1.079.783	1.079.783	4.352.186	4.352.186	9.846	146.323
Purchases	13.273.927	9.179.945	332.271	11.447	11.447	3.936.213	3.936.213	-	146.323
Value recoveries	-	-	-	-	-	-	-	-	-
- of which by creditworthiness	-	-	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-	-	-
Other increases	4.527.920	3.033.765	-	1.068.336	1.068.336	415.973	415.973	9.846	-
Decreases	30.944.946	26.491.931	2.652.574	2.159.974	2.159.974	442.014	442.014	1.607.629	243.398
Sales	11.794.417	10.777.013	2.635.422	109.906	109.906	141.794	141.794	764.235	1.470
Value adjustments	12.447.004	11.041.476	17.151	19.986	19.986	300.220	300.220	843.395	241.928
- of which depreciation and amortization	12.018.749	10.933.427	-	-	-	-	-	843.395	241.928
- of which lasting devaluations	337.357	17.151	17.151	19.986	19.986	300.220	300.220	-	-
- of which by creditworthiness	90.898	90.898	-	-	-	-	-	-	-
Other decreases	6.703.525	4.673.442	-	2.030.082	2.030.082	-	-	-	-
Closing balance	171.808.595	74.254.276	10.833.031	2.245.789	2.245.789	67.920.955	67.920.955	27.033.194	354.382

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").

In the following table, the item "assets pending lease due to lease termination" includes the fixed assets regained by the Bank following termination of leasing contracts due to borrowers' failure. These values are also included in the Breakdown of loans to customers, as required by the regulations on the preparation of financial statements (CBSM Regulation 2016/02). Item C (of which assets available from credit recovery) includes real estate owned for € 67,204,646 and movable assets for € 320,940 acquired over the years, following a waiver agreement and write-off of loans from insolvent customers classified as non-performing; these are non-operating assets and therefore they are not subject to depreciation; we hereby 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 fixed assets"

ITEMS / VALUES	31/12/2019			31/12/2018		
	PURCHASE PRICE / PRODUCTION COST	BOOK VALUE	FAIR VALUE	PURCHASE PRICE	BOOK VALUE	FAIR VALUE
Financial leasing	161.907.955	74.254.276	-	176.281.009	88.532.498	-
of which assets under construction	15.467.675	10.833.031	-	15.467.675	13.153.334	-
Assets awaiting lease termination	6.943.870	2.245.789	-	8.284.198	3.325.980	-
of which due to default by the tenant	6.943.870	2.245.789	-	8.284.198	3.325.980	-
Assets available from debt collection	-	67.920.955	67.920.955	-	64.010.782	64.010.782
of which bassets available for credit extinction by means of a settlement agreement	-	67.920.955	67.920.955	-	64.010.782	64.010.782
Lands and buildings	39.946.523	27.033.194	-	41.617.852	28.630.976	-
Other intangible fixed assets	1.974.646	354.382	-	2.183.177	451.457	-
<b>Total</b>	<b>210.772.993</b>	<b>171.808.596</b>	<b>67.920.955</b>	<b>228.366.237</b>	<b>184.951.694</b>	<b>64.010.782</b>

Table 8.3 - Assets acquired from credit recovery

ITEMS / VALUES	31/12/2019		31/12/2018	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
A. Assets acquired from credit recovery deriving from financial leasing contracts	67.525.586	67.525.586	63.615.415	63.615.415
A.1 real estate	67.204.646	67.204.646	63.513.640	63.513.640
• of which for residential use	19.051.036	19.051.036	17.971.639	17.971.639
• of which for non-residential use	48.153.610	48.153.610	45.542.001	45.542.001
A.2 movable property	320.940	320.940	101.775	101.775
• of which vehicles	-	-	-	-
• of which naval aircraft	-	-	-	-
• of which other	320.940	320.940	101.775	101.775
B. Assets acquired from credit recovery deriving from other loan agreements	395.368	395.368	395.367	395.367
B.1 real estate	395.368	395.368	395.367	395.367
• of which for residential use	-	-	-	-
• of which for non-residential use	395.368	395.368	395.367	395.367
B.2 movable property	-	-	-	-
• of which vehicles	-	-	-	-
• of which naval aircraft	-	-	-	-
• of which other	-	-	-	-
<b>Total</b>	<b>67.920.954</b>	<b>67.920.954</b>	<b>64.010.782</b>	<b>64.010.782</b>

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 - Leasing to credit institutions and customers (residual principal and overdue rents)

CATEGORIES / VALUES	TOTAL 31/12/2019	OF WHICH LEASING TO CREDIT INSTITUTIONS	OF WHICH LEASING TO CUSTOMERS	OPTION		
				TOTAL 31/12/2018	OF WHICH LEASING TO CREDIT INSTITUTIONS	OF WHICH LEASING TO CUSTOMERS
Leasing - Total	80.142.336	-	80.142.336	97.127.259	-	97.127.259
• of which for overdue fees	3.225.084	-	3.225.084	5.268.780	-	5.268.780
• of which Residual principal credit	76.917.252	-	76.917.252	91.858.479	-	91.858.479
Intangible fixed assets	-	-	-	-	-	-
- Financial leasing	417.187	-	417.187	-	-	-
- Assets awaiting lease termination	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	-
- Financial leasing	74.254.276	-	74.254.276	88.532.499	-	88.532.499
- Assets awaiting lease termination	2.245.789	-	2.245.789	3.325.980	-	3.325.980

## 9. Subscribed and unpaid capital (asset item 110)

Table 9.1 - Breakdown of item 110 "Subscribed and unpaid capital"

Data not present.

## 10. Transactions on own shares (asset item 120)

Table 10.1 - Breakdown of company shares

	NUMBER OF SHARES	% ON CAPITAL	NOMINAL VALUE	TRADING AMOUNT
Values as of 31.12.2018	553	0,07%	14.378	14.378
Purchases	-	-	-	-
Sales	-	-	-	-
Values as of 31.12.2019	553	0,07%	14.378	14.378
				PROFIT/LOSS
Profit / loss from trading on treasury shares during the year				

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

## 11. Other Assets (asset item 130)

Table 11.1 - Breakdown of item 130 "Other Assets"

OTHER ASSETS	31/12/2019	31/12/2018
Guarantee margins	-	-
Premiums paid for options	-	-
Other assets	138.736.791	118.355.047
of which various debtors	5.040.478	5.442.295
• Administrative expenses	460.141	984.218
• Interest, commission income and dividends, accrued and not paid-in	12.425	4.085
• Security deposits	600.000	601.297
• Coded Customers	3.717.986	3.699.148
• ATM withdrawals suspense account	13.370	3.482
• Advances to Suppliers	127.521	146.802
• Transitional customer positions	109.035	3.263
of which other:	133.696.312	112.912.753
• Advances paid to the tax authorities for IGR for which compensation is requested	432.918	841.224
• RID management of commercial receipts	671.158	1.002.350
• Temporary tax differences in the units of loan management fund	7.606.047	6.894.137
• Technical accounts	817.425	777.858
• Correspondent bank bills	12.622.376	11.342.916
• Bills from s.b.f. customers	54.303.061	63.716.760
• Bills from customers s.b.f. cheques	6.799.551	15.363.144
• Customer bills after collection	2.755.778	3.195.590
• Suspense accounts - traveling consignments	2.300.429	1.966.265
• Loans from Credito Sammarinese	220.423	220.423
• Deferred tax assets	62.169	62.169
• Tax credit from Credito Sammarinese	1.399.501	1.923.186
• Credit to excellent chamber, State body interest share	348.500	373.873
• Security deposits	708.168	1.554.458
• Suspension of value adjustments Article 40 Law 173/2018	41.235.855	3.678.400
• Tax differences in the fondo Odisseo units	1.412.953	-
<b>Total</b>	<b>138.736.791</b>	<b>118.355.047</b>

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. As a result of the write-down of the closed-end Loans Management fund, BAC recorded a capital loss of € 711,909 compared to 31/12/2018, reclassified in other assets under the item "Temporary tax differences of Loans Management fund shares", pursuant to letter Prot.14/2288 issued by the Supervisory Authority with and in compliance with Law no. 74 of 27/10/2011, which rose to € 7,606,047.

In addition, as a result of the acquisition of the Fondo Odisseo, following the taking over of SNB protected liabilities, it was written down to the certified NAV as of 31/12/2019 for € 1,412,953, which was included among other assets under item 3.20 as a tax credit pursuant to Legislative Decree no. 73 of 27/06/2013.

Lastly, the item: "Suspension of value adjustments pursuant to Article 40 Law 173/2018", confirmed for € 41,235,855, represents the AQR adjustments suspended, pursuant to the relevant law for 9/10.



More in detail, the item Other debtors includes the following sub-items:  
Tax credits, deferred tax assets, related accounting items

#### Crediti di imposta, attività a fiscalità differita, poste contabili correlate (98)

DESCRIPTION	31/12/2019	31/12/2018
Accounting items related to specific decrees	10.418.502	8.817.322
• Tax credit Decree Law 174/2011	1.399.501	1.923.186
• Temporary tax differences of the Loan Management Fund units	7.606.047	6.894.136
• Tax differences of the Odisseo fund units Decree Law no. 72 of 27/06/2013	1.412.953	-
Deferred tax assets	62.169	62.169
Deferred tax asset for provisions exceeding 5% Provision for risks on Loans Law 166/2013	62.169	62.169
Other related accounting items	432.918	841.224
Advances paid to the tax authorities for IGR for which compensation is requested	432.918	841.224
<b>Total</b>	<b>10.913.589</b>	<b>9.720.715</b>

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.

## 12. Accrued Income and Prepaid Expenses (asset item 140)

Table 12.1 - Breakdown of item 140 "Accrued Income and Prepaid Expenses"

	31/12/2019	31/12/2018
Accrued income	54.679	76.450
• On loans to customers	729	1.677
• On loans to banks	2.949	12.374
• Other accrued income	51.001	62.399
Prepaid expenses	292.585	379.669
• On rents payable	40.281	40.118
• On administrative expenses	252.304	339.551
<b>Total</b>	<b>347.264</b>	<b>456.119</b>

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. Item 140 includes residual amounts not attributable to specific asset and liability items.

