

**BANCA**  **CENTRALE**  
DELLA REPUBBLICA DI SAN MARINO

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

**YEAR 2012**





# **Summary report**

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

### **Year 2012**



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**May 2013.**

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## COMPOSITION OF THE STATUTORY BODIES \*

### **Governing Council**

Renato Clarizia - Chairman  
Orietta Berardi - Vice Chairman  
Stefano Bizzocchi  
Giorgio Lombardi  
Marco Mularoni  
Aldo Simoncini

### **Board of Statutory Auditors**

Irene Lonfernini - Chairman  
Sandy Concetta Stefanelli  
Guido Zafferani

### **Directorate General**

Mario Giannini - Director General  
Daniele Bernardi - Deputy Director General

### **SUPERVISION COMMITTEE**

Mario Giannini - Chairman  
Antonio Gumina  
Andrea Vivoli

The Articles of Association of the Central Bank (Law No. 96 dated 29 June 2005, as subsequently amended and supplemented) require the Bank to answer to the Great and General Council as regards to the attainment of its objectives. The Chairman, the members of the Governing Council and the Chairman of the Board of Statutory Auditors of the Bank are appointed by the Great and General Council; consistently with the duties assigned to it by the Articles of Association, the Bank has the duty and privilege to report, on a yearly basis, to the supreme Legislative Body on the activities performed and on the performance of the financial system of the Republic. This report, updated as at 31 December 2012, represents the information of the Central Bank, pursuant to its Articles of Association, to the Great and General Council.

\* as at 29 May 2013



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## LIST OF ABBREVIATIONS

ABS	Associazione Bancaria Sammarinese (Bankers Association of San Marino)
FIA	Financial Intelligence Agency
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
CENTRAL BANK	Central Bank of the Republic of San Marino
ECB	European Central Bank
CAUTA	Cartella Unica delle Tasse (Single tax bill)
COFER	Currency Composition of Foreign Exchange Reserves
CTU	Consulente Tecnico d'Ufficio (Court Expert)
EPC	European Payments Council
IMF	International Monetary Fund
FONDISS	Supplementary Welfare fund of the Social Security Institution
GRECO	Council of Europe Group of States Against Corruption
LISF	Law no. 165/2005 "Law on banking, financial and insurance companies and services"
MIFID	Markets in Financial Instruments Directive
OECD	Organisation for Economic Cooperation and Development
RIS	Rete Interbancaria Sammarinese (San Marinese Interbank Network)
ROA	Return on Assets – relation between gross and total income on assets
ROE	Return on Equity – relation between gross income and equity
SEPA	Single Euro Payments Area
SMAC	San Marino Card
SRD	Scambio Recapiti Domestici (Exchange of Domestic Contact Details)
SWIFT	Society for Worldwide Interbank Financial Telecommunication



## GENERAL CONSIDERATIONS OF THE CHAIRMAN

Dear Secretaries of State, Shareholders, Members, Statutory Auditors, prior to presenting and analysing in depth the content of the activities performed by this Central Bank during the financial year just ended, it is worth outlining the economic, social and financial framework that characterised it.

For our Republic, 2012 has been a difficult year from an economic perspective. A trend that, unfortunately, is not over yet and that, in order to be reversed, needs regulatory measures in support of businesses, with the creation of new jobs, and the recovery and strengthening in those production industries that characterise our Country, such as the hotel sector.

The economic crisis has generated, obviously, a deep social hardship, which also affected consumptions.

Moreover, the credit-financial sector has been scaled down, with the closure of several financial companies, with the difficulties that emerged in certain banks, with more businesses being placed in receivership. The activities of the Supervisory Authority and of the FIA, on one side, and of the Magistrates, on the other, led to the identification of infiltrations and disquieting connections of the Italian organised crime in some financial companies and banks of San Marino.

The activity of the Central Bank, in its role as Supervisory Authority, with the help of the FIA and by giving the maximum support to the Magistrates, has always been carried out in compliance with the regulations, trying, to the extent possible, to isolate and remove these cancers without jeopardising the overall healthy financial environment. It must be said, clearly and seriously, that such cleaning and transparency activity by the Central Bank has been possible also thanks to the loyal cooperation from the government and to the assumption of strong responsibilities by the banks of the system, which seriously and consciously interpreted their role. The cooperation from the government, particularly from the Secretary of State for Finance, continued with unchanged momentum and clarity also after the elections and the replacement of the Secretary of State Valentini with the Secretary of State Felici, and is characterised by the same level of transparency and cooperation, with the necessary and due respect to the different roles.

The painful realisation of how corrupted the credit and financial sector was, and of how much it had grown in the past, absent any analytical regulatory legislation and with little or no compliance with the existing, though lean, legislation, has been partly mitigated by the encouraging realisation of the fact that, lately, the civil society and the politicians had grown fully aware of the inevitability of a change from the past, of the need to pursue a path of transparency, legality and compliance with the European and international laws and regulations, particularly as regards to those against money laundering. Unfortunately, there still are specious and ungrounded criticisms to the senior management of this Central Bank, criticisms that are passively, and thus collusively accepted by part of the local media, but such criticisms are, today, really minimal and certainly do not slow down nor interrupt – as they never did in the past when, as a matter of fact, we felt as being somehow left alone – the continuation on such virtuous path.

On 27 March 2012, the Monetary Agreement between the Republic of San Marino and the European Union was signed in Bruxelles by the Secretary of State for Foreign Affairs, Ms Antonella Mularoni, and the Vice-president of the European Commission and Commissioner for Economic and Monetary Affairs, Mr Olli Rehn.

This Treaty replaces the Convention signed in 2001 between the Republic of Italy, on behalf of the European Community, and the Republic of San Marino, entered into for the purpose of ensuring legal continuity to the Agreement of Friendship and Good-Neighbourly Relations of 1939, that governed also the monetary relations between San Marino and Italy. Pursuant to the Agreement, the banks and Financial Institutions of San Marino may have access to the interbank payment and settlement systems and to the security settlement systems of the Euro area, at appropriate conditions that will be set by the Bank of Italy in accordance with the ECB. By signing this



Agreement, the Republic undertook to reflect in its own legislation a significant part of the acquis communautaire related to five macro-areas: anti-money laundering, prevention of frauds and counterfeiting of the Euro, rules governing the minting of coins and banknotes in Euro, banking and financial legislation statistics production. By 1 September 2013, the provisions related to the first three points shall be implemented. As regards to the adoption of the banking and financial regulation – of which the Basle III and MIFID discipline are worth noting – different deadlines have been assigned, of one, four and six years, and there are approximately fifty legal provisions to be reflected in our system. In this effort in which we are involved directly as Central Bank and that will achieve a greater harmonisation in our, as well as in the European, financial system, as a prerequisite for the complete integration with the single market or with the individual markets of the countries of the European Union. The Agreement provides the technical support of the European Commission, Italy and the ECB; in particular, we are benefiting from the cooperation of the Bank of Italy.

Therefore, the relationship with Italy is now fully normalised and we are waiting only for the Agreement against Double Taxation, which is preparatory to the full effectiveness of other agreements connected thereto, to be ratified by the Italian Parliament. At the level of the Central Banks, the cooperation and assistance continues on important issues (such as the realisation of the Central Credit Register, the accession to the SEPA, etc.), with due regard to the respective independence but, in any case, with the knowledge that this is a relationship that is to be regulated taking into account the territorial, historical and economic-financial peculiarities that link the two countries. It is only due to the early end of its term that the Italian Parliament has not been able to ratify by the end of 2012, and thus to allow the application of, the Agreement against Double Taxation already executed at a government level; and therefore, the cancellation of San Marino from the *black list* is expected soon, thus making it possible for the companies of San Marino to carry out ordinary businesses in the Italian Territory.

So, finally, the patient work started a few years ago by this Central Bank for the administrative regulation of the credit, financial, insurance and fiduciary sector and, even more so, for the imposition to the supervised persons of the full compliance with the regulatory transparency and correctness rules, started to pay off. In fact, not only the supervised persons understood the utility thereof, but, most important, this represents the best external evidence of the change from the past, the actual confirmation that the attitude has changed and is, though with difficulties, erasing the image of San Marino as "tax heaven", determined defender of the "bank secrecy", a country with a shady and not transparent financial environment. We were, and still are, well ware that only through a real and effective reorganisation of the activity of the Central Bank it is possible, as it has been possible, to gain credibility, reporting and acting resolutely on those grey areas of the financial system, continuously monitoring its functioning, in spite of the shortage of staff.

Therefore, the confidence in the action of the Central Bank is founded on the credibility that it is gaining thanks not only to the regulatory measures issued, but, most important, also due the correct application of the rules and to the infliction of sanctions where such rules are not complied with. The supervision of the Central Bank has addressed and tried to solve, at no cost for the investors, the aforementioned crises through new methodologies that, later, have been proposed also by other Central Banks.

Nowadays the provision for clear rules and the sanctioning of their violation is finally perceived as a clear sign of a functioning system and not of a persecutory attitude! At the same time, this new confidence also reflects the daily and discreet operating support to the supervised persons, fully conscious that the primary task of the Central Bank is not only to act as Supervisory Authority, but also, and mostly, to guide the supervised persons through an adequate professional and operating development. The organisation, also through the Foundation, of professional seminars and courses is oriented toward increasing the professionalism of the operators, and in this effort a strong contribution is expected from the Trade Associations.



At the same time, the Central Bank continued to adjust its internal regulation to the changes in the general regulatory framework, so as to fully realise further professional development and increase the prestige amongst the institutions of the Country. And one of the major steps in this direction is certainly represented by the Code of Conduct that is presented for your approval as regards to some amendments proposed.

Provided for in art. 43 of the Articles of Association, which required its adoption by June 2006 (!), the Code is structured mainly with the purpose of ensuring the autonomy and independence of the Institution. One of the most important aspects in order to achieve this result is certainly represented by the decision, approved with the unanimous vote of the Governing Council, to introduce, at the level of actual operating conducts, the incompatibility with external appointments to positions of responsibility of a political or trade union nature. It has been stressed that the right to become a member of a political party or trade union is not affected, even less so the right to become a member of the Great and General Council or of the "Giunta di Castello", but, as is the case also in other countries, it is not possible to hold responsibility offices and/or offices with an external visibility, that might directly or indirectly conflict with the independence and autonomy that must characterise the action of the Central Bank. All of the foregoing must be appropriately taken into account and appreciated, with a view to, and for the exclusive purpose of, giving real credibility and prestige to the Institution, convinced that to be part thereof, as employees or as a body, must be something to be proud of, something for which it is worth to turn down additional appointments. In fact, the legitimation of a prestigious, autonomous and independent Central Bank at the exclusive service of the country is indeed based on the set of rules that prescribe incompatibility, conflict of interests etc.. Such a consideration has been shared also with the trade unions that have appreciated its adoption.

At the same time, in the past year an internal reorganisation was launched, which is still continuing, with a redistribution of offices, to better satisfy the current needs. Moreover, the process for the streamlining of the operating expenses is continuing, for the purpose of reducing costs.

The above presentation intended to give a general and brief picture of what the social-economic-financial environment in which the Central Bank operated has been and how it has evolved during the last year. We intended to highlight, in particular, the fact that this Central Bank has continued its work for the normalisation and monitoring of the credit and financial system, the strengthening of its own structure, the issue of measures for the adjustment to the international regulations on credit and financial issues, always paying the due attention to the peculiarities of a small country such as San Marino.

An important acknowledgement of the high level of professionalism acquired by the Central Bank arrived from the International Monetary Fund both during the visits to San Marino, and at the Summit in Tokyo in 2012, as well as in the most recent summit in Washington last April. The IMF has appreciated that this Central Bank has met the prescriptions and recommendations from time to time suggested, it has appreciated the technical methods of the monitoring of the system, and has appreciated the level of attention and capabilities shown in resolving some banking and financial crises, and the measure with which the operators are being supervised. It offered a proactive cooperation, – that we have fully accepted – to help us even more in growing and improving the services rendered not only to the operators but also to the State. The hope was expressed that a fast and complete normalisation of the relationship with Italy be reached, but it was also acknowledged that the cooperation of this Central Bank with the Bank of Italy has never been interrupted at a technical level. Similar appreciation for the activities carried out by the Central Bank and the same full availability to cooperate towards the professional development of the Central Bank were expressed by the World Bank during the meeting in Tokyo, as evidenced by the fact that we have been invited to send our officials at the World Bank to attend internships for the professional development. During the meeting held in April in Washington, the procedures and



duration of the staying were established, as well as the namer of the employee of the Central Bank who will benefit.

As evidenced by the foregoing presentation, the Bank has acquired amongst the Authorities of San Marino, its own independent position: it is necessary, also for the purposes of the realisation of the targets outlined below, to better adjust the relationship with certain Institutions, first of all with the Magistrates.

In every democratic country it is necessary for the Magistrate to exercise their office not only with complete autonomy and independence, but, most of all, with means and staff that would allow the performance of a fast and efficient activity, so as to guarantee to the citizens legal certainty and compliance with the laws. In the emergency environment that has been characterising the financial system of San Marino for some years now, due to the infiltration of the organised crime in some supervised persons, with the launching of legal proceedings regarded as complex due to the international scope of the crimes (and thus with the need to promote letters rogatory) as well as because of the objective difficulty of the issues being addressed, the Magistrates are facing a considerable task, especially in consideration of the shortage of active Magistrates. We are conscious of the great bulk of work and of the heavy responsibilities assumed by the Commissari della Legge (Law commissioners); we are conscious that this activity is absolutely necessary, irreplaceable and that it has to be performed with due professionalism and care. Just in consideration of the sentiments referred to above we have always given our full, loyal and unconditioned cooperation, also in light, however, of specific regulations that allow the Law commissioners to avail themselves of such cooperation. But we cannot abstain from expressing here – as we have already done directly to the highest authorities of the Unique Court and to the competent Secretaries – the extreme difficulty, discomfort and concern in having to continue to perform, with a great expenditure of staff and energies, and with the assumption of responsibilities that, to be honest, are not covered by our mandate, the activity of the judicial police. Such a situation, however, also involves, strictly within the scope of its jurisdiction, the FIA.

This issue – the resources of the Central Bank and of the FIA made available to the Magistrates – has been discussed for a long time both as between us and the Court and at a political level: in fact the Congress itself has been asked, also in the past term of office of the parliament, within the context of the Committee for Credit and Savings, to take action in order to find a solution.

It must be clear – and I strongly wish to reiterate it – that this Central Bank has no intention to avoid the exercise of its institutional functions, nor the fulfilment, in periods of emergency, of any tasks that may exceed its institutional functions, but we have been living this emergency for several years now and wish to avoid that the exceptional nature of the cooperation becomes ordinary.

This concern, however, is supported by regulatory guidelines that widened the duties of this Bank, with inconsistencies and conflicts on which it is necessary to intervene. Specifically, I refer to the so called second pillar according to which the Bank acts as advisor, custodian bank and, of course, supervisory authority: that is to say, supervisor and supervised at the same time!

In short, if the activity of the Bank must be performed, as it should be, not only through the exercise of the functions assigned to it by the current legislation and related to credit, financial, insurance and fiduciary issues, but also by cooperating with the other Authorities competent to the realisation of a "new" model of financial system (in a general sense), it is necessary – as I said – that every Institution of the Country appropriately exercises its jurisdiction without invading or overlapping the functions of the others.

The subject of the reorganisation and relaunch of the financial system of San Marino has been addressed by the Bankers Association of San Marino in a "White Book" titled "Titano 2018" presented in December 2012. The volume gathers the contributions of several authors and the



assessments of foreign economic experts. The relevance of the initiative lies in the fact that it raises the awareness of the need to address the problem of the crisis of the financial system and, most of all, that, whatever the solution adopted for the realisation of a competitive "financial centre", this must be founded on transparency. Fully in line, then, with what this Central Bank has been recommending for years now, also - especially in the first period, - in an environment that is not always convinced of the need to take this path without any hesitation or delay. An environment which often believed that certain goals, mainly with regard to the normalisation of the relationship with Italy, could be achieved without having to previously change our own *modus operandi*, without having to abandon improper conducts. The other principle which forms the basis of the research of ABS is the central role of the financial industry. It says: "... the development of the Republic has been driven by the financial industry for more than twenty years. Should it be downsized or left in the uncertainty for a long period of time, or not be supported in its relaunch strategy, then the negative impact would be systemic". Even though, as mentioned above, the book gathers several opinions, that of the required central role of the financial system of San Marino for the Republic is a constant issue throughout the entire book, and is even justified from an historical perspective. Now then, in our opinion, what is missing in the book is a careful analysis of the political and social reasons that led to the emergence of an unhealthy financial system on which not only the Supervisory Authority, but also the Magistrates had to intervene. In other words, an in-depth analysis should be carried out of the reasons that allowed a growth in numbers from a subjective but, most of all, quantitative perspective, as regards to the volumes under management, absent any adequate and penetrating controls over the operators, absent, or, in any case, with inadequate, legislative and administrative regulations. What this Central Bank has been doing in the last three years - and now we are reaping its benefits - with the loyal and committed cooperation of successive State Congresses, is to identify and isolate the "corruption", in a sort of social catharsis, in order to then be able to take the path towards a correct, transparent and balanced growth. There is no doubt that the financial system is important within the context of San Marino, but if we continue to consider it as central and an end to itself, cut off from the real economy, there is the risk that the same problems of a few years ago will emerge again.

In order to be able to build a solid future - even if only with specific reference to the financial environment of San Marino - it is necessary to understand how we arrived at such an internal, European and international crisis, which is a financial, economic and social crisis. At an international level, the crisis of the capitalism is apparent, the great financial binge - as someone called it - without a guide to correctly direct its growth, and, most of all, limit its uncontrolled development, produced its damages and now we have to get organised again. But such a reorganisation must be global, it is necessary to bet on a social economy that expresses itself through broad forms of cooperation, in which finance and credit represent the tool to achieve growth, and not its purpose. So, it is obvious that the politicians of San Marino - getting back to the territorial context of interest - have a duty to prepare a development mode, whereas the State Congress must act as a driver for such development, evidencing forward-looking planning capabilities.

The normalisation of the relationship with Italy, preparatory step towards the creation of the conditions for the banking and financial entities of San Marino to operate also outside of the borders of the Republic at the same terms, a regulatory and administrative legislation of the credit, financial and fiduciary system capable of ensuring compliance with appropriate and transparent operating rules, may represent a good starting point for a healthy and balanced economic growth. Finance, therefore, at the service of the real economy. A "new" finance that may and must aspire to carve out a role for itself within the highly specialised international context. For years this Bank has been indicating the administrative simplification, the possibility to offer tax benefits, the possibility to realise an economic and social development model, and not only a financial-related one, as issues that might attract those foreign investments that could revitalise the credit and financial system of San Marino.



Somehow, this period of crisis may provide - as it happened after the crisis of 1929 - the opportunity to rebuild the social model on different basis, first of all, with a State that would act where there is need, even if this means to increase the public debt: the possibility to attract foreign investments may facilitate also the reconstruction efforts of the State Congress.

As mentioned before, on this path everyone must play its role with accuracy and transparency. Within the scope of the duties of the Central Bank: as a guarantor of the reliability and attention of the controls and of the continuous monitoring of the credit and financial system also through an adequate regulatory production, in the interest of the community of San Marino and of the International community; as a loyal partner of the State Congress, by assisting it in its activities, playing a proactive role, but always with due regard to the respective functions, duties and autonomies. We cannot but worry about some statements disclosed through the local press according to which, for no concrete reason whatsoever, there is no use in the existence of this Central Bank! It must be clear that it is not our intention here to put forward a defence of the Bank, even less so of its senior management, otherwise we would be "guilty" of the same indifference shown by the critics, but we ask that any criticism be directed at the activities of this Bank, so that they could be treasured and help us improve. And, in any case, we invite these detractors to seriously consider what was the situation when this Bank did not exist, when this Central Bank was not implementing initiatives and controls such as those adopted in the last few years, if it was not just because of these supervisory and regulatory deficiencies that our financial and credit system became so rotten that we were recently requested to intervene in order to restore it and, most of all, to give an international credibility to the system. In the following pages, the action carried out by this Bank at all levels from 2010 to date is outlined with great clarity, and it is clear that the Bank gave a great contribution to the international accreditation.

The final message that we intend to deliver is that this Bank is committed to provide its loyal cooperation to the State Congress as well as to the Magistrates, to the entire Country as a matter of fact, conscious of the difficult social moment that the State Congress is facing. The cooperation will be provided in compliance with the financial and credit policies that the State Congress will adopt, always contributing with the Bank's technical and professional expertise, especially in order to evidence that each new initiative must be appropriately adjusted to the European and international regulations, with the purpose of making San Marino a "financial centre" fully integrated in the European environment. All of the foregoing in accordance with an harmonic growth of the financial system of San Marino that would support the economic and social development, aim that coincides with the full implementation of the Monetary Agreement.

Finally, we would like to sincerely thank the members of the Governing Council who shared, with professionalism, commitment and care, the hard and demanding work carried out in the last few months, the Director General who faces the operating problems assigned to this bank with dedication and expert professionalism, the executives, the Supervision Committee, the Board of Statutory Auditors, all the employees, because only thanks to their daily efforts it has been possible to achieve such results and it will be possible to reach the further goals ahead.



## 1 THE FINANCIAL SYSTEM<sup>1</sup>

As at 31 December 2012, the financial system of San Marino was comprised of 11 banks, two of which are no longer active, 20 financial/fiduciary companies, 1 investment undertaking, 2 management companies (SG) and 2 insurance companies (qualified pursuant to letter G of Annex 1 of the Law on companies and on banking, financial and insurance services, the so called LISF); as at the same date, there were 9 persons authorised to exercise the Office of Professional Trustee.

In 2012, 8 financial companies have been cancelled from the Register of Authorised Parties, of which 5 following an administrative compulsory liquidation procedure, 2 following a change in the original corporate purpose and the waiver to exercise the activities reserved, 1 following the voluntary winding-up and subsequent liquidation.

**Table 1 - Authorised persons and insurance intermediaries**

Authorised persons	2010	2011	2012	I quarter 2013
Banks	12	11	11*	11*
Financial/fiduciary companies	39	28	20	16
Investment undertakings	1	1	1	1
Management companies	2	2	2	2
Insurance companies	2	2	2	2
<b>Total</b>	<b>56</b>	<b>44</b>	<b>36</b>	<b>32</b>
Insurance and reinsurance intermediaries	62	62	54**	51

Source: Central Bank.

Notes: \* Two banks, although they are still registered in the Register of Authorised Parties, appeared to be no longer active.

\*\* The number includes 7 natural persons, 30 legal entities, 17 banks and financial companies that also carry out insurance mediation activities; out of the 54 intermediaries, 6 are subject to suspension of the activity pursuant to the Regulation 2007-02.

The framework of the financial system is completed by the insurance intermediaries registered in the Insurance and Reinsurance Mediation Register. As at the end of 2012, 54 intermediaries were registered, 6 of which suspended. In 2012, 6 new intermediaries have been registered whereas 14 have been cancelled. The list of foreign insurance companies, authorised to conclude insurance contracts in the Republic of San Marino through intermediaries, includes 51 insurance companies, 34 of which are Italian and the remaining 17 from other countries.

In the first quarter of 2013, the number of financial/fiduciary companies was further reduced by 4 units. In detail, 2 companies have been cancelled from the Register of Authorised Parties following voluntary liquidation, 1 following an administrative compulsory liquidation procedure, 1 following a change in the original corporate purpose and the waiver to exercise the activities reserved. Therefore, as at 31 March 2013, the financial system of San Marino was comprised of 11 banks (2 of which are no longer active), 16 financial and fiduciary companies, 1 investment undertaking, 2 management companies and 2 insurance companies.

In the first three months of 2013, with reference to the insurance intermediaries, 1 new operator was registered whereas 4 were cancelled, and no suspension was carried out. As at 31 December 2012 there are no changes compared to the end of 2012 as regards to foreign insurance companies qualified to operate in San Marino through intermediaries.

<sup>1</sup> The tables and charts show the changes as calculated on the original value (not rounded up/down). The data referred to the previous years may have changed from when they were published in the previous reports due to subsequent disclosures made by the intermediaries.

In terms of authorisations released for the exercise of activities reserved pursuant to Laws no. 165 dated 17 November 2005 and No. 42 dated 1 March 2010, Table 2 shows the breakdown of the operators, as at 31 December 2012, based on the authorisations received.

**Table 2 - Operators registered in the Register of Authorised Parties as at 31/12/2012**

Authorisations	Banks	Other financial enterprises	Total
Number of operators	11	25	<b>36</b>
<i>of which, authorised to exercise the activities reserved pursuant to Law No. 165 dated 17 November 2005</i>			
A) Banking activities	11		<b>11</b>
B) Loan granting activities	11	18	<b>29</b>
C) Fiduciary activities	11	20	<b>31</b>
D) Investment services	11	20	<b>31</b>
E) Collective investment services		1	<b>1</b>
F) Non-traditional collective investment services		2	<b>2</b>
G) Insurance activities		2	<b>2</b>
H) Reinsurance activities			
I) Payment services	11		<b>11</b>
J) Electronic money issuing services	11		<b>11</b>
K) Foreign exchange mediation activities	11	18	<b>29</b>
L) Investment in equity interests	11	18	<b>29</b>
<i>of which, authorised to exercise the Office of Professional Trustee pursuant to Law No. 42 dated 1 November 2010</i>			
Office of Professional Trustee	4	5	<b>9</b>

Source: Central Bank – Register of Authorised Parties, List of Authorised Trustees.

## 1.1 The banking system

### 1.1.1 Ownership structures

As at 31 December 2012, the shareholding structure of five banks was comprised of non-resident persons, mainly foreign companies, fiduciary companies or investment holdings; at the same date, the assets of such banks amounted to Euro 1.9 billion (Euro 1.6 billion as at 31 December 2011) equal to 30.6% of the total (Euro 6.1 billion).

In 2012, the process for the concentration of the banking segment through merger transactions continued; this process begun in 2011 with the acquisition by the Istituto Bancario Sammarinese S.p.A. (IBS) of an 85.35% interest in the equity of Banca Agricola Commerciale S.p.A. (BAC), previously held by Unicredit S.p.A..

In particular:

- in February 2012, Asset Banca S.p.A. (ASB) purchased 100% of the share capital of Banca Commerciale Sammarinese S.p.A. in extraordinary administration; at the same time, a transfer deed was executed in favour of the new parent company ASB for individual accounts in block (direct funding, indirect funding and loans). In July 2012 a supplement to the transfer deed mentioned above was signed, according to which ASB transferred the further active and passive accounts. Therefore, accounts in block were transferred to the parent company for an aggregate of Euro 310 million;
- in May 2012 Banca Partner S.p.A. acquired 100% of Credito Industriale Sammarinese S.p.A., previously held by Cassa di Risparmio di Rimini S.p.A.. Afterwards, the concentration transaction was completed with the transfer of the banking business unit from the parent company to the



subsidiary, now named Banca CIS Credito Industriale Sammarinese, and Banca Partner ceased its activity;

- in October 2012, a transaction has been executed for the partial pro-rata spin-off between IBS and BAC; with this transaction, BAC acquired the entire banking business unit of IBS, thus completing the integration process between the two institutions started in 2011, which led to the name change of BAC into Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A. Moreover, following the spin-off, the bank being de-merged (formerly known as IBS) ceased all its involvement in the exercise of the banking business and changed its corporate name into Banca per lo Sviluppo di San Marino S.p.A.;
- in October 2012, 98% of the share capital of the S.M. International Bank S.p.A. (SMIB) has been acquired by Banca di San Marino S.p.A. from the old shareholders. Following this transfer of title, the extraordinary administration procedure of SMIB, started in February 2011, was completed and the bank was returned to the bodies in charge of the ordinary administration.

### 1.1.2 Size and structure of the system

In 2012, the reshaping of the financial statements of banks, phenomenon that started during the financial year 2010, continued, although not as intensively as in the 2010-2011 period.

Capital instruments decreased from Euro 645 million to Euro 500 million, whereas the total funding remained virtually unchanged, although through diverging trends in its components (drop in the direct funding and increase in the indirect funding), totalling Euro 7,3 billion.

Total gross loans, equal to Euro 4.5 billion, registered an increase of 15.9% compared with the end of 2011; this increase reflects the reclassification of loans to banks and loans to customers carried out by a bank in 2012 (see below).

**Table 3 – Main size indicators of the banking system**

Indicators	2010	2011	2012
<b>Size indicators</b>			
Total Assets	8,091	6,721	6,123
Loans to banks	1,445	1,445	503
Gross loans to customers	4,867	3,857	4,472
Funding*	8,579	7,356	7,300
Direct	5,910	5,156	4,988
Indirect**	2,669	2,199	2,312
Interbank funding	465	315	161
<b>Structural indicators</b>			
Number of operators	12	11	11
Number of branches	61	58	59
Number of employees (actual number as at 31 December)	679	639	614
Employees (Total %)	3.4	3.3	3.2
<b>Other statistical data</b>			
GDP (current prices)***	1,485	1,461	1,442
Resident population	31,888	32,193	32,471
Employees	19,956	19,500	19,011
Population / Branches	523	555	550
Total assets / GDP	5.4	4.6	4.2
Total funding / GDP	5.8	5.0	5.1



Source: Central Bank, IT, technology, data and statistics Office (Resident population and employees) and IMF (GDP at current prices).

Notes: The figures of the monetary amounts are expressed in millions of Euro.

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

\*\* Indirect funding is shown net of bonds issued by the banks and of the cash deposited with the intermediary, the same aggregate is, on the contrary, represented gross of any own shares.

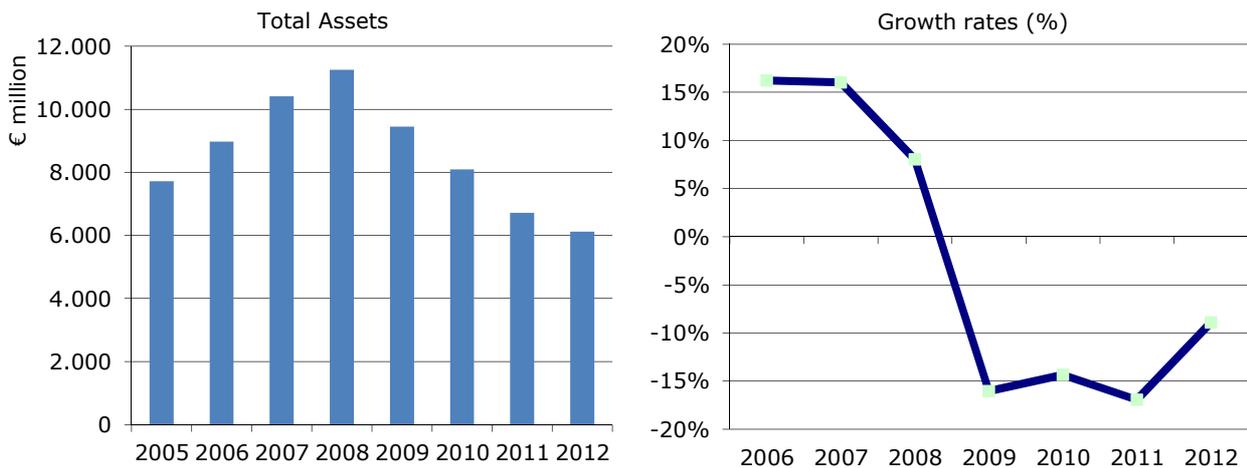
\*\*\* The figures of the GDP related to 2010 and 2011 have been updated and thus differ from those previously published. The data on the GDP related to 2012 is an estimate.

At the end of 2012, the number of the employees in the banking sector totalled 614 units, down by 3.9% compared to the 639 units of December 2011; the relevant impact on the aggregate of employees in the Republic is equal to 3.2%.

### 1.1.3 Assets and loans

At the end of 2012, the assets of the system amounted to Euro 6.1 billion, down by 8.9% from the previous year; there has been, however, a slowdown in the downward trend, started in 2009, if we consider that the reduction rate registered values considerably lower than those of 2011, when the drop was for 16.9% (Figure 1, Growth rates %).

Figure 1 - Total assets



Source: Central Bank.



**Table 4: Aggregate balance sheet of the banking sector**

<b>Assets</b>	<b>2011</b>	<b>2012</b>	<b>Var %</b>	<b>Liabilities</b>	<b>2011</b>	<b>2012</b>	<b>Var %</b>
Cash and cash equivalents	26	24	-6.3%				
Loans to banks	1,445	503	-65.2%	Debts with banks	315	161	-48.8%
Loans to customers*	3,454	3,875	12.2%	Debts with customers	2,111	2,112	0.0%
<i>of which Financial leasing</i>	120	133					
<i>of which assets pending leasing</i>	19	4		Debts represented by financial instruments	3,031	2,767	-8.7%
Financial instruments	966	844	-12.6%	Subordinated Liabilities	55	103	87.6%
<i>of which debt securities</i>	925	763		Other items	564	479	-14.9%
<i>of which own bonds</i>	45	0					
Shareholdings	172	168	-2.3%	Capital and reserves**	777	664	-14.5%
Subscribed capital not paid in	0	48		Revaluation reserves	35	41	18.2%
Own shares	0	0		Profit for the financial year	-167	-205	-23.0%
Fixed assets and other assets items	658	660	0.3%				
<b>Total Assets</b>	<b>6,721</b>	<b>6,123</b>	<b>-8.9%</b>	<b>Total liabilities</b>	<b>6,721</b>	<b>6,123</b>	<b>-8.9%</b>

Source: Central Bank.

Notes: Figures in millions of Euro.

\* Inclusive of the amounts related to the financial leasing transactions included in the items "Financial Leasing" and "Assets pending leasing" of the financial statements.

\*\* Inclusive of the General Banking Risk Fund.

The main trends in the assets are connected to the drop in the loans to banks (down from Euro 1,445 to Euro 503 million), to the increase in the loans to customers (up from Euro 3,454 million to Euro 3,875 million), to the drop in debts with banks (down from Euro 315 million to Euro 161 million), in the debts represented by financial instruments (down from Euro 3,031 million to Euro 2,767 million) and in capital and reserves (down from Euro 777 million to Euro 664 million).

The main factors underlying the changes registered in the amounts of loans are:

- The reallocation of a considerable amount from "loans to banks" to "loans to customers" with reference to the replacement of the exposures originally payable by SediciBanca S.p.A. to Cassa di Risparmio della Repubblica di San Marino S.p.A., with receivables from the product companies of the Delta group, simultaneously with the start of the plan for the reorganisation of the indebtedness of such Italian group, in December 2012. Net of such reclassification, the figures of the loans to banks would be down by Euro 168 million (-11.7% from 2011) whilst the loans to customers would register a drop of Euro 353 million (-10.2%) compared to the previous financial year;
- value adjustments on loans to customers, for Euro 275 million, aimed at aligning – in accordance with the supervisory guidelines – the amount of the exposure recognised in the financial statements with the expected realisation value, which takes into account the real possibility to



recover the loan. The adjustments reflect, on one side, the deterioration of the solvency situation of the borrowers, in a very negative economic environment and, on the other side, the devaluations carried out following some investigations that identified the expected losses on existing loans, often underestimated by the corporate bodies. A further element that, in the year in question, affected the adjustments was the review by the transferee banks of the actual quality of the assets being transferred within the context of mergers or of extraordinary procedures;

- the inclusion of the exposures linked to leasing transactions within the context of the loans. With a view to a progressive adjustment of the procedures for the accounting recognition of the leasing transactions typical of the "cash-based method", in 2012 the item "receivables" has been filled in with the implicit receivables related to the outstanding amount of the loans at maturity (recognised in the financial statements under fixed assets) as well as with the existing exposure related to the assets pending leasing (connected to assets pending first lease as well as to those resulting from the early termination of the lease agreements), for which the debt of the defaulting tenant to the lessor remains. In order to ensure uniform data, the receivables related to the previous years have thus been recalculated (similar approach has been adopted also for the section dedicated to the financial companies), taking out the value of the two components outlined above<sup>2</sup> from the value of the fixed assets shown in Table 4.

Financial instruments in the portfolio, on the other hand, decreased by Euro 122 million, (-12.6% from the end of 2011), a drop lower than the contraction of more than 25% registered the previous year, when the outflows of the direct funding significantly eroded the liquid assets of the system.

The decrease in the security portfolio would be reduced (equal to 8.4%), if the figures were considered net of the own bonds repurchased that, in line with the explicit directions of the Central Bank in 2012, may no longer be included in the statistical supervisory reports, so as to avoid an artificial growth of the total assets, assimilating to a final redemption of the same the repurchase on the market of the securities issued.

The analysis of the credit exposures by technical form (Figure 2), except for implicit receivables on leasing<sup>3</sup>, registers a significant reallocation of the on-demand loans (-8.3%) and of the discounted and subject to collection portfolio (-40.2%) – in line with the trend registered also in the previous years - in favour of "Other loans" (+49.1%).

The trend in "Other loans" is, however, significantly affected by the reclassification of the exposure towards the Delta Group made by the Cassa di Risparmio as outlined above.

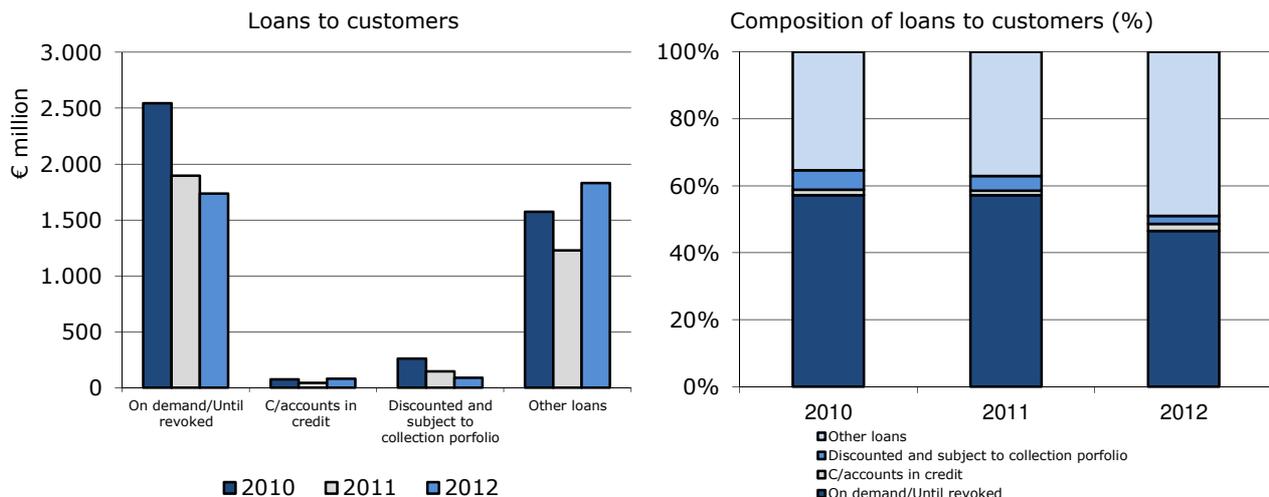
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<sup>2</sup> Unless specified otherwise, the loans include leasing-related values.

<sup>3</sup> These values, therefore, do not include the amounts related to the outstanding claim on the financial leasing transactions, in its two components: leased fixed assets and fixed assets pending leasing.



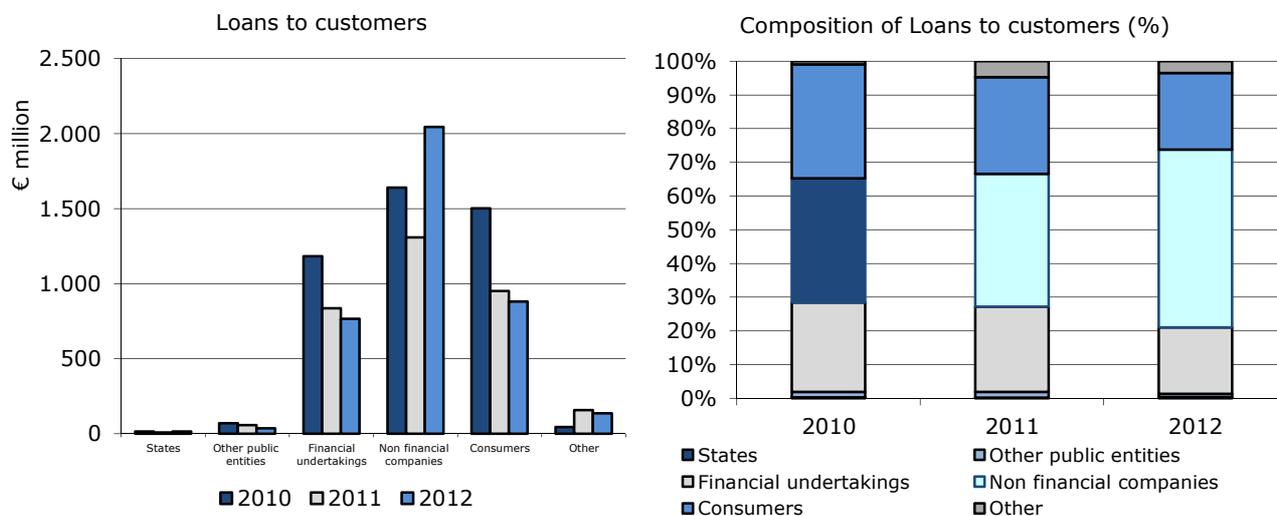
**Figure 2 - Breakdown of loans to customers by technical form**



Source: Central Bank.

Even the breakdown of the loans by business sector (Figure 3) is conditioned by the aforementioned reclassification of the receivables, showing a significant increase (+56.3%) in loans to Non financial enterprises, that represent 52.8% of the total compared with 22.7% of the Families and 19.7% of Financial Undertakings.

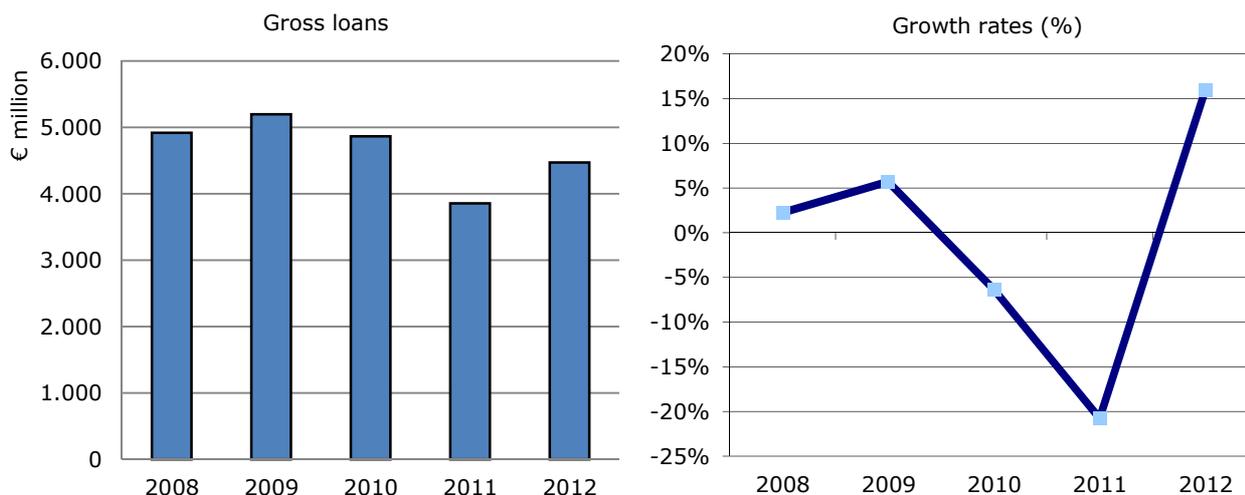
**Figure 3 - Breakdown of loans to customers by business sector**



Source: Central Bank.

The figures related to the gross loans (Figure 4) represent an inversion of the negative trend registered in the previous financial years, with an increase of Euro 615 million (+15.9%), by reason of the aforementioned reclassification made by an intermediary, without which the gross loans of the system would register a drop of Euro 192 million, equal to 5%.

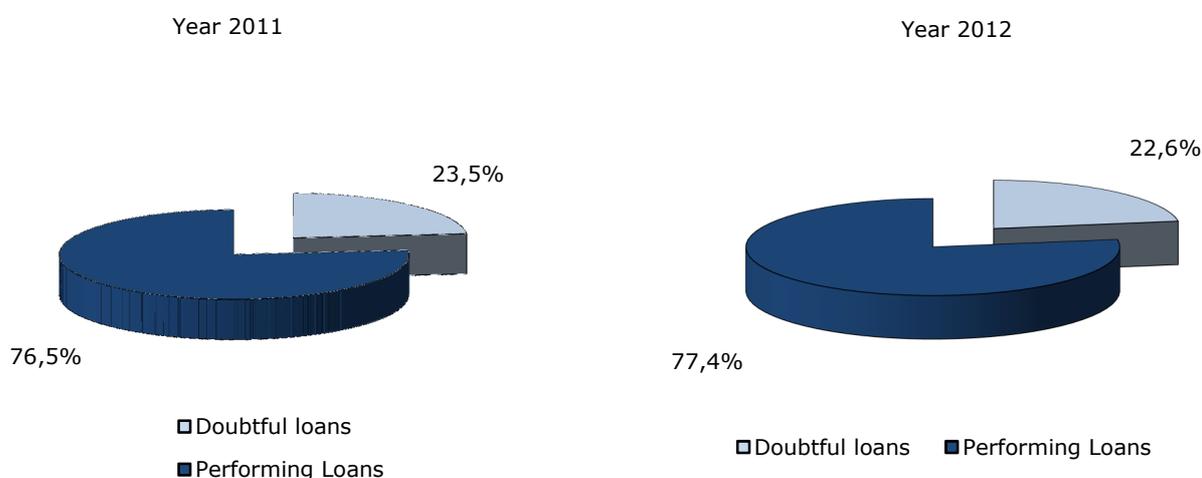
**Figure 4 - Gross loans of the banking system**



Source: Central Bank.

Under the profile of the quality of the loans, the overall gross amount of the doubtful loans<sup>4</sup> at the end of 2012 is equal to Euro 1,009 million, up by 11.8% compared with the similar data of 2011. Doubtful loans account for 22.6% of the total gross loans (Figure 5), slightly lower than the figures of 2011 (23.5%).

**Figure 5 - Credit quality: performing loans and doubtful loans (gross figures)**

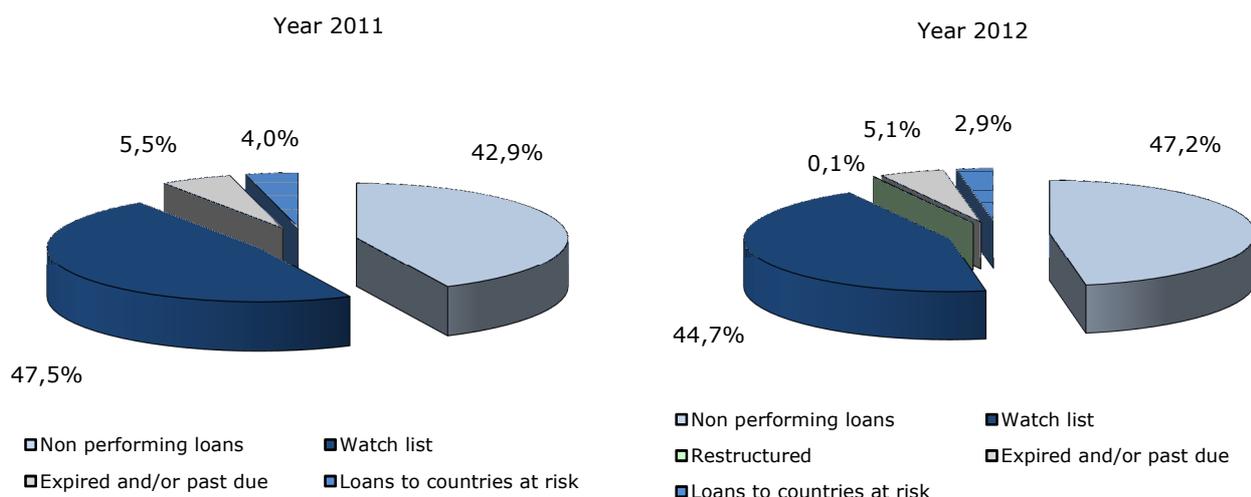


Source: Central Bank.

<sup>4</sup> Non-performing loans, loans on watch list, restructured loans, expired/past due loans and unsecured loans to countries at risk. The figures related to the credit quality (figures 5 and 6, Tables 5 and 6) take into account the amounts of the fixed assets pending leasing only as regards to the financial year 2012.



**Figure 6 - Breakdown of doubtful loans (gross figures)**



Source: Central Bank.

The analysis of the most troubled element of the loans evidences that the impact of the non performing loans (exposures towards insolvent persons) on the total of the loans remains stable at 10.6% and 5.3%, respectively, gross and net of the value adjustments made in the financial statements (Tables 5 and 6).

**Table 5 - Doubtful loans/loans and non performing loans/loans (gross figures)**

Indicators	2010	2011	2012
Doubtful loans / Loans	15.0%	23.5%	22.6%
Non-performing loans / Loans	5.9%	10.1%	10.6%

Source: Central Bank.

Notes: The figures of the doubtful loans, non-performing loans and loans are expressed as gross amounts.

**Table 6 - Doubtful loans/loans and non-performing loans/loans (net figures)**

Indicators	2010	2011	2012
Doubtful loans / Loans	11.4%	17.2%	14.9%
Non-performing loans / Loans	3.1%	5.4%	5.3%

Source: Central Bank.

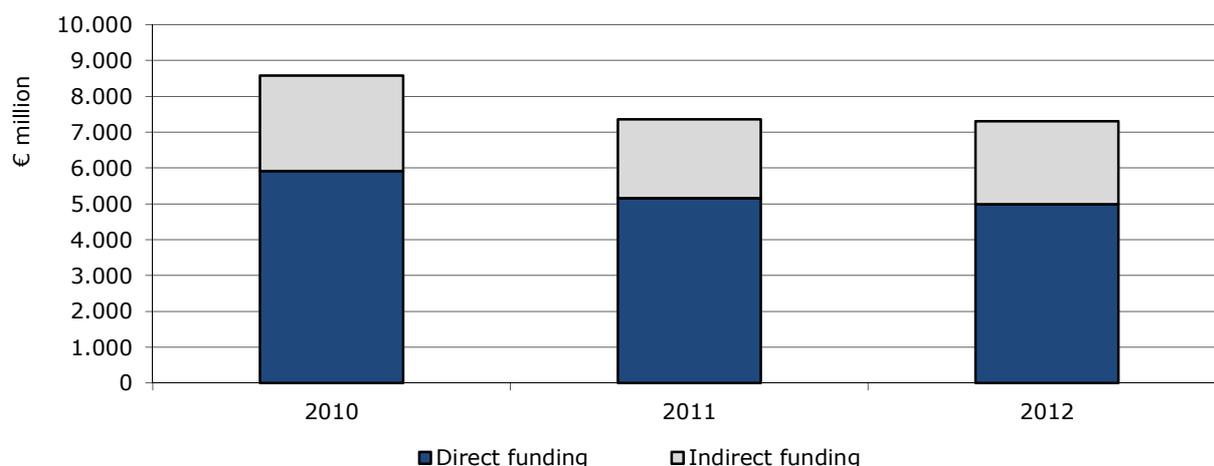
Notes: The figures of the doubtful loans, non-performing loans and loans are expressed net of any adjustments.

### 1.1.4 Funding

After 3 years of recession, the total direct deposits as at 31 December 2012 are substantially unchanged, totalling Euro 7.3 billion, down by Euro 55.5 million compared with the end of 2011, which correspond to a drop by 0.76% (Figure 7). The previous year, in fact, the decrease was equal to Euro 1.2 billion (-14.2%).

The aggregate suffers from the asynchronous trend of the two components of funding, with a decrease by Euro 168 million in the direct funding (-3.26%) and an increase of Euro 112.6 million (5.12%) in the indirect funding.

Figure 7 Total funding of the banking system



Source: Central Bank.

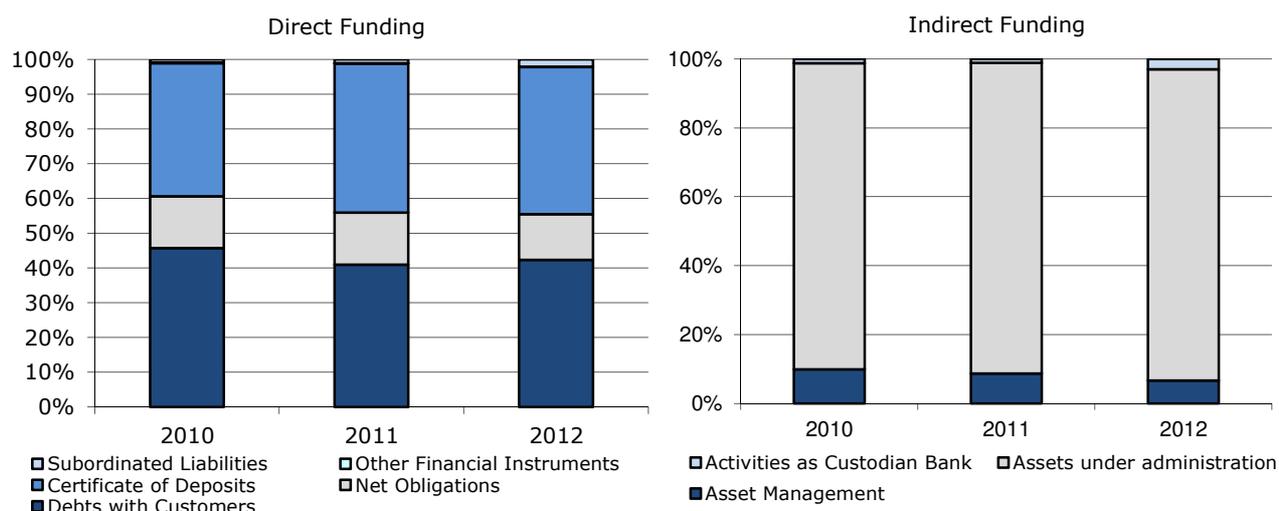
As regards to the direct funding (Figure 8), the certificates of deposit and the debts with customers (typically deposits) are confirmed as main instruments of funding for the banks, with an equal percentage impact of 42.3%.

The recapitalisation requirements of the banking system contributed to the increase in the use of subordinated loans (positive change for Euro 48 million, +87.6% from the previous financial year) that may be calculated – provided the conditions envisaged in the Regulation No. 2007-07 are met – in the regulatory capital.

As regards to the indirect funding, the primacy of the securities under administration is confirmed (equal to 90.3%), against asset management (down 6.7% from the previous financial year) and the securities administered within the scope of the activity as custodian bank on behalf of collective investment undertakings (up by 3%).



**Figure 8 - Breakdown of direct and indirect funding**



Source: Central Bank.

**Box 1: Approval of the prospectuses for the solicitation of investments in bonds issued under the laws of San Marino and issuance of financial instruments reserved to professional clients**

In 2012 the Central Bank received 18 applications for the approval of prospectuses for the public offer of financial instruments, pursuant to the discipline governing investment solicitation referred to in Title I, Part III of the LISF. Such applications referred only to prospectuses related to the issue and public offer, within the territory, of financial instruments of a bond type, issued by banks of San Marino; almost the same number of applications of that kind, 19, received in 2011. As in 2011, in 2012 no application has been filed by authorised parties belonging to other segments of the financial system. In fact, the last prospectuses related to the public offer of bonds issued by financial companies were approved by the Central Bank in 2010.

Finally, with reference to the first quarter of 2013, it should be noted that the Central Bank has not approved any prospectuses.

**Table 7 - Prospectuses approved by the Central Bank for public offers of bonds**

	2009	2010	2011	2012
<b>Banks</b>	<b>42</b>	<b>32</b>	<b>19</b>	<b>18</b>
Senior	39	31	0	17
Subordinated	3	1	0	1
<b>Financial companies</b>	<b>7</b>	<b>2</b>	<b>0</b>	<b>0</b>
Senior	7	2	0	0
<b>Total</b>	<b>49</b>	<b>34</b>	<b>19</b>	<b>18</b>

Source: Central Bank.

As regards to the characteristics of the 18 issues the public offer of which has been approved in 2012, it should be noted that 15, for a maximum notional amount of Euro 250 million, refer to senior bonds with a floating rate of interest indexed on short term interest rates or, in 13 cases, with a fixed rate coupon; 2 issues, for an aggregate amount of Euro 5 million, are linked to the category of the atypical securities, being characterised by an optional derivative component on the coupon flow; and, finally, one issue for a maximum nominal amount of Euro 5 million, is



represented by a fixed rate bond with a subordination clause. The average duration of the senior bonds issued in 2012 was equal to 3 years and 2 months (3 and half years if we include also the only subordinated bond approved on 2012), down from the 3 years and 10 months registered in 2011.

The maximum nominal amount set forth in the 18 prospectuses approved was equal to Euro 260 million, considerably higher than the Euro 198 million registered in 2011, against an amount placed with the public of Euro 198 million, with a success rate (amount placed against the target) of 76% compared with 68% in 2011. The foregoing evidences an increased capability to place bonds with the public with reference to the funding targets set by the banks.

**Table 8 - Nominal amount authorised and nominal amount placed with the public (for the year when the prospectuses were approved)**

	2011		2012	
	Nominal amount approved	Nominal amount placed	Nominal amount approved	Nominal amount placed
<b>Banks</b>	<b>197,666,000</b>	<b>134,278,000</b>	<b>260,000,000</b>	<b>198,299,000</b>
Senior	197,666,000	134,278,000	255,000,000	195,680,000
Subordinated	0	0	5,000,000	2,619,000*
<b>Financial companies</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Senior	0	0	0	0
<b>Total</b>	<b>197,666,000</b>	<b>134,278,000</b>	<b>260,000,000</b>	<b>198,299,000</b>

Source: Central Bank.

Notes: \* Figure as at 30/04/2013 when the placement was still under way.

Furthermore, in 2012 33 bond issues, placed with the public in the past, mainly in 2009, expired, 32 of which issued by banks and 1 by a financial company, with a negative difference of 14 in the number of issues with which the public funding has been renewed through the technical-legal form of the debenture bonds.

For the sake of a complete information as regards to the issuance of bonds by authorised persons, it should be noted that in 2012 the Central Bank has been informed of the issuance by some banks of 3 additional bonds of a subordinated type, the placement and subscription of which had been reserved and limited to professional customers only, thus they are offers placed outside of the scope of the discipline governing investment solicitation and offer to the public, and of the scope of the prior approval of the relevant prospectuses by the Central Bank. The maximum nominal amount of such subordinated bonds was equal to Euro 50 million, to be used to strengthen the regulatory capital of the issuing bank.

During the first quarter of 2013, another subordinated bond was issued and placed to professional investors, for a maximum, fully placed and subscribed, nominal amount of Euro 20 million.

The foregoing, thus, evidences the general trend in the banking sector to reserve to the professional investors the placement of those types of bonds that, like the subordinated bonds, are characterised by a higher risk profile or might be found more difficult to understand by the general investors.