## INFORMATION ON THE STATEMENT OF ASSETS AND LIABILITIES – LIABILITIES

### 13. Due to CREDIT INSTITUTIONS (liabilities item 10)

Table 13.1 - Detail of item 10 "Amounts due to CREDIT INSTITUTIONS"

	31/12/2019			31/12/2018			CHANGE	
	IN EURO	IN FOREIGN CURRENCY	TOTAL	IN EURO	IN FOREIGN CURRENCY	TOTAL	AMOUNT	%
<b>A) At sight / revocation:</b>	1.254.211	-	1.254.211	1.137.069	-	1.137.069	117.142	10,30%
<b>A1. Reciprocal accounts opened for services rendered</b>	1.254.211	-	1.254.211	1.137.069	-	1.137.069	117.142	10,30%
<b>A2. Free deposits</b>	-	-	-	-	-	-	-	-
<b>A3. Other</b>	-	-	-	-	-	-	-	-
<b>B) At term or with notice</b>	-	-	-	-	-	-	-	-
<b>B1. Passive current accounts</b>	-	-	-	-	-	-	-	-
<b>B2. Term deposits</b>	-	-	-	-	-	-	-	-
<b>B3. Repurchasing agreements and passive carry-overs</b>	-	-	-	-	-	-	-	-
<b>B4. Other financing</b>	-	-	-	-	-	-	-	-
<b>Totale</b>	<b>1.254.211</b>	<b>-</b>	<b>1.254.211</b>	<b>1.137.069</b>	<b>-</b>	<b>1.137.069</b>	<b>117.142</b>	<b>10,30%</b>

Table 13.2 - Breakdown of amounts due to CREDIT INSTITUTIONS based on residual life"

MATURITY	31/12/2019	31/12/2018
At sight	1.254.211	1.137.069
Up to 3 months	-	-
From over 3 months to 6 months	-	-
From over 6 months to 1 year	-	-
From over 1 year to 18 months	-	-
From over 18 months to 2 years	-	-
From over 2 years to 5 years	-	-
Over 5 years	-	-
Maturity not attributed	-	-
<b>Total</b>	<b>1.254.211</b>	<b>1.137.069</b>

## 14. Amounts due to customers (liabilities item 20)

Table 14.1 - Detail of item 20 "Amounts due to customers"

	31/12/2019			31/12/2018			CHANGE	
	IN EURO	IN FOREIGN CURRENCY	TOTAL	IN EURO	IN FOREIGN CURRENCY	TOTAL	AMOUNT	%
<b>A) At sight / revocation:</b>	394.797.234	7.310.718	402.107.952	397.972.671	8.121.441	406.094.112	-3.986.160	-0,98%
<b>A1. Passive current accounts</b>	391.675.140	7.310.718	398.985.858	398.985.858	8.121.441	402.488.328	-3.502.470	-0,87%
<b>A2. Savings deposits</b>	3.122.094	-	3.122.094	3.605.783	-	3.605.783	483.689	-13,41%
<b>A3. Other</b>	-	-	-	-	-	-	-	-
<b>B) Term or with notice</b>	15.785.597	-	15.785.597	27.913.048	-	27.913.048	-12.127.451	-
<b>B1. Term passive current accounts</b>	-	-	-	-	-	-	-	-
<b>B2. Restricted savings deposits</b>	-	-	-	-	-	-	-	-
<b>B3. Repurchasing agreements and passive carry-overs</b>	15.785.597	-	15.785.597	24.087.145	-	24.087.145	-8.301.548	-34,46%
<b>B4. Other funds</b>	-	-	-	3.825.903	-	3.825.903	-3.825.903	-100,00%
<b>Total</b>	<b>410.582.831</b>	<b>7.310.718</b>	<b>417.893.549</b>	<b>425.885.719</b>	<b>8.121.441</b>	<b>434.007.160</b>	<b>-32.227.222</b>	<b>-7,43%</b>

This table was compiled with liability item 20. In reclassifying the amounts due to customers excludes, internal checks merged with other liabilities for € 1,054,415 in 2019, which amounted to € 604,644 in 2018. A combined reading of the tables above and below shows a downsizing of deposits in repos and Certificates of Deposit, partly converted by customers into indirect deposits, preferring the new investment products of the subsidiary BAC Investment SG Spa.

Table 14.2 - Breakdown of amounts due to customers based on residual life

MATURITY	31/12/2019	31/12/2018
At sight	402.107.952	406.094.112
Up to 3 months	7.152.691	11.466.092
From oltre 3 months to 6 months	5.535.516	1.150.754
From over 6 months to 1 year	3.097.391	15.296.202
From over 1 year to 18 months	-	-
From over 18 months to 2 years	-	-
From over 2 years to 5 years	-	-
Over 5 years	-	-
Maturity not attributed	-	-
<b>Total</b>	<b>417.893.549</b>	<b>434.007.160</b>

## 15. Amounts represented by financial instruments (liabilities item 30)

Table 15.1 - Breakdown of amounts represented by financial instruments

	31/12/2019			31/12/2018			CHANGE	
	IN EURO	IN FOREIGN CURRENCY	TOTAL	IN EURO	IN FOREIGN CURRENCY	TOTAL	AMOUNT	%
Bonds	-	-	-	-	-	-	-	-
of which held by credit institutions	-	-	-	-	-	-	-	-
Certificates of deposit	235.224.57	-	235.224.57	282.563.618	-	282.563.618	-47.339.043	-16,75%
of which held by credit institutions	-	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-	-
of which negotiated acceptances	-	-	-	-	-	-	-	-
of which outstanding bills	-	-	-	-	-	-	-	-
of which atypical securities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>235.224.57</b>	<b>-</b>	<b>235.224.57</b>	<b>282.563.618</b>	<b>-</b>	<b>282.563.618</b>	<b>-47.339.043</b>	<b>-16,75%</b>

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

## 16. Other Liabilities (liabilities item 40)

Table 16.1 - Breakdown of item 40 "Other liabilities"

OTHER ASSETS	31/12/2019	31/12/2018
Guarantee margins	-	-
Awards received for options	-	-
Checks in circulation and similar securities	1.054.415	604.644
Others	93.222.123	114.369.258
of which various Creditors	1.218.084	1.352.984
• Salaries / Emoluments	1.174.485	1.309.275
• Items in the course of collection	13.599	13.709
• Security deposits	30.000	30.000
of which Other:	92.004.039	113.016.274
• Transferring bills after collection	4.203.405	4.910.925
• Transferring bills subject to collection	77.360.050	97.688.525
• Regular matches	964.779	932.835
• Payable to the Tax Office for withholding tax made	617.147	559.354
• Payable to the Tax Office for various withholdings / taxes	17.937	17.178
• Suppliers to be liquidated	2.246.835	3.119.102
• Pledged funds	26.470	93.410
• Cash / ATM surpluses	8.169	7.014
• Incoming transfers / to be sent	59.476	57.739
• Italy / R.S.M. Utilities	1.675.592	851.645
• ATM / pos / card transactions	329.049	203.751
• Securities Transactions	4.466	4.466
• Other items	613.943	613.640
• Credito Sammarinese transferred customers	158.733	261.542
• Invoices issued for leasing fees	3.717.987	3.695.148
<b>Total</b>	<b>94.276.538</b>	<b>114.973.902</b>

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.

Table 16.2 - Amounts due for E MONEY

	31/12/2019	31/12/2018
For nominative instruments	329.049	203.751
of which rechargeable	160.315	142.367
of which non-rechargeable	168.733	61.385
For anonymous tools	-	-

## 17. Accrued Expenses and Deferred Income (liabilities item 50)

Table 17.1 - Breakdown of item 50 "Accrued Expenses and Deferred Income"

	31/12/2019	31/12/2018
Accrued liabilities	4.223	7.239
Accrued liabilities on derivative contracts	4.223	7.239
Deferred income	90.512	65.513
Deferred income from foreign portfolio	7.435	6.061
Deferred commission income unsecured loans	59.188	25.333
Other deferred income	23.888	34.119
<b>Total</b>	<b>94.734</b>	<b>72.752</b>

Based on Article IV.I.13 of CBSM Regulation 2016/02 on the preparation of financial statements which requires the assets and liabilities of banks to be adjusted directly with the evidence of accrued income and expenses, item 50 includes residual amounts not attributable to specific asset and liability items.

## 18. Provisions (liability items 60 - 70 - 80)

Table 18.1 - Movements of item 60: "Severance"

	31/12/2019	31/12/2018
Opening balance	529.375	609.394
Increases:	563.415	597.025
• provisions	563.415	597.025
• other increases	-	-
Decreases:	589.845	677.045
• uses	589.845	589.845
• other decreases	-	-
<b>Closing balance</b>	<b>502.944</b>	<b>502.944</b>

Severance, as provided for by current legislation, is paid annually to employees. The balance therefore corresponds to the portion relating to the 2019 financial year.

Table 18.2 - Breakdown of item 70 "Reserves for risks and charges"

COMPOSITION	31/12/2019	31/12/2018
Pension funds and similar obligations	-	-
Taxes and fees fund	106.828	266.401
Other funds	999.529	1.062.214
• Claims and revocation fund	643.800	733.800
• Contractual increase fund	168.298	168.298
• Charity fund	23.005	30.619
• Unused holiday fund	164.426	129.497
<b>Total</b>	<b>1.106.357</b>	<b>1.328.615</b>

For the year 2019, no provision was made for tax reserves and duties since, according to current tax regulations and estimates, BAC will not have to recognize income taxes. We would like to point out that, as from fiscal year 2019, the regulations relating to provisions exceeding 5% of total Loans were revised by Article 11 Law no. 154 of 03/10/2019, and the dichotomy between statutory and fiscal balance sheet was finally removed, which, based on the original tax Law 166/2013, imposed taxation of the provision for credit risks over 5% of loans, in clear contrast to the regulatory regulations, which impose specific write-downs on impaired and flat rates to cover the risk of unexpected losses. While there are no disputes with the San Marino tax authorities, in December 2019 an investigation was opened by the Italian Revenue Agency in relation to the application of IRES (corporate income tax) on interest income received on mortgages and current accounts by individuals resident in Italy for the year 2013; on the other hand, following the implementation of the Double Taxation Convention in 2013, the bank has a claim from the Revenue Agency for a request for reimbursement of withholding tax on Italian securities. Therefore, the current tax provision is reasonably large to cover any tax burden. The movements of the aforementioned provision are reported below.

Table 18.3 - Movement of the "Tax reserves and Duties"

	31/12/2019	31/12/2018
Opening balance	266.401	916.930
Increases:	-	200.000
• Provisions	-	200.000
• Other increases	-	-
Decreases:	159.573	850.529
• Uses	159.573	850.529
• Other increases	-	-
Closing balance	106.828	266.401

Table 18.4 - Movements of sub-item c) "Other Provisions"

EMPLOYEES CONTRACTUAL INCREASE FUND	31/12/2019	31/12/2018
Opening balance	168.298	168.298
Increases:	-	-
• Provisions	-	-
• Other increases	-	-
Decreases:	-	-
• Uses	-	-
• Other increases	-	-
Closing balance	168.298	168.298

Even in the current year no further provisions were made, as the provision was considered to be large. The renewal of the collective labour agreement, which expired on 31/12/2010, is still under negotiation.

<b>UNUSED HOLIDAY FUND</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Opening balance	129.497	177.756
Increases:	34.929	-
• Provisions	34.929	-
• Other increases	-	-
Decreases:	-	48.259
• Uses	-	48.259
• Other decreases	-	-
Closing balance	164.426	129.497

<b>CHARITY FUND</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Opening balance	30.619	25.919
Increases:	-	-
• Provisions	1.638	15.000
• Other increases	-	-
Decreases:	9.252	10.300
• Uses	9.252	10.300
• Other decreases	-	-
Closing balance	23.005	30.619

<b>CLAIMS AND REVOCATION FUND</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Opening balance	733.800	1.077.300
Increases:	256.000	533.099
• Provisions	256.000	533.099
• Other increases	-	-
Decreases:	346.000	876.599
• Uses	346.000	548.099
• Other decreases	-	328.500
Closing balance	643.800	733.800

For the current year, it was deemed necessary to replenish the above detailed provision for € 56,000 following increases in the loss forecasts on some law suits still open, in addition to a prudential lump sum provision of € 200,000; instead, € 346,000 was used as BAC was unsuccessful in some law suits.

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

	<b>31/12/2019</b>	<b>31/12/2018</b>
Opening balance	-	-
Increases:	17.857.990	-
• Provisions	17.857.990	-
• Other increases	-	-
Decreases:	-	-
• Uses	-	-
• Other decreases	-	-
Closing balance	17.857.990	-

The bank provided for the replenishment of the provision for Credit Risks, to complete the adjustments from the remaining AQR financial year, for € 17,857,990 (also accrued from 2019 to the Profit and Loss Account over 10 years), thus not adjusting impaired positions, as they cannot be identified to date, as explained above in the tables of loan movements and related adjustments. BAC will continue to constantly monitor credit positions in order to make the necessary value adjustments, with a consequent reduction of this provision in 2020.



## 19. Provision for General financial risks, Subordinated liabilities, subscribed capital, share premium, Reserves, Revaluation reserve, retained earnings (losses) carried forward and Profit (loss) for the year (liability items: 90 - 100 - 110 - 120 - 130 - 140 - 150 - 160)

Table 19.1 - Breakdown of item 90 "Provisions for general financial risks"

Data not present.