Fund raising through the bond instrument was stable in the last three years in terms of impact on the aggregate direct funding, between 15% and 16%.

Looking ahead, it is worth noting that the majority of the outstanding bonds offered to the public will come to maturity during this year and the next two years, also with reference to the original duration of such issues. Specifically, more significant amounts in relative terms are expected to expire in 2014 and 2015.



Finally, as regards to the provisions of article 31, paragraph 3 of the Law No. 47 dated 23 February 2006 (Company Law), it should be pointed out that in 2012 no application was filed with the Central Bank by non authorised persons (i.e. joint-stock companies not supervised by the Central Bank) for the authorisation to the issue of bond securities. The fact that the companies of San Marino preferred not to resort to forms of direct funding in 2012 confirms the trend registered in 2011 and 2010, since the last application of this kind was filed and authorised in 2009.

### **1.1.5 The capital**

The negative income performance of some intermediaries resulted in a significant drop in the capital instruments of the system, down by Euro 145 million in 2012 from the previous financial year, to Euro 500 million (-22.5%), with the consequent contraction in the relation between net equity and total assets of the system, down from 9.6% in 2011 to 8.2% in 2012.

The main aggregates of prudential supervision show similar trends, with the regulatory capital that decreased to Euro 352 million (from Euro 520 million, with a significant drop of 32%) and a solvency ratio for the system equal to 8.8%.

### **1.1.6 Profitability and efficiency**

The analysis of the reclassified profit and loss account (Table 9) shows the considerable drop in the interim economic performance, especially as regards to the interest margin of the system, down to Euro 74 million (from Euro 103 million in 2011), with a decrease of 28.3%.

Service revenues show a decrease of 7.7% compared to the previous financial year, to a total of Euro 48 million at the end of 2012. A similar percentage change is registered also in the mediation margin, decreased by 7.2%, despite the benefits from the positive contribution of the net profits from financial transactions, increased by Euro 22 million (+217%) compared with the previous financial year.

The operating costs in the period are virtually stable (decrease of 1%), against a gross operating result dropped by Euro 9 million compared to the previous financial year, with a percentage decrease of 36.6%.

As regards to the remaining items of the profit and loss account, a decrease was registered in the value adjustments made on receivables (from Euro 385 million to Euro 275 million, with a decrease of 28.6%), taking into account the adjustments already made in the previous year and the use of previous provisions.

For the third consecutive year, the banking system closed the financial year with a loss, with a negative net result of Euro 220 million, worse than the Euro -176 million registered in 2011. The aggregate data, however, is affected by a different distribution of the economic results for the period, with 5 banks that closed with a loss (for an aggregate of Euro 212.5 million) and 6 with a profit (for an aggregate of Euro 7.4 million).

**Table 9 - Reclassified profit and loss account of the banking system**

Reclassified profit and loss account	2011		2012		Var %*
	Amount	% Marg. Mediation	Amount	% Marg. Mediation	
1 - Interest income and similar proceeds	201	139.1%	178	133.0%	-11.2%
2 - Interest paid and similar costs	-103	-71.3%	-105	-78.6%	-2.4%
3 - Dividends and other proceeds	5	3.4%	1	0.7%	-82.1%
<b>A - Interest margin</b>	<b>103</b>	<b>71.2%</b>	<b>74</b>	<b>55.0%</b>	<b>-28.3%</b>
4 - Commissions earned	29	20.4%	28	21.0%	-4.2%
5 - Commissions paid	-4	-3.0%	-5	-3.7%	-16.8%
6 - Other operating proceeds	27	18.7%	26	19.5%	-3.0%
7 - Other operating costs	0	-0.1%	-1	-1.0%	
<b>B - Service revenues</b>	<b>52</b>	<b>36.0%</b>	<b>48</b>	<b>35.8%</b>	<b>-7.7%</b>
8 - Profits (losses) on financial transactions	-10	-7.2%	12	9.2%	217.4%
<b>C - Mediation margins (A+B+8)</b>	<b>144</b>	<b>100.0%</b>	<b>134</b>	<b>100.0%</b>	<b>-7.2%</b>
9 - Administrative expenses	-86	-59.3%	-87	-64.7%	-1.3%
10 - Value adjustments on intangible and tangible fixed assets	-34	-23.4%	-31	-23.4%	6.8%
<b>D - Operating costs</b>	<b>-119</b>	<b>-82.7%</b>	<b>-118</b>	<b>-88.2%</b>	<b>1.0%</b>
<b>E - Gross operating result (D-E)</b>	<b>25</b>	<b>17.3%</b>	<b>16</b>	<b>11.8%</b>	<b>-36.6%</b>
11 - Provisions for risks and costs	-110	-76.1%	-34	-25.8%	68.6%
12 - Provision to credit risk funds	-4	-2.9%	-7	-5.0%	-62.8%
13 - Value adjustments on loans and provisions for guarantees and commitments	-385	-267.4%	-275	-205.8%	28.6%
14 - Value recoveries on loans and provisions for guarantees and commitments	22	15.2%	7	5.3%	-67.6%
15 - Value adjustments on financial fixed assets	-37	-25.9%	-54	-40.6%	-45.3%
16 - Value recoveries on financial fixed assets	0	0.0%	0	0.0%	
<b>F - Net operating result</b>	<b>-490</b>	<b>-339.9%</b>	<b>-348</b>	<b>-260.0%</b>	<b>29.0%</b>
17 - Extraordinary proceeds	343	237.8%	75	56.0%	-78.1%
18 - Extraordinary costs	-24	-16.7%	-4	-3.3%	81.7%
<b>G - Gross profit from extraordinary operations</b>	<b>319</b>	<b>221.0%</b>	<b>71</b>	<b>52.7%</b>	<b>-77.8%</b>
<b>H - Gross profit</b>	<b>-171</b>	<b>-118.8%</b>	<b>-277</b>	<b>-207.3%</b>	<b>-61.9%</b>
19 - Income taxes for the financial year	-5	-3.5%	57	42.6%	
<b>I - Net profit**</b>	<b>-176</b>	<b>-122.3%</b>	<b>-220</b>	<b>-164.7%</b>	<b>-25.0%</b>
20 - Variation to the general banking risk fund	10	6.6%	15	11.4%	59.4%
<b>Profit for the financial year</b>	<b>-167</b>	<b>-115.7%</b>	<b>-205</b>	<b>-153.3%</b>	<b>-23.0%</b>

Source: Central Bank (Banks' financial statements).

Notes: Figures in millions of Euro. The changes and the interim results are calculated on the original value (not rounded up/down).

\* The percentage variations consider the algebraic sign of the amounts to which they refer.

\*\* Net of the variation to the general banking risk fund.

In light of the results recognised, also in 2012 all of the main profitability indicators (Table 10) show negative results, with the profitability of the assets (ROA) equal to -5.4% (-6.6% in 2011) and that on equity (ROE) equal to -35.8% (-22.4% in 2011).

As regards to the efficiency, the administrative expenses per employee increased to Euro 141 thousand from the previous Euro 133.8 thousand, whilst the Cost Income Ratio indicator (operating costs / mediation margin) has worsened from 82.7% to 88.2%.



**Table 10 - Main profitability and efficiency indicators**

	2010	2011	2012
Return on Average Assets (ROA)*	-2.7%	-6.6%	-5.4%
Return on Average Equity (ROE)*	-23.2%	-22.4%	-35.8%
Cost-Income Ratio**	67.7%	82.7%	88.2%
Administrative expenses per employee***	144.6	133.8	141.0

Source: Central Bank.

Notes: \* ROA and ROE are calculated on the basis of average values (beginning and end of the financial year) of assets and equity.

\*\* Operating costs/Mediation Margin.

\*\*\* In thousands of Euro.

### 1.1.7 Liquidity

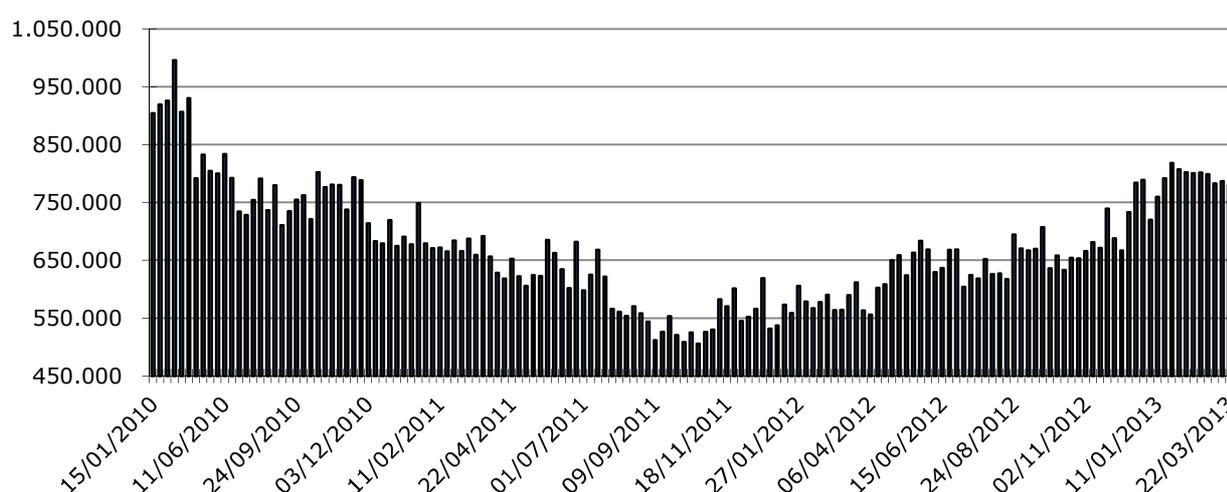
The liquidity profile is constantly monitored by the Central Bank on the basis of weekly reports that allow to recognise the potential *mismatching* of maturities in assets and liabilities as well as the availability of assets ready to be liquidated to face unforeseen repayment requests from the depositors.

Within a context characterised by considerable problems at a revenue and capital level, the banking system has gradually rebuilt its liquidity reserves, eroded during the three year period 2009-2011 following the "disintermediation" process triggered by the Italian tax shield.

At the end of 2012 the liquidity of the system available within 7 days, that is to say the most liquid component that may be used to satisfy immediate outflow requests<sup>5</sup>, was equal to Euro 789 million, with a considerable increase both from the Euro 532 million registered in 2011 and the Euro 675 million of December 2010 (Figure 9).

As at 31 March 2013, a further increase in the liquid reserves, that amounted to Euro 810 million, was registered; figure which is in line with the stabilisation of the banking funding notwithstanding the merger transactions that reshaped in part the features of the banking segment.

**Figure 9 - Evolution of the liquidity of the system available in 7 days**



Source: Central Bank.

Notes: Figures in thousands of Euro.

<sup>5</sup> The liquidity available is calculated as the sum of the assets that may be liquidated within 7 days (cash and free financial instruments) and of loans to banks net of debts with bank (again, due and payable within 7 days). The interbank relationships of San Marino are excluded.

At the end of the first quarter of 2013, the level of coverage of demand deposits of non-resident customers was equal to over 111.4%, up from the 73.5% at the end of 2011 and the 104.5% at the end of 2012: a confirmation of the greater capability to face potential outflows related to a non-resident component of the on demand deposits, typically more volatile than that of the resident clients.

### 1.1.8 Cash movements

With the Circular No. 2012-01, and, before that, with the Circular No. 2009-02, the banks of San Marino are required to transmit the data related to the payment services provided on behalf of their customers, including cash movements (for additional details, please see par. 2.1.6).

At a system level, analysing the quarterly data on the withdrawals and payments at the counter, a trend of steady reduction of the volumes is being registered, both in absolute and relative terms. In fact, the analysis of the cash turnover rate (arrived at by comparing the amount of the withdrawals and payments to the total debts with customers, figure that approximates the portion of the funding that may be used with a monetary function), confirms a decrease from 14.5% registered in the fourth quarter of 2011, to 11.7% in the same period of 2012.

Table 11 summarises the trend in the withdrawals and payments of cash carried out at the bank counters from 1 January 2011 to 31 March 2013<sup>6</sup>.

**Table 11 - Cash movements at bank counters (excluding ATM)**

Withdrawals	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Withdrawals at the counter</b>	<b>206,083</b>	<b>213,086</b>	<b>176,132</b>	<b>166,606</b>	<b>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,646</b>
- of which residents of San Marino	122,414	128,525	108,139	104,860	85,560	86,599	76,942	84,174	67,427
- of which residents in Italy	77,169	77,886	63,476	57,245	43,341	44,992	40,621	41,630	35,259
- of which, resident in the EU Area excluding Italy	1,009	1,060	1,169	747	521	1,224	755	491	313
- of which residents in the Rest of the World	5,491	5,615	3,348	3,754	1,773	2,734	2,303	2,398	1,647

Source: Central Bank.

Notes: Figures in thousands of Euro.

Withdrawals by business sector	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Withdrawals at the counter</b>	<b>206,083</b>	<b>213,086</b>	<b>176,132</b>	<b>166,606</b>	<b>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,646</b>
- of which Public Administrations	178	161	257	259	118	107	150	109	451
- of which non-banking financial companies	17,221	15,853	12,537	7,277	4,051	4,280	3,070	2,615	1,776
- of which non-financial companies	40,448	41,711	29,632	27,472	21,134	21,460	18,198	19,592	15,215
- of which Households	145,996	153,229	131,775	129,816	104,218	107,754	98,125	105,518	86,666
- of which Other	2,240	2,132	1,931	1,782	1,674	1,948	1,078	859	538

Source: Central Bank.

Notes: Figures in thousands of Euro.

<sup>6</sup> When analysing the data divided by customers' residence, it should be taken into account that the transactions carried out by fiduciary companies of San Marino on behalf of non resident persons have been registered as transactions with counterparties resident in San Marino.



Payments	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Payments at the counter</b>	<b>150,359</b>	<b>167,202</b>	<b>153,042</b>	<b>138,561</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>
- of which residents of San Marino	119,400	133,647	127,823	115,980	91,407	99,349	106,831	100,436	87,340
- of which residents in Italy	24,152	26,668	20,722	19,485	16,267	18,005	14,833	14,845	14,821
- of which, resident in the EU Area excluding Italy	1,300	251	207	159	147	95	522	201	137
- of which residents in the Rest of the World	5,507	6,636	4,290	2,937	3,625	2,287	1,026	1,892	1,265

Source: Central Bank.

Notes: Figures in thousands of Euro.

Payments by business sector	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Payments at the counter</b>	<b>150,359</b>	<b>167,202</b>	<b>153,042</b>	<b>138,561</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>
- of which Public Administrations	2,501	2,176	2,446	2,115	1,990	2,260	2,319	2,199	2,099
- of which non-banking financial companies	12,058	12,300	5,718	6,548	4,840	5,083	2,895	4,767	3,879
- of which non-financial companies	67,613	71,291	69,715	65,698	51,924	54,908	57,057	56,944	50,928
- of which Households	65,470	78,348	72,252	61,718	50,109	54,146	59,115	52,847	45,897
- of which Other	2,717	3,087	2,911	2,482	2,583	3,339	1,826	617	760

Source: Central Bank.

Notes: Figures in thousands of Euro.

The analysis of the data evidences a decrease of 32.3% in the withdrawals between 2011 and 2012 (from Euro 762 million to Euro 516 million) and a drop of 22.6% in the payments (from Euro 609 million to Euro 472 million). The downward trend is confirmed also as regards to the quarterly average of the withdrawal flows, equal to Euro 190 million in 2011, Euro 129 million in 2012 and Euro 105 million in the first quarter of 2013. As regards to the payments, the quarterly average was equal to Euro 152, 118 and 104 million, respectively.

The breakdown by business sector shows a composition of the cash flows characterised by a growing impact of households against a sharp decrease in the transactions carried out by non-banking financial companies (Table 12).

**Table 12 - Percentage breakdown of the flows by business sector**

Percentage of the withdrawals by business sector	2011	2012	2013 I Quarter
<b>Withdrawals at the counter</b>			
- Public Administrations	0.1%	0.1%	0.4%
- Non-banking financial companies	6.9%	2.7%	1.7%
- Non financial companies	18.3%	15.6%	14.5%
- Households	73.6%	80.5%	82.9%
- Other	1.1%	1.1%	0.5%

Source: Central Bank.



Percentage of the payments by business sector	2011	2012	2013 I Quarter
<b>Payments at the counter</b>			
- Public Administrations	1.5%	1.9%	2.0%
- Non-banking financial companies	6.0%	3.7%	3.7%
- Non financial companies	45.0%	46.8%	49.3%
- Households	45.7%	45.8%	44.3%
- Other	1.8%	1.8%	0.7%

Source: Central Bank.

The breakdown by residence and that by business sector, evidence, besides the significance of the households and resident non-financial companies (Table 13), a sharp decrease in the cash transactions carried out by financial companies of San Marino at the bank counters, with a quarterly average of the withdrawals that drops from Euro 13 million in 2011, to Euro 3.3 million in 2012 and Euro 1.6 million in the I quarter of 2013.

**Table 13 - Breakdown of the flows by residence and business sector**

Withdrawals by business sector and residence	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Withdrawals at the counter</b>	<b>206,083</b>	<b>213,086</b>	<b>176,132</b>	<b>166,606</b>	<b>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,646</b>
<b>- of which Households</b>	<b>145,996</b>	<b>153,229</b>	<b>131,775</b>	<b>129,816</b>	<b>104,218</b>	<b>107,754</b>	<b>98,125</b>	<b>105,518</b>	<b>86,666</b>
- of which residents of San Marino	68,167	74,588	67,070	71,310	60,190	61,984	56,244	62,843	50,668
- of which residents in Italy	74,842	75,735	61,980	56,419	42,785	43,792	39,984	41,062	34,920
- of which, resident in the EU Area excluding Italy	667	755	953	601	400	697	744	453	291
- of which residents in the Rest of the World	2,320	2,151	1,772	1,486	843	1,281	1,153	1,160	787
<b>- of which non-financial companies</b>	<b>40,448</b>	<b>41,711</b>	<b>29,632</b>	<b>27,472</b>	<b>21,134</b>	<b>21,460</b>	<b>18,198</b>	<b>19,592</b>	<b>15,215</b>
- of which residents of San Marino	34,973	36,247	26,782	24,543	19,787	18,682	16,532	17,890	14,162

Source: Central Bank.

Notes: Figures in thousands of Euro.

Payments by business sector and residence	2011				2012				2013
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Payments at the counter</b>	<b>150,359</b>	<b>167,202</b>	<b>153,042</b>	<b>138,561</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>
<b>- of which Households</b>	<b>65,470</b>	<b>78,348</b>	<b>72,252</b>	<b>61,718</b>	<b>50,109</b>	<b>54,146</b>	<b>59,115</b>	<b>52,847</b>	<b>45,897</b>
- of which residents of San Marino	43,109	54,538	53,889	45,690	36,053	39,030	46,024	39,905	33,821
- of which residents in Italy	20,527	23,109	17,566	15,479	13,488	14,637	11,965	12,291	11,603
- of which, resident in the EU Area excluding Italy	1,293	217	166	96	147	83	500	161	124
- of which residents in the Rest of the World	541	484	631	453	421	396	626	490	349
<b>- of which non-financial companies</b>	<b>67,613</b>	<b>71,291</b>	<b>69,715</b>	<b>65,698</b>	<b>51,924</b>	<b>54,908</b>	<b>57,057</b>	<b>56,944</b>	<b>50,928</b>
- of which residents of San Marino	59,746	62,515	63,903	60,781	47,546	50,800	53,802	53,530	47,295

Source: Central Bank.

Notes: Figures in thousands of Euro.



## 1.2 The sector of the financial/fiduciary companies

### 1.2.1 Size and structure of the system

In 2012, the sector of the financial companies registered a considerable decrease in the operating volumes and in the number of employees compared with 2011.

Total assets amounted to Euro 721million (-20% compared with 2011) and the volume of gross loans, in the same period, amounted to Euro 734 million (-13.2%). The number of employees dropped by almost one third, from 120 at the end of 2011 to 83 at the end of 2012. Compared to the aggregate of the employees of the financial system of San Marino, (including management companies and insurance companies) it is equal to 11.7%. The main indicators are reported in Table 14.

**Table 14 Main size indicators of the financial sector**

Indicators	2010	2011	2012
Number of operators	40	29*	21*
Total Assets	1,151	901	721
Gross loans**	1,058	846	734
Fiduciary activities	1,061	676	414
Number of employees***	206	120	83
Employees (Total %****)	1.0	0.6	0.4
Total assets / GDP*****	0.8	0.6	0.5

Source: Central Bank, IT, technology, data and statistics Office.

Notes: Figures in millions of Euro.

\* The figure includes also one investment undertaking.

\*\* Starting from the financial year 2012, this item includes leasing activities and assets pending leasing. Therefore, the years 2010 and 2011 have been recalculated.

\*\*\* The number of employees is notified by the Labour Office.

\*\*\*\* Total of the Republic of San Marino.

\*\*\*\*\* Please see note in Table 3 on the updating of the GDP data.

At the end of the first quarter of 2013, the number of financial/fiduciary companies was further reduced to 17 units (including one investment undertaking). In detail, 4 companies exited the system, of which 1 has been subject to an administrative compulsory liquidation procedure, 1 has changed its corporate purpose and waived to exercise the activities reserved and 2 started a voluntary liquidation procedure.

### 1.2.2 Assets and loans

The assets of the system, equal to Euro 721 million, are comprised, as for Euro 666 million, by receivables (reported net of the relevant adjustment provisions), as for Euro 19 million by (tangible and intangible) fixed assets, for Euro 18 million by financial instruments and for Euro 11 million by equity interests (Table 15).

Just as for banks, starting from the financial year 2012 all fixed assets connected to leasing transactions have been included under the receivables, including those pending leasing, with reference to the underlying credit exposure also the early termination of agreements due to the non fulfilment of the tenant; as a consequence, the data related to the previous year has also been recalculated. The Table below shows the two components separately, whereas in Table 14 the aforementioned values fall within the item "Gross loans".

In 2012, also due to the effect of the exiting from the market of many operators, the downward trend of all main aggregates of the assets continued, with considerable variations for receivables (-19.4%) and for the equity interest (-59.4%).

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

<b>Assets</b>	<b>2011</b>	<b>2012</b>	<b>Var. %</b>	<b>Liabilities</b>	<b>2011</b>	<b>2012</b>	<b>Var. %</b>
Fixed assets	19.4	19.1	-1.3%	Short term payables of which: towards banks and financial institutions	584.4	507.2	-13.2%
Total receivables*	826.3	666.0	-19.4%	Medium/long term payables of which towards banks and financial institutions	181.4	141.8	-21.8%
of which leasing	470.9	389.2		Other liabilities items	13.9	2.2	-84.0%
of which assets pending leasing	178.1	168.5		Capital and reserves**	121.4	69.6	-42.7%
Securities	18.4	17.8	-3.2%	<b>Total liabilities</b>	<b>901.0</b>	<b>720.9</b>	<b>-20.0%</b>
Shareholdings	27.2	11.0	-59.4%				
Other assets items	9.9	6.9	-30.0%				
<b>Total</b>	<b>901.0</b>	<b>720.9</b>	<b>-20.0%</b>				

Source: Central Bank.

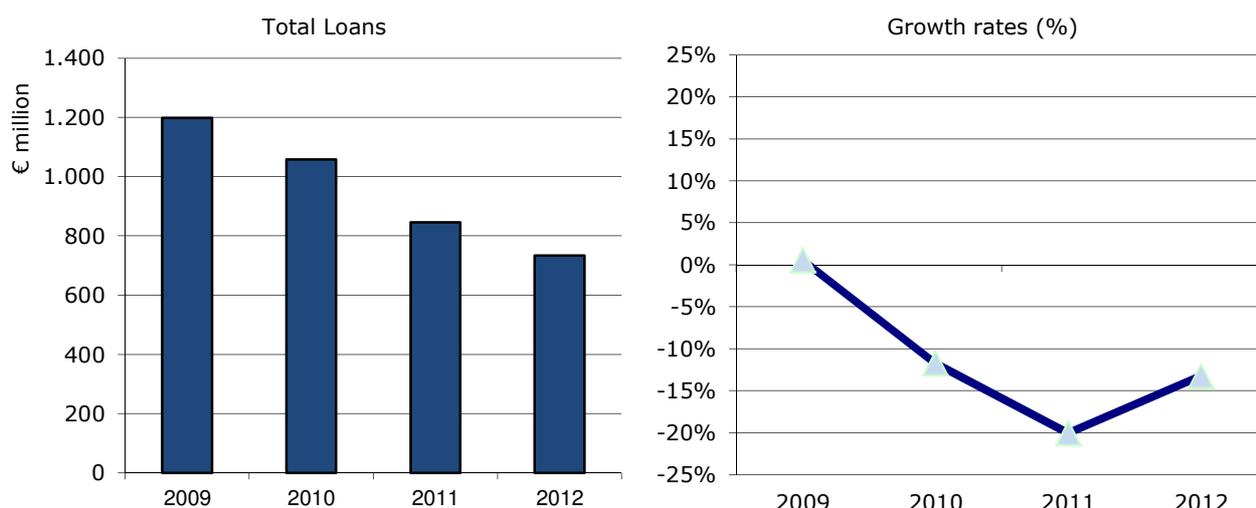
Notes: Figures in millions of Euro.

\* Includes assets under leasing and assets pending leasing; the values are net of the adjustment provisions.

\*\* Inclusive of the profit/loss for the period and the general financial risk fund.

The decrease in the total receivables, higher than that registered in 2011 in percentage terms, reflects the drop in the leasing activities, including the amounts related to the assets pending leasing (for an aggregate amount of Euro 92 million) and the drop in short term receivables (Euro -23 million).

**Figure 10 - Gross loans of the financial/fiduciary companies sector**

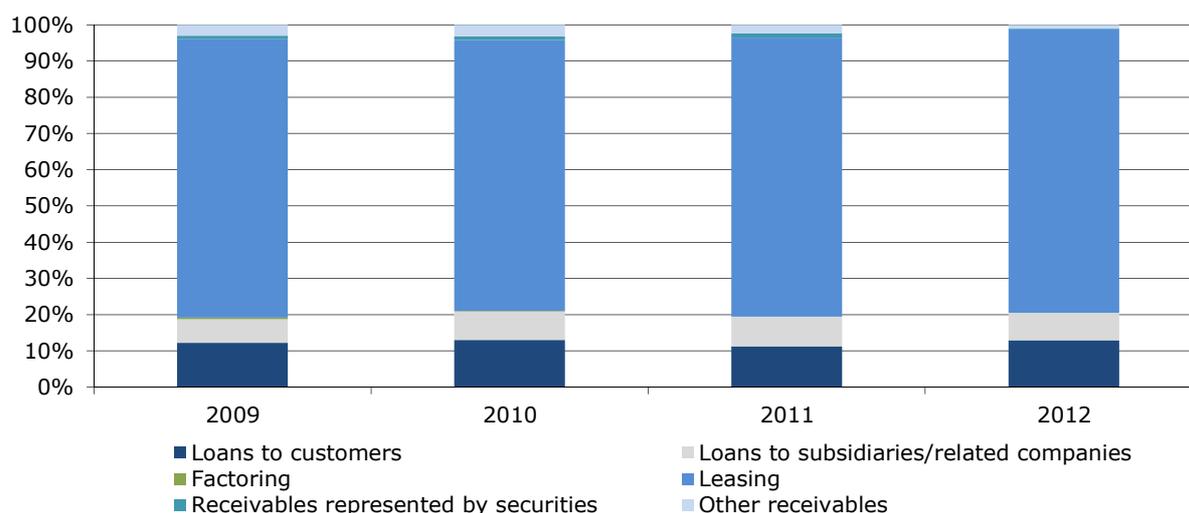


Source: Central Bank.



The analysis of the breakdown of the gross loans by technical forms (Figure 11), confirms the predominance of leasing, which totalled amounts similar to those of the previous years (78.3% of the total loans), with an impact of more than 58.4% on the total receivables net of adjustments. This impact also depends on the strategic decisions of certain groups that concentrated the granting of loans in the form of leasing to the subsidiary financial companies, pursuing a multi-functional group model. The other components of gross loans are represented by loans to customers (13%) and loans to subsidiaries/affiliates (7.6%).

**Figure 11 - Composition of the loans by technical forms**



Source: Central Bank.

The impact of the doubtful loans on the quality of the assets of the financial companies went up to 8.9% from 5.2% in 2011 (Table 16). The increase, equal to Euro 21 million in absolute terms, is the consequence of several factors: the general economic trend, the supervisory actions that – following the investigations conducted – led to the reclassification the loans that were previously erroneously classified as performing, as well as the updating of the reporting schemes that, as from the financial year 2012, require more detailed statistical data on the credit quality.

The aforementioned factors also led to the considerable increase in the risk adjustment provisions, created with reference to the existing credit exposures, up from Euro 18.9 million at the end of 2011 to Euro 50.6 million at the end of 2012. Overall, the provisions referred to above are equal to 78% of the amount of the gross doubtful loans.

**Table 16 - Doubtful loans/Loans (gross figures)**

Indicators	2010	2011	2012
Doubtful loans / Loans	2.3%	5.2%	8.9%

Source: Central Bank.

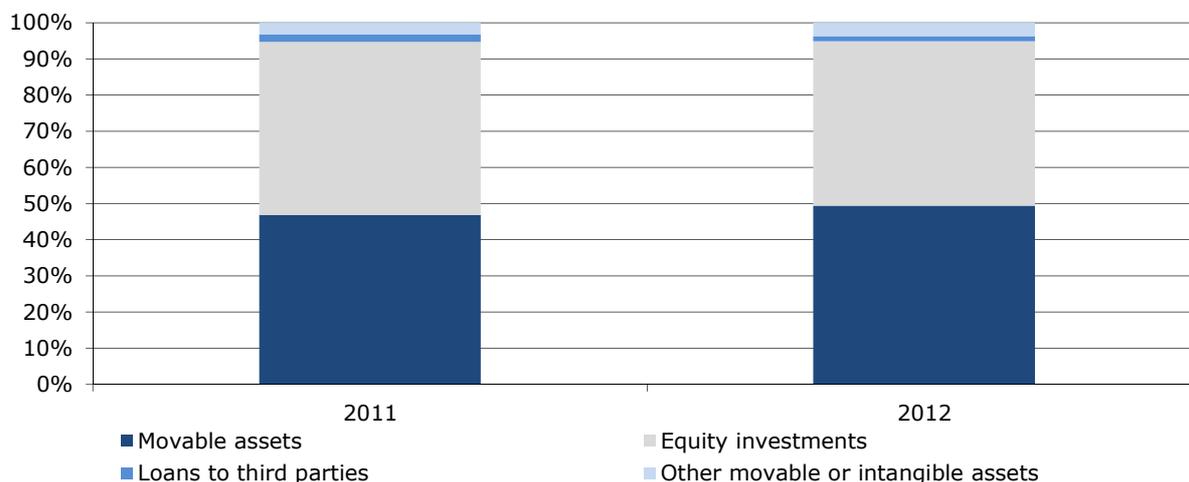
### 1.2.3 Fiduciary activities

As at 31 December 2012, the assets under fiduciary administration amounted to Euro 414 million, registering a decrease of 39% compared with the figure of the end of 2011, due, substantially, to all of the components of such activities.



95% of the capital under administration (Figure 12) is divided between the fiduciary administration of movable assets, for Euro 204.2 million (representing 49.4% of the total) and the fiduciary administration of equity investments, for Euro 188 million (representing 45.4% of the total). Fiduciary loans to third parties represent 1,5% (equal to Euro 6 million) whereas the fiduciary administration of other movable assets or intangible assets represents 3.7% (Euro 15.3 million).

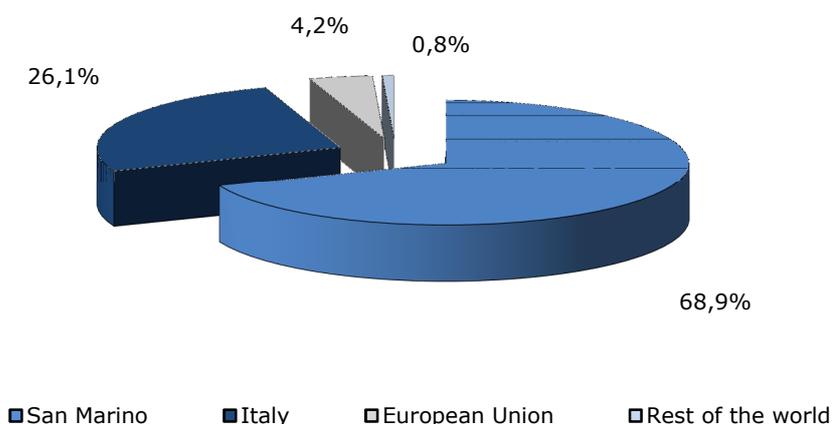
**Figure 12 - Composition of the fiduciary activity by technical forms**



Source: Central Bank.

Within the context of the type 2 mandates "Fiduciary administration of shareholdings", the figures show a clear prevalence of the equity interests in companies of San Marino (68.9% of the total amount); the second country of establishment of the companies fiduciarily held is Italy (26.1%), whilst the shareholdings in companies with registered office in other countries are marginal with a prevalence of the countries of the European Union with 4.2% (Figure 13).

**Figure 13 - Fiduciary administration of shareholdings – breakdown by country of the value of the units**



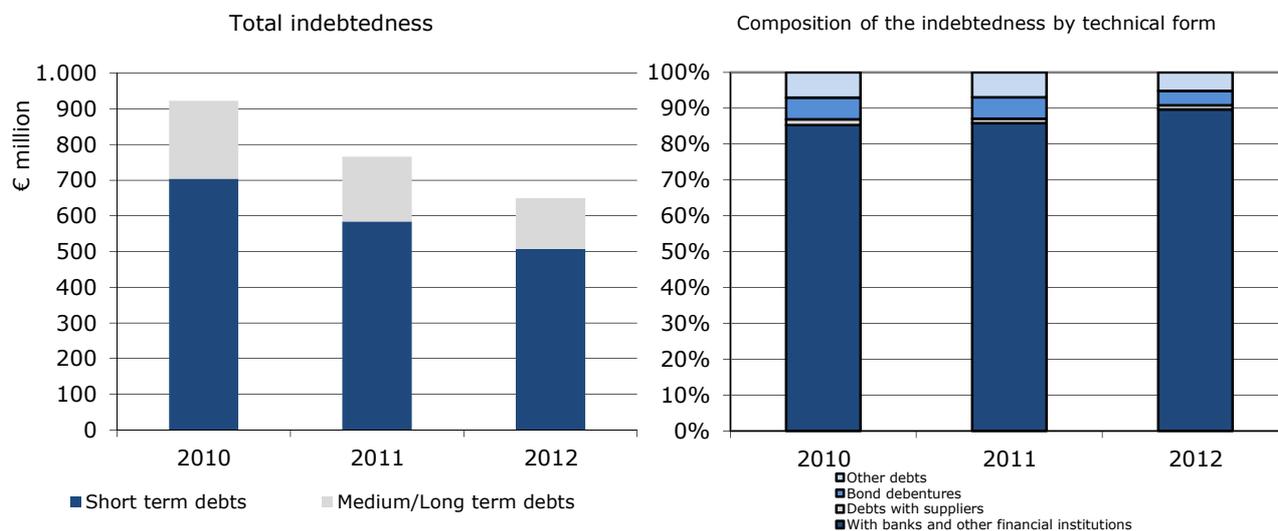
Source: Central Bank.



## 1.2.4 Liabilities and capital

At the end of 2012, the indebtedness of the financial/fiduciary companies was equal to Euro 649 million, down by 15.2% from the end of 2011. The main source of funding is represented by the resort to loans from banks and financial institutions, both in the short and medium term, for Euro 580 million, with an impact of 89.4% on the total indebtedness (85.1% in 2011) (Figure 14).

**Figure 14 - Indebtedness and composition by technical form**



Source: Central Bank.

At the end of 2012, the short term debts, equal to 78% of the indebtedness, amounted to Euro 507 million, down by Euro 77 million from the end of 2011. The medium and long term debts also decreased, from Euro 181 to Euro 142 million at the end of 2012, mainly reflecting the drop in bond debentures (-19 million) and in debts with banks and other financial companies (-17 million) that totalled Euro 26 million and Euro 115 million, respectively, at the end of 2012.

Net equity registered a decrease of 42.7%, from Euro 122 to 70 million, mainly due to the considerable devaluations carried out by a financial company in the 2012 financial statements, which significantly impacted the net loss of the system. The considerable capital erosion also led to a decrease in the impact of the capital on total assets (9.7% compared with 13.5% the previous year) as well as on the indebtedness (10.7% compares with 16% in 2011).

As at 31 December 2012, the main prudential supervisory provisions to which the 14 companies active in the granting of loans pursuant to Part VII of the Regulation No. 2011-03 were subject, show a similar trend. Specifically, the regulatory capital registered a decrease of 45.4%, from Euro 109 million in 2011 to Euro 63 million, with the regulatory capital /total assets and tier I capital / total assets ratios that dropped to 8.7% and 8.6%, respectively, from 12.2% and 12.6% registered in 2011. The solvency ratio in 2012 was equal to 10.4%, higher – on an aggregate level – than the minimum of 8% provided for the companies of this type. Similarly, the capital requirement for operating risks is also satisfied.

### 1.2.5 Profitability and efficiency

The economic trend of the sector of the financial/fiduciary companies in 2012 registered a sharp drop in all interim results, with a decrease of 29.6% in the mediation margin, from Euro 19.5 million to Euro 13.7 million (Table 17).

In details, the interest margin decreased from Euro 13 million to Euro 10.1 million, with a drop of 21.8%, whilst service revenues, also affected by the contraction of the activity, totalled Euro 3.4 million.

**Table 17 - Reclassified profit and loss account of the financial/fiduciary companies sector**

Reclassified profit and loss account	2011		2012		var %*
	Amount	% Marg. Mediation	Amount	% Marg. Mediation	
Interest income and similar proceeds	32,251	165.5%	26,586	193.9%	-17.6%
Interest paid and similar costs	-19,596	-100.6%	-16,444	-119.9%	16.1%
Dividends and other proceeds	315	1.6%	0	0.0%	-100.0%
<b>Interest margin</b>	<b>12,970</b>	<b>66.6%</b>	<b>10,142</b>	<b>74.0%</b>	<b>-21.8%</b>
Commissions earned	8,141	41.8%	3,785	27.6%	-53.5%
Commissions paid	-285	-1.5%	-223	-1.6%	21.8%
other financial revenues/costs	-1,475	-7.6%	-208	-1.5%	85.9%
<b>Service revenues</b>	<b>6,381</b>	<b>32.7%</b>	<b>3,354</b>	<b>24.5%</b>	<b>-47.4%</b>
Profits on financial transactions	133	0.7%	216	1.6%	61.6%
<b>Mediation margin</b>	<b>19,484</b>	<b>100.0%</b>	<b>13,712</b>	<b>100.0%</b>	<b>-29.6%</b>
Net administrative expenses	-13,652	-70.1%	-5,187	-37.8%	62.0%
Value adjustments on intangible and tangible fixed assets	-1,363	-7.0%	-880	-6.4%	35.4%
<b>Operating costs</b>	<b>-15,015</b>	<b>-77.1%</b>	<b>-6,067</b>	<b>-44.2%</b>	<b>59.6%</b>
<b>Gross operating result</b>	<b>4,469</b>	<b>22.9%</b>	<b>7,645</b>	<b>55.8%</b>	<b>71.1%</b>
Provisions and value adjustments	-17,037	-87.4%	-41,888	-305.5%	-145.9%
<b>Net operating result</b>	<b>-12,568</b>	<b>-64.5%</b>	<b>-34,243</b>	<b>-249.7%</b>	<b>-172.5%</b>
Extraordinary proceeds	4,100	21.0%	6,954	50.7%	69.6%
Extraordinary costs	-1,782	-9.1%	-2,794	-20.4%	-56.8%
<b>Gross profit from extraordinary operations</b>	<b>2,318</b>	<b>11.9%</b>	<b>4,160</b>	<b>30.3%</b>	<b>79.5%</b>
<b>Gross profit</b>	<b>-10,250</b>	<b>-52.6%</b>	<b>-30,084</b>	<b>-219.4%</b>	<b>-193.5%</b>
Income taxes for the financial year	220	1.1%	-454	-3.3%	-306.7%
<b>Profit for the financial year</b>	<b>-10,030</b>	<b>-51.5%</b>	<b>-30,538</b>	<b>-222.7%</b>	<b>-204.5%</b>

Source: Central Bank.

Notes: Figures in thousands of Euro. The changes and the interim results are calculated on the original value (not rounded up/down).

\* The percentage variations consider the algebraic sign of the amounts to which they refer.

The reduction in operating costs, from Euro 15 to 6 million, largely connected to the decrease in the number of active companies, partially offset the drop in the mediation margin, thus contributing to the increase in the gross operating result from Euro 4.5 to 7.6 million (+71.1% from 2011).

The considerable increase of the provisions and value adjustments registered in 2012, equal to Euro 24.8 million, determined the deterioration of the net operating result, which totalled Euro -34.2 million, compared with the Euro -12.6 million of the previous year. The system of the



financial/fiduciary companies and of the investment undertakings closed the financial year 2012 with a loss for the period equal to Euro 31 million.

The performances outlined above also affected the main profitability indicators that show a significant decrease: specifically, the ROA registered -4.2% (from -1.2% in 2011), whilst the ROE registered a negative value of 32% (-6.3% in the previous year). As regards to the efficiency profiles, the administrative expenses per employee decreased to Euro 62.5 thousand from the Euro 113.8 thousand registered in 2011, whilst the Cost Income Ratio (operating costs / mediation margin) has improved significantly from 77.1% to 44.2%.

**Table 18 – Main profitability and efficiency indicators**

Indicators	2010	2011	2012
Return on Average Assets (ROA)	-0.6%	-1.2%	-4.2%
Return on Average Equity (ROE)	-2.2%	-6.3%	-32.0%
Cost-Income Ratio*	53.1%	77.1%	44.2%
Administrative expenses per employee**	118.4	113.8	62.5

Source: Central Bank.

Notes: \* Operating costs/Mediation Margin.

\*\* Figures in thousands of Euro.

### **1.2.6 Management companies**

In 2012, the sector of the management companies incorporated under the laws of San Marino, authorised to create and manage special investment funds, did not register any structural change, with two companies registered since 2008.

Relevant changes, on the other hand, were experienced by the operating scope of the two companies. Specifically, one company, which remained inactive for the entire 2011, has been acquired by a bank of San Marino and, besides having changed its name, has been authorised to change its corporate purpose, with the extension of such purpose – previously limited to the management of non-traditional funds – also to the provision of collective investment services, services for the management of portfolios of financial instruments and, only as regards to the units of its own investment funds, services for the placement of financial instruments with no irrevocable commitment (letters E, D4 and D6 of Annex 1 to the LISF). The amendment of the Articles of Association, in addition to the previous authorisation from the Central Bank, also entailed the release of the clearance from the State Congress pursuant to article 12 of the LISF.

In the meantime, the controlling shareholder recapitalised the company and reviewed its corporate governance, also in view of the implementation of organisational and control structures capable of ensuring an efficient performance of the authorised activities. As at 31 March 2013, the company had not started its operations yet, absent the license that will be released by the Central Bank at the end of the reorganisation process currently under way.

Consequently, in 2012 only one management company was active that, besides continuing with the management of the 11 existing alternative investment funds reserved to professional customers, 10 of which of the open end type and 1 closed end fund specialised in investments in works of art, launched a reserved alternative open-end balanced fund as well as a close-end alternative fund with the contribution of receivables, reserved to the banks of San Marino.

The assets under management of the company – excluding the fund with contribution – has increased from Euro 34.4 million at the beginning of 2012 to approximately Euro 44.1 million at the end of 2012.



The aforementioned fund with the contribution of receivables has been created pursuant to the Regulation No. 2011-05 of the Central Bank, that introduced the discipline for this type of entities in the financial legislation of San Marino. The fund originates from a system transaction carried out by some banks of San Marino and related to the administrative compulsory liquidation of Credito Sammarinese. Specifically, the banks of San Marino that were, since October 2011, transferee of the portfolio of receivables of the bank in administrative compulsory liquidation, contributed such receivables in 2012 to the aforementioned close-end fund that took the name of "Loan Management", receiving, against such contribution, units representative of the investment in the fund itself based on the value of the receivables contributed.

The management regulation of the fund, which is subject to the prior authorisation from the Central Bank, besides specifically regulating several profiles related to the management and administration of the fund itself, restricts the circulation of units only to the contributing banks, since the transfer of such units to third parties is not allowed. The collective management of the aforementioned portfolio of receivables, which may be achieved through the instrument of the investment fund which has been used, allows a centralised and more effective management of the receivables, besides ensuring a uniform distribution of the economic and capital effects connected to the receivables between the participating banks.

The fund has been launched with an initial capital – expected realisation value of the contributed receivables – of Euro 41.8 million.

In aggregate, the total assets under management within investment funds are thus equal to Euro 86 million.

As regards the regulatory measures related to the sector of the management companies, it should be noted that with the issue of the Regulation No. 2012-03 of the Central Bank, Regulation No. 2006-03 was amended, removing the requirement originally included under article 4, paragraph 2, that provided that the total of the assets under management of a management company could not exceed the overall market value of the assets managed on an individual basis, so as to facilitate the concentration in one single person of the duties related to the management of assets, achieving greater efficiency and cost effectiveness.

### **1.2.7 Insurance companies**

During the financial year 2012, the two insurance companies of San Marino continued their activities, more significantly leveraging on operating synergies with the credit institutions of San Marino and with the other intermediaries active in the Republic.

In this context, it is important to note the acquisition – closed in July 2012 – of 100% of the capital of San Marino Life - Impresa Sammarinese di Assicurazione by BAC, previously held by Ergo Austria International AG.

The premium income registered an increase compared with the previous year; specifically, gross recognised premiums, in 2012, were equal to approximately Euro 135.4 million, up by 44.1% from 2011.

As at 31 December 2012, the overall volume of the investments of insurance companies of San Marino was equal to approximately Euro 362.3 million.

In 2012 the investments related to the class C<sup>7</sup>, the risk of which is borne by the companies, increased from Euro 34.1 million to Euro 47 million (up by approximately 37.8%). To this regard, it should be noted that 74.3% of the total of the investments is comprised of bonds and other debt securities.

<sup>7</sup> Class C investments are related to real estate properties (lands and buildings) and financial investments in companies of the group and other subsidiaries as well as in other financial instruments (shares, investment funds units, bonds, etc.).



At the end of 2012 the investments, the risk on which is borne by the insured, mainly connected to dedicated internal funds, amounted to Euro 315.3 million and registered an increase of 55.6% during the financial year.

As regards to the liabilities, with reference to the technical reserves, they totalled Euro 354.1 million as at 31 December 2012, with an overall increase of 55.8% from the previous year.

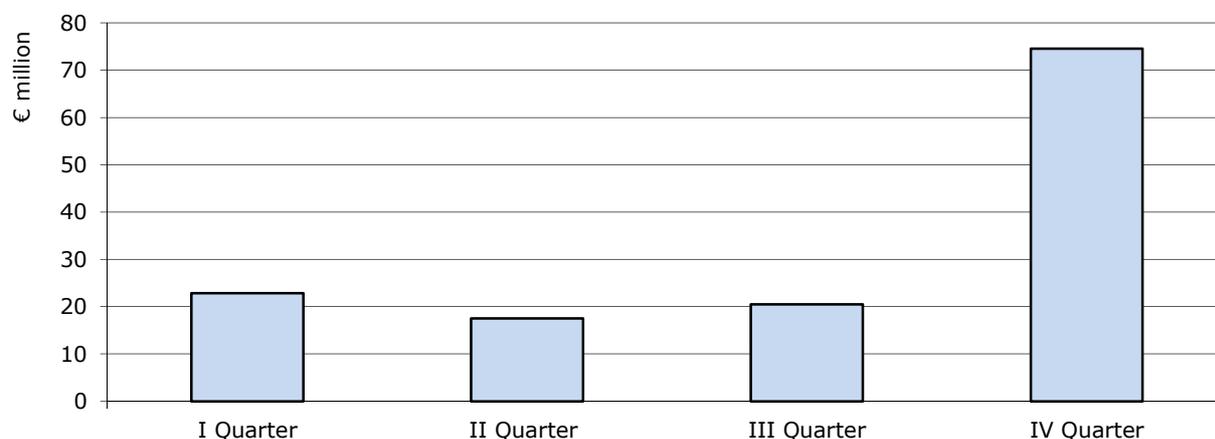
Most of the technical reserves (89.1%) reflects contracts the benefits of which are related to dedicated internal fund and market indices, whereas the remaining 10.9% is comprised of mathematical reserves and other technical reserves of class C that increased from Euro 24.6 million in 2011 to Euro 38.7 million at the end of 2012.

As regards to costs related to accident claims, in 2012 they amounted, in aggregate, to approximately Euro 25.5 million, up by 39.3% compared with the Euro 18.3 million registered in 2011.

Under the profile of the economic management, the insurance companies registered an aggregate loss of Euro 290 thousand (compared with a loss of approximately Euro 2.3 million in 2011). The fourth consecutive financial year<sup>8</sup>, although characterised by a negative economic result, evidenced an improvement of profitability compared with 2011, mainly due to a significant increase in the premiums, together with the mitigation of the European sovereign debt crisis with the consequent recovery of the financial markets, which determined a consistent reduction of the losses (the relation between losses and gross premiums recognised decreased from 2.5% in 2011 to 0.2% in 2012).

In 2012 an improvement was registered in the efficiency indicator *expense ratio* (relation between operating expenses and gross premiums accounted for) which is equal to 2.1% (2.9% in the financial year 2011).

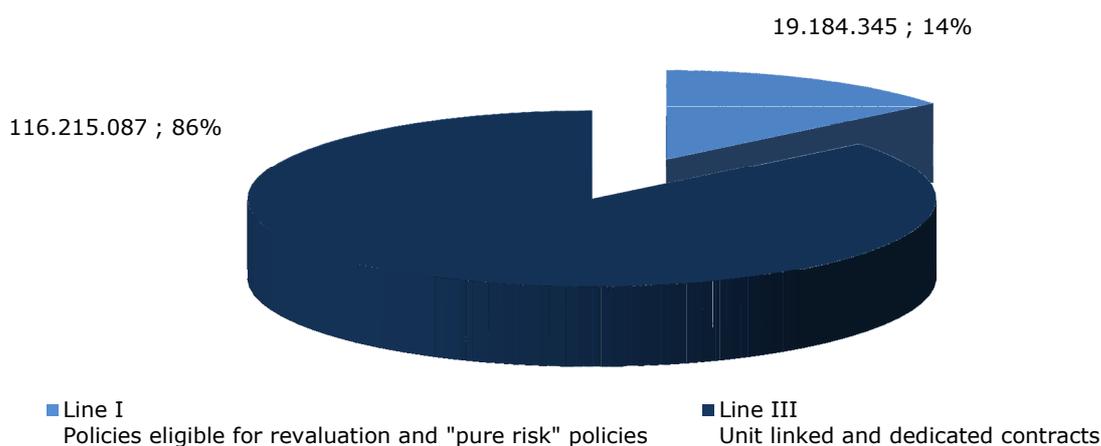
**Figure 15 - Breakdown by quarter of the gross premiums recognised in 2012**



Source: Central Bank.

<sup>8</sup> The authorisation path of the two companies was completed in May 2009.

**Figure 16 - Breakdown by insurance line of the gross premiums recognised in 2012**



Source: Central Bank.

### 1.2.8 Insurance and reinsurance intermediaries

At the end of 2012, an aggregate of 54 persons are registered in the Public Register of Insurance Intermediaries, divided into individuals and sole proprietorships (7 persons), companies (30 persons) and banks and financial companies (17 persons).

The situation of the Register as at 31 December 2012 is summarised in the Table below.

**Table 19 - Persons registered in the Register of insurance and reinsurance intermediaries**

	Section A Individuals and sole proprietorships	Section B Companies	Section C Banks and financial companies	Total
Assets	5	26	17	48
Suspended	2	4	0	6
<b>Total</b>	<b>7</b>	<b>30</b>	<b>17</b>	<b>54</b>

Source: Central Bank.

In 2012 there have been 14 cancellations from the Register (9 of which were related to persons previously suspended) and 6 new entries.

From the data provided by the persons included in the Register it emerged that the aggregate amount of the premiums mediated in 2012, with the exclusion of the funds collected on behalf of the two insurance companies incorporated in San Marino, was equal to approximately Euro 40.3 million, mainly concentrated on the non-life sector, virtually unchanged compared with the total of premiums mediated in 2011.



### **1.2.9 Financial promoters**

As at 31 December 2012, one single person, although not active, continued to be registered in the Register of the financial promoters held with the Central Bank.

In the first six months of 2012, consultations have been launched on a draft of regulation on financial promotion, prepared by the Central Bank, for the purpose of implementing articles 24 and 25 of the LISF and updating the applicable discipline of the Republic on this subject.

In the period under review, the Central Bank received the remarks and contributions of the Banking Association of San Marino. The final regulation will be released in 2013, subject to the completion of a further public consultation, given that the version currently being fine-tuned by the Central Bank is characterised by significant innovations and new factors compared with the previous version distributed in 2012, as rules have been introduced also on operating profiles and scopes previously not considered.

## **2 THE INSTITUTIONAL FUNCTIONS**

### **2.1 The Supervision and protection of the investors**

#### **2.1.1 Contextual factors**

In 2012 the process for the consolidation of the banking sector and the downsizing of the financial sector continued. The negative economic situation, at a national and international level, and the condition of forced isolation in which the system of San Marino has been operating for years, led to the inevitable back-off of the operators on the domestic market, involving the government bodies of the company in the research for a difficult economic and capital balance.

The absence of any competitive advantages, such as the offer of financial products which are not available in other markets or the recognised excellence in the production of services with a high added value, exposes the intermediaries to considerable strategic risks since the development scenarios of the single operator tend to coincide with the loss of market shares of the other *competitors*.

The low tax rates, absent an increase in traded volumes, represent an important element but largely insufficient, however, to build an attractive and sustainable business model.

The Institutions and the Supervisory Authority have been working for years on the process for the modernisation of the regulatory framework and operating practices. This process, however, risks to be unproductive and needlessly burdensome unless accompanied by the opening of the market to the wider context of international finance.

The compliance with the standards defined within the context of the supranational cooperation are not to be considered as a purpose of the supervisory action, but rather as a pre-requisite needed to achieve the desired acceptance of San Marino amongst its peers in Europe, not only from an anti-money laundering perspective, but also with reference to the entire supervision system.

The new legal patterns and the best practices shared at an international level represent, in fact, the instrument to link banking and financial operations to the parameters of an healthy and prudent management, on which transparent and efficient entrepreneurial actions must be based, to the service of the economic needs of companies and households alike.



Any deviation from this virtuous path affects the present conditions of private finance in terms of reputation and the future of public finance in terms of lower expected revenues, against the tax benefits recognised to the operators that borne the deficits of the banks in a state of crisis, for the purpose of avoiding immediate and dramatic repercussions on the investors.

The Central Bank is working to consolidate the cooperation with other foreign Supervisory Authorities, necessary pre-requisite to the realisation of the financial integration of San Marino within the European context.

The first reference entity, by proximity and relevance, is the Bank of Italy, with which informal contacts have been started long time ago, which, in March 2013, were concentrated in five round tables related to the possible procedures for the exchange of the data on credit risk, to the insurance sector, to the circulation of banknotes, to training and payment systems, also in view of the coming into force of the new standards for retail payments provided for by the SEPA (Single Euro Payments Area – see box titled "The single Euro payment area")

In view of a gradual internationalisation of the system, in February 2013 a specific service has been created within the Central Bank, in charge of the development of the relationships with the foreign institutional counterparties, and the first informal exchanges with the analogous Authorities, from within the Community as well as outside, were started with the purpose of verifying the availability to reach formalised cooperation arrangements on the issue of banking and financial supervision.

Besides the supervisory activities, the Central Bank is committed to support the other Institutions of San Marino in assessing costs and benefits of the above mentioned process for the European integration, taking into account the peculiarities specific to our system.

## **Box 2: Outlook of the European integration and impact on the banking and financial system of San Marino**

The Central Bank has been producing in-depth analyses and researches on the issues related to the European integration, in order to assess the possible impact on the banking and financial system of San Marino with reference to the different options available, such as: the maintenance of the status of non-EU country, the accession to the European Economic Area or to the European Union. The analyses performed became of a binding nature at the end of 2009, when the negotiations started for the definition of the new monetary agreement with the European Union, executed in March 2012, and entered into force on 1 September of the same year (see box No. 5 of the annual report for year 2011).

The critical areas that characterise the access to the European Union market by the financial system have been discussed at several levels, lastly on occasion of the meeting held in San Marino in December 2012 with the diplomatic representatives of the countries members of the European Union within the context of which the need was expressed to identify the most appropriate forms of integration of the financial and economic system of San Marino in the European single market.

The current configuration of the banking and financial system is in fact characterised by some specific elements that directly derive from the institutional structure of the Republic, from the dimension of micro state in territorial as well as domestic market terms, but, most of all, from the legal framework determined by the international agreements of which the Republic is part especially from the provisions of the agreements signed with the European Union and with Italy.

The status of San Marino as non-EU country and the adoption of the Euro as the national currency, represent, in fact, key profiles in explaining the current structure of the financial system of San Marino. The requirements and the restrictions that the intermediaries of San Marino have to face in accessing the single market of the European Union, due to the position of non-EU country of San Marino, limit, in fact, the possibility to reach efficient dimensional and organisational structures, at the expense of the stability of the system and of the quality of the services offered. The financial



intermediaries of San Marino are prohibited from operating on a cross-border basis within the Community, given that banks and financial intermediaries do not enjoy the legal rights of the freedom of establishment and the freedom to provide services; rights which are enjoyed by the intermediaries established in those countries that have access to the European single market, i.e. the countries members of the European Union or the countries that participate to the European Economic Area.

In this current scenario, it is difficult to realise forms, even if only minimal, of integration of the financial system of San Marino into the Community system, such as the cross-border investment in equity interests of Community financial companies by San Marino and vice versa, due to both the limited dimensions of the intermediaries of San Marino and to the need to negotiate on the basis of bilateral cooperation agreements with the individual countries.

The failure to access the Community markets is particularly restrictive for the financial system of San Marino in the current framework of gradual adoption of the international principles, for the transparency and complete opening to the international cooperation.

The monetary integration not combined with the integration of the economic and financial system of San Marino with that of the European Union is, in fact, denying any prospective development to the economy of San Marino – considering the limits of the domestic market –. The abandonment by San Marino of the old Economic and financial model of growth, focused on the bank secrecy, in favour of a model focused on transparency, absent any real opening of the markets significantly limits the possibilities of growth, thus jeopardising the economic sustainability of many initiatives of the sector. The action started by San Marino for the convergence on the international cooperation and transparency principles, also of a tax nature, therefore entails the need to realise, in the short term, forms of integration with the European market, in full compliance with all Community rules and with the competition principle.