Table 19.2 - Breakdown of item 100 "Subordinate liabilities"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Subordinate liabilities	4.005.165	8.010.853	-4.005.688	-50,00%
• of which held by credit institutions	-	-	-	-
• of which hybrid capitalization instruments	-	-	-	-

In 2013, the Bank issued a fully subscribed subordinated bond, repayable in instalments of 20% from 01/03/2016, until full refund on 01/03/2020. The change in 2019 is attributable to the refunds made.

Table 19.3 - Breakdown of item 110 "Subscribed capital"

TYPE OF SHARES	31/12/2019			31/12/2018			CHANGE	
	NUMBE OF SHARES	UNIT VALUE	OVERALL VALUE	NUMERO AZIONI	UNIT VALUE	OVERALL VALUE	ABSOLUTE	%
Ordinary shares	803.080	26	20.880.080	803.080	26	20.880.080	-	-
<b>Total</b>	<b>803.080</b>	<b>26</b>	<b>20.880.080</b>	<b>803.080</b>	<b>26</b>	<b>20.880.080</b>	<b>-</b>	<b>0,00%</b>

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

Data not present.

Table 19.5 - Breakdown of item 130 "Reserves"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Ordinary or legal reserve	54.595.023	58.395.668	-3.800.644	-6,51%
• of which reserve in Tax suspension	1.227.968	1.227.968	-	-
Reserve for own shares	14.378	14.378	-	-
Statutory reserves	-	-	-	-
Other reserves	-	-	-	-
<b>Total</b>	<b>54.609.401</b>	<b>58.410.046</b>	<b>-3.800.644</b>	<b>-6,51%</b>

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 favour of BAC, which did not lead 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 should be noted that the burden of "unavailability" is still exists at recipient BAC; in fact, no reserves have been distributed since the demerger transaction to date and the table above shows this. The change in the ordinary reserve is attributed exclusively to the absorption of the 2016 and 2017 loss for a total of € 3,800,645.

Table 19.6 - Breakdown of item 140 "Revaluation reserves"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Revaluation reserves	14.835.485	14.831.669	3.816	0,03%

The revaluation reserves underwent a positive change at the end of 2019 due to the revaluation of the net equity of the subsidiaries BAC Life Spa, SSIS Spa, Bac Fiduciaria Spa and BAC Investments SG Spa.

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Retained earnings (losses) carried forward	-3.721.039	-3.800.645	79.606	-2,09%

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Profit (loss) for the year	-1.656.680	-3.721.039	2.064.359	-55,48%
<b>Total</b>	<b>-1.656.680</b>	<b>-3.721.039</b>	<b>2.064.359</b>	<b>-55,48%</b>

	31/12/2019	31/12/2018
Profit (loss) for the year / Total Assets ratio	-0,19%	-0,44%

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

	SIBSCRIBED CAPITAL	SUBSCRIBED AND UNPAID CAPITAL	SHARE PREMIUM	ORDINARY OR LEGAL RESERVE	OTHER RESERVES	RESULT FOR THE YEAR	PROFITS / LOSSES CARRIED FORWARD	GENERAL FINANCIAL RISKS	REVALUATION RESERVE	TOTAL
Balance as of 31.12.2016	20.880.080	-	-	58.395.668	14.378	-3.793.060	-	-	14.651.105	90.148.171
Balance as of 31.12.2017	20.880.080	-	-	58.395.668	14.378	-7.585	-3.793.060	-	14.789.392	90.278.873
Balance as of 31.12.2018	20.880.080	-	-	58.395.668	14.378	-3.721.039	-3.800.645	-	14.831.669	86.600.111
Balance as of 31.12.2019	20.880.080	-	-	54.595.023	14.378	-1.656.680	-3.721.039	-	14.835.485	84.947.248

Table 19.10 - Breakdown of Public Savings Collection by business sector

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Public administrations	32.467.506	59.628.924	-27.161.418	-45,55%
Financial companies other than credit institutions	84.618.019	85.192.915	-574.896	-0,67%
• Monetary financial institutions (excluding credit institutions)	-	-	-	-
• Investment funds other than money market funds	1.694.124	1.463.651	230.473	15,75%
• Other financial institutions	43.980.288	39.355.770	4.624.518	11,75%
• Insurance companies	38.943.607	44.373.494	-5.429.887	-12,24%
• Pension funds	-	-	-	-
Non-financial corporations	93.354.744	105.037.259	-11.682.515	-11,12%
• of which deleted from the Register of Authorized Subjects	-	-	-	-
• Industry	37.900.944	43.325.933	-5.424.989	-12,52%
• Construction	2.453.403	2.604.876	-151.473	-5,81%
• Services	51.773.066	57.431.050	-5.657.984	-9,85%
• Other non-financial companies	1.227.331	1.675.400	-448.069	-26,74%
Families and non-profit institutions serving families	447.737.435	475.327.176	-27.589.741	-5,80%
• Consumer and producer families	439.717.192	470.223.915	-30.506.723	-6,49%
• Non-profit institutions serving families	8.020.243	5.103.261	2.916.982	57,16%
Other	-	-	-	-
<b>Total</b>	<b>658.177.704</b>	<b>725.186.274</b>	<b>-67.008.570</b>	<b>-9,24%</b>

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

## INFORMATION ON THE STATEMENT OF ASSETS AND LIABILITIES GUARANTEES AND COMMITMENTS

### 20. Guarantees and Commitments

Table 20.1 - Breakdown of "Guarantees given"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Unsecured loans of a commercial nature	13.299.762	12.387.957	911.805	7,36%
Unsecured loans of a financial nature	767.290	1.278.994	-511.704	-40,01%
Assets pledged as collateral	1.333.281	1.333.281	-	-
• of third party bonds	1.333.281	1.333.281	-	-
• of own bonds	-	-	-	-
<b>Total</b>	<b>15.400.333</b>	<b>15.000.232</b>	<b>400.101</b>	<b>2,67%</b>

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: i.e. 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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Unsecured loans of a commercial nature	13.299.762	12.387.957	911.805	7,36%
• acceptances	1.785.985	953.311	832.674	87,35%
• guarantees and endorsements	11.513.777	11.434.646	79.131	0,69%
• strong patronage	-	-	-	-
• other	-	-	-	-
Unsecured loans of a financial nature	767.290	1.278.994	-511.704	-40,01%
• acceptances	-	-	-	-
• guarantees and endorsements	767.290	1.278.994	-511.704	40,01%
• strong patronage	-	-	-	-
• other	-	-	-	-
<b>Total</b>	<b>14.067.052</b>	<b>13.666.951</b>	<b>400.101</b>	<b>2,93%</b>

Table 20.3 - Situation of unsecured loans to CREDIT INSTITUTIONS

Data not present.

Table 20.4 - Situation of unsecured loans to customers

CATEGORIES / VALUES	31/12/2019			31/12/2018		
	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE
Doubtful loans	500	-	500	500	-	500
• of which Non-performing loans	-	-	-	-	-	-
• of which Substandard loans	-	-	-	-	-	-
• of which Restructured loans	500	-	500	500	-	500
• of which Past due/overdue loans	-	67.920.955	67.920.955	-	64.010.782	64.010.782
• of which Unsecured loans to "at risk" countries	-	67.920.955	67.920.955	-	64.010.782	64.010.782
Performing loans	14.066.552	-	14.066.552	13.666.451	-	13.666.451
Other intangible fixed assets	1.974.646	354.382	-	2.183.177	451.457	-
<b>Total</b>	<b>14.067.052</b>	<b>-</b>	<b>14.067.052</b>	<b>13.666.951</b>	<b>-</b>	<b>13.666.951</b>

Table 20.5 - Assets used as collaterals to own debts

Data not present.

Table 20.6 - Margins available on lines of credit

Data not present.

Table 20.7 - Breakdown of "Spot commitments"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Commitments to disburse funds for certain use	-	-	-	-
• of which financing commitments to be disbursed	-	-	-	-
Commitments to exchange financial instruments for certain use	-	-	-	-
Commitments to disburse funds for uncertain use	2.270.276	4.387.383	-2.117.107	-48,25%
• of which passive margins usable on credit lines	2.270.276	4.387.383	-2.117.107	-48,25%
• of which put options issued	-	-	-	-
Commitments to exchange financial instruments of uncertain use	-	-	-	-
Other commitments	-	-	-	-
<b>Total</b>	<b>2.270.276</b>	<b>4.387.383</b>	<b>-2.117.107</b>	<b>-48,25%</b>

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 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. 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 2018 to 2019 is due to the contraction of the operations to be settled on exchanges.

The item Other commitments for 2019 (notional value of derivative transactions) is specified in the following table (20.08).

Table 20.8 - Term commitments

CATEGORY OF TRANSACTIONS	HEDGING	TRADING	OTHER TRANSACTIONS
<b>1. Trading</b>	-	-	-
<b>1.1 Financial instruments</b>	-	-	-
• purchases	-	-	-
• sales	-	-	-
<b>1.2 Foreign currencies</b>	-	-	-
• foreign currencies against foreign currencies	-	-	-
• purchases against Euro	-	-	-
• sales against Euro	-	-	-
<b>2. Deposits and financing</b>	-	-	-
• to be paid	-	-	-
• to be received	-	-	-
<b>3. Derivative contracts</b>	626.909	-	-
<b>3.1 With exchange of capital</b>	-	-	-
<b>a. Securities</b>	-	-	-
• purchases	-	-	-
• sales	-	-	-
<b>b. Foreign currencies</b>	-	-	-
• foreign currencies against foreign currencies	-	-	-
• purchases against Euro	-	-	-
• sales against Euro	-	-	-
<b>b. Other values</b>	-	-	-
• purchases	-	-	-
• sales	-	-	-
<b>3.2 Without capital exchange</b>	626.909	-	-
<b>a. Foreign currencies</b>	-	-	-
• foreign currencies against foreign currencies	-	-	-
• purchases against Euro	-	-	-
• sales against Euro	-	-	-
<b>b. Other values</b>	626.909	-	-
• purchases	626.909	-	-
• 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 two IRS transactions executed with HVB on fixed-rate loans as hedge against the rate risk which expires in 2023, besides a further derivative contract, executed with ICCREA on a disbursed loan, upon which we exchange the fixed rate gaining the floating one which will expire on 07/07/2020.

Table 20.9 - Financial derivatives

CATEGORY OF TRANSACTIONS	HEDGING	TRADING	OTHER TRANSACTIONS
<b>A. Derivative contracts</b>	-43.972	-	-
<b>A.1 With exchange of capital</b>	-	-	-
<b>a. securities</b>	-	-	-
• purchases	-	-	-
• sales	-	-	-
<b>b. foreign currencies</b>	-	-	-
• foreign currencies against foreign currencies	-	-	-
• purchases against Euro	-	-	-
• sales against Euro	-	-	-
<b>c. other values</b>	-	-	-
• purchases	-	-	-
• sales	-	-	-
<b>A.2 Without capital exchange</b>	-43.972	-	-
<b>a. foreign currencies</b>	-	-	-
• foreign currencies against foreign currencies	-	-	-
• purchases against Euro	-	-	-
• sales against Euro	-43.972	-	-
<b>b. other values</b>	-	-	-
• purchases	-43.972	-	-
• sales	-	-	-

Table 20.10 - Derivative contracts on loans

Data not present.