The effects of the non integration are evident. In the last years, the economy of San Marino registered a considerable contraction, with a decrease of the GDP of San Marino of approximately 31% in real terms in the last five years.

The adjustment of the supervisory rules and practices to the European standards must necessarily be accompanied by a review of the position of San Marino vis-a-vis the European Union, or there will be the risk of destabilising effects for the country, required to comply – by virtue of the monetary agreement – with rules that would only produce effects for the Single European Market.

The path towards full harmonisation, started by San Marino, finally ratified with the signing of the Monetary Agreement, entailed, and will entail, burdens of significant extent, if compared to the micro-dimensions of the country, with growing needs of technical, professional and financial resources within a context of prolonged economic crisis and deterioration of the financial position of the State. These are burdens that are difficult to bear without an expansion of the market of reference of the operators of San Marino beyond the national borders, that may increase the financial fragility of the country.

A wide harmonisation of the banking and financial laws of San Marino with those of the European Community is, in fact, justified not only so as to be able to continue to use the Euro, but, most of all, with a view to a future cross-border operations of the intermediaries of San Marino on the Single European Market. However, to subject any form of integration within the financial context between the European Union and San Marino to the full implementation of all the requirements resulting from the new Monetary Agreement (inevitably diluted within a period of 6 years) requires times hardly compatible with the trends of the financial sector.

The adoption by San Marino of the Euro as national currency, together with the current impossibility to have access to the refinancing systems of the Eurosystem represents, what is more, an element of intrinsic fragility of the financial system of San Marino, in which it is not possible to activate one of the safety net instruments that guarantees the financial stability and contributes to manage the

systemic liquidity risk, that, at a Community level, are essential elements also for the orderly exercise of the supervisory activities. San Marino has, in more than one occasion, reiterated to the European bodies the need to identify a solution that would make it possible to overcome this limit.

The authorities of San Marino are active in the creation of the basic conditions that may facilitate, on one side, the attraction of qualified foreign investments in the financial sector and, on the other hand, the operations abroad of our operators or the offer abroad of services, instruments and financial products of San Marino. In the meantime, the operators of San Marino are required to strengthen, with adequate investments, the levels of efficiency of the corporate management that would allow to practice competitive economic conditions.

The most recent appraisals from the main international bodies (International Monetary Fund, Moneyval, OECD) have already acknowledged the important progresses made by San Marino in the adjustment to the international principles. These appraisals must favour, in agreement with the competent supranational bodies at a European level, the most appropriate forms of integration of San Marino in the single market, removing the barriers and restrictions that exist today.

### **2.1.2 Supervisory policy**

The main directions along which the supervisory action was conducted in 2012 were, in summary:

- The strengthening of the analysis and intervention activities related to the intermediaries characterised by weak and anomalous profiles.
- the prevention of possible destabilising effects generated by corporate crises, especially as regards to banks;
- the consolidation of the relationships with International Bodies and foreign Authorities;
- the gradual adjustment of the regulatory framework also in view of the commitments resulting from the new Monetary Agreement.

From the assessments carried out through investigations and certifications, considerable unlawful activities and management irregularities actually emerged, with reference to which it has been necessary to adopt extraordinary measures. The experience made allows to identify certain macro-areas of critical issues, amongst which it is worth noting:

- the lack of clarity in some ownership structures of banks and financial companies, also through the resort to foreign fiduciary companies and "anonymous companies";
- the lack of caution in starting credit/debt relationships with the customers, absent any adequate information from third parties also in order to fully assess the reliability of the information received from such customers, first valuation element to assess the reliability of the customer and whether such customer acts on its own behalf or for the account of third parties.
- the practice of certain financial companies to lease vehicles or boats to hire companies – often not provided with an adequate economic, capital and organisational profile – that, in turn, lease such assets to third parties, often not resident in the Republic, without thoroughly investigating their subjective and objective risk profiles. The foregoing contributes to increase the likelihood that the vehicles and the boats leased and then hired may be used by "undesirable" persons, for unlawful purposes and without the financial companies having a real control on the situation. Therefore, the risks of fraud, theft, involvement in money laundering activities are significant, thus exposing the intermediary to considerable credit and legal risks, and the financial system as a whole to a consistent and dangerous reputation risk.



- a different destination of the loans disbursed from that specified within the context of the preliminary investigation on credit lines and, in any case, which is not subject to an adequate control by the financing entity determines, on one side, the assumption of credit, operating and legal risks that were not considered and, on the other side, exposes the financial activity also to a risk – may be unconscious – of being involved in activities connected to the organised crime;
- the use by the authorised persons (banks and financial companies) of foreign counterparties resident of countries such as, but not limited to: British Virgin Islands (BVI), Vanuatu, Madeira, Gibraltar, Seychelles, etc., which are countries that, ultimately, associate a great level of bank secrecy to a low level of tax rates(so-called tax haven);
- considerable inconsistencies between the (economic, capital, financial) profile of certain persons that declare to be the beneficial owners of the credit/debt transactions concerning own companies (with a credit line or depositors). In some cases, it was possible to suspect that the actual beneficial owner was different from the beneficiary declared as such based on promptly identifiable elements (release of guarantees, general powers of attorney received, little clarity of the sources of the financial resources pledged as guarantee or paid to the deposit, etc.);
- the use of complex operating patterns, aimed at making it more difficult to trace the financial transactions, when, moreover, the economic reasons behind them are not clear. For instance, cases in which financial/fiduciary companies open a fiduciary mandate to a person that already holds funds with a bank, pledging of the mandate as guarantee for the benefit of the bank itself, interposition of the financial/fiduciary companies that request the loan from the above mentioned bank and disbursement (on its own account) of the loan to the requesting person (mandator);
- failure to canalise and register with the intermediary the payments made by the borrowers on their own account, which represents an element of weakness when ascertaining the source of the capitals used.

The anomaly profiles outlined above are only some of the factors on which the supervisory action will be focused, consistently with the risk based approach long since adopted.

The effectiveness of the activities carried out by the Central Bank received an important acknowledgement by the International Monetary Fund, that in the last appraisal mission, ended in March 2013, declares:

*"the mission commends the central bank's intensified supervision aimed at ensuring that banks are provisioning adequate amounts against expected losses, and that they remain liquid and well capitalized. The mission also notes that the central bank has the tools and stands ready to put in place preventive remedial actions, should these be needed to ensure financial stability".*

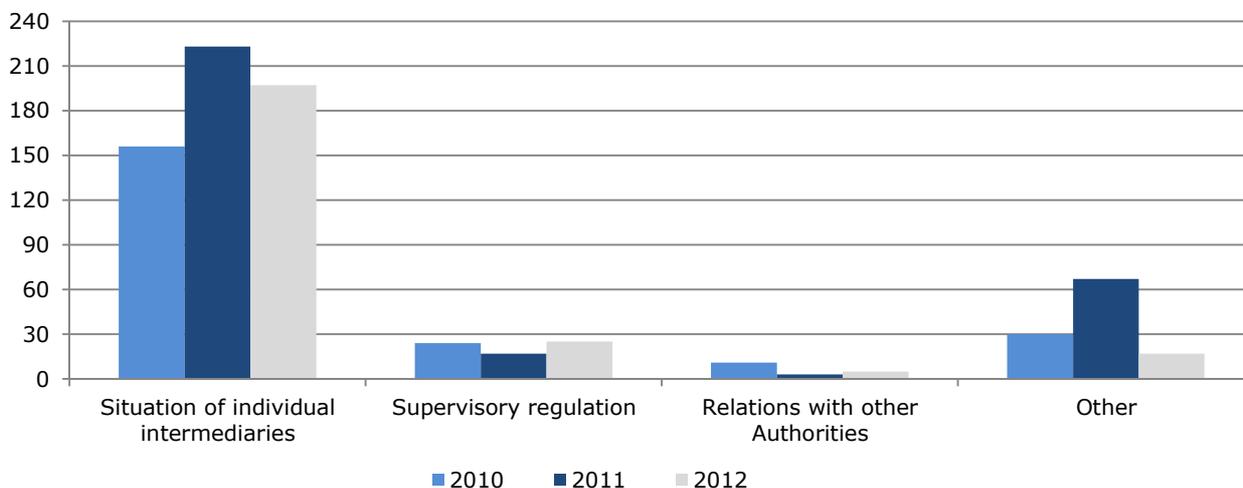
### **2.1.3 The Supervision Committee**

The Supervision Committee is the statutory body to which all powers are assigned to manage the supervisory functions of the banking, financial and insurance system, in its 3 components: inspection, information and regulatory, as well as for the protection of the investors" (art. 15 of the Articles of Association of the Central Bank). The activities of the Supervision Committee are carried out through regular meetings in which measures, resolutions or other decisions are passed with reference to the subjects presented by the Services that comprise the Supervision Department or independently identified by the Committee itself.

In 2012, the Supervision Committee held 56 meetings, in which 244 resolutions were passed, mostly (197) regarding individual intermediaries, for the purposes of the assessment of the technical profiles of such intermediaries as well as the assumption of specific decisions, such as, but not limited to, authorisations, certifications, investigations, sanctioning procedures or the launch of

extraordinary procedures. In the same period 25 decisions were taken regarding the supervisory regulations and 5 related to relationships with other Supervisory Authorities, of San Marino or foreign (Figure 17).

**Figure 17 - Supervision Committee, number of resolutions divided by issue**



Source: Central Bank.

The decisions taken by the Supervision Committee were, in some cases, subject to the appeal in court for alleged legality issues raised by the defendants (see box 3).

### **Box 3: Status of the disputes resulting from the supervisory activities**

#### **Premise**

The increase in the number of extraordinary and liquidation procedures (suspension of the administrative bodies, extraordinary administration and administrative compulsory liquidation) in the three year period 2010-2012, as well as the increase in the number of sanctioning procedures, made it essential for the Central Bank to resolutely address the judicial administrative disputes that resulted therefrom, firmly defending the legitimacy of its conduct aimed at protecting the stability of the system and safeguarding the investors.

#### **Disciplinary measures**

There have been 8 disciplinary measures adopted in 2012, 3 of which have been appealed by the parties involved. Of the three appeals, related to the administrative compulsory liquidation of San Marino Investimenti, the extraordinary administration of Business & Financial Consulting (BFC) and the administrative compulsory liquidation of Hedge-Fin, the first instance judicial proceeding has been concluded only as regards to the BFC dispute, where the appeal has been rejected.

Of the 8 disputes filed against the Central Bank, for the measures assumed between 2010 and 2011, 2 have reached third instance decisions in favour of the conduct of the Supervision Committee (Fin Project and Prado-Fin); 1 dispute has been waived by the plaintiff during the first instance phase, with the subsequent consolidation of the decision of the Central Bank (Fincapital, compulsory liquidation decision); 2 disputes have been decided in the first instance judicial proceeding with the rejection of the appeal and the becoming final of the sentence due to the failure to challenge the judgement (S.M. International Bank, Banca Commerciale Sammarinese, extraordinary administration measures). For the remaining 3 disputes, 2 of which related to the



Credito Sammarinese S.p.A under administrative compulsory liquidation, and 1 to Polis S.p.A. under administrative compulsory liquidation, the first instance decision is still pending.

### **Sanctioning procedures**

As specified in box 6 (see below), in 2012 and in the first quarter of 2013, 60 sanctioning proceedings were completed. Of the foregoing remedies of injunction, 16 have been challenged, pending the hearing before the administrative Court.

Of the 34 appeals against the decisions of 2011, 5 have been waived by the plaintiffs, having been filed after the relevant deadline, and thus have been dismissed by the Court. Of the remaining 29 appeals, 10 have been decided by the administrative Court; in 9 cases the Court confirmed the legitimacy of the actions and one appeal has been upheld, though partially. Therefore, 19 appeals are currently pending proceedings.

### **Other disputes**

The Central Bank defended also against the challenge of two letters for the setting of time limits, sent to the intermediaries in 2012 (Credito Sammarinese and Polis). This resulted in 4 disputes that are currently at the first instance stage of the proceeding. As regards to the interlocutory stage of the aforementioned disputes, for four of them the administrative Court of first instance decided in favour of the plaintiffs, whereas the Court of appeal, during the challenging proceedings, decided in favour of the Central Bank for two of such disputes. For the remaining two interlocutory proceedings, the Court of second instance has not decided yet.

## **2.1.4 The activities of the Supervision Department**

The crisis of banking and financial intermediaries registered in the last few years, the related extraordinary and sanctioning proceedings and the support provided to the Magistrates within the scope of tasks which are typical of the Judicial Police, greatly absorbed the resources of the Supervision Department in 2012.

At the same time, the effort for the adjustment of the regulatory framework, the fine tuning of the analysis instruments, the performance of documentary interventions and investigations, which are reported in the following paragraphs, continued.

### **Box 4: Disciplinary procedures and evolution of the current corporate crises**

#### **Premise**

The negative economic situation, the considerable reduction in the administered volumes in the past few years, the ongoing evolution of the regulatory framework for the adjustment to the international standards, with the subsequent incompatibility of certain entrepreneurial initiatives launched in the first years of this decade in a different historical and legal framework, the attempt by the organised crime to infiltrate the financial environment of the Country, represent only some of the more significant causes behind the high number of disciplinary procedures initiated in the last two years by the Central Bank (suspension of the administrative bodies, extraordinary administration, administrative compulsory liquidation).

#### **Criteria behind the adoption of the measures**

The adoption of similar measures, which are the exclusive responsibility of the Central Bank since November 2010, is considered by the latter as a measure of last resort in the solution of corporate problems. Wherever possible, the Supervision Authority tries to solve the corporate crises through the use of non-traumatic procedures, using preventive measures, provided for in the LISF or, ultimately, inspired by moral suasion. The target is to make the owners and the management aware of the critical aspects of the situation of the company, so that the struggling intermediary would,



spontaneously or upon request from the Supervision authority, adopt the necessary corrective measures prior to the appearance of the crisis (such as recapitalisation, organisational restructuring, change in management, etc.).

Wherever possible, the Central Bank also facilitated the spontaneous exit from the market, subject to the minimum requirements for an orderly voluntary liquidation.

The activation of the disciplinary procedures is therefore limited to the most serious pathological situations, where the corporate crisis may not be autonomously solved by the corporate bodies, often as a consequence of highly irregular or unreliable management structures.

Should the crisis be irreversible, due the extremely serious irregularities identified and/or to the existence of a capital deficit, the adoption of a liquidation measure is inevitable, especially for the purposes of the protection of the *par condicio*.

### **Procedures started in 2012**

In the report of the previous year evidence was given of the increase in the number of disciplinary procedures started (11) compared with those of 2010 (3). In 2012, 8 procedures were started and were related to the suspension of the administrative bodies of Prado-fin, the new start, following the release of the final judgements, of two liquidation procedures suspended in 2010 by the administrative Court of first instance (Fin-Project and Prado-Fin), the extraordinary administration of Business & Financial Consulting and of Sibi, the administrative compulsory administration of San Marino Investimenti, Hedge-Fin and Business & Financial Consulting.

Additionally, in 2012, two extraordinary administration procedures were closed, related to the S.M. International Bank S.p.A. (SMIB) and BFC.

In the first quarter of 2013, one suspension of the administrative bodies and one compulsory liquidation were started, regarding the same intermediary (Finworld), one after the other.

Of the 8 procedures started in 2012, with the exclusion of the cases of Fin-Project and Prado-Fin, 2 resulted directly from investigations, 1 was originated by certification procedures and, as regards to the remaining cases, from post inspection documentary supervision or following the closure of the extraordinary administration.

The most frequent reasons underlying the disciplinary procedures started by the Central Bank, are related to:

- management irregularities and regulatory breaches (legislative and of the measures of the Supervisory Authority) that regulate the operations of the intermediaries, also characterised, in some cases by the so called *fumus delicti* (evidence of guilt);
- significant inadequacies of the organisational structures and of the internal control procedures, that caused the deterioration of the technical balances;
- expected loss of capital.

### **Status of the procedures outstanding in 2012 and outlook of the main corporate crises**

As regards to the solutions adopted, or not yet settled at the moment, for the most important disciplinary procedures outstanding, it should be noted that

1) **S.M. International Bank S.p.A. (SMIB)**. After the first and most challenging phase of the crisis, following the conclusion of the period of suspension of the payments, on 9 February 2012 the procedure, started on 10 February 2011, was extended for six months by the Central Bank, pursuant to art. 78, paragraph 6 of the Law No. 165/2005 and then, on 7 August 2012, for additional two months, for the purpose of allowing the intervention of the BSM banking group, interested in taking over the control. The solution of the crisis, settled in October 2012, allowed the



returning of SMIB to the ordinary management through a new corporate *mission* and the entering into a stronger banking group. In April 2013, SMIB changed its name into: Banca Impresa di San Marino S.p.A.;

2) **Credito Sammarinese S.p.A.** (CSA). In 2011, Credito Sammarinese, previously subject to an extraordinary administration procedure, started on 12 July 2011, has been placed under compulsory liquidation on 11 October 2011 due, inter alia, to the extremely serious lack of liquidity, the considerable capital deficit, and the absence of any concrete serious alternatives. The complex solution adopted at the end of 2011 to protect the depositors and, more in general, to ensure the continuity of the credit relationships, involved the transfer of accounts in block to six banks that acted them as transferees. Such solution, for the protection of the clients of the Credito Sammarinese, has been defined also thanks to the issue of the Decree Law No.174 dated 27 June 2011 "Urgent measures in support of the activities for the protection of the investors", that established an instrument in support of the "system transaction" through tax benefits, when such transactions are aimed at protecting the investors and the stability of the banking system, as in the case of the transfer in block of assets and liabilities within the scope of an administrative compulsory liquidation. In March and December 2012, the transfer of the assets and liabilities to the six transferee banks was completed. Also in December 2012, the transfer was completed of the assets from the six banks to the "vehicle" (Reserved close end fund, named: Loan Management) specifically created for the recovery of the receivables of CSA, the units of which have been subscribed by the aforementioned transferee banks. This will allow a significant reduction of the time required for such procedure;

3) **Banca Commerciale Sammarinese S.p.A.** (BCS). In the previous report, we evidenced the particular complexity of the identification of a new solution of the crisis of the BCS, due to the withdrawal of the interest originally manifested by a foreign investor, as well as due to the simultaneous reconciliation of different needs such as, on one hand, the need to find an effective and timely solution for the protection of the depositors with the nearing of the termination of the suspension of the payments, and, on the other hand, the opportunity of a previous verification, for the purposes of legality, of certain debit and credit relationships of the BCS, so as not to burden the intervening bank with excessive legal and reputation risks. In this context, Asset Banca took over the entire capital of BCS and, for the purpose of providing an immediate response to the needs of the depositors, it acted as transferee, in February 2012, of a business unit of the subsidiary. The extraordinary administration procedure continued in 2012, and is now close to its conclusion through the transfer to Asset Banca of the residual assets and liabilities;

4) **Fincapital S.p.A.** The liquidation procedure, started on 7 January 2011, has been characterised by extremely complex and sensitive elements, both due to the dimensions and multifunctional nature of the operations of the company, and to the considerable implications of a criminal character to which great prominence was given by the press. Following the filing of the debt statement, in May 2011, the Central Bank authorised the new registration of part of the units held on a fiduciary basis by Fincapital. After the approval by the Central Bank, in September 2011, of the program of the negotiations between the Procedure and the class of banking creditors, the Liquidators and the class of banking creditors agreed upon the transfer in block of the assets and liabilities of the company, with the segregation of the assets transferred in order to minimise possible risks connected to the transfer of assets with an illegal source. A reconciliation was, thus, attempted between the legality requirements of the procedure and the purposes, included in the regulatory framework currently in force, of a quick settlement of the compulsory liquidations. The transfer in block of the assets and liabilities to the creditor banks will facilitate also the protection of the private counterparties of Fincapital within the context of real estate leasing contracts, satisfying at the same time the requirements of social protection;

5) **Fincapital S.p.A.** The company has been placed under compulsory liquidation on 15 July 2011. On 24 October 2011, the debt statement has been filed. The Procedure, subject to the prior authorisation of the Central Bank, started, at the end of 2011, the activities for the partial return to



the mandators, without prejudice to the obvious precautions, aimed at avoiding to jeopardise the possibility of definitively allocating the assets to all qualified parties. Such activity continued also in 2012. A transfer in block of the assets and liabilities of the company to the class of banking creditors is currently being realised; this transaction is aimed at facilitating the fast definition of the liquidation;

6) **Polis S.p.A.** The company has been placed under administrative compulsory liquidation on 02 September 2011. Once the debt statement had been filed, in December 2011, the Procedure has performed, in 2012, a significant work for the recovery of the non performing assets, also starting the returns to the mandators of the assets (securities and cash available) held on a fiduciary basis. Currently, the Bodies of the Procedure are assessing solutions for the transfer in block of the assets, which would considerably reduce the time required to settle the liquidation;

7) **Uno S.p.A.** The company has been placed under administrative compulsory liquidation on 21 November 2011. The debt statement has been filed on 2 July 2012. The Liquidator is recovering the assets and returning the assets fiduciarily registered;

8) **Business & Financial Consulting S.p.A.** With the order dated 17 May 2012, the company has been placed under extraordinary administration due to serious regulatory violations, serious management irregularities and serious expected capital losses. After several months, absent any real alternative, by virtue of the further management irregularities identified and to exceptionally serious losses ascertained by the Official Receiver and the persistent illiquidity, the BFC has been placed under administrative compulsory liquidation on 11 December 2012. On 11 April 2013, the financial statement of the extraordinary administration has been filed and was approved by the Central Bank on 9 May 2013;

9) **San Marino Investimenti S.p.A.** On 9 July 2012, SMI has been placed under compulsory liquidation due to extremely serious management irregularities and regulatory violations as well as for exceptionally serious losses. The significant complexity of the problems emerged, including the considerable international implications due to the ramification in other countries of the companies connected to SMI and/or to the parent company, the financial relationships established with such companies, some of which had their registered offices in little known countries and/or in countries not fully in line with the international standards, make it difficult, in the current situation, to assess what the possible settlement of the procedure may be like.

### **2.1.5 Regulatory interventions**

As regards to the regulatory activities, 2012 has been characterised mostly by measures amending existing ones, given their nature of updates of the regulatory framework, aimed at increasing the effectiveness, efficiency, consistency and alignment with the international standards of the prudential and information supervisory provisions already introduced and summarised below.

The Regulation No. 2012-01 known as "Regulation No. 2007-07, III Update - Regulation No. 2011-03, I Update" has been issued with the primary intent of adjusting the impacts on the intermediaries of the prudential rules. The key contents of such intervention, in fact, are:

- an extension of the deadline for the disposal of the real estate properties acquired to recover the receivables, also for the purpose of taking into account the actual date of the release of the asset and of the negative situation in the real estate market;
- the reduction of the weighing factor for the non performing loans from 200% to 150%.except for leasing already weighed at 50% that, if non performing, are weighed at 100%;
- the introduction of the definition of "structured loans", to be used also for reporting and balance sheet purposes;



- the removal of every reference, for supervisory purposes, to the employment obligations assumed with the Secretary of State for Labour by the supervised entities at the start of the operations;
- the simplification of the requirements for the periodic review of the credit lines the financial sinking fund of which is regularly satisfied;
- the extension from 30/06/2012 to 31/12/2012 of the deadline given to the financial companies to comply with the new prudential supervision rules, within a capital context, to the simplified extent provided for the companies with limited operations;
- the extension from 30/6/2012 to 31/12/2012 of the deadline given to the financial companies to adjust, within the organisational context, the processes for the disbursement of the loans to the new supervisory provisions.

As a consequence of the issue of the Regulation No. 2012-01, and specifically of the introduction of the definition of "structured loans", the additional issue was required of Regulation No. 2012-02 known as "Regulation 2007-07. IV Update - Regulation No. 2011-03, II Update" with the only purpose of updating the definition of doubtful loans, as it also includes the "restructured loans".

Finally, the Regulation No. 2012-03, known as "Miscellany of measures aimed at reviewing the supervisory provisions currently in force", gathered, at the end of the financial year 2012, interventions for the amendments of the regulations that, though diverse as between themselves, have in common the character of urgency and the lack of hardship for the supervised entities, as evidenced by the fact that most of the reviews included in the order have been requested by the supervised entities themselves and/or by their trade associations. Furthermore, the measure also assumed a "recognition" nature for all replies to the queries and guidelines expressed in the meantime on the supervisory provisions in force, thus consolidating them into the regulation. Specifically, this measure:

- made some adjustments to the method of calculating the regulatory capital and the relevant prudential thresholds at a group level, by introducing the "adjusted regulatory capital";
- simplified the resort to form of intra-group centralisation of certain corporate functions, also in light of the recent mergers between financial intermediaries;
- aligned the discipline on the professional requirements of the officials of banks and financial companies to those currently in force abroad, with a view to facilitating a greater integration between the financial system of San Marino and the Italian one, also through a mutual transfer of professionalism.

The innovations made to the prudential regulations for banks and financial companies have, thus, made it necessary to update, as regards to the two sectors, the information requirements and the relevant reporting tables through the issuance of the following circulars:

- **Circular No. 2012-02**, known as "Amendments to Circular No. 2011-01", containing the periodic information requirements of the financial companies as regards to prudential supervision, in light of the coming into force of Regulation No. 2012-01 that extends to 31 December 2012 the final deadline for pre-existing companies to adjust to the transitory rules referred to in Part XI of the aforementioned Regulation, in the simplified form for financial companies with limited operations;
- **Circular No. 2012-03**, known as "Periodic information requirements of the banks as regards to prudential supervision", that redefined the quarterly reporting requirements of the banks, following the amendment of Part VII of the Regulation No. 2007-07, made through the Regulation No. 2011-02, which introduced new requirements such as the minimum capital requirement for operating risks.



Connected to the regulatory activities in the strict sense, is the release, rather frequently during the year, to the supervised persons of interpretations on the correct scope of the supervisory provisions, in reply to the "Inquiries" filed by the supervised persons by letter or email. Some inquiries, with the related replies, are published on the institutional web site of the Central Bank, especially when they are of general interest or produce effects that supplement the provisions in force, to be then consolidated with the update to the regulation.

### **2.1.6 Information supervision**

The development of regulations and the fact-finding needs of the Supervision Department led to the issue of three circulars in which the requirement of periodic information of banks and financial companies have been redefined, with reference to the use of the payment instruments and of the prudential supervision provisions.

The Central Bank requested, back in 2009, the banks to report on a monthly basis the movement of cash at the counter and, on a quarterly basis, the other payment transactions carried out on behalf of the customers. The availability of quantitative information on the movements of cash, on the use of cheques and on wire transfers provided an important contribution in term of knowledge, helping to identify statistically anomalous situations, such as to require additional in depth analyses through investigation activities.

In 2011, in line with the guidelines prepared within the context of the Technical Committee of National Coordination, established under Law No. 92/2008, the need emerged to acquire more detailed information on the movement of cash within the banking system, which, despite the decreasing trend compared with the previous years, was still at high levels, requiring continuous interventions by the Central Bank.

With reference to the foregoing, the Supervision Committee deemed it necessary to supplement – by means of the Circular No. 2012-01 - the reporting schemes with the provision of a new scheme, which requires details on the transactions and personal details of the clients who moved cash for an amount in excess of Euro 15 thousand on a monthly basis. The personal details are referred to the client (including occasional clients) that effects the transaction, the related beneficial owners (if any), and possible delegated persons who, by virtue of the proxies received, have the power to arrange transactions with the bank.

The data received allows a greater control of the cash flows mediated by the banking system, also for the purpose of identifying the possible use of the banking system by persons involved in money laundering activities.

As regards to prudential supervision, in addition to the Circulars No. 2012-02 and No. 2012-03 (see paragraph 2.1.5), in February 2013 Circular No. 2013-01 was issued, that governed the information requirements related to financial companies providing for reporting schemes structured according to the organisational model selected, based on the options available pursuant to the Regulation No. 2011-03 (financial company with limited operations, fully authorised company, general financial company), so as to include in one single *corpus* all relevant provisions on this subject, repealing at the same time Circular No. 2011-01.

These schemes, aligned with those already in force for banks, provide for information on the coverage of capital requirements against credit and operating risks, on the concentration of risks, on the relationships with related parties. The data related to the first reporting, referred to December 2012, have been used for the preparation of paragraph 1.2.4.

In 2012, the activities for the control and analysis of the statistical supervisory reports have been subject to an organisational review aimed at increasing the traceability of the information flows with the authorised persons, also for the purpose of centralising such information



within the Supervisory Information System, so as to facilitate the sharing thereof within the context of the organisational structures in charge of the analysis and intervention activity.

Specifically, requests have been formalised for the confirmation of the statistically "anomalous" data reported and for the explanation of the factors underlying the main variations detected in the trend, for a total of 153 fact-finding interventions. With reference to the results of the controls, 70 requests for adjustments of the data were transmitted so as to increase the quality of the information received and its relevance.

#### *2.1.6.1 Coordination and support activities within the context of the relationships with International Bodies*

The firm intention of the banking and financial system of San Marino to take the path towards the integration in the international capital community entails the involvement in continuous appraisal sessions of the international bodies in charge of the certification of the alignment of the rules and practices to the best standards recognised by the supranational regulators.

Also in 2012, the Central Bank has been deeply involved in the missions carried out by the International Monetary Fund pursuant to Art. IV of IMF's statutes and by the OECD, which assessed the effectiveness of the exchange of administrative and fiscal information (the so called phase 2).

In these occasions, there have been many opportunities to communicate with the experts of such bodies, to whom the statistical data on the evolution of the system were provided for the different profiles involved.

Additionally, the Central Bank has been involved:

- in the regular meetings held with the IMF within the scope of the so called Spring and Annual Meetings, during which updates have been provided on the situation of the country, and the possible implementation was discussed of the recommendations expressed in previous appraisal missions;
- in the preliminary preparation of the votes to be expressed within the context of the World Bank (most recently, for the appointment of the Executive Directors);
- in the preparation of *ad hoc* questionnaires such as the Financial Access Survey of the IMF, aimed at measuring the level of access and utilisation of the financial services by companies and households;
- in the analysis of the trends of the banking and financial system with the agency Fitch Ratings that assigns a vote to the medium-long term perspective of the country;
- in the preparation and transmission to the IMF of the data on the liquidity situation of the banking system, on the non performing loans and on the main economic-capital indicators.

### **2.1.7 Controls over the banking and financial system**

#### *2.1.7.1 Documentary controls*

In 2012 the Central Bank has implemented a constant documentary control, based on the data, news and documents that the Bank itself, also on a regular basis, requested from the supervised intermediaries.

The activity is aimed at analysing the overall corporate situation of banks, financial/fiduciary companies, insurance companies, management companies and investment undertakings, through the review of the capital and organisational adequacy, of the liquidity and profitability profile of the intermediary, together with the performance of verifications of the

ownership structures and of the corporate officials, for the purpose of assessing the ability of the intermediary to achieve satisfactory economic, financial and capital balances, in compliance with the prudential supervisory regulations and, in general, with the principle of healthy and prudent management.

The analysis of the aforementioned technical profiles made it possible to verify the compliance with the rules and regulatory requirements, and to intervene in case of difficulties, in order to prevent a possible deterioration of the situation of the company, inviting the corporate bodies to maintain or restore the adequacy conditions and requesting that any anomalies be removed.

The documentary analysis and verification has also supported the performance of the investigations subsequent to the applications filed by the supervised persons for the purposes of the release of the authorisations reserved to the Central Bank (such as, but not limited to, the acquisition of relevant equity investments in the capital of the authorised intermediaries, the outsourcing of corporate functions, expansion of the distribution network, etc.).

In 2012, the monitoring continued of the process for the adjustment of the structure and the operations of the financial companies to the rules provided for in the Regulation No. 2011-03 "Regulation of the loan granting business (financial companies)", entered into force on 1 July 2011. In those cases where the authorised person decided to cease the performance of the reserved activities, the controls carried out were focused on the transformation or liquidation process of the company, in order to allow the conduction of the related activities in an orderly manner and without consequences for the customers and the system.

The action of the supervision service presents a scope of variation related to the real situations identified; however, in general, the possible interventions adopted may be classified as follows:

- fact-finding, to expand the set of information available to the Supervisory Authority. These interventions made it possible to carry out the necessary analyses on the operations of the intermediaries, preparatory to the corrective actions, and aimed at verifying that any malfunctions and irregularities emerged during previous controls have been removed by the supervised persons.
- preliminary, aimed at soliciting the adoption by the supervised person of interventions aimed at preventing the deterioration of the technical profiles;
- corrective, when the interventions are aimed at specific corrective actions that the supervised person is required to implement in order to remedy problems and anomalies related to the organisational, capital, revenue and financial profiles.

In 2012, 208 interventions for a documentary supervision of a fact-finding, preventive and corrective type, were carried out on the authorised persons of the banking, financial and insurance sector, including the supervised persons (insurance intermediaries). In the first three months of 2013, the same type of interventions amounted to 36.

The following table shows the documentary supervision interventions divided by purpose (preventive, fact-finding and corrective interventions) carried out in 2012 and in the first quarter of 2013 as regards to banks and financial/fiduciary companies only.



**Table 20 - Documentary supervision interventions**

Type of intervention	2012 Banks	I quarter 2013 Banks	2012 Financial companies Fiduciary companies	I quarter 2013 Financial companies Fiduciary companies
Fact-finding	39	13	25	9
Preventive	4	0	7	2
Corrective	20	2	14	3
<b>Total</b>	<b>63</b>	<b>15</b>	<b>46</b>	<b>14</b>

Source: Central Bank.

The foregoing refers only to part of the off-site supervisory activities carried out on banks, financial/fiduciary companies, insurance companies and insurance intermediaries. In the period from 1 January 2012 to 31 March 2013, the following communications, inter alia, were made:

- a) No. 354 connected to authorisation processes<sup>9</sup>. Within this context, an aggregate of 199 authorisations were released, whereas 22 were denied. Additionally, the activity led to 73 preliminary interventions<sup>10</sup>. As regards to the data related to the main authorisation processes, it should be noted that 13 authorisations and 1 rejection are related to ownership structures, 96 authorisations and 3 rejections are related to the discipline of compulsory reserve; 22 authorisations and 4 rejections refer to amendments to the articles of association; 6 authorisations and 1 rejection refer to the outsourcing regime; the release of 6 authorisation is related to the shareholding structures. Other authorisation-related measures (15 authorisations and 6 rejections) related to the prudential supervision, referred to the organisational adequacy, the discipline of the regulatory capital, the solvency ratio, the investments in real estate properties. As regards to the directions contained in the disciplinary measures, 9 authorisations have been released;
- b) No. 39 related to replies to inquiries on different topics, especially concerning the interpretation of supervisory regulations;
- c) No. 121 resulting from relationships held with other Public Authorities;
- d) No. 158 related to the opening of sanctioning procedures and to the actual imposition of the sanctions or the dismissal of the charges;
- e) No. 183 related to the connection with the bodies subject to the disciplinary procedures (suspension of the administrative bodies, extraordinary administration, administrative compulsory liquidation).

Also in 2012, the documentary supervision has been significantly involved in the supervision of the disciplinary procedures (suspension of the administrative bodies, extraordinary administration, administrative compulsory liquidation). In 2012 there have been 18 procedures pending, 2 of which have been closed in the last quarter of the year. In the first quarter of 2013, 2 additional procedures have been opened, 1 of which has already been settled (see box 4: Disciplinary procedures and evolution of the current corporate crises).

Finally, following some verified violations of the regulations by certain supervised persons, identified during the investigations and controls carried out on the activities of the intermediaries, in 2012 and in the first quarter of 2013 60 sanctioning procedures, mostly started in 2012, have been concluded (see Box 5: Sanctioning procedures).

<sup>9</sup> The scope of the authorisation procedures also includes the release of clearances and approvals or other authorisation-related actions, whatever their name.

<sup>10</sup> This figure does not include the interventions in the preliminary phase, including those of a fact-finding nature shown in Table 20.

## **Box 5: Sanctioning procedures.**

### **Premise**

In 2012, the Central Bank continued to carry out sanctioning procedures against corporate officials (Directors, Auditors, Director General) and auditors of authorised persons, pursuant to Decree No. 76/2006, once the relevant requirements had been ascertained. Sanctioning procedures have been started and completed also against insurance and reinsurance intermediaries.

As in previous years, the sanctions have been imposed for the violation of the prudential supervision discipline, especially as regards to the provisions regarding organisational and internal control structures.

### **Proceedings started and sanctions imposed**

The sanctioning proceedings started and completed in 2012 amounted to 31 and were related to 2 financial/fiduciary companies, one bank and 5 insurance and reinsurance intermediaries. Additionally, always in 2012, 18 sanctioning proceedings were initiated, which were concluded in the first months of 2013, related to 2 financial/fiduciary companies and 1 insurance and reinsurance intermediary. In the first quarter of 2013, 11 sanctioning proceedings were initiated and completed, related to one bank and two insurance and reinsurance intermediaries.

In 16 cases, the remedies of injunction have been challenged, pending the hearing before the administrative Court.

Overall, including the first three months of 2013, sanctions were imposed for Euro 339,000, and collected for Euro 58,500 in favour of the Most Excellent Chamber. The sanctions not yet collected as at 31 March 2013 are almost entirely referred to the aforementioned challenges which imply the suspension of the payment until the settlement of the disputes.

Furthermore, in the first quarter of 2013, following the favourable settlement of some disputes initiated in 2011 by the sanctioned persons, the Bank collected Euro 139,000 for the account of the Most Excellent Chamber.

### **Valuation parameters in the imposition of monetary administrative sanctions**

The regulatory framework ensured by Law No. 165/2005 and by the Decree No. 76/2006:

- a) governs the administrative procedure and the relevant terms for the challenge and the actual imposition of the sanction;
- b) provides for the parameters which must be complied with by the Supervisory Authority as regards to the entity of the sanctions, assuming that the entity of the individual sanction is set taking into account also the existence of several violations of the same provision or of violations of different provisions, committed with one single action or omission, of the recurrence of the irregular conduct as well as of any other element from which the seriousness of the violation may be inferred.

Having considered the procedural regulatory requirements and the actual determination of the sanction to be imposed, as mentioned above, the Central Bank, in the performance of its sanctioning activities, takes into account, as in any other business sector characterised by more or less wide margins of "administrative discretion", also the internal limits of rationality, consistency, in-depth preliminary investigation and adequate grounding of the administrative action, by applying clearly identified valuation parameters and/or elements, the most important of which are:

- check the strength and stability of the charge to be filed, through the correct identification of the violated rule in force and the possibility to prove the irregularity ascribable to the sanctioned person;



- verification of the time of permanence in office as corporate official by the sanctioned person (in order to be considered liable of the irregularities, the sanctioned person must have been in office for an adequate period of time, or the conducts and/or the resolutions must have been executed/adopted during the period in which the sanctioned person was in office);
- detailed analysis of the objections presented by the person subject matter of the charges, and subsequent indication of whether such objections have been upheld or rejected in the reasons for the sanction, specifying the reasons why the objections are deemed to be satisfactory or not satisfactory (or partially satisfactory or not satisfactory).

## Outlook

Pursuant to art. 41 of the Law No. 150/2012, the Central Bank will supply technical support for the preparation of the Delegated Decree that will reform the regulatory framework as regards to the sanctions imposed by the Central Bank and by the FIA.

### 2.1.7.2 Inspections

The 2012 inspection plan has been prepared on the basis of the indications from all supervisory services as well on the elements gathered in the previous inspections. The planning has been carried out by adopting a *risk-based* approach, taking into account, for each intermediary, the level of exposure to the credit, financial, liquidity, operating and money laundering risks, the status of the *governance* systems and the risk control procedures, the level of capitalisation and the revenue generation capability, all in compliance with the principles of a sound and prudent management.

In 2012, 17 inspections were carried out at the premises of the supervised persons.

Specifically, 5 inspections of a general nature (1 bank and 4 financial companies), 5 of a sector-related nature (2 banks, 1 financial company and 2 insurance intermediaries) and 7 of a specific nature on behalf of the Judicial Authority (5 banks and 2 financial companies). There have been 10 inspection for supervisory purposes (58% of the total), down from 2011.

The reduction from 2011 in the total number of inspections (from 24 to 17) and of inspections with supervisory access (from 16 to 10), mostly concentrated in the second half of the year, reflects the increase of the appointments received from the Judicial Authority in the first part of 2012, as explained more in detail in paragraph 2.6.2

There have been 3 inspections of a general nature, carried out in line with the planning prepared at the beginning of the year, whereas the remaining inspections resulted from supervisory needs generated during the financial year. Of the sector-related inspections, 3 were carried out to satisfy fact-finding needs resulting from other inspection activities; the remaining 2, on the other hand, were related to the category of the insurance intermediaries.

Due to the situation outlined above, the inspection cycle on the banks could not be completed: at the end of the first quarter of 2013, three companies, although subject to documentary inspection, had not yet been subject to on-site inspections for supervisory purposes.

Table 21 summarises the inspections carried out in the last three-year period (2010-2012) and in the first quarter of 2013, specifying the person-days needed for the performance of the activities. The reduction in the person-days in 2012 reflects the considerable concentration of the inspectors in the inspections carried out on behalf of the Judicial Authority, not considered in the calculation.

**Table 21 - Supervisory inspections and their impact in terms of person-days**

	2010			2011			2012			2013 I Quarter		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	6	15	2	13	10	1	8	7	2	1	2	0
of which general	1	10	0	1	4	0	1	4	0	0	0	0
of which sector-related	1	1	1	9	2	0	2	1	2	0	0	0
of which specific	4	4	1	3	4	1	5	2	0	1	2	0
<b>Total</b>	<b>23</b>			<b>24</b>			<b>17</b>			<b>3</b>		
Number of person-days	1,207			1,243			467			458		

Source: Central Bank.

The outcome of the inspections, in most cases, led to the initiation of sanctioning proceedings, the opening of extraordinary procedures, the transmission of reports to the Financial Information Agency and to petitions to the Judicial Authorities.

The results of the inspections confirmed the existence of widespread problems concerning the adequacy of the corporate governance and, in particular, the inefficiency of the internal control procedures. The problems identified are related to anomalous exposures to the credit, liquidity, legal (also with reference to the money-laundering risk and to the risk to get involved in activities of the organised crime) and reputation risks.

In the year under review, moreover, some projects for the reorganisation of the inspection procedures have been implemented. To this regard, some procedures for the physical and logical security have been implemented and the efficiency of the process for the collection of the documents in support of the inspections has been increased. Additionally, in the first quarter of 2013, the basis was laid down to improve the structure of the inspection reports, to review the inspection guidelines and to increase the efficiency of the entire inspection procedure. It is expected that this project may provide concrete results at the end of 2013.

## 2.2 Management of counterfeited banknotes in Euro

Banknotes and coins expressed in Euro and suspected to be counterfeited are transmitted to the Central Bank by the persons required pursuant to the Regulation No. 2010-02 "Regulation for the withdrawal from circulation of banknotes and coins in Euro suspected to be counterfeited"; then, the Central Bank, as Currency Authority and guarantor for the payment system, forwards them to the competent Authorities in order to verify them and for the purposes of the intelligence activities.

The required persons referred to in the above mentioned Regulation, are operators that manage or distribute cash professionally, and are thus required to comply with such Regulation; it should be noted that the Regulation No. 2010-02, since its entry into force on 1 January 2011, allowed the discipline of San Marino to implement the principles of the European directives against such phenomenon, aligning the procedure with those used by the other countries that use the Euro.

The scope of application of the Regulation No. 2010-02 does not include counterfeited, or suspected to be counterfeited, banknotes and coins in currencies other than the Euro, which must be forwarded by the professional operators directly to the Interpol of San Marino.

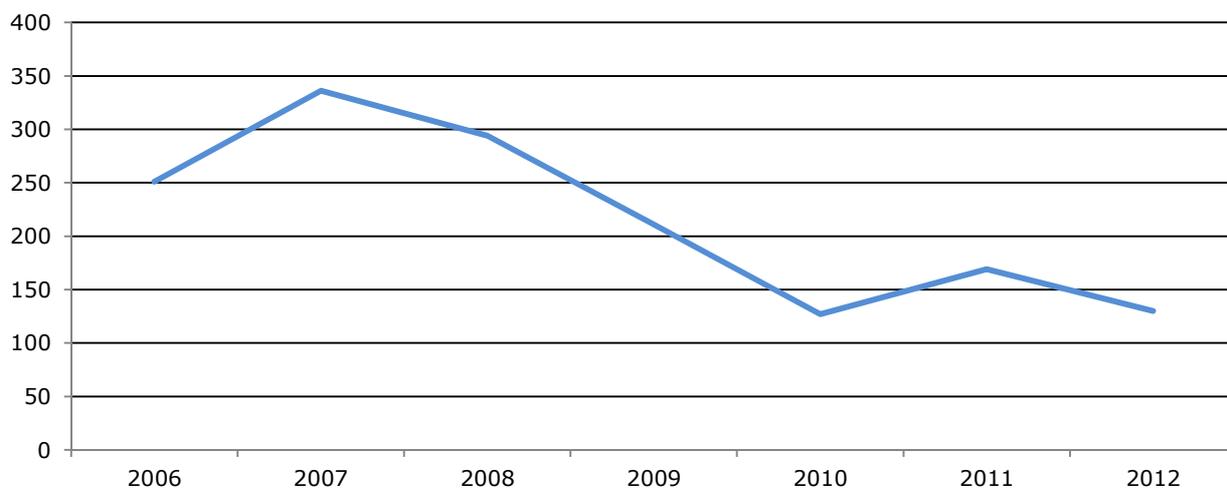


The Central Bank maintained ongoing contacts with the competent Italian Authorities, mainly for the purpose of ensuring continuity in the transmission of the banknotes and coins expressed in Euro and suspected to be counterfeited, in view of the forthcoming adoption, in Italy, of an automated procedure for this specific purpose.

The Figures below show the most significant data of the activities carried out in 2012 and their comparison with the values of the previous years.

In 2012, 130 banknotes in Euro were withdrawn from circulation and found to be counterfeited, down 23.1% from the previous year (169 banknotes recognised as counterfeits in 2011).

**Figure 18 - Number of counterfeited banknotes: comparison with the annual data of the period 2006-2012**

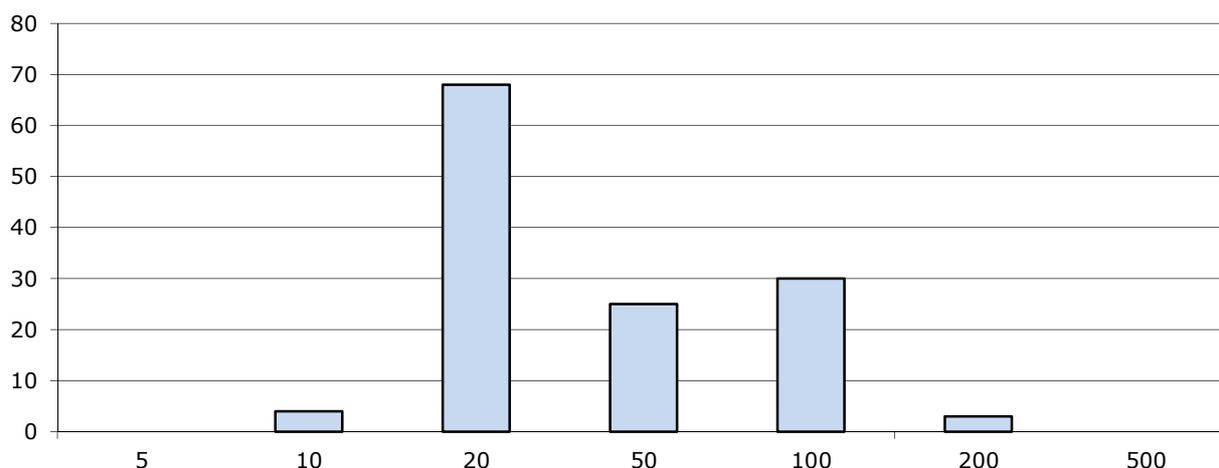


Source: Central Bank.

The drop registered in 2012 is evidenced also in Italy, where the total decrease for the 2012-2011 period represents approximately 15.3% (123,622 banknotes in 2012 compared to 145,879 banknotes in 2011).

The most counterfeited denomination was the 20 Euro banknote (68 pieces, equal to 52.4% of the total), followed by the 100 Euro banknote (30 pieces, equal to 23.1% of the total) and by the 50 Euro banknote (25 pieces, equal to 19.3% of the total).

**Figure 19 - Counterfeited banknotes withdrawn from circulation in 2012: breakdown by denomination**

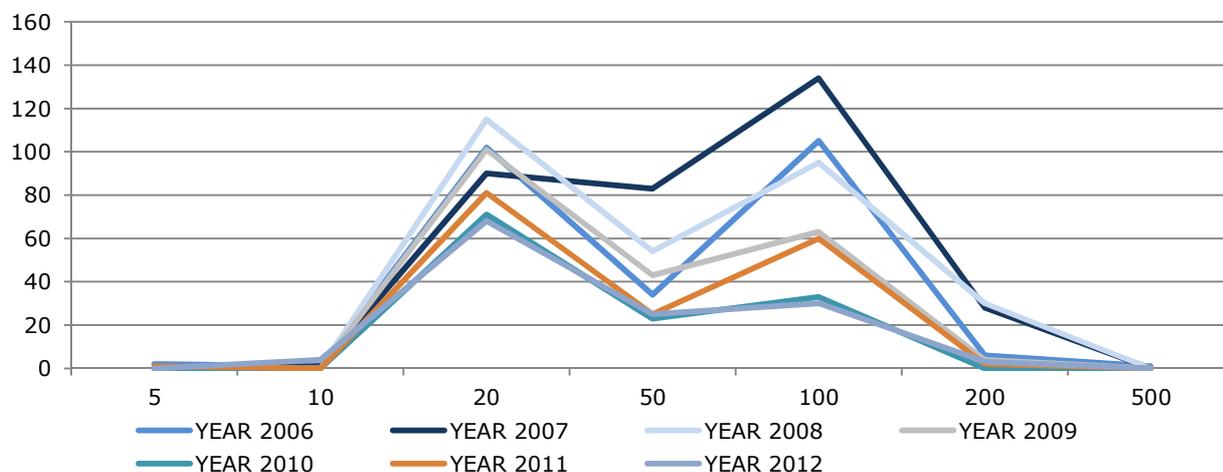


Source: Central Bank.

The breakdown evidences that the 20, 50 and 100 Euro denominations represent 94.8% of the total counterfeited banknotes, compared with 98.2% in 2011.

Also when considered on a longer period of time (2006-2012), the counterfeited banknotes confirm a concentration on the 20, 50 and 100 Euro denominations, as shown below in Figure 20.

**Figure 20 - Denomination of counterfeited banknotes: comparison with the annual data of the period 2006-2012**



Source: Central Bank.

In Italy the greater number of withdrawn banknotes was referred to the 20 Euro banknote (equal to 50.6% of the total), followed by the 50 Euro banknote (equal to 23.7% of the total) and by the 100 Euro banknote (equal to 21.2% of the total).



## 2.3 Cash procurement

The Central Bank, in supervising the process for the activities of cash procurement from Italy and supply to the banks of San Marino, has managed the requests for cash from the banking system, in accordance with the procedures identified starting from 2008 together with the competent Italian Authorities and pursuant to the internal and European regulations at the time in force on this subject.

In line with the intention of the Central Bank to limit the use of cash, the requests from the banking system registered a significant reduction of 47.1% from the previous year.

The Central Bank, within the context of the performance of such service, does not supply the banking system of San Marino with 500 Euro banknotes since 2008; the delivery of 200 Euro banknotes dropped significantly as from the second half of 2011, and has been completely interrupted in 2012.

A specific internal regulation of the Central Bank governs the delivery of cash to the banking system. This regulation, periodically updated, is aimed at enhancing the efficiency of the service, reducing operating risks and, thanks also to the cooperation of the Police Force, maintaining a high level of security.

The persons in charge of the transportation of cash, in compliance with the formalities required pursuant to the regulations of the respective countries involved, provided the competent Authorities with the declaration of cash transportation for an overall amount equal to or in excess of Euro 10,000 or its countervalue, pursuant to the Regulation No. EC 1889/2005 and to the Delegated Decree No. 74 dated 19 June 2009.

October 2012 saw the successful completion of the tests of a new IT procedure, as an instrument to be used exclusively for all operating communications, authorisations and reports related to the management of cash.

The communication procedures, the transmission of the requests and, in general, the authorisations on this subject have been reviewed so as to render them more efficient and secure in the interest of the banking system.

At the end of December 2012, the Central Bank made the aforementioned procedure, which became operational in January 2013, available to the banking system of San Marino. This procedure, due to the requirements for the security and confidentiality of the data related to the cash transfers, uses the technical infrastructure of the Rete Interbancaria Sammarinese (San Marinese Interbank Network or RIS).

## 2.4 Trust Register

In 2012, the use of the trust has grown steadily: 23 new trusts were registered during the year (1 of which incorporate abroad) against 2 cancellations only.

As at 31 December 2012, there were 77 trusts registered, net of those cancelled, with a constant upward trend: from April 2010 (when the new Register was established and the responsibilities were passed from the Office of Industry to the Central Bank) when there were 21 trusts registered, the number increased to 38 at the end of 2010 (+17) then to 56 at the end of 2011 (+18), and finally to 77 at the end of 2012 (+21).

The end of 2012 saw also the launch by the Office of the first sanctioning procedure, ended with the regular collection of the administrative sanction imposed.



In 2012, the Office has been involved in the appraisal missions of the different organisations for international cooperation (OECD, Moneyval, GRECO, International Monetary Fund, etc), particularly interested, each to the extent of its competences, to this institution, different from the traditional fiduciary activity.

## **2.5 Regulatory advice activity**

As in the previous financial years. also in 2012 the activities of the Central Bank were not limited only to the forms of "direct exercise" of the regulatory powers that are specific to its duties, i.e. the issue of its regulations and circulars, but they extended also to the advice and technical assistance provided to the Government for the drafting and/or analysis of the drafts already prepared, as regards to government bills or decrees on financial or, more in general, economic subjects.

Specifically, the cooperation which resulted in the issue of urgent measure decrees in support of the financial system of San Marino are worth noting, as well as the direct involvement required from the Central Bank, sometimes also with a considerable effort in terms of resources, on certain regulatory projects that have not been completed yet (new law on consumptions, law on the discipline of the precious metal market, decree on postal financial services, law on the Euro banknotes and coins implementing the new Monetary Agreement, etc.).

The regulatory advice activities also include the advice given every time that an external counterparty, other than the Government or the persons supervised by the Central Bank, which may also be a foreign counterparty, addresses inquiries to the Central Bank as regards to the financial system of San Marino, the practices and rules governing it; the queries have sometimes the purpose of obtaining an opinion, sometimes they require simple information. The increased visibility of San Marino at an international level surely contributed to increase the number of such queries that, in 2012, were more than three times the number of those received in 2011.

## **2.6 The cooperation with the Unique Court**

### **2.6.1 The preparation of expert reports**

Since 2007, the Central Bank performs, in addition to the institutional functions provided for in the Articles of Association or in other laws, consultancy activities as Consulente Tecnico d'Ufficio or CTU (Court appointed expert) on economic-financial issues within the context of civil actions and conciliations, upon appointment from the Unique Court of the Republic of San Marino.

In 2012, the surveys assigned in 2011, which had not been concluded in the same year, were carried out and completed, and a new survey was assigned: these activities involved the resources of the Bank for an aggregate of 85 person days.

The performance of this function, notwithstanding its institutional importance, not only limits the time available for the performance of the institutional duties by qualified resources of the Central Bank, but it generates an inappropriate overlapping of the role as CTU with the role of Supervisory Authority, particularly in the proceedings that involve the supervised persons.

### **2.6.2 The activity as Judicial Police ex art. 104 of the LISF**

The relationships between the Central Bank and the Judicial Authority are governed by art. 104, paragraph 4 of the LISF, in which it is required that the Law Commissioner, for the execution



of judicial investigations to be carried out at the premises of authorised persons, may avail him/herself of the cooperation of the Central Bank.

This cooperation, through the use of resources of the On-site Supervision Service, led, in 2012, to 7 investigations conducted at the premises of the supervised persons (reported as specific inspections in Table 21) and to the performance of 35 preliminary activities. In terms of person-days, the absorption in 2012 of the resources within the scope of the activities assigned by the Judicial Authority has been considerable, with an impact of 60% (as evidenced in Table 22), with a peak in the first half of the year.

The increase in the number of cooperation activities, in particular as regards to the preliminary activities, was determined by investigations, some of which were initiated previously, carried out at the premises of supervised persons related to facts linked to financial offences or to the potential involvement in activities of the organised crime or in money laundering activities.

In the first quarter of 2013, despite the 9 new appointments assigned by the Judicial Authority, the resources used on behalf of the Court decreased by 7% in aggregate.

**Table 22 - Impact of workloads for the activities assigned by the Judicial Authority**

Year	2010	2011	2012	2013 I Quarter
On-site inspections	9	8	7	3
Preliminary investigation activities	8	23	35	6
Total	17	31	42	9
% person-days (estimates)	9%	27%	60%	7%

Source: Central Bank.

For the purpose of regulating the relationships between the Central Bank and the Judicial Authority, the opportunity is being assessed to prepare a specific memorandum of understanding.

### **2.6.3 The seizure of amounts and valuables pursuant to art. 37 of the Decree Law No. 134/2010 and other forms of cooperation**

Also in 2012 the Central Bank has been often appointed, in its role as Supervisory Authority, by the Law Commissioner, pursuant to the rule mentioned above, to act for the proper custody of the funds being seized, even though held not with the Bank but with other banks or with fiduciary companies that assume the possession thereof.

This activity, in fact, could only be characterised in the release of technical opinions.

## **2.7 The Currency Authority**

The functions of Currency Authority of the Republic of San Marino have been assigned to the Central Bank pursuant to art. 36 of its Articles of Associations. This role provides for the exclusive management of currency relations, with the possibility to delegate other banks or branches active in the territory, in compliance with applicable laws, as well as the supervision on the application of currency-related provisions.

Consequently, the Central Bank, pursuant to art. 2 of the Law No. 41 dated 25 April 1996 and in compliance with the restrictions and conditions provided for in art. III.V.12 of the Regulation No. 2007-07 "Regulation on savings and banking activities", has the power to authorise other credit institutions of San Marino to carry out currency and/or foreign exchange transactions.

Pursuant to the Regulation No. 2007-07 mentioned above, the banks authorised to carry out currency activities may apply to access the SWIFT network<sup>11</sup>, subject to the prior authorisation of the Central Bank.