## INFORMATION ON THE STATEMENT OF ASSETS AND LIABILITIES MEMORANDUM ACCOUNTS

### 21. Memorandum accounts

Table 21.1 - Memorandum accounts

ITEMS	31/12/2019	31/12/2018
Asset management	12.509.484	26.303.424
a) customer asset management	12.509.484	26.303.424
of which liquidity	4.781.471	14.347.349
of which liquidity deposited with the reporting institution	4.781.471	14.347.349
of which debt securities	751.649	946.303
of which debt securities issued by the reporting entity	240.000	480.000
of which debt securities issued by other San Marino credit institutions	-	-
of which equity securities and Official Italian accounting Board shares	6.976.364	11.009.772
of which equity securities issued by the reporting entity	-	-
b) own portfolios managed by third parties	-	-
Custody and administration of financial instruments	593.342.195	568.624.825
a) third party financial instruments on deposit	523.913.192	515.332.85
of which debt securities issued by the reporting entity	3.760.000	7.520.000
of which debt securities issued by other San Marino credit institutions	-	-
of which equity securities and other securities issued by the reporting entity	83.868.125	90.190.631
of which securities third-party financial instruments deposited with third parties	315.972.791	344.589.607
b) proprietary financial instruments deposited with third parties	69.429.003	53.291.966
Financial instruments, liquidity and other values related to the activity of depository bank	105.160.130	45.495.135
a) liquidity	8.147.742	950.104
of which liquidity deposited with the reporting institution	8.147.742	950.104
b) Debt securities	-	-
of which debt securities issued by the reporting entity	-	-
of which debt securities issued by other San Marino credit institutions	-	-
c) equity securities, Official Italian accounting Board shares and other financial instruments	97.012.388	44.545.031
of which equity securities issued by the reporting entity	-	-
d) other assets other than financial instruments and liquidity	-	-

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 hereby specify that following authorization to operate by the Supervisory Authority, BAC Investments SG Spa, established in early 2018, proceeded with the distribution and sale of its own issuing funds, through the commercial network of the parent company BAC, of which BAC is depository for € 105,160,130, as highlighted in the section "Financial instruments, cash and other assets related to depository bank activity. It should also be noted that the data indicated in the aforementioned Depository Bank section represents an "of which", included in the Securities Custody and Administration aggregate.

Table 21.2 - Intermediation for outsourcers: execution of memorandums  
Data not present.

Table 21.3 - Breakdown of Indirect Deposits by business sector

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Public administrations	5.018.050	-	-	-
Financial companies	347.497.850	292.641.72	54.856.127	18,75%
• Monetary financial institutions	-	-	-	-
• Investment funds other than money market funds	-	-	-	-
• Other financial institutions	162.915.962	122.936.099	39.979.863	32,52%
• Insurance companies	184.581.888	169.705.624	14.876.264	8,77%
• Pension funds	-	-	-	-
Non-financial corporations	97.043.168	106.850.813	-9.807.645	-9,18%
• of which deleted from the Register of Authorized Subjects	-	-	-	-
• industry	19.981.758	25.967.76	-5.986.007	-23,05%
• construction	1.986.156	1.941.438	44.718	2,30%
• services	10.069.507	8.427.289	1.642.218	19,49%
• other non-financial companies	65.005.747	70.514.321	-5.508.574	-7,81%
Families and non-profit institutions serving families	75.094.525	164.341.429	10.753.096	6,54%
• consumer and manufacturer families	174.407.598	163.994.083	10.413.515	6,35%
• non-profit institutions serving families	686.927	347.346	339.581	97,76%
Other	-	-	-	-
<b>Total</b>	<b>624.653.594</b>	<b>563.833.965</b>	<b>60.819.629</b>	<b>10,79%</b>

Table 21.4 - Trust activity  
Data not present.

Table 21.5 - Assets held in the exercise of trustee function  
Data not present.

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

### 22. Interests (Profit and loss account item 10 - 20)

Table 22.1 - Breakdown of item 10 "Interest income and similar revenues"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>A. On Treasury Bonds and other financial instruments eligible for refinancing with central banks</b>	-	-	-	-
<b>A1. Treasury securities and other similar financial instruments</b>	-	-	-	-
<b>A2. Other financial instruments eligible for refinancing with central banks</b>	-	-	-	-
<b>B. On loans from credit institutions</b>	100.272	161.433	-61.160	-37,89%
<b>B1. Active current accounts</b>	-15.347	-6.678	-8.669	129,82%
<b>B2. Deposits</b>	115.619	168.110	-52.491	-31,22%
<b>B3. Other financing</b>	-	-	-	-
• of which on leasing transactions	-	-	-	-
<b>C. Loans to customers</b>	13.754.016	15.674.469	-1.920.453	-12,25%
<b>C1. Active current accounts</b>	3.539.447	3.813.877	-274.431	-7,20%
<b>C2. Deposits</b>	-	-	-	-
<b>C3. Other financing</b>	10.214.569	11.860.592	-1.646.023	-13,88%
• of which on leasing transactions	2.414.483	3.169.901	-755.417	-23,83%
<b>D. On debt securities issued by credit institutions</b>	-	-	-	-
<b>D1. Certificates of deposit</b>	-	-	-	-
<b>D2. Bonds</b>	-	-	-	-
<b>D3. Other financial instruments</b>	-	-	-	-
<b>E. On debt securities from customers (issued by other issuers)</b>	691.843	548.708	143.136	26,09%
<b>E1. Bonds</b>	691.843	548.708	143.136	26,09%
<b>E2. Other financial instruments</b>	-	-	-	-
<b>Total</b>	<b>14.546.131</b>	<b>16.384.609</b>	<b>-1.838.478</b>	<b>-11,22%</b>

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.

Table 22.2 - Breakdown of item 20 "Interest expense and similar charges"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>A. On amounts due to credit institutions</b>	287	845	-558	-66,02%
<b>A1. Passive current accounts</b>	287	845	-558	-66,02%
<b>A2. Deposits</b>	-	-	-	-
<b>A3. Other debts</b>	-	-	-	-
<b>B. On amounts due to customers</b>	927.136	1.057.549	-130.413	-12,33%
<b>B1. Passive current accounts</b>	642.342	823.224	-180.883	-21,97%
<b>B2. Deposits</b>	44.539	10.778	33.761	313,23%
<b>B3. Other debts</b>	240.256	223.547	16.709	7,47%
<b>C. On debts represented by financial instruments towards credit institutions</b>	-	-	-	-
• of which on certificates of deposit	-	-	-	-
<b>D. On debts represented by financial instruments towards customers</b>	2.683.834	3.188.569	-504.735	-15,83%
• of which on certificates of deposit	2.683.834	3.188.569	-504.735	-15,83%
<b>E. On subordinated liabilities</b>	77.362	145.449	-68.087	-46,81%
• of which on hybrid instruments of capitalization	-	-	-	-
<b>E2. Other financial instruments</b>	-	-	-	-
<b>Total</b>	<b>3.688.620</b>	<b>4.392.413</b>	<b>-703.793</b>	<b>-16,02%</b>

Conversely, the decrease in interest income is combined with a reduction in interest expense attributable on one hand to a more efficient management of deposit rates and on the other by the decrease in direct deposits.

## 23. Commission income (profit and loss account item 30)

Table 23.1 - Breakdown of item 40 "Dividends and other revenues"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>A. On shares, stocks and other capital instruments</b>	-	-	-	-
<b>B. On shareholdings</b>	-	-	-	-
<b>C. On shareholdings in group companies</b>	-	345.822	-345.822	-100,00%
<b>Total</b>	-	<b>345.822</b>	<b>-345.822</b>	<b>-100,00%</b>

The item dividends was not supported in 2019 compared to 2018 due to the decision to account for dividends on a cash basis and not on an accrual basis, in line with international and Italian accounting standards (OIC 21), we would like to point out that, as detailed extensively in the equity investments section, in 2020 BAC Life Spa's 2019 dividend of € 1,007,687 will be recognized.

## 24. Commissions (profit and loss account item 40 - 50)

Table 24.1 - Breakdown of item 40 "Commission income"

COMMISSION INCOME	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
A. Guarantees given	93.698	91.121	2.578	2,83%
B. Credit derivatives	-	-	-	-
C. Investment services	471.436	709.303	-237.867	-33,54%
C1. reception and transmission of orders (letter D1 Annex 1 LISF)	442.439	532.449	-90.010	-16,90%
C2. execution of orders (letter D2 Annex 1 LISF)	-	-	-	-
C3. portfolio management of financial instruments (letter D4 Annex 1 LISF)	28.998	176.854	-147.857	-83,60%
C4. placement of financial instruments (letters D5 and D6 Annex 1 LISF)	-	-	-	-
D. Financial instruments consulting activities	-	-	-	-
E. Distribution of services and products of third parties other than the placement	1.006.872	1.063.913	-57.042	-5,36%
E1. asset management	-	-	-	-
E2. insurance products	185.718	256.886	-71.168	-27,70%
E3. other services and products	821.154	807.027	14.126	1,75%
F. Collection and payment services	1.810.945	1.229.555	581.390	47,28%
G. Depository bank services	86.132	16.884	69.248	410,14%
H. Custody and administration of financial instruments	328.946	325.906	3.040	0,93%
I. Trust services	-	20.794	-20.794	-100,00%
L. Exercise of tax collectors and receivers	-	-	-	-
M. Currency trading	327.293	301.865	25.428	8,42%
N. Commissions for collective management services (letter E and F Annex 1 LISF)	-	-	-	-
O. E-money	-	-	-	-
P. Issue / management of credit cards / debit cards	-	-	-	-
Q. Other services	1.771.932	746.987	1.024.944	137,21%
<b>Total</b>	<b>5.897.253</b>	<b>4.506.328</b>	<b>1.390.925</b>	<b>30,87%</b>

Commission income increased due to higher contributions on collection and payment services and other services, respectively due to: the consolidation and spread of credit cards and prepaid cards of T.P@Y among our customers, the first payment institution in San Marino, of which we promoted together with other San Marino Credit Institutions, as well as the policies for reviewing and updating commissions on current accounts and Loans disbursed. The commissions for the reception and transmission of orders is decreasing in favour of the distribution of the issuing funds BAC Investment SG Spa, our subsidiary.

We would like to point out that in 2019 we reclassified commission income relating to the management of current accounts, savings deposits and certificates of deposits for a total of € 698,624 under item "g) other services", while in the 2018 financial statements other operating income included a total of € 679,025.

Table 24.2 - Breakdown of item 50 "Commission expense"

FEES AND COMMISSION EXPENSES	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
A. Guarantees given	40	55	-15	-26,77%
B. Credit derivatives	-	-	-	-
C. Investment services	336.588	372.785	-36.197	-9,71%
C1. reception and transmission of orders (letter D1 Annex 1 LISF)	262.659	278.577	-15.917	-5,71%
C2. execution of orders (letter D2)	31.096	40.411	-9.315	-23,05%
C3. Portfolio management of financial instruments (letter D4 Annex 1 LISF)	861	6.210	-5.349	-86,14%
• own portfolio	-	-	-	-
• third party portfolio	861	6.210	6.210	-86,14%
C4. placement of financial instruments (letters D5 and D6 Annex 1 LISF)	41.971	47.587	-5.616	-11,80%
D. Off-site offer of financial instruments, products and services	-	-	-	-
E. Collection and payment services	872.526	368.617	503.909	136,70%
F. Commissions to distributors	-	-	-	-
G. E-money	-	-	-	-
H. Emissione/gestione di carte di credito/ carte di debito	-	-	-	-
I. Other services	36.915	56.273	-19.358	-34,40%
<b>Total</b>	<b>1.246.068</b>	<b>797.729</b>	<b>448.339</b>	<b>56,20%</b>

Concurrently the increase in commission income there was an increase 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 deposits.

Table 24.3 - General expenses: Information on commission income and expenses

Data not present.

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

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

ITEMS / TRANSACTIONS	31/12/2019			
	TRANSACTIONS ON FINANCIAL INSTRUMENTS	TRANSACTIONS ON CURRENCIES	TRANSACTIONS ON METALS AND PRECIOUS METALS	OTHER TRANSACTIONS
A1. Revaluations	-	-	-	-
A2. Write-downs	114.937	-	-	-
B. Other Profits / Losses	1.033.365	346.951	-	-
<b>Total</b>	<b>918.428</b>	<b>346.951</b>	<b>-</b>	<b>-</b>
Government bonds	901.381	-	-	-
Other financial instruments	13.860	-	-	-
Equity financial instruments	3.187	-	-	-
Derivative contracts on financial instruments	-	-	-	-
<b>Total</b>	<b>918.428</b>	<b>-</b>	<b>-</b>	<b>-</b>

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., Securities management showed an excellent positive result compared to the previous year thanks to the upside opportunities seized on the markets for government securities held in the free trading portfolio.