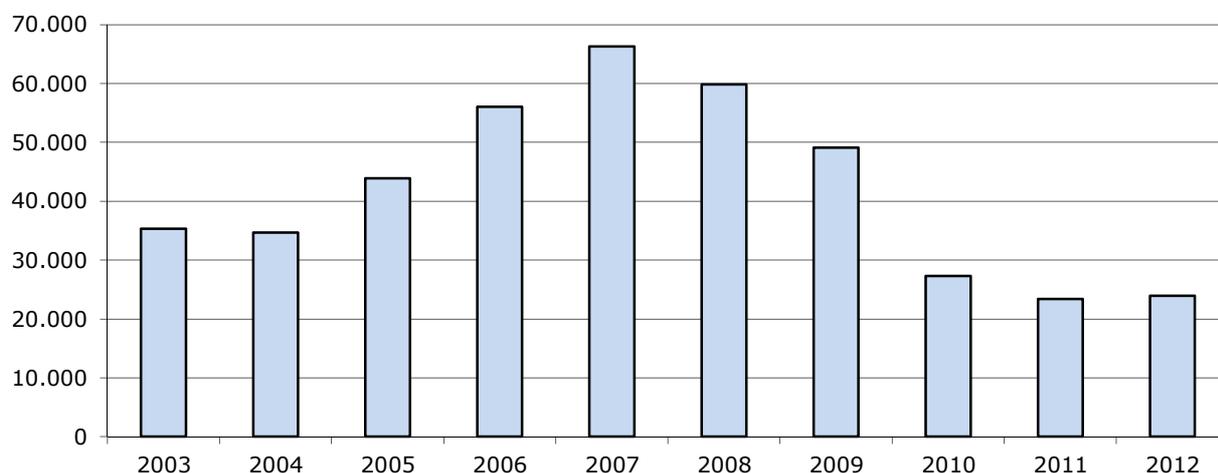
In 2012, the number of banks of San Marino authorised to carry out currency and/or foreign exchange transactions directly with foreign entities went down to 8 following the events registered during the year.

Currency regulations provide that, against transactions carried out with foreign entities through resident banks for an amount equal to or in excess of Euro 15,500, Comunicazione Valutaria Statistica forms (CVS, Statistical Currency Notification forms) must be issued, as evidenced in points 3 and 3.1 of the statistical currency notification (Notification No. 1/2000 dated 11 July 2000).

In 2012, the authorised banks of San Marino regularly transmitted, on a monthly basis, the CVSs to the Currency Authorities through the Rete Interbancaria Sammarinese (San Marinense Interbank Network or RIS)<sup>12</sup>.

The flows transmitted by the banks of San Marino to the Central Bank during the period 2003-2012 are shown in Figures 21 and 22.

**Figure 21 - Total flows (number of CVS)**



Source: Central Bank.

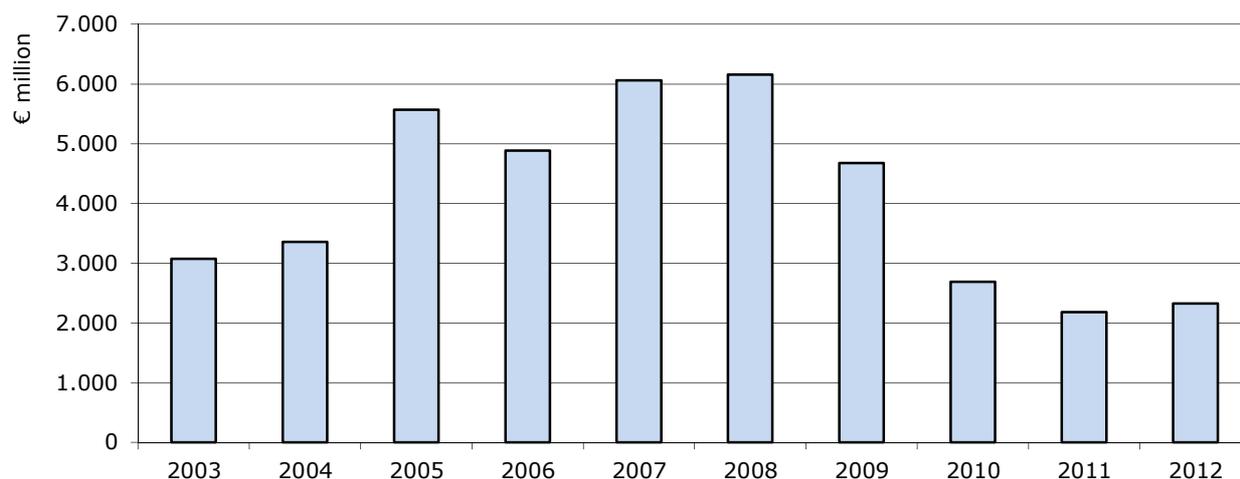
The number of CVSs received from the banks in 2012 totalled 23,932, compared with the 23,409 registered in 2011, up by 2.2% (Figure 21), whereas the value of the amounts settled increased from Euro 2,181 million to Euro 2,326 million, up by 6.6% (Figure 22).

<sup>11</sup> SWIFT (*Society for Worldwide Interbank Financial Telecommunications*): electronic network for the processing of international financial transactions. Created and managed by banks, it may be accessed by any organisation the activity of which consists in providing financial and payment services to the public.

<sup>12</sup> RIS (*Rete Interbancaria Sammarinese - San Marinense Interbank Network*): electronic network with the participation of all banks, that ensures the interbank communication in San Marino, guaranteed by specific security systems, compliant with adequate certification techniques, purpose of which is to allow the exchange of electronic data between its users, in compliance with adequate security, confidentiality, integrity, authenticity, timeliness, reliability and efficiency standards.



**Figure 22 - Amounts settled by the banking system of San Marino**



Source: Central Bank.

The Central Bank, as one of the duties resulting from the accession of the Republic of San Marino to the International Monetary Fund, forwards to such organisation the reports related to the quarterly statistical data of the *Currency Composition of Foreign Exchange Reserves (COFER)* and the annual data related to the *Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)*.

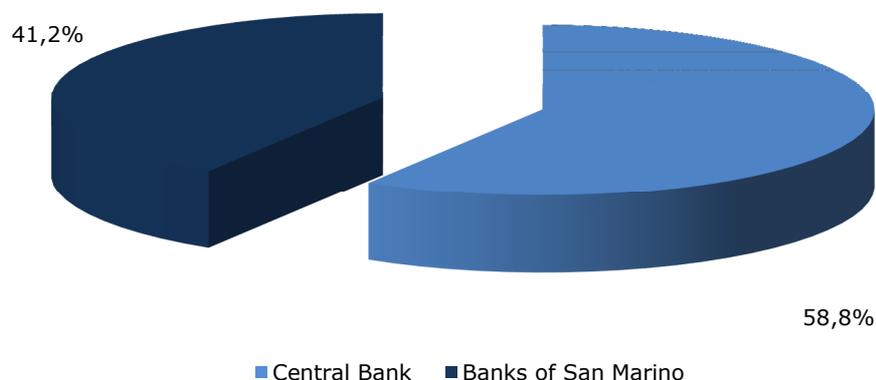
## **2.8 The payment system**

The functions for the management of the payment system have been assigned to the Central Bank pursuant to articles 37 and 38 of its Articles of Associations. This role provides for the management, regulation and supervision of the payment system of the Republic, in order to ensure that the banks of San Marino operate in a secure, stable and efficient manner on the national payment system.

The national payment system registered a decrease of 2.1% in the number of payment transactions, against a drop by 1.1% in the global value of the amounts settled.

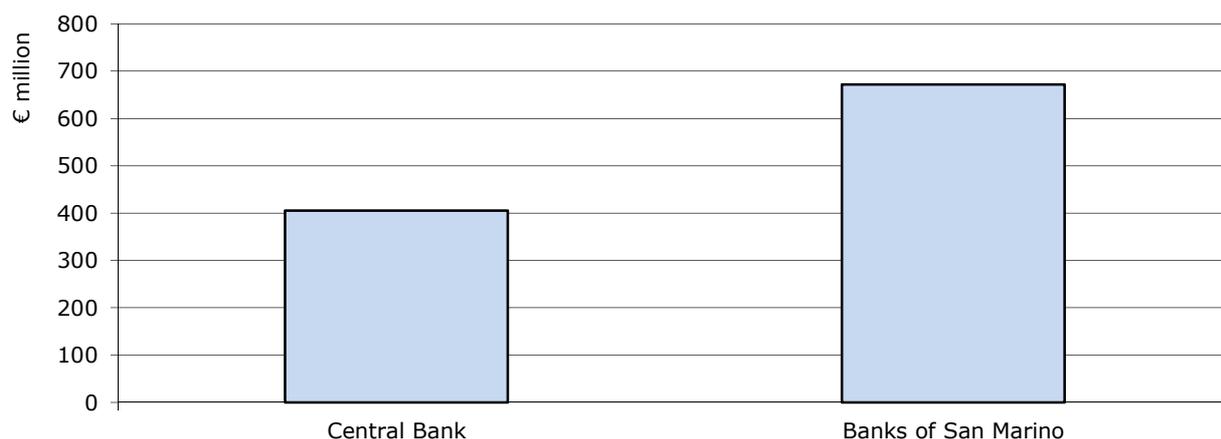
In 2012, the banking system transmitted approximately 335,000 national wire transfers, for a value of Euro 1,077 million. Figures 23 and 24 show the breakdown in percentage and the separation of the amounts settled, divided by Central Bank and the banks of San Marino. It should be noted that the percentage impact of the number of national wire transfers transmitted by the Central Bank, compared with the aggregate number of national wire transfers, reflects the characteristic features of the payment services made available to the public sector, such as the payment of salaries, pensions, suppliers of the Public Administration and transactions resulting from the use of the SMAC cards (San Marino Card), the latter of which are characterised by a high number of transactions for small amounts.

**Figure 23 - Breakdown of the number of national wire transfers transmitted**



Source: Central Bank.

**Figure 24 - Amounts settled through national wire transfers**



Source: Central Bank.

Compared with the previous year, the wire transfers transmitted on the national network increased by 2.7%, whereas their amounts increased by 8.2%.

This confirms the positive trend of the use of the national *Direct Debit* instrument compared with the previous year. In fact, in 2012 approximately 299,000 orders were registered, for a value of approximately Euro 60 million; the increase from 2011 represent 0.7% of the number of *Direct Debits* transmitted by the Central Bank to the banks of San Marino, and 3,4% of the amounts settled.

With reference to the service for the exchange of domestic contact details (SRD), the Central Bank satisfied its two-fold role of member and manager of such services, pursuant to the Regulation No. 2007-04 as subsequently modified, known as "Regulation on the service for the exchange of domestic contact details (SRD)". This role is aimed at ensuring to the banks of San Marino the timely respect of the deadlines and methods envisaged for the exchange of credit instruments, documents and correspondence.

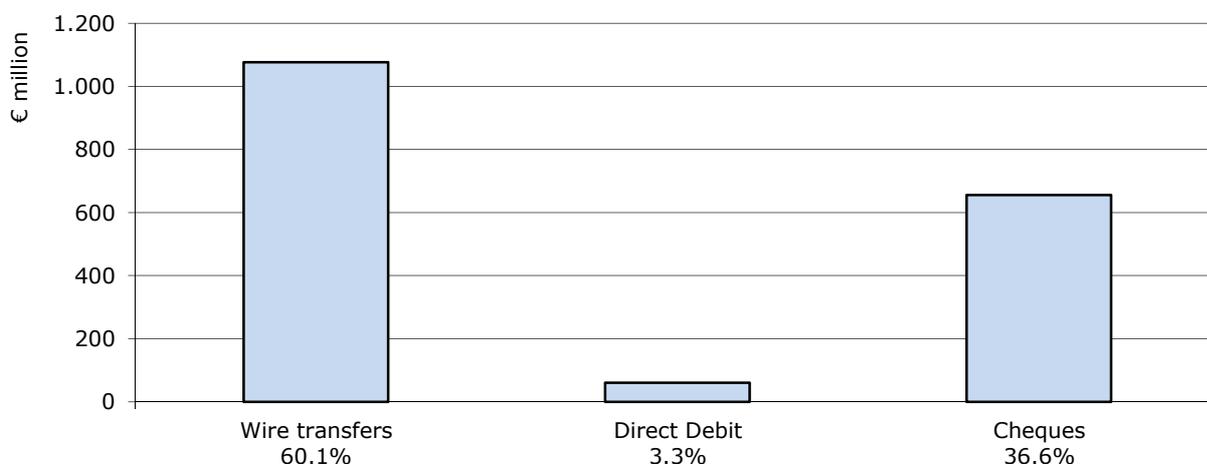


Within the context of the SRD service, the Central Bank has ensured the management of the exchange of national cheques, traded and processed on the banks of San Marino, management activities which, in addition to the physical exchange, also provide for the electronic exchange of the accounting flows and images through the RIS, as a prerequisite for the completion of the daily exchange.

The national cheques exchanged in the SRD service, in 2012, totalled 275,000 units for a value of Euro 656 million; this means a decrease of 7.1% in the number and a decrease by 15.8% in value.

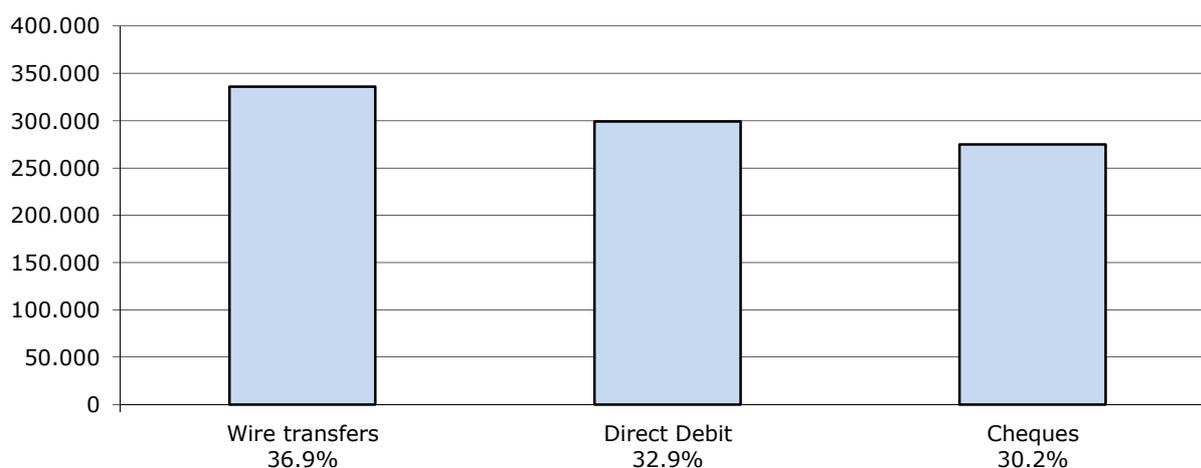
Figures No. 25 and 26 show, respectively, the value and number of the payment instruments settled through wire transfers, *Direct Debit* and cheques canalised through the RIS in 2012, as well as the percentage by type on the total of the orders canalised.

**Figure 25 - Amounts settled through wire transfers, Direct Debits and cheques**



Source: Central Bank.

**Figure 26 - Number of orders settled through wire transfers, Direct Debits and cheques**



Source: Central Bank.



The Central Bank continued its participation to the payment system TARGET2, gross settlement system to which it has automatically access through the Bank of Italy as a *CB Customer* (*Central Bank Customer*). The interbank communication for the participation to TARGET2 is guaranteed through the subscription to the SWIFT network, which continues to ensure the interbank accessibility of the Central Bank at an international level.

As regards to the participation to the Italian retail payment system, the Central Bank maintained its indirect participation through the intermediary bank, also for the purpose of guaranteeing the payment services to the Public Administration.

Pursuant to the Decree Law No. 65 dated 14 May 2009, which established the Central Data Register ("Archivio Anagrafico") with the Supervisory Authority, it should be noted that the possibility has been guaranteed to the banks of San Marino to continue to feed such register through the transmission to the Central Bank of the information flows canalised to the RIS family of applications known as *File Transfer*. Consequently, the Central Data Register has contributed to ensure to the banks of San Marino the ongoing access to the Italian payment system, taking into account the need for the Italian counterparties to verify the customers of the banks of San Marino in case of transactions settled on the Italian payment system.

The protest information service provided by the Central Bank pursuant to art. 51 of Law No. 165 dated 17 November 2005 (LISF) as subsequently amended, consists in aggregating the data supplied on a monthly basis by the banks of San Marino regarding the cheques protested during the calendar month of reference, and in the transmission, also on a monthly basis, of the information report to the banks and financial companies of San Marino.

#### **Box 6: The Single European Payment Area - SEPA**

In 2012, based on the analyses previously conducted on this subject, the Central Bank started a series of meetings which continued also in 2013, with the competent European and Italian authorities for the purpose of jointly identifying the scope of adjustment, considering the specific features of, and the steps to follow for, the environment of San Marino, the procedures and times required to become members of the SEPA (*Single Euro Payments Area*).

SEPA is a project promoted by the European Central Bank and by the European Commission, the realisation of which is under the responsibility of the European Payments Council - EPC. In this context, all retail payments in Euro are considered as domestic, since the distinction between national and cross-border payments within the area is no longer valid. SEPA aims at extending the process for the European integration to the retail electronic payments in Euro made with instruments other than cash (wire transfers and direct debits), for the purpose of facilitating efficiency and competition within the Euro area.

SEPA is characterised by an harmonised legal basis, European infrastructures for the processing of Euro payments, common technical standards and operating practices, harmonised payments instruments (wire transfers and direct debits) and new customer-oriented services.

The EU Regulation No. 260/2012 dated 14 March 2012 set the 1st of February 2014 as the final deadline (*End Date*) for the introduction of the SEPA standards and the consequent phase out of the relevant national payment instruments; additionally, the aforementioned Regulation provides the requirements for the wire transfers (*SEPA Credit Transfer*) and the direct debits (*SEPA Direct Debit*) in Euro, and amends the EC Regulation No. 924/2009.

In order to ensure the access to the SEPA, and in light of the commitments assumed by the Republic of San Marino with the execution of the Monetary Agreement on 27 March 2012, it is essential that the system of San Marino be guided towards the regulatory and technical harmonisation process in accordance with the timetable determined, within the so called *End Date*.



## 2.9 Register of fiduciary shareholdings (archivio delle partecipazioni fiduciarie or APF)

In 2012, the cooperation continued with the offices in charge of the exchange of information pursuant to the Law No. 98 dated 7 June 2010 and Decree Law No. 179 dated 5 November 2010 (Control and Supervision Office on Economic Activities, Central Liaison Office, Commercial Register of the Unique Court and Office of Industry, Small Businesses and Trade), as well as with the Commissioner's Criminal Court and the Civil Police force – Anti-fraud Group, the latter within the scope of criminal proceedings and/or following international rogatory letters, pursuant to art. 29, paragraph 3 of the Law No. 96 dated 29 June 2005 (Articles of Association of the Central Bank).

Additionally, the cooperation started with the Financial Intelligence Agency (FIA) for the exchange of information, with reference to the functions delegated to this latter Authority as regards the prevention and fight against money laundering and terrorism financing, and pursuant to Law No. 92 dated 17 June 2008.

In this context, the memorandum of understanding entered into in 2012 between the Central Bank and the FIA, replacing the previous one dated 2008, is aimed at establishing, inter alia, the forms of cooperation and the channels to access the data and information contained in the register of fiduciary shareholdings, within the more general framework of the fight against money laundering and terrorism financing.

Table 23 shows the summary data of the activities carried out, with reference to the financial year 2012 and the first quarter of 2013:

**Table 23 - Activities carried out: requests and disclosures received**

Reports/disclosures	2012	I quarter 2013
Number of disclosures received	214	37
Number of requests for information received by the Offices and or Authorities in charge	64	16

Source: Central Bank.

## 2.10 State Treasury

The Law No. 35 dated 3 March 1993 assigns to the Central Bank the management of the Sole Treasury Service of the State; given that this is a public service, it is performed in compliance with the Accounting Legislation of the State as provided for in Law No. 30 dated 18 February 1998, and the Accounting Regulation referred to in the Decree No. 53 dated 24 April 2003 as subsequently amended and supplemented.

The activities of the Sole Treasury is also regulated by the specific Agreement signed on 22 April 2004 between the Central Bank and the Public Administration, and by the three-year Economic Agreement for the services rendered by the Central Bank to the Public Administration (expired on 31/12/2012).

In 2012, the Treasury Department executed an aggregate of 79,701 transactions, slightly down compared to the previous financial year. More in detail, 13,901 Collection Vouchers were processed, 20,378 incoming Pending Items, 43,992 Payment Orders and 1,430 outgoing Pending Items.



In terms of volumes, the incoming funds managed through the Collection Vouchers on behalf of the State and the Entities of the extended public sector, amount to over Euro 1,634 million, down by 11,89% from the financial year 2011.

As regards to the outflow, Payment Orders were executed in excess of Euro 1,504 million, down by 8.11% from the previous financial year.

**Table 24 - Volumes processed expressed based on the total amount of the orders**

Entity	2010		2011		2012	
	In-coming	Out-going	In-coming	Out-going	In-coming	Out-going
C.O.N.S.	6,674,452.46	5,777,749.91	6,947,779.64	6,240,256.53	6,405,714.77	5,721,543.59
University	7,516,378.69	6,188,069.69	7,721,610.39	6,195,246.71	7,797,647.86	6,117,505.39
A.A.S.L.P.	37,596,081.48	35,420,602.75	44,351,896.27	42,591,901.72	43,747,511.01	41,757,422.76
A.A.S.F.N.	22,612,936.05	18,950,816.94	24,883,995.90	23,828,917.33	21,027,721.85	20,371,417.51
State Entity for Games and Competitions (Ente di stato dei giochi)	543,192.15	341,124.47	483,927.78	282,236.13	499,921.73	280,431.60
A.A.C.N.M.	1,008,334.62	534,825.88	835,450.36	466,811.33	667,437.57	351,656.64
I.S.S.	281,858,051.66	257,746,812.55	320,280,484.03	304,652,012.86	288,237,043.54	281,563,234.67
FONDISS	0	0	0	0	2,949,562.96	0
Most Excellent Chamber	869,607,998.85	651,401,823.60	764,511,638.53	610,425,846.56	684,729,478.97	611,846,181.32
A.A.S.S.	161,086,429.54	82,371,351.68	685,261,813.88	642,263,220.68	578,579,690.37	536,253,854.88
<b>TOTAL</b>	<b>1,388,503,855.50</b>	<b>1,058,733,177.47</b>	<b>1,855,278,596.78</b>	<b>1,636,946,449.85</b>	<b>1,634,641,730.63</b>	<b>1,504,263,248.36</b>

Source: Central Bank (data updated as at 31/03/2013).

**Table 25 - Volumes processed expressed based on the number of orders**

Entity	2010					2011					2012				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	321	94	2,050	43	2,508	407	121	2,284	70	2,882	402	105	2,190	58	2,755
University	294	160	2,986	52	3,492	331	163	2,981	37	3,512	377	125	2,694	74	3,270
A.A.S.L.P.	463	258	5,956	67	6,744	512	334	5,904	72	6,822	556	322	5,734	74	6,686
A.A.S.F.N.	222	45	564	79	910	183	29	549	113	874	220	40	558	92	910
State Entity for Games and Competitions (Ente di stato dei giochi)	140	35	133	47	355	135	41	117	57	350	139	37	148	67	391
A.A.C.N.M.	692	192	145	51	1,080	448	217	125	30	820	413	229	123	36	801
I.S.S.	3,575	4,704	15,140	150	23,569	3,669	4,611	15,418	189	23,887	3,637	4,675	14,818	236	23,366
FONDISS	0	0	0	0	0	0	0	0	0	0	2	281	0	0	283
Most Excellent Chamber	7,067	12,183	11,999	543	31,792	6,737	13,403	11,711	527	32,378	6,730	13,551	11,770	597	32,648
A.A.S.S.	1,659	1,156	5,961	118	8,894	1,501	1,109	5,795	154	8,559	1,425	1,013	5,957	196	8,591
<b>TOTALS</b>	<b>14,433</b>	<b>18,827</b>	<b>44,934</b>	<b>1150</b>	<b>79,344</b>	<b>13,923</b>	<b>20,028</b>	<b>44,884</b>	<b>1,249</b>	<b>80,084</b>	<b>13,901</b>	<b>20,378</b>	<b>43,992</b>	<b>1,430</b>	<b>79,701</b>

Source: Central Bank (data updated as at 31/03/2013).

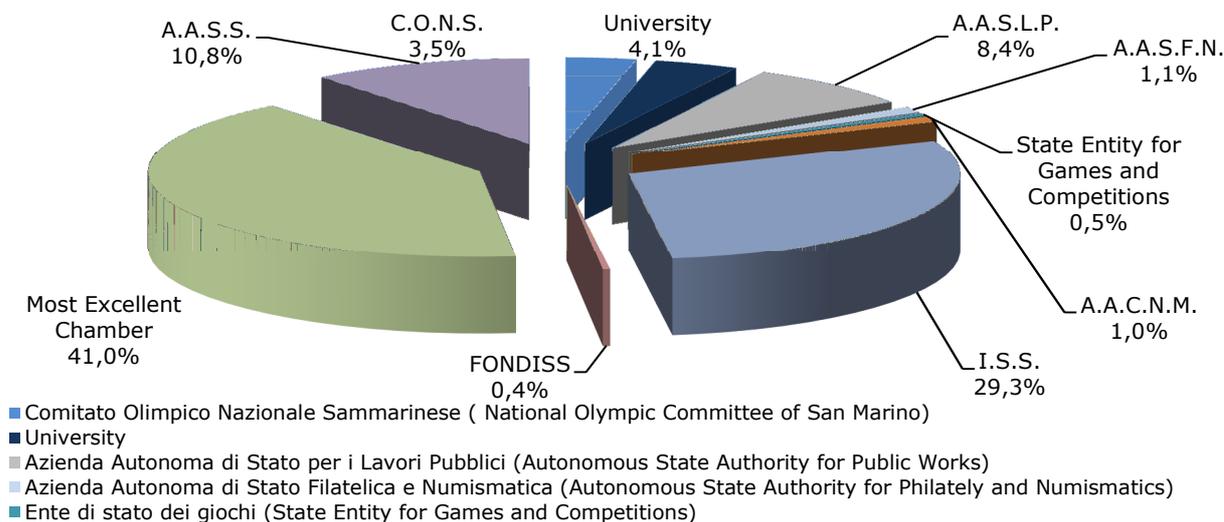
The collection of the incoming funds competence of the State was carried out directly at the Treasury desk of the Central Bank and through the entire domestic network of bank branches, as provided for in the Agreement entered between the Central Bank and the commercial banks of



San Marino on 24 February 2005, according to which the payments due by the users to the Public Administration, the Entities and Public Companies may be executed at any bank branch in the territory of the Republic.

The preferred payment method of the Entities in 2012 in favour of their beneficiaries was the bank wire transfer, whereas money orders were used in some limited cases and mostly by certain Entities (such as for the payment of salaries and pensions by the Social Security Institution).

**Figure 27 - Percentage volumes of the collection and payment transactions executed by the Treasury Department in 2012**



Source: Central Bank.

The increasingly less frequent use of the money order for the creditors of the State reflects the sensitisation activities that the Central Bank has been conducting for several years now both towards the users as well as towards the Public Administration, in order to ensure greater security, traceability and speed of the payments.

As in the previous years, the Treasury Department managed the financial flows connected to the project aimed at facilitating purchases within the Republic, known as San Marino Card (SMAC CARD); daily, the repayments and the collections of the amounts related to this project have been managed through the instrument of direct debit and bank wire transfer. In November 2012, the San Marino Card project was further expanded with the addition of the *Electronic Purse* service, allowing the holders of a SMAC Titolari not only to accumulate credit to be spent through the purchases but also to recharge the card and use it as e-money in the shops of the Republic. The Treasury Department provided its operating support to the realisation of this new project.

The direct debit service, active since 2009, was efficiently continued ensuring the payments of the utilities of the Autonomous State Authority for Public Services, and of all other utilities such as those related to the I.S.S., Elementary Schools and Kindergarten Directorate.

The Treasury Department continued to ensure, in 2012, deposit services to the extended Public Administration, mainly in the technical form of the current account, structured and adjusted according to the needs of the Entity/Office.

In 2012, the Treasury Department cooperated with the Social Security Institution to start the supplementary welfare system known as FONDISS, activating it since 1 July 2012, according to the procedures provided for by the Law No. 191 dated 6 December 2011,

In addition to the Treasury-related collections, the Department also managed, at its branches, the collections related to the tax collection notices (cartelle esattoriali), on behalf of the

Overdue Tax Collection Department, and the collections made by the Collection Officers within the scope of enforcements. In 2012, 420 attachments on payment orders have been managed, for which the Magistrate (Giudice Conciliatore), pursuant to Law No. 44 dated 23 March 2007 and upon demand from the Overdue Tax Collection Department, issued the necessary decree against those persons who, at the moment of the liquidation of the payment order, were delinquent towards the State or the Public Entities for debts entered in the Register.

As usual, the periodic reports for the extended Public Administration have been timely produced, as provided for by the regulation currently in force and by the arrangements between the parties. Specifically, on a daily basis the cash ledgers with the summary of incoming and outgoing movements have been provided for each Entity, whereas on a monthly basis the cash audits have been arranged, with the balancing between volumes processed by the Treasurer and the balances of the current accounts of the banks on which the funds of the Entity are deposited, in addition to the statements of account of such relationships and the reconciliation statements between such balances and the cash ledgers.