## 26. Other operating income (profit and loss account item 70) Other operating charges (profit and loss account item 80)

Table 26.1 - Breakdown of item 70 - 80 "Other operating income", "Other operating charges"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Other operating income	-	-	-	-
• Rental income on real estate	900.865	931.549	-30.684	-3,29%
• Recovery of insurance expenses	21.152	21.776	-624	-2,87%
• Commissions income on reports	163.239	764.091	-600.852	-78,64%
• Miscellaneous expense recoveries	64.853	51.599	13.254	25,69%
• Share capital Leasing Fees	11.918.574	12.740.332	-821.757	-6,45%
<b>Total</b>	<b>13.068.684</b>	<b>14.509.346</b>	<b>-1.440.663</b>	<b>-9,93%</b>
Other operating expenses	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

In accordance with the regulation on the preparation of the consolidated financial statements, the lease instalments accrued during the fiscal year are recorded in the part concerning interests under the item interest income and similar income and in the part concerning share capital under 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 on leasing contracts, in addition to redemptions and down-payments, are recorded under the item "other operating income".

## 27. Administrative expenses (profit and loss account item 90)

Table 27.1 - Number of employees by category and personnel costs

	AVERAGE AS OF 31/12/2019	PERSONNEL EXPENSES AS OF 31/12/2019	NUMBER AS OF 31/12/2019	AVERAGE AS OF 31/12/2018	PERSONNEL EXPENSES AS OF 31/12/2018	NUMBER AS OF 31/12/2018
A. Directors	22,75	2.477.552	24	18,92	2.336.694	17
B. Administrative staff	15,50	1.157.823	16	15,42	1.226.691	17
C. Remaining personnel	83,25	4.652.939	81	94,50	5.075.720	89
C1. Employees	83,25	4.652.939	81	94,50	5.075.720	89
C2. Other personnel	-	-	-	-	-	-
<b>Total</b>	<b>121,50</b>	<b>8.288.315</b>	<b>121</b>	<b>128,84</b>	<b>8.639.105</b>	<b>123</b>

It should be noted that the personnel costs, detailed in the table above, also include employees contractually classified as Executives, in accordance to CBSM Regulation 2016-02; on the other hand, the remuneration paid to corporate executives, such as directors and statutory auditors, explained in Table 27.3, as also reclassified in the Profit and Loss Account and required by Article IV.IV.6 of CBSM Regulation 2016-02, is not included.

The rationalisation of costs continues: compared to the previous year, total personnel costs, including fees, decreased by € 350,790, against a reduction in the number of employees by 2. The bank made no provision for MBO, i.e. one-off bonuses paid to employees on the basis of the performances gained from the Network and administrative units.



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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Other administrative expenses	4.862.907	5.431.760	-568.853	-10,47%
of which fees to independent auditors	54.881	63.500	-8.619	-13,57%
of which fees for services other than auditing the financial statements	-	-	-	-
of which other:	4.808.026	5.368.260	-560.235	-10,44%
• Expenses for professional services	668.638	716.888	-48.250	-6,73%
• Expenses for the purchase of non-professional goods and services	1.410.347	1.407.769	2.578	0,18%
• Rents and fees	1.745.780	1.677.695	68.085	4,06%
• Insurance premiums	174.896	176.270	-1.374	-0,78%
• Supervisory charges	547.180	848.532	-301.352	-35,51%
• Charity and sponsorship expenses	45.108	43.900	1.208	2,75%
• Indirect taxes and duties	40.804	302.108	-261.304	-86,49%
• Depositors guarantee fund contribution	175.273	195.100	-19.826	-10,16%

The other administrative expenses also enjoyed a significant decrease, thanks to the policies of prudent management and control, showing a decrease of € 568,853.

Table 27.3 - Remuneration

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Directors	77.526	93.997	-16.470	-17,52%
Auditors	72.720	72.840	-120	-0,16%
Management	460.632	-322.774	-322.774	-41,20%
<b>Total</b>	<b>610.878</b>	<b>950.243</b>	<b>-339.365</b>	<b>-35,71%</b>

This table details the remuneration paid to Directors and Statutory Auditors for positions held at the Bank, including attendance fees, as well as remuneration paid to Management, i.e. General Manager, Deputy General Manager and other Managers with strategic responsibilities, the latter not present.

Breakdown of sub-item "Other personnel expenses"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Other personnel expenses	56.284	72.728	-16.444	-22,61%
of which Training costs	-	-	-	-
of which Other	56.284	72.728	-16.444	-22,61%
• Reimbursement of expenses and travel	43.601	50.473	-6.872	-13,62%
• Miscellaneous expenses	12.683	22.255	-9.571	-43,01%

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

Table 28.1 - Breakdown of items 100 - 110 "Value adjustments on intangible and tangible assets"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>A. Intangible fixed assets</b>	<b>319.239</b>	<b>495.845</b>	<b>-176.606</b>	<b>-35,62%</b>
of which on leased assets	-	-	-	-
of which on other intangible fixed assets	319.239	495.845	-176.606	-35,62%
• software	70.702	156.693	-85.991	-54,88
• studies, research and training	45.109	48.657	-3.548	-7,29%
• various multi-year costs	161.174	248.242	-87.068	-35,07%
• accommodation expenses for rent	440	440	-	-0,00%
• concession rights and works of the underpass	41.813	41.813	-	-
<b>Total</b>	<b>319.239</b>	<b>495.845</b>	<b>495.845</b>	<b>-35,62%</b>
<b>A. Tangible fixed assets</b>	<b>12.935.629</b>	<b>13.801.205</b>	<b>-865.575</b>	<b>-6,27%</b>
of which on leased assets	11.850.307	12.582.735	-732.428	-5,82%
of which on other tangible fixed assets	1.085.323	1.218.470	-133.147	-10,93%
• mobile safes and systems	157.362	217.091	-59.729	-27,51%
• electronic machines	73.976	76.368	-2.392	-3,13%
• motor vehicles	-	-	-	-
• real estate and land	843.395	893.699	-50.305	-5,63%
• equipment and machinery	10.590	6.272	4.318	68,85%
• other activities	-	25.039	-25.039	-100,00%
<b>Total</b>	<b>12.935.629</b>	<b>13.801.205</b>	<b>-865.575</b>	<b>-6,27%</b>

The contributions to the various amortization funds of the assets functional to the fiscal year constitute the sum of the shares accrued in 2019, calculated in relation to their residual possibility of use and coinciding with the percentages established by the tax provisions of Law 166/2013. The applied rates are listed below:

<b>Buildings</b>	<b>3%</b>
<b>Furniture, Save and Lands</b>	<b>15%</b>
<b>Electronic Machines</b>	<b>20%</b>
<b>Motor vehicles</b>	<b>20%</b>
<b>Software</b>	<b>20%</b>
<b>Studies, Research and Training</b>	<b>20%</b>
<b>Concession Rights</b>	<b>3%</b>

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 article IV.V.5.

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Provisions (relating to the sub-item "Other provisions" of Liabilities)	-	-	-	-
Provisions for charges, disputes and litigation	256.000	533.099	-277.099	-51,98%
<b>Total</b>	<b>256.000</b>	<b>533.099</b>	<b>-277.099</b>	<b>-51,98%</b>

Provisions amounting to € 56,000 were made for reserves for risks and charges in accordance with the timely update on the loss forecasts relating to ongoing disputes, in addition to an additional € 200,000 for prudential lump-sum provisions.

Table 28.3 - Item 130 "Provisions for risks on credits"

Data not present.

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
<b>A. Value adjustments on loans</b>	<b>5.924.307</b>	<b>8.024.805</b>	<b>-2.100.498</b>	<b>-26,18%</b>
of which lump-sum adjustments for country risk	11	2	9	569,40%
of which other lump sum adjustments	1.442.960	387.912	1.055.048	271,98%
<b>B. Provisions for guarantees and commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
of which lump-sum provisions for country risk	-	-	-	-
of which other lump-sum provisions	-	-	-	-
<b>Total</b>	<b>5.924.307</b>	<b>8.024.805</b>	<b>-2.100.498</b>	<b>-26,18%</b>

In accordance with the CBSM Regulation 2016-02, and as already illustrated in the relevant sections of the Explanatory Notes to the Financial Statements, the Bank should carry out analytical write-downs based on each debtor's solvency and portfolio write-downs based on the performance of its own economic sector and the country of reference. The value adjustments made in 2019 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 portfolio write-downs, as mentioned above, on the basis of the economic sector and country risk, and are available to guarantee a 13.63% coverage of cash and off-balance-sheet loans compared to 8.41% in 2018.

Net adjustments to loans and provisions for guarantees and commitments amount to € 4,901,789 broken down as follows: € 5,924,307 for provisions and value adjustments on loans (table 28.4), € 1,022,518 (table 28.6) for value recoveries from collections and valuations. It should be noted that in 2019 the definition of the Adjustments from the Asset Quality Review (AQR) launched in 2016 was finalized with the Supervisory Authority. The Bank, following various comparisons and in-depth studies with the Central Bank on the quality of its Loans portfolio, integrated the AQR adjustments, increasing the already existing write-downs on the Impaired portfolio and the performing portfolio, by an additional € 24,281,227 in 2019. These write-downs (cumulative total of € 27,959,627) were taken to the Profit and Loss Account, through instalments allowed by article 40 of Law 173/2018, over a period of 10 years starting from 2019; moreover, to complete the adjustments from the Asset Quality Review, the Provision for Credit Risks item 80 of the liabilities for € 17,857,989 was replenished as to date the impaired credit positions are not yet identifiable. The cumulative total of the aforementioned adjustments on impaired positions (cumulative total € 45,817,617) the Bank accrued them to the Profit and Loss Account over 10 years starting from 2019 with a share of € 4,581,761, pursuant to the 2018 Finance Law no. 173 Article 40 paragraph 2 and a request authorized by the Central Bank.

Table 28.5 - Different types of movement during the year

	31/12/2019		31/12/2018		CHANGE	
	ANALYTICS	FLAT-RATE	ANALYTICS	FLAT-RATE	AMOUNT	%
<b>A. Total write-downs of cash loans</b>	4.481.335	1.442.971	7.636.892	387.912	-2.100.498	-26,18%
<b>A1. write-down of loans - non-performing loans</b>	3.511.953	-	5.124.776	-	-1.612.823	-31,47%
<b>A2. write-down of loans - substandard loans</b>	399.468	-	746.929	-	-347.462	-46,52%
<b>A3. write-down of loans - other loans</b>	569.914	1.442.971	1.765.187	387.912	-140.214	-6,51%
<b>B. Total cash loan losses</b>	-	-	-	-	-	-
<b>B1. Non-performing loans</b>	-	-	-	-	-	-
<b>B2. Substandard loans</b>	-	-	-	-	-	-
<b>B3. Other loans</b>	-	-	-	-	-	-
<b>Total value adjustments on cash loans (A + B)</b>	<b>4.481.335</b>	<b>1.442.971</b>	<b>7.636.892</b>	<b>387.912</b>	<b>-2.100.498</b>	<b>-26,18%</b>
<b>C. Total provisions for guarantees and commitments</b>	-	-	-	-	-	-
<b>C1. guarantees</b>	-	-	-	-	-	-
<b>C2. commitments</b>	-	-	-	-	-	-
<b>Totale Generale (A+B) + C</b>	<b>4.481.335</b>	<b>1.442.971</b>	<b>7.636.892</b>	<b>387.912</b>	<b>-2.100.498</b>	<b>-26,18%</b>

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Value recoveries	1.022.518	2.940.947	-1.918.428	-65,23%
of which on non-performing loans	620.902	1.864.688	-1.243.786	-66,70%
of which on bad loans	218.994	302.503	-83.509	-27,61%
of which on other loans	182.622	773.755	-591.133	-76,40%

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

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Value adjustments	11.741	293.229	-281.488	-96,00%
of which on equity investments	11.741	293.229	-281.488	-96,00%
of which on equity investments in subsidiaries	11.741	293.229	-281.488	-96,00%
of which on equity investments in associated companies	-	-	-	-
of which su partecipazioni valutate at net equity	11.741	293.229	-281.488	-96,00%
of which on other capital financial instruments	-	-	-	-
of which on other debt financial instruments	-	-	-	-
of which on other derivative financial instruments	-	-	-	-

This item includes the write-down of the investment in BAC Real Estate srl for € 11,741, determined for adjustment to Net Equity.

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

Data not present.

## 29. Extraordinary income (profit and loss account item 190) Extraordinary charges (profit and loss account item 200)

Table 29.1 - Breakdown of item 190 "Extraordinary income" and item 200 "Extraordinary charges"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Extraordinary income	-	-	-	-
contingent assets	128.925	371.969	-243.044	-65,34%
receipts on positions passed to losses	140.989	253.065	-112.076	-44,29%
termination of customer relations	616	221	395	178,66%
Release of the Complaints and Revocatory Fund	-	-	-	-
other extraordinary income	252.315	2.300	250.015	10870,24%
<b>Total</b>	<b>522.846</b>	<b>627.556</b>	<b>-104.710</b>	<b>-16,69%</b>
Extraordinary charges	-	-	-	-
repayment of interest income, commissions	118	3.841	-	-
termination of customer relations	22.995	25.639	-2.644	-10,31%
other extraordinary charges	217.022	116.330	100.692	86,56%
<b>Total</b>	<b>240.135</b>	<b>145.811</b>	<b>94.324</b>	<b>64,69%</b>

It should be noted that other extraordinary income includes € 250.65 for capital gains on the sale of a real estate owned by the Bank (City Centre Branch abandoned), while other extraordinary charges include € 182,000 for civil lawsuits in which the Bank lost.

### Breakdown of the item "Income taxes for the year"

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Income taxes for the year	-	320.972	-320.972	-100,00%
<b>Total</b>	<b>-</b>	<b>320.972</b>	<b>-320.972</b>	<b>-100,00%</b>

It should be noted that taxes were set aside in accordance with current tax regulations and in 2019 no income tax will have to be recognized. From the 2019 fiscal year, the regulations relating to provisions exceeding 5% of total Loans were revised by Law no.154 of 03/10/2019 with which, in Article 11, the dichotomy between the statutory and fiscal financial statements was finally removed, which, according to the original tax law 166/2013, imposed taxation of the provision for credit risks on more than 5% of loans, in contrast with the Supervisory Regulations which impose specific write-downs on impaired and lump-sum loans to cover the risk of unexpected losses.

## 30. Change in the Provision General Financial Risk (profit and loss account item 230)

Data not present.

## PART D - OTHER INFORMATION

### 31. Prudential aggregates

Table 31.1 - Prudential aggregates

	AMOUNT
<b>A. Supervisory capital</b>	<b>32.415.393</b>
A1. core capital	27.764.753
A2. supplementary capital	14.835.485
A3. elements to be deduced	10.184.845
A4. supervisory capital	32.415.393
<b>Risk activities and supervisory ratios</b>	-
<b>B1. risk-weighted assets</b>	<b>368.027.833</b>
<b>C2. upervisory capital / risk-weighted assets</b>	<b>8,81%</b>

In the preparation of the prudential aggregates, the indications of the CBSM Regulation 2007-07 and the Supervisory Authority with letter Prot.19/10691 and 20/5553 were implemented, therefore the AQR adjustments, suspended for 9/10 in Other Assets equal to € 41,235,855 pursuant to Article 40 of Law 173/2018 and by request authorized by the Central Bank Prot.20/5553, were deducted from Regulatory Capital. The new method of calculating Regulatory Capital, with effect from 31/12/2019, showed a solvency ratio of 8.81%, below the required regulatory minimum of 11%. The allocation of further analytical adjustments to Impaired Loans, in 2020, to the item "80 Provision for Credit Risks" will result in an improvement in RWA (weighted assets) which will consequently be reflected in a lower equity shortage for Prudential Supervision purposes and an estimated ratio of 9.50%.

The bank's shortage of capital for Prudential Supervision purposes will be compensated with the issue and placement of a Subordinated Loan to be offered to professional customers, already authorized for inclusion in the Supplementary Supervisory Capital by the Central Bank with Prot.20/5598 of 22/06/2020, for € 10,000,000.

The Bank also submitted a specific request to the Supervisory Authority, pursuant to Article VII.II.12 of Regulation 2007-07, in order to be able to take advantage of the exemption from the deduction, in full, of the participation of BAC LIFE SpA, which represents a solid participatory and unique reality in the panorama of San Marino Banking Groups and which, pursuant to Regulation 2008 - 01, is already subject to the measurement of the fully respected solvency margin. If accepted, the bank's capital requirements would be zero, exceeding the required regulatory solvency limit of 11%.

### 32. Major risks and related parties

Table 32.1 - Major risks

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Amount	122.165.477	61.458.470	60.707.007	98,78%
Number	7	6	1	16,67%

This table shows the total weighted amount and the number of risk positions that constitute a "major risk" according to the current supervisory standards. The bank complies with the required limits.

Table 32.2 - Risks to related parties

	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Amount	8.260.876	12.181.387	-3.920.511	-32,18%
Number	6	7	-1	-14,29%

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.

### 33. Time distribution of assets and liabilities

Table 33.1 - Time distribution of assets and liabilities

ITEMS REMAINING DURATIONS	TOTAL	AT SIGHT	UP TO 3 MONTHS	FROM OVER 3 MONTHS TO 6 MONTHS	FROM OVER 6 MONTHS TO 1 YEAR	FROM OVER 1 YEAR TO 18 MONTHS		FROM OVER 18 MONTHS TO 2 YEARS		FROM OVER 2 YEARS TO 5 YEARS		FROM OVER 5 YEARS		MATURITY NOT ATTRIBUTED
						F	V	F	V	F	V	F	V	
<b>1. Assets</b>	599.525.171	186.382.654	44.065.989	18.137.440	21.656.928	1.235.665	16.863.691	761.686	15.275.222	15.061.585	72.735.315	41.883.031	80.121.150	85.344.816
<b>1.1 Treasury securities and other financial instruments eligible for refinancing with Central Banks</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>1.2 Loans to credit institutions</b>	107.140.384	67.072.946	5.000.000	-	-	-	-	-	-	-	-	-	-	35.067.438
<b>1.3 Loans to customers</b>	428.541.336	115.887.626	35.653.124	16.710.505	20.639.826	695.255	16.863.691	610.357	15.275.222	1.767.212	72.735.315	1.304.674	80.121.150	50.277.378
<b>1.4 Bonds and other financial debt instruments</b>	45.545.934	-	-	-	-	-	-	-	-	10.966.220	-	34.579.713	-	-
<b>1.5 Off-balance sheet transactions</b>	18.297.517	3.422.082	3.412.865	1.426.935	1.017.101	540.410	-	151.329	-	2.328.152	-	5.998.643	-	-
<b>2. Liabilities</b>	677.729.432	408.178.593	95.418.095	48.015.641	48.548.414	40.725.415	4.525.298	18.598.174	937.744	5.270.007	1.513.407	5.998.643	-	-
<b>2.1 Due to credit institutions</b>	1.254.211	1.254.211	-	-	-	-	-	-	-	-	-	-	-	-
<b>2.2 Due to customers</b>	417.893.549	402.107.952	7.152.691	5.535.516	3.097.391	-	-	-	-	-	-	-	-	-
<b>2.3 Payables represented by financial instruments</b>	235.224.575	339.933	80.847.375	41.053.191	44.433.922	40.185.006	4.525.298	18.446.845	937.744	2.941.855	1.513.407	-	-	-
• bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
• certificates of deposit	235.224.575	339.933	80.847.375	41.053.191	44.433.922	40.185.006	4.525.298	18.446.845	937.744	2.941.855	1.513.407	-	-	-
• other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2.4 Other liabilities: cheques in circulation</b>	1.054.415	1.054.415	-	-	-	-	-	-	-	-	-	-	-	-
<b>2.5 Subordinate liabilities</b>	4.005.165	-	4.005.165	-	-	-	-	-	-	-	-	-	-	-
<b>2.6 Off-balance sheet transactions</b>	18.297.517	3.422.082	3.412.865	1.426.935	1.017.101	540.410	-	151.329	-	2.328.152	-	5.998.643	-	-



### 36. More information about credit cards/debit cards/e money

Table 36.1 - Amounts of money transfers

TYPE OF TRANSACTION	31/12/2019				31/12/2018			
	TRANSACTION AMOUNT	NUMBER OF TRANSACTIONS	COMMISSIONS RECEIVED	EXPENSE RECOVERIES	TRANSACTION AMOUNT	NUMBER OF TRANSACTIONS	COMMISSIONS RECEIVED	EXPENSE RECOVERIES
Credit cards	-	-	-	-	-	-	-	-
Debit cards	66.936.712	66.936.712	31.056	27.729	64.081.844	745.593	28.645	27.036
E-money	1.061.935	26.579	703	9.556	708.005	17.240	768	6.646
<b>Total</b>	<b>67.998.647</b>	<b>830.199</b>	<b>31.759</b>	<b>37.284</b>	<b>64.789.849</b>	<b>762.833</b>	<b>29.413</b>	<b>33.682</b>

San Marino, 26 June 2020

The General Manager

The Chairman of the Board of Directors



# Consolidated Balance Sheet 2019

## Consolidated Balance Sheet

### Financial Statements - 2019 Reports and Financial Statements - Gruppo Bancario Banca Agricola Commerciale S.p.A. Istituto Bancario Sammarinese S.p.A.

San Marino is facing major challenges due to the state of health emergency following the coronavirus epidemic, called COVID-19, which has also affected the Republic since February 2020, with heavy impacts on the local population and businesses. The short-term efforts of the Authorities are rightly focused on limiting and containing the adverse social and economic effects, also through the redistribution of resources in favour of the health system.

Medium-term growth prospects are expected to be weak due to the credit crunch and the substantially weaker external economic environment. The high uncertainty about the extent and duration of the COVID-19 infections presented the country system with major challenges to overcome the difficulties caused by the context in which it operates.

The IMF at the Executive Board Concludes of April 2020 stresses the need for pension reforms, the introduction of VAT together with measures to rationalize tax exemptions, better targeting social benefits to increase their efficiency.

On 10 April 2020, the rating agency Fitch revised the medium-long term rating of San Marino from BBB- to BB+ with negative Outlook. The key rating drivers that led to the revision to the BB+ class are attributable to the same critical issues expressed by the International Monetary Fund.

In accordance with the latest IMF estimates, the real GDP of the country, which recorded an increase of +1.1% in 2019, is estimated to decrease to -12.2% in 2020, in line with the reduction forecasts that affect all countries hit by the pandemic.

The inflation rate in 2019 was +1 % and is expected to be +0.3% in 2020.

The unemployment rate in 2019 was 7.7% and IMF's projections see a worsening rate of 10.3% in 2020.

Some positive notes of the San Marino economic system should also be noted: in 2019 the workforce increased by +562 units (from 22,405 employed in December 2018 to 22,967 in December 2019), in addition, the GDP per capita placed the country at the top of the world rankings for years.

As of 31/12/2019, the group had a consolidated value of total deposits of € 1,349 million (including the Depository Bank activity for BACInvestments SG Spa), divided into direct and indirect deposits for € 725 million and € 624 million respectively.

Total balance sheet assets as of 31/12/2019 amounted to € 1,067 million, compared to € 1,136 million as of 31/12/2018, while loans to customers, expressed at estimated realisable value (therefore already net of the provision for credit risks of € 67.64 million), decreased from € 503.176 million to € 428.642 million, an item that shows a decrease of € -74.951 million in absolute terms.

The group achieved a consolidated intermediation margin of € 20.494 million in 2019, an increase of +6.16% compared to 2018. We would like to point out that the item other revenues was offset by the principal amounts of leasing instalments with the relative amortization of the same amount, which was included in the item amortization, the values of which are € 11.850 million for 2019 and € 12.582 million for 2018, respectively.

Operating costs, equal to € 16.156 million, show a decrease of -7.64% compared to (€ -17.492 million in 2018) 31/12/18.

Personnel costs show a reduction of - € 0.341 million (-3.57% compared to 31/12/18), also while administrative expenses continued to decline as a result of the rationalization processes undertaken in previous years, suffering a decrease of 11.17% (€ -0.684 million).

The report shows a positive operating result of € 4.337 million, increasing by 139.43% compared to 2018 (+2.525 million) and a consolidated result of € -0.523 million after having made substantial allocations to provisions for credit risks and provisions for risks and charges totalling € -5.157 million,

<sup>(5)</sup> IMF Country Report No. 20/93

<sup>(6)</sup> Statistic Report - IV quarter 2019

down by -8.54% compared to the previous year, as a result of a careful and rigorous assessment of the receivables of all the companies in the group.

## Financial statements

### Asset items

Consolidato BAC - Bac Fiduciaria Spa - BAC Life Spa - BAC Investments SG Spa - BAC Real Estate Srl

CODE	ASSET ITEMS	2019	2018	ABSOLUTE CHANGE	PERCENT CHANGE
10	Cash and cash equivalents	7.414.613	6.766.608	648.005	9,58%
20	Loans to banks	114.528.335	147.862.435	-33.334.100	-22,54%
	At sight	71.652.969	97.270.025	-25.617.056	-26,34%
	Other receivables	42.875.367	50.592.410	-7.717.044	-15,25%
30	Loans to customers*	351.725.052	411.318.026	-59.592.974	-14,49%
40	Bonds and other financial debt instruments	229.846.118	194.923.094	34.923.024	17,92%
	Public issuers	129.126.781	113.925.997	15.200.784	13,34%
	Bank issuers	210.439	-	210.439	100,00%
	of which own financial instruments investors (investment firms)	-	-	-	-
	other issuers	100.508.898	80.997.097	19.511.801	24,09%
50	Shares, stocks and other capital financial instruments	45.680.712	64.893.535	-19.212.823	-29,61%
60	Shareholdings	4.718.689	4.840.804	-122.115	-2,52%
70	Investments in bank group companies	-	-	-	-
80	Intangible fixed assets	1.523.460	1.255.084	268.376	21,38%
	of which goodwill	-	-	-	-
90	Tangible fixed assets	172.066.696	185.217.084	-13.150.388	-7,10%
	of which financial leases	74.254.276	88.532.498	-14.278.222	-16,13%
	of which assets awaiting lease	2.245.789	3.325.980	-1.080.191	-32,48%
100	Subscribed paid capital not paid-in	-	-	-	-
110	Treasury shares or stocks	14.378	14.378	-	0,00%
120	Other assets	139.605.575	118.323.713	21.281.862	17,99%
130	Accrued income or prepaid expenses	861.953	933.836	-71.883	-7,70%
	Accrued income	561.587	548.525	13.062	2,38%
	Prepaid expenses	300.366	385.311	- 84.945	-22,05%
140	Total assets	1.067.985.580	1.136.348.598	-68.363.018	-6,02%

\* expressed at the fair value (total adjustment provisions for credits amounting to € 67,648,964)

## Liability and equity items

CODE	LIABILITY ITEMS	2019	2018	ABSOLUTE CHANGE	PERCENT CHANGE
<b>10</b>	Amounts due to banks	1.593.671	1.335.004	258.667	19,38%
	At sight	1.254.211	1.137.069	117.142	10,30%
	At term or with notice	339.460	197.935	141.525	71,50%
<b>20</b>	Amounts due to customers	414.251.587	432.754.888	-18.503.301	-4,28%
	At sight	398.234.260	404.602.559	-6.368.299	-1,57%
	At term or with notice	16.017.327	28.152.328	-12.135.001	-43,10%
<b>30</b>	Payables represented by financial instruments	235.224.575	282.563.618	-47.339.043	-16,75%
	Bonds	-	-	-	-
	Certificates of deposit	235.224.57	282.563.618	-47.339.043	-16,75%
	Other financial instruments	-	-	-	-
<b>40</b>	Other liabilities	95.073.306	115.644.116	-20.570.810	-17,79%
<b>50</b>	Accrued expenses and deferred income	99.542	73.400	26.142	35,62%
	Accrued expenses	9.031	7.887	1.143	14,49%
	Deferred income	90.512	65.513	24.999	38,16%
<b>60</b>	Severance	539.776	565.152	-25.377	-4,49%
<b>70</b>	Reserves for risks and charges	1.279.071	1.514.814	-235.743	-15,56%
	Provision for pensions and similar obligations	-	-	-	-
	Tax reserves	109.231	281.443	-172.212	-61,19%
	Other funds	1.169.841	1.233.371	-63.531	-5,15%
<b>80</b>	Risk provisions for credits not adjusting assets	17.893.990	50.000	17.843.990	35687,98%
<b>90</b>	Technical reserves	212.069.962	207.236.641	4.833.321	2,33%
<b>100</b>	Subordinate liabilities	4.005.165	8.010.853	-4.005.688	-50,00%
<b>110</b>	Share capital	20.880.080	20.880.080	-	0,00%
<b>120</b>	Share premium reserves	-	-	-	-
<b>130</b>	Reserves	54.609.401	58.410.046	-3.800.644	-6,51%
	Ordinary reserves	54.355.023	58.150.653	-3.795.629	-6,53%
	Treasury and share reserves	14.378	14.378	-	-
	Extraordinary reserves	-	-	-	-
	Other reserves	240.000	245.015	-5.015	0,00%
<b>140</b>	Revaluation reserves	14.709.554	14.836.684	-127.130	-0,86%
<b>150</b>	Retained earnings (losses) (+/-)	-3.721.039	-3.800.644	79.605	-2,09%
<b>160</b>	Net income (loss) for the period (+/-)	-523.062	-3.679.180	3.156.118	-85,78%
	Minority interests	-	-	-	-
	Merger surplus	-	46.874	46.874	-100,00%
<b>170</b>	Total liabilities	1.067.985.580	1.136.348.598	-68.363.018	-6,02%

## Profit and loss account

CODE		2019	2018	CHANGE ABSOLUTE	CHANGE PERCENTUALE
	Insurance premiums	1.831.372	1.344.534	486.838	36,21%
<b>10</b>	Interest income and similar revenues	14.555.204	16.383.965	-1.828.761	-11,16%
	On loans to customers	13.755.796	15.662.415	-1.906.619	-12,17%
	On debt securities	697.307	560.071	137.237	24,50%
	On amounts due from banks	102.100	161.480	-59.379	-36,77%
<b>20</b>	Interest expense and similar charges	-3.691.217	-4.381.434	690.217	-15,75%
	On loans to customers	-928.917	-1.045.495	116.579	-11,15%
	On bond paybles	-2.761.196	-3.334.018	572.822	-17,18%
	On amounts due from banks	-1.104	-1.920	816	-42,50%
<b>30</b>	Dividends and other revenues	-	-	-	-
	On stocks	-	-	-	-
	On shares	-	-	-	-
	On group company shares	-	-	-	-
<b>40</b>	Commission income	6.210.154	4.545.428	1.664.726	36,62%
<b>50</b>	Commission expense	-944.894	-524.586	-420.308	80,12%
<b>60</b>	Profits (losses) on financial transactions (+/-)	1.436.330	142.629	1.293.701	907,04%
<b>70</b>	Other operating income	13.013.811	15.303.542	-2.289.731	-14,96%
<b>80</b>	Other overhead costs	-66.074	-926.829	860.755	-92,87%
<b>90</b>	Administrative expenses	-14.656.259	-15.682.466	1.026.207	-6,54%
	a. Personnel expenses	-9.208.635	-9.550.013	341.378	-3,57%
	a.1. Salaries and wages	-6.528.416	-6.781.605	253.189	-3,73%
	a.2. Welfare contributions	-1.756.109	-1.745.286	-10.823	0,62%
	a.3. Severance	-588.573	-618.614	30.041	-4,86%
	a.4. Pensions and similar obligations	-	-	-	-
	a.5. Directors and auditors	-278.444	-331.428	52.984	-15,99%
	a.6. Other personnel costs	-57.094	-73.080	15.986	-21,87%
	b. Other administrative expenses	-5.447.624	-6.132.453	684.829	-11,17%
<b>100</b>	Value adjustments on intangible fixed assets	-324.449	-503.161	178.712	-35,52%
	of which on intangible assets leased	-	-	-	-
<b>110</b>	Value adjustments on tangible fixed assets	-13.026.428	-13.890.004	863.576	-6,22%
	of which on tangible assets leased	-11.850.307	-12.582.735	732.428	-5,82%
<b>120</b>	Provisions for risks and charges	-256.000	-533.099	277.099	-51,98%
<b>130</b>	Provisions for credit risks	-	-	-	-
<b>140</b>	Value adjustments for loans and provisions for guarantees and commitments	-5.924.307	-5.083.858	-840.449	16,53%
<b>150</b>	Writebacks on loans and on provisions for guarantees and commitments	1.022.518	-	-	100,00%
<b>160</b>	Financial asset adjustments	-	-22.689	22.689	100,00%
<b>170</b>	Financial asset writebacks	-	-	-	-
<b>180</b>	<b>Operating income (loss)</b>	<b>-820.239</b>	<b>-3.828.027</b>	<b>3.007.788</b>	<b>78,57%</b>
<b>190</b>	Extraordinary revenues	626.009	670.041	-44.032	-6,57%
<b>200</b>	Extraordinary charges	-244.859	-168.037	-76.822	45,72%
<b>210</b>	Extraordinary income (loss)	381.150	502.004	-120.854	-24,07%
<b>220</b>	Variations in general banking risk reserves (+/-)	-	-	-	-
<b>230</b>	Taxes for the year	-83.972	-353.157	269.185	-76,22%
<b>240</b>	<b>Profit (loss) for the year</b>	<b>-523.061</b>	<b>-3.679.180</b>	<b>3.156.119</b>	<b>85,78%</b>

## Guarantees and commitments

CODE	ITEMS	2019	2018	ABSOLUTE CHANGE	PERCENT CHANGE
10	Guarantees given	15.407.333	15.007.232	400.101	2,67%
	a. Acceptances	1.785.985	953.311	832.674	87,35%
	b. Other guarantees	13.621.348	14.053.921	-432.573	-3,08%
20	Commitments	2.897.185	5.257.749	-2.360.564	-44,90%
	a. For specific use	-	-	-	0,00%
	a.1. of which financial instruments	-	-	-	0,00%
	b. For unspecific use	2.270.276	4.387.383	-2.117.107	-48,25%
	b.1. of which financial instruments	-	-	-	0,00%
	c. Other commitments	626.909	870.366	-243.457	-27,97%
30	Total	18.304.518	20.264.981	-1.960.463	-9,67%

## Deposits and Loans to customers

DEPOSITS / LOANS	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Amounts due from customers	428.225.117	503.176.504	-74.951.450	-14,90%
Coverage	13,63%	8,41%	5,22%	62,05%
Coverage on doubtful loans	41,13%	26,74%	14,39%	53,80%
Loans / direct deposits	65,06%	68,93%	-3,86%	-5,61%
Direct deposits	658.177.704	725.186.275	-67.008.571	-9,24%
of which CD	235.224.575	282.563.618	-47.339.043	-16,75%
of which bonds	4.005.165	8.010.853	-4.005.688	-50,00%
of which deposits at sight	398.985.858	406.094.112	-7.108.254	-1,75%
of which REPOS	15.785.597	24.087.145	-8.301.548	-34,46%
Indirect deposits	624.653.593	587.131.418	37.522.175	6,39%
a. Administered deposits	523.913.192	515.332.859	8.580.333	1,67%
a.1 of which administered funds	3.760.000	7.520.000	-3.760.000	-50,00%
b. Managed deposits	12.509.484	26.303.424	-13.793.940	-52,44%
b.1 of which managed funds	4.781.471	14.347.349	-9.565.878	-66,67%
b.2 of which insurance bank	240.000	480.000	-240.000	-50,00%
c. Custodian bank	105.160.130	45.495.135	59.664.995	-131,15%
c.1 of which cash	8.147.742	950.104	7.197.638	757,56%
Total Deposits	1.282.831.297	1.289.020.240	-6.188.943	-0,48%

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT	31/12/2019	31/12/2018	CHANGE	
			ABSOLUTE	%
Interest margin	10.863.987	12.002.531	-1.138.544	-9,49%
Net commission	5.265.260	4.020.842	1.244.418	30,95%
Profit and losses on financial transactions	1.436.330	142.629	1.293.701	907,04%
Other revenues	1.097.430	1.793.978	-696.549	-38,83%
Revenues from intermediation	7.799.020	5.957.450	1.841.570	30,91%
Margin on insurance operations	1.831.372	1.344.534	486.838	36,21%
<b>Intermediation margin</b>	<b>20.494.378</b>	<b>19.304.515</b>	<b>1.189.864</b>	<b>6,16%</b>
Personnel expenses	-9.208.635	-9.550.013	341.378	-3,57%
Administrative expenses	-5.447.624	-6.132.453	684.829	-11,17%
Tangible and intangible assets adjustments	-1.500.570	-1.810.430	309.860	-17,12%
<b>Operating costs</b>	<b>-16.156.829</b>	<b>-17.492.896</b>	<b>1.336.067</b>	<b>-7,64%</b>
<b>Operating result</b>	<b>4.337.549</b>	<b>1.811.619</b>	<b>2.525.931</b>	<b>139,43%</b>
Provisions and net adjustments on credits	-5.157.789	-5.639.646	481.857	-8,54%
Extraordinary profit	381.150	502.004	-120.854	-24,07%
Taxation on income for the year	83.972	353.157	-269.185	-76,22%
<b>Result for the year</b>	<b>523.061</b>	<b>-3.679.180</b>	<b>3.156.119</b>	<b>-85,78%</b>



## Aggregate data of the banking group and San Marino banking system – market share as of 31/12/2019 –

DESCRIPTION OF ITEMS	SYSTEM AGGREGATE DATA 30/09/2019	SYSTEM AGGREGATE DATA 31/12/2019	GROUP MARKET SHARE VS 30/09/2019
<b>MAIN ASSET ITEMS</b>			
Loans	2.988.765	496.190	16,60%
of which non-performing loans (gross of value adjustments)	575.529	94.702	16,45%
Bonds and debt securities	687.622	229.846	33,43%
Interests and equity securities	275.637	50.399	18,28%
<b>DEPOSITS</b>			
Direct deposits	3.774.519	658.178	17,44%
of which deposits to customers at sight	2.122.616	398.986	18,80%
of which certificates of deposit	1.116.983	235.225	21,06%
of which bonds	257.724	4.005	1,55%
Indirect deposits	1.641.652	624.654	38,05%
of which administered securities	1.252.110	520.513	41,54%
of which classical asset managements	285.129	7.488	2,63%
of which depositary bank activities	1.252.110	97.012	7,75%
Total deposits	5.416.171	1.282.831	23,69%
<b>DEPOSITS AND INTERBANK LOANS</b>			
Credits vs banks	366.198	114.528	31,27%
Debts vs banks	113.967	1.594	1,40%
<b>SHAREHOLDERS' EQUITY AND TOTAL ASSETS</b>			
Shareholders' Equity	354.086	85.955	-
Total assets	4.710.281	1.067.986	-
<b>OPERATING INDICATORS</b>			
Loans / Direct deposits	79,18%	68,42%	-
Gross non-performing loans / Gross loans	19,26%	19,09%	-
Shareholders' equity / Total assets	7,52%	8,05%	-

San Marino, 26 June 2020

The Chairman  
Luigi Lonfernini

**Independent  
Auditors'  
report**



# ab&d

audit business development spa

**REPORT OF THE INDEPENDENT AUDITING COMPANY PURSUANT TO THE COMBINED PROVISION OF ARTICLE 33, PARAGRAPH 1, LETTER A) LAW NO. 165 OF 17 NOVEMBER 2005, AS AMENDED, ARTICLE 68, PARAGRAPH 1, POINTS 2) AND 3) OF LAW NO. 47 OF 23 FEBRUARY 2006, AS AMENDED (COMPANY LAW) AND ARTICLE VIII.I. 1 OF REGULATION 2016-02 EMANATED BY THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO.**

To the shareholders of

BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A.

## **Introduction**

We audited the financial statements of BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. (hereinafter referred to as the Company or the Bank) made up of the Statement of Assets and Liabilities as of 31/12/2019, the Profit and Loss Account for the year closed at such date and the Explanatory Notes to the Financial Statements, in accordance with Regulation 2016-02 issued by the Central Bank of the Republic of San Marino which governs the drafting criteria.

## **Scope of the legal audit**

We carried out the audit in accordance with the regulations in force in the Republic of San Marino and, where applicable, to 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 Bank 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 evidence on which to base our judgment.

### **Responsibilities of 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 the 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 Bank'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 information on the matter. Directors use the going concern assumption in preparing the financial statements unless they have considered that the conditions for the Bank's liquidation or interruption of the business exist or have no realistic alternatives to those choices.

The statutory auditors 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 objectives are to acquire reasonable certainty that the financial statements as a whole do not contain significant errors, due to fraud or unintentional behavior or events, and to issue an audit report that includes our judgment.

Reasonable certainty means a high level of security which, however, does not provide 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.

Errors can result from fraud or unintentional behavior or events and are considered significant if they can reasonably be expected that they, individually or as a whole, are able to influence the economic decisions made by users on the basis of the financial statements.

As part of the audit carried out in accordance with the legislation in force in the Republic of San Marino and, where applicable, to international auditing standards, we exercised our professional judgment and maintained professional skepticism throughout the audit. Furthermore:

- we identified and assessed the risks of significant errors in the financial statements due to fraud or unintentional behavior or events; we defined and carried out audit procedures in response to these risks; we acquired sufficient and appropriate audit evidence on which to base our judgment. The risk of not detecting a significant error due to fraud is higher than the risk of not detecting a significant error resulting 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 have 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 directors' use of the assumption of business continuity and, based on the audit evidence acquired, on whether there is significant uncertainty regarding events or circumstances that may give rise 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, that is, if such disclosure is inadequate, to reflect this fact in the formulation of our judgment. Our conclusions are based on the audit evidence acquired 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 statement as a whole, including 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, 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 situation of BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. as of 31/12/2019 and the economic result for the year closed on that date.

### **A note to public disclosure**

Without prejudice our judgment, we call attention to the information contained and more detailed in the Management Report and in the Explanatory Notes in relation to the following important facts.

- The adjustments from the Asset Quality Review (AQR) financial year were completed, the results of which and relative calculation methods were

definitively established during the year, with the consequent recording in the 2019 financial statements of value adjustments on the loans for € 24,281,227. These write-downs, in addition to those of the previous year for a cumulative total of € 27,959,627, were recorded in the Profit and Loss Account through instalments allowed by Article 40 of Law 173/2018 together with the authorization of the Supervisory Authority (Prot. 20/5553 of 19/06/2020), over the period of 10 starting years from 2019. In addition, to complete the adjustments from the remaining AQR financial year, item 80 of the liabilities "Provision for Credit Risks" for € 17,857,990 (also accrued from 2019 to the Profit and Loss Account over 10 years) therefore not proceeding with the adjustment of individual impaired positions not identifiable to date; The Bank will continue to monitor its credit positions in 2020 in order to make the necessary value adjustments, which will at the same time be used by the provision referred to in the aforementioned item 80 of the liabilities. The aforementioned accrual process resulted in the inclusion in item 130 of assets "Other Assets" of an amount equal to € 41,235,855 with an impact on the 2019 Profit and Loss Account of € 4,581,762 recorded under item 140 "Value adjustments on loans and provisions for guarantees and commitments".

- As requested by the Supervisory Authority, BAC took steps to consider the effects of the full implementation of the implicit risks from the AQR financial year on Supervisory Capital as of 31/12/2019, thus including the value adjustments still suspended under the legal provision (Article 40 Law 173/2018) in this calculation which, together with the authorization of the Supervisory Authority (Prot. 20/5553 of 19/06/2020), allowed their distribution to the Profit and Loss Account over a period of 10 years. This highlighted a shortage of capital for prudential supervisory purposes (Total Capital Ratio of 8.81% as of 31/12/2019 below the required regulatory minimum of 11%), which will be compensated for with the issue of a Subordinated Bond of € 10 million, which will constitute a component of the Bank's supplementary capital for the calculation of supervisory capital as approved by the Supervisory Authority with letter Prot. 20/5598 of 22/06/2020. The Bank also submitted a specific request to the Supervisory Authority pursuant to Article VII.II.12 of the CBSM Regulation 2007-07, in order to take advantage of an exemption from the deduction, in full, of BAC LIFE S.p.A. shareholdings. (recorded in the financial statement at a value of € 6.5 million) which, pursuant to CBSM Regulation 2008-01, is already subject to the measurement of the solvency margin which is currently complied with. If accepted, the shortage of capital for the Bank's prudential supervisory purposes would be zero, restoring the regulatory limit required for the solvency ratio to a minimum of 11%.
- The Bank provided information on the uncertainties surrounding the foreseeable evolution of management caused by the Covid-19 outbreak, as well as the actions and measures adopted by the Bank which made it possible to continue social activity. In this context, the Bank, with the decision of the Board of Directors, on the basis of the provisions by the Supervisory Authority

to support the financial stability of the system (Prot. 20/3582 of 6 April 2020), transferred nine securities from the freely owned portfolio to the investment portfolio for an accounting value of € 18,781 million, recording a capital gain of € 0.244 million in 2020.

- In 2020, the Bank revised its 2020-2022 three-year Development Plan, already outlined and approved by the Board of Directors first on 30/01/2020, then subsequently revised and approved again on 26/06/2020 to take into account the definitive implementation of the AQR adjustments as well as to take into account the extraordinary pandemic events already mentioned in the previous paragraph that occurred in early 2020.

### **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 BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. are responsible for the preparation of the management report as of 31/12/2019, including its consistency with the related financial statements and its compliance with the Regulation.

We carried out the procedures indicated in the Regulation in order to express an opinion on the consistency of the management report with the financial statements of BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. as of 31/12/2019 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 BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. as of 31/12/2019 and is prepared 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.

#### **Other aspects**

The financial statements of BANCA AGRICOLA COMMERCIALE ISTITUTO BANCARIO SAMMARINESE S.p.A. as of 31/12/2018 were audited by another auditor who expressed an unamended opinion on these financial statements on 24 April 2019.

Although there is no obligation under the current regulatory framework, the Bank prepares its consolidated balance sheet on a voluntary basis, which has not been audited.

San Marino, 20 July 2020

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

Marco Stolfi - Director





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