## **2.11 State Overdue Tax Collection Department**

Law No. 70 dated 25 May 2004, establishes and regulates the Single Overdue Tax Collection Service; article 3 of the same Law assigns the Single Overdue Tax Collection Service to the Central Bank. Article 40 – point 1.b of the Articles of Association of the Central Bank (Law No. 96 dated 29 June 2005 as subsequently amended) provides for the assignment to the Central Bank of the Republic of San Marino of the "function as treasurer and tax collector of the State through the management of the Treasury and Overdue Tax Collection services on behalf of the State and of the Entities and State Autonomous Authorities of the State". The Entities that are currently using the Overdue Tax Collection service to collect the taxes due to them which have not been paid with the terms specified under the respective laws, are: the Most Excellent Chamber, the Autonomous Authorities, the Social Security Institution and the State Entity for Games and Competitions. The regulations currently in force allow the entry in the Register also for certain credits of the Central Bank and the Financial Intelligence Agency, which are managed in the same way as the other entries in the Register. With Law No. 191 dated 6 December 2011, law which regulates the establishment of the supplementary welfare pension, the legislator authorised FONDISS, the supplementary welfare fund, to avail itself of the compulsory collection procedures provided for in Law No. 70 dated 25 May 2004.

The duties of the Overdue Tax Collection Department are comprised of the performance of several activities: the receipt of the entries into the Register processed by the imposing Entities/Offices, the creation and subsequent forwarding of the tax collection notices, the performance of the enforcement actions if the tax collection notices are not paid on their due date, the arrangement and management of the auctions in which the attached assets are sold. The Overdue Tax Collector also prepares negative reports due to unknown whereabouts or propertylessness, when, following some accurate verifications, he ascertains that the taxpayer, whether a natural person or a legal entity, may not be found on the territory of the Republic or does not have any seizable assets. The Overdue Tax Collection Department is also responsible for the management of the activities consequent to the opening of the insolvency procedures, the compulsory and voluntary liquidations.

From the beginning of its activities (1 January 2005) the action of the Central Bank led to the collection of Euro 108.2 million (on an aggregate of Euro 333.5 million recorded in the Register).



### 2.11.1 Collection activities

The imposing Entities, except in case of urgency, make the entries in the Register on a fortnightly basis. In 2012, the entries into the Register amounted to Euro 47.7 million in absolute terms for an aggregate of 31.361 entries.

Table 24 shows, as regards to years 2010, 2011 and 2012, the aggregate amount of the entries managed by the Central Bank and the total of the released entries, i.e. those entries that are no longer due and for which the Central Bank is no longer required to carry out collection activities.

The Table evidences that in 2012 the entries into the Register decreased compared with 2011 (Euro -13.7 million) down by 22.3%. In 2012, the extraordinary tax on income for the tax year 2011 has not been entered in the Register, having been included in the relevant tax return, whereas in December 2011 the Tax Office entered in the Register the extraordinary tax on 2010 income since the legislator had already provided for the collection thereof with the instrument of the tax collection notice. The amount of such entry into the Register was equal to approximately Euro 6.2 million, for a total of 10 thousand tax collection notices, 150 of which, for an amount of approximately Euro 600 thousand, have been paid directly at the counters of the Tax office in 2012. These payments have thus originated some releases.

The total amount of the releases in 2012 decreased by 13.7% from 2011.

**Table 26 - Entries in the Register and releases**

Entries	2010		2011		2012	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Managed	42,027,758.40	30,068	61,372,047.61	41,744	47,664,898.12	31,361
Released	6,943,736.46	2,665	12,116,383.04	3,343	10,459,553.70	2,374
% Released	16.5%	8.9%	19.7%	8.0%	21.9%	7.6%

Source: Central Bank.

Finally, table 26 shows the percentage in terms of amount as well as in terms of number of entries released compared with those entered in the Register in the same year of reference. In 2012, the percentage of the amount of the released entries, or of the entries no longer to be collected since already paid at the counters of the imposing offices, and/or incorrect, was equal to 21.9% of the aggregate amount entered in the Register and 7.6% of the total number of entries. In absolute terms, there have been 2 thousand released entries in 2012, for a value of Euro 10.5 million.

Table 27 compares the entries in the Register of 2011 and of 2012, broken down by the different imposing Entities. Compared with the entries in the Register in 2011, there is a drop of 25.8% in the total of the entries of the Most Excellent Chamber, an increase of 26.6% in the entries of the ISS compared with the previous year, a decrease equal to 4.3% as regards to the State Autonomous Authority for Public Services, and, finally, an increase in the entries of the Central Bank equal to 87.4%. Unlike in the previous year, not the State Entity for Games and Competitions nor the Financial Intelligence Agency have enforced any entry in the Register.

**Table 27 - Entries in the Register in 2011-2012 broken down by Entity**

Entity	2011			2012		
	Amount	Entries	Number of entries	Amount	Entries	Number of entries
Most Excellent Chamber	56,222,855.43	106	38,642	41,708,094.60	78	27,758
Social Security Institution	4,595,109.53	71	2,609	5,819,722.52	81	3,162
State Autonomous Authority for Public Services	28,248.56	14	420	27,045.00	7	421
State Entity for Games and Competitions	1,500.00	1	2	0.00	0	0
Central Bank	58,727.77	3	28	110,036.00	4	20
Financial Intelligence Agency	465,606.32	3	43	0.00	0	0
<b>TOTAL</b>	<b>61,372,047.61</b>	<b>198</b>	<b>41,744</b>	<b>47,664,898.12</b>	<b>170</b>	<b>31,361</b>

Source: Central Bank.

Table 27 evidences that the entries in the Register are made mainly by the Most Excellent Chamber. In this Entity, the office that carries out the highest number of entries in the Register is the Tax Office, indirect tax section. The entries in the Register made by this office, in fact, represent, as regards to the amount, 72.3% of the total of the entries in the Register of the Most Excellent Chamber. The entries in the Register of the Tax Office, direct tax section and of the Registry Office, represent both 12% of the entries in the Register made by the Most Excellent Chamber. There is, however, a considerable difference between the entries of one office from those of the other, given that the entries in the Register made by the Tax Office, direct tax section are the consequence of tax assessments on the general income taxes that have not been regularly remedied by the taxpayers, whereas the entries in the Register made by the Registry Office refer, as for 92,6 to the entry of the Single Tax Bill. This entry in the Register is aimed at allowing the payment in one single instalment by the taxpayer of the amount of fixed annual taxes, and is the first demand transmitted to the taxpayer by virtue of the existence, as regards to the taxpayer, of the conditions from time to time necessary (such as, for the natural person, the fact of being a head of household, for a company, the fact of being an active company registered in the register of companies, etc.).

**Table 28 - Entries in the Register in 2012 made by the offices of the Most Excellent Chamber**

Office	Entry in the Register		Release from the Register	
	Amount	Number of entries	Amount	Number of entries
Indirect Taxes	30,141,391.90	6,140	8,570,829.17	1,763
Direct Taxes	4,943,287.57	576	1,200,469.23	205
Registry	5,065,574.05	19,730	68,527.65	164
Civil Police	615,342.58	968	67,440.76	11
Gendarmerie	16,586.00	34	4,706.50	4
Guardia di Rocca	11,615.34	19	504.00	1
Industry, Trade and Small Businesses	551,559.92	12	0.00	0
Labour	242,820.00	62	52,400.00	4
Vehicles Register	52,310.00	200	9,365.00	36



Office	Entry in the Register		Release from the Register	
	Amount	Number of entries	Amount	Number of entries
Management of Environmental and Agricultural Resources	581.44	2	0.00	0
Inspectorate for the Control of the Territory	7,025.80	5	0.00	0
Central Liaison Office	60,000.00	10	0.00	0
<b>TOTAL</b>	<b>41,708,094.60</b>	<b>27,758</b>	<b>9,974,242.31</b>	<b>2,188</b>

Source: Central Bank.

In 2012, approximately 33 thousand entries have been collected for an aggregate amount of approximately Euro 22.4 million. The Central Bank has also collected Euro 144 thousand in default interests and Euro 105 thousand in monetary sanctions (amounts ancillary to the collection itself that are collected for certain types of taxes where the payment is made after the expiry of the tax collection notice).

The Central Bank has also granted 65 payment extensions (+110% compared with the previous year) for Euro 2.5 million. 13 of these are guaranteed by a bank guarantee for an amount of Euro 666 thousand, and 52 are guaranteed by a mortgage on a real estate property for an amount of Euro 1.8 million. The majority of the taxpayers who subscribed an extension took full advantage of the possibility granted by the legislator with the Decree Law No. 31 dated 28 March 2012, to set in 60 months the maximum duration of the payment extension. Of the 65 extensions granted during the year, in fact, 50 have a duration of 60 months.

As at 31 December 2012, the payment of 1,507 entries had been extended, for an amount still to be collected equal to Euro 3.3 million. This amount is given by the sum of all the instalments of the payment extensions granted up until the end of 2012 and not yet paid.

In 2012 the authorities in charge ordered the opening of 55 insolvency procedures (arrangement with creditors and similar proceedings). The Central Bank, following the opening of the insolvency procedures of persons entered into the Register, is required to take care of the petition for the lodging of claims regularly entered in the Register and to follow up all subsequent activities. In 2012, claims were lodged within the context of insolvency procedures for Euro 6.5 million (+81% from 2011). Usually, the insolvency procedures last for several years and often the claims lodged, despite the fact that they are preferential debts, are not collected; following the sentence that dismisses the insolvency procedure, such claims, mostly not enforced, must be released since they are no longer due and payable.

In 2012, 685 enforcements were carried out, of which 420 were attachments of debts.

As regards to the attachments of debts, Law No. 150 dated 21 December 2012, under article 42, provides for a simplification of their management. The regulations previously in force, in fact, provided that, against a payment order made in favour of a delinquent tax payer, the Central Bank had to file the petition for attachment to the Law Commissioner. The order of the Court then had to be notified to the taxpayer, to the Treasury Department and to the Overdue Tax Collection Department. Once the Court order had been enforced, the Overdue Tax Payment Department requested the closure of the file. The management of each individual file was rather long and complex, especially in consideration of the time required to notify the Court orders, with the risk of possible inconveniences for those taxpayers who, with reference to partial attachments of the payment orders made in their favour, had the entire amount of the payment order seized for the period of time lapsing from the application for attachment and the enforcement of the authorisation decree of the Court. The new provisions, on the contrary, with reference to a payment order made in favour of a delinquent taxpayer, provide that the Overdue Tax Collection Department may ask the Treasury Department directly to pay, in whole or in part, the tax claim and the enforcement of

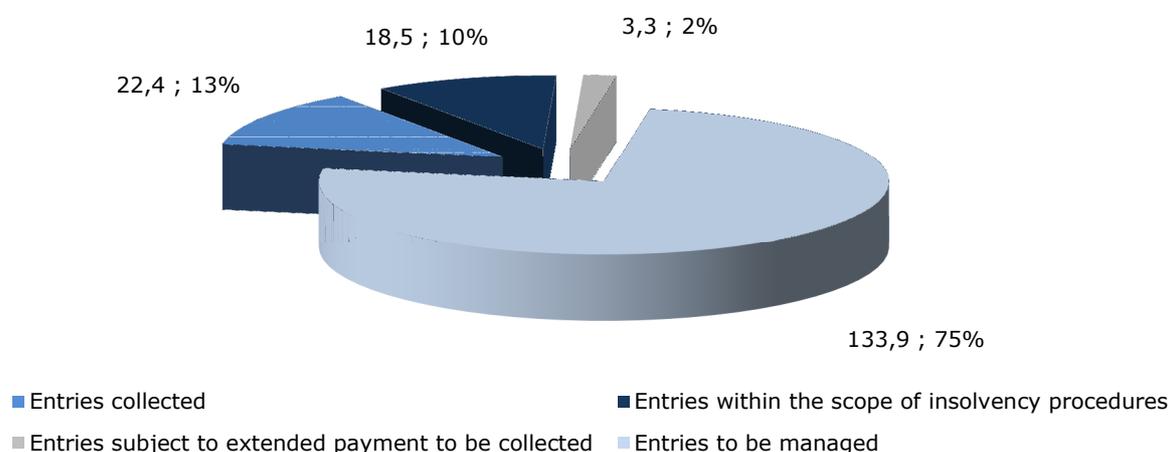
the case is timely made; the Overdue Tax Collection Department also informs the taxpayer of the partial or total release of the debt entered in the Register against him.

In 2012, 197 attachments of assets were carried out, 1 attachment of salary and 4 real attachments of real estate properties. 4 negative attachments were registered due to unknown whereabouts.

As at 31 December 2012, there were 24,774 entries that had still to be managed, for an amount equal to Euro 133.9 million; of those 21,293 were contained in tax collection notices already expired, for a total amount of Euro 127.4 million. The expired notices under management, however, also contain those claims no longer collectable since they refer to persons subject to insolvency procedures, entered in the Register after the expiry of the terms for the lodging of claims; such notices also include taxpayers (both natural persons and legal entities) no longer subject to seizure due to their propertylessness or because they are no longer in the territory.

A chart is provided below that summarises the entries in the Register as at 31 December 2012.

**Figure 28 - Summary of the management of the entries in the Register as at 31/12/2012**



Source: Central Bank.

Notes: Figures in millions of Euro.

Particularly worth of notice is the additional tax IGR 2010, already mentioned above, for which the legislator provided the collection through the instrument of the tax collection notice. The additional tax IGR 2010 was entered in the Register at the end of 2011, and a tax collection notice with expiry on 29/02/2012 was sent to the taxpayers.

The entry in the Register was comprised of 10,244 items for an aggregate amount of Euro 6 million; 89% of the total number of notices was paid within the expiry date, for an aggregate amount of Euro 5 million (84% of the total amount entered in the Register).

At the end of the year, there still were 366 notices to be collected, for an aggregate amount of Euro 135 thousand (2% of the total entered in the Register).

The entry in the Register of the Single Tax Bill (Cartella Unica delle Tasse or CAUTA) is carried out by the Office of the Registry on an annual basis, usually in February, in order to make it possible for the Central Bank to prepare the Tax Collection Notice and transmit it to the taxpayers in time to be paid prior to its expiry, fixed by law in the 31 March of each year.



The entry in the Register for the CAUTA 2012 was comprised of 18,653 tax collection notices for an amount of Euro 4,7 million. The tax collection notices paid within the regular expiry date of 31/03/2012 were 15,959 (86% of the total) for an amount of Euro 3.8 million (80% of the total).

By the end of the year, 17,106 tax collection notices had been paid for an amount of Euro 4.1 million, whereas 1,394 notices were still to be managed for an aggregate of Euro 500 thousand (10.6% of the total).

Table 29 compares the entries in the Register for CAUTA 2010, 2011 and 2012. The data contained in such Table are related to 31 December of the year of reference. The data related to the entries in the Register made and to those released in 2011 are considerably higher compared with those of the other years mainly due to an incorrect entry, later remedied with its release and subsequent re-entry in the Register. The entries in the Register for the CAUTA 2012, if compared with those of CAUTA 2011 net of the releases, are virtually the same. On the other hand, a decrease was registered compared to the CAUTA 2010. One of the main reasons behind the reduction in the CAUTA entries in the Register is the high number of companies that in the last few years have, in fact, ceased their activities following voluntary or compulsory liquidations and insolvency procedures, and which, as a consequence, are no longer required to pay the license duty.

**Table 29 - Comparison of CAUTA-related data**

Entries	2010		2011		2012	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Entered	5,668,315.80	18,474	5,903,414.20	19,384	4,689,104.75	18,653
Released	86,351.00	291	1,243,667.20	894	39,492.41	130
Collected by the Central Bank	5,001,501.36	16,926	4,190,612.40	17,204	4,142,247.90	17,106
To be managed	569,043.85	1,230	453,979.36	1,258	497,683.69	1,394
% Released	1.50%	1.60%	21.10%	4.60%	0.84%	0.70%
% Collected by the Central Bank	88.2%	91.6%	71%	88.8%	88.34%	91.71%
% To be managed	10%	6.7%	7.7%	6.5%	10.61%	7.47%

Source: Central Bank.

As at 31 December 2012, of all the CAUTA entries in the Register made since 2005 (Euro 38.4 million), Euro 34.2 million had been collected, whereas Euro 1.9 million was still unpaid, for 4,818 tax collection notices.

### **2.11.2 Manu Regia procedures**

In 2012, the Overdue Tax Collection Department managed 23 Manu Regia procedures for Euro 760 thousand; in the same year collected Euro 8 thousand related to 20 files.

Since the beginning of the activities of the Overdue Tax Collection Department (2005) the Central Bank managed 6,400 files for an aggregate of Euro 27.3 million; in the same period, of the files managed, 4,200 have been collected, for an aggregate amount of Euro 9.3 million. Furthermore, in the same period, as regards to more than 1,300 files, for an amount equal to Euro 10.3 million, a negative attachment report has been carried out or such files have been transmitted to the Court to be lodged within the context of insolvency procedures. The possibility that such claim will actually be collected is rather limited.

At the end of the year, 463 files remained to be managed for an amount of Euro 5,3 million.

With Law No. 70 of 2004, the Overdue Tax Collection Department has been vested with the responsibility for all activities subsequent to the entry in the Register, i.e. the preparation and transmission of the tax collection notice, the amicable collection after the expiry of the tax collection notice, the attachment of movable or real estate assets with the related auctioning of the seized assets or the preparation of negative reports. As regards to the Manu Regia procedures managed by the Court, on the contrary, the activities of the Overdue Tax Collection Department are typically related to the collection, or to the preparations of the negative reports; for this type of claims, the collection activities present additional difficulties compared with the collection of the tax collection notices, given that the Manu Regia procedures are related to years prior to 2004 and to taxpayers (natural persons or legal entities) who may no longer be found in the territory or may not have any asset to be seized.

### **2.11.3 Auctions of movable assets**

Also in 2012, the Central Bank organised and managed two auctions of movable assets; these auctions are the consequence of attachments and of the removal of the seized assets.

The organisation of the auction is carried out through the recognition of all assets managed by the Central Bank following an attachment, the preparation of the auction notice, the distribution of the latter to all the residents in the territory and the publication thereof on the internet website of the Bank.

The assets, generally deposited in a warehouse, may be viewed by the potential purchasers during the days prior to the auction.

Through the auction of movable assets No. 1/2012, held in the first half of the year, 324 lots were put on sale for an aggregate value of Euro 970 thousand, and the amount realised was equal to Euro 151 thousand (16% of the value of the attachments).

Through the auction of movable assets No. 2/2012, 491 lots were put on sale, for an aggregate value of Euro 411 thousand. The three phases were completed on 9 December 2012 and the aggregate amount realised was equal to Euro 181 thousand (44% of the value of the attachments).

As evidenced in Table 30, the data related to the different auctions held in the years 2010, 2011 and 2012 are extremely diversified both as regards to the value of the assets auctioned and the aggregate amounts cashed. It is not possible to compare such data due to the many factors that influence the results (type of seized assets, quantity of assets auctioned of the same type, interest of the potential purchasers, economic situation, etc).

In any case, the ongoing organisation of auctions confirms the effort made by the Central Bank for the purpose of maximising, even in this negative economic situation and with the due respect for the rights of the debtors, the collection of the overdue claims, in spite of the frequent difficulties in the collection thereof.



**Table 30 - Comparison of the data related to the auctions**

	2010		2011				2012	
	I auction	II auction	I auction	II auction	III auction	VI auction	I auction	II auction
Value of the assets	200,995.00	415,326.52	88,650.00	432,000.90	101,320.00	217,221.82	970,225.98	411,184.51
Collected	84,150.00	147,558.85	44,770.00	217,132.21	41,000.00	58,152.36	151,046.78	181,033.53
% Collected	41.9%	35.5%	50.5%	50.3%	40.5%	26.8%	15.6%	44.0%

Source: Central Bank.

#### **2.11.4 Civil Actions**

The Overdue Tax Collection Department filed an appearance before the Court to defend the Most Excellent Court, the Entities and the Autonomous Authorities, in the legal actions initiated due to the collection. Specifically, the following should be noted:

- an appeal before the civil Court challenging the debt statement, the decision on which is still pending;
- three administrative appeals that were rejected on 1 March 2012.

#### **2.12 Management of the liquidity and the financial portfolio**

One of the main sources of revenues for the Central Bank is generated by the investment of the liquidity (deposited by the Public Administration and by the banks of San Marino) and assets in financial instruments or loans (to supervised intermediaries and PAs).

At the end of 2012, the deposits from banks were equal to Euro 87.5 million, down by more than 22% compared with the Euro 112 million of 2011, whereas the deposits from clients dropped by more than 35% totalling Euro 164 million, compared with the Euro 253 million of the previous year.

The loans to banks decreased by 11% to nearly Euro 194 million compared with the Euro 218 million of 2011, following the repayments in the last month of the year of some loans disbursed to the banking system of San Marino; thus, also the composition of such balance sheet item has changed, with a greater exposure to on-demand loans increased to Euro 148 million compared to the Euro 2 million at the end of 2011, with a similar reduction in the item other loans (loans with a longer maturity) down from Euro 215 million to Euro 45 million.

Loans to customers, instead, increased to Euro 39,7 million from Euro 12.1 million registered twelve months before, up by 228%, mainly due to the increase of loans to the Public Administration.

Total equity funds increased from Euro 75.5 million to Euro 81.1 million.

The bond portfolio of the Central Bank is comprised of highly liquid Euro denominated issues with strict rating requirements both for individual issues as well as for the average of the portfolio.

In this market context, the aggregate amount of the portfolio of the Central Bank decreased by more than 45% compared with the value as at the end of 2011; the profits from financial transactions registered a value of over Euro 6 million.

The interest received on the security portfolio dropped by 55% in 2012, to Euro 2.5 million compared to Euro 5.7 million in 2011: this reduction reflects, besides the contraction on the amount of portfolio invested, also the drop in interest rates (just as an example, the annual average of the 3 months Euribor rate, which is the reference parameter for the coupons of the floating rate part of the portfolio, decreased by 58% in 2012 compared with the previous year, to 0,575% from 1.393%).

2012 has been a very important year under the profile of the stabilisation of the financial markets.

A key role was played by the instruments created by the political and monetary authorities to protect the single currency, by the sovereign issuers and by the banking and financial system of the Euro area.

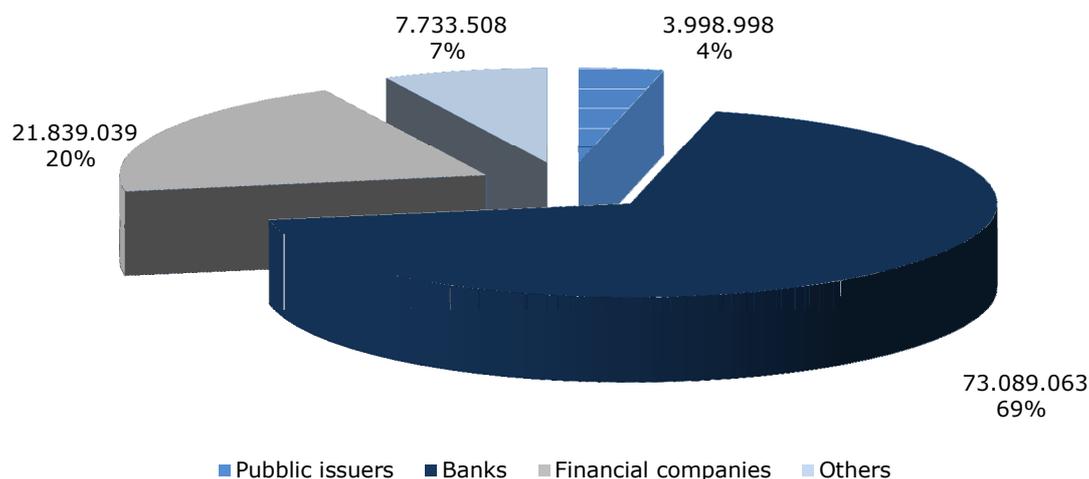
This has gradually led to the drop in the volatility of the prices of the financial instruments, and made it possible for many issuers to access again the financial markets and get better funding condition compared to those available in a recent past.

The financial activities of the Central Bank, in a scenario of decreasing interest rates and amounts of resources available, in 2012 mainly focused on a considerable trading of the bond portfolio; the volume of securities traded during the year, in fact, has been just below Euro 1 billion, in line with the value of the previous year, despite the considerable reduction in the amount of the portfolio.

Thanks to the intensity and speed of the movements of the bond assets it has been possible to seize the opportunities connected to the recovery phase of the primary bond market as well as those connected to a greater size of the secondary market, more liquid and dynamic than in 2011 and thus adequate for a significant trading and purchase-sale activity on the different types of securities.

At the end of 2012, the bond portfolio of the Central Bank was comprised as follows:

**Figure 29 - Composition of the bond portfolio**



Source: Central Bank.

Notes: Values expressed in Euro.

In 2012, the internal rules on financial investments was changed, updating the rating requirements (minimum for each issuer and average for the entire portfolio) for the purpose of



adjusting the investment profile to the changed general characteristics of the reference market, although remaining within the scope of the definition of investment grade rating; the requirements related to the average maturity of the securities portfolio and of maximum amount allowed for each issuer remained unchanged.

### 2.13 Second social security pillar

The Law No. 191 dated 6 December 2011 establishes the supplementary pension system in San Marino, named FONDISS, and assigns to the Central Bank several functions, specifically:

1. advisory function on the individual investment decisions taken directly by the Administration Committee of FONDISS (article 11, paragraph 4);
2. function as custodian bank for the resources of FONDISS (article 14);
3. function of supervision on FONDISS (article 13, paragraph 4).

In 2012, the Central Bank provided advice and support to the Administration Committee of FONDISS within a regulatory and operating context for the launch of the supplementary pension system and for the collection of the contributions, started by law in July 2012.

In 2012, the Central Bank also created internal organisational, procedural and instrumental procedures to carry out the functions of custodian bank assigned by law. These procedures ensure the management of time deposit transactions, which is the only type of investment made by FONDISS in this initial phase.

As regards to the performance of the functions as custodian bank in case of more structured investment transactions, the Central Bank shall in fact necessarily avail itself of the support of international banking structures specialised in such activity.

The Table shows the person-days per calendar year (2012 and first quarter of 2013) worked by the personnel of the Central Bank for the establishment and launch of the supplementary pension system.

**Table 31 – Use of human resources (in person/days) for the launch of the supplementary pension system**

Year	2012	I quarter 2013
Use of resources	117	31

Source: Central Bank.

The Table shows the flows of the payments per calendar year (July – December for 2012 and first quarter of 2013) divided by type of payment (the type of payment may be adjusted by the entity prior to the final approval of its financial statements).

**Table 32 – Collection of welfare contribution payments**

Year	2012	I quarter 2013
Compulsory contributions paid by employees	1,413,056.08	1,337,666.63
Contributions paid for the independent separate management (balance)	3,676.69	76,793.81
Contributions paid and relevant direct economic indemnity	17,865.00	20,364.20
<b>Overall total</b>	<b>1,434,597.77</b>	<b>1,434,824.64</b>

Source: Central Bank.

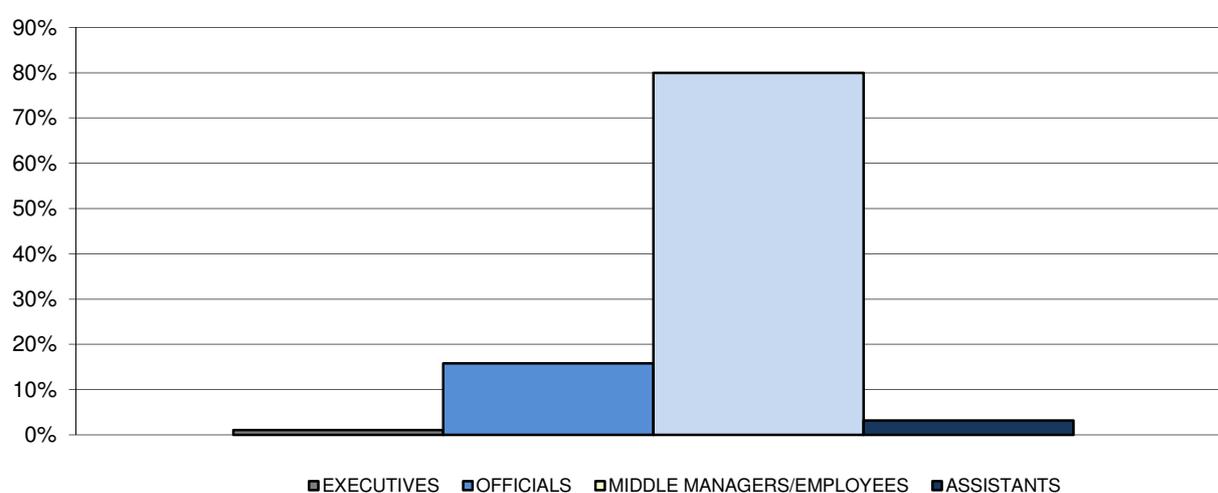
### 3 INTERNAL RESOURCES

#### 3.1 Human resources and the corporate staff

In 2012, the number of employees of the Central Bank was increased compared with the previous year to be able to perform the many functions assigned; specifically, the staff working in the legal department, supervision and the Financial Intelligence Agency has been strengthened.

At the end of 2012, the Central Bank had 95 employees (including the Director General and the staff of the Financial Intelligence Agency) divided into contractual categories as shown in figure 30; however, when taking account of the secondments of staff, extended leaves (aspettative), maternity leaves, hiring and cessations of the employment relation, part-times and long time absences, the resources actually present in the Bank and in the FIA in 2012 were, on average, approximately 87.

**Figure 30 - Breakdown of the personnel of the Central Bank and of the FIA by contractual categories as at 31/12/2012**



Source: Central Bank.

In the previous year, 4 new resources have been hired, and 1 left the Bank; of the 4 new resources, 2 work for the Financial Intelligence Agency, 1 works in the Legal and Regulation Department and 1 resource strengthened the Supervision Department.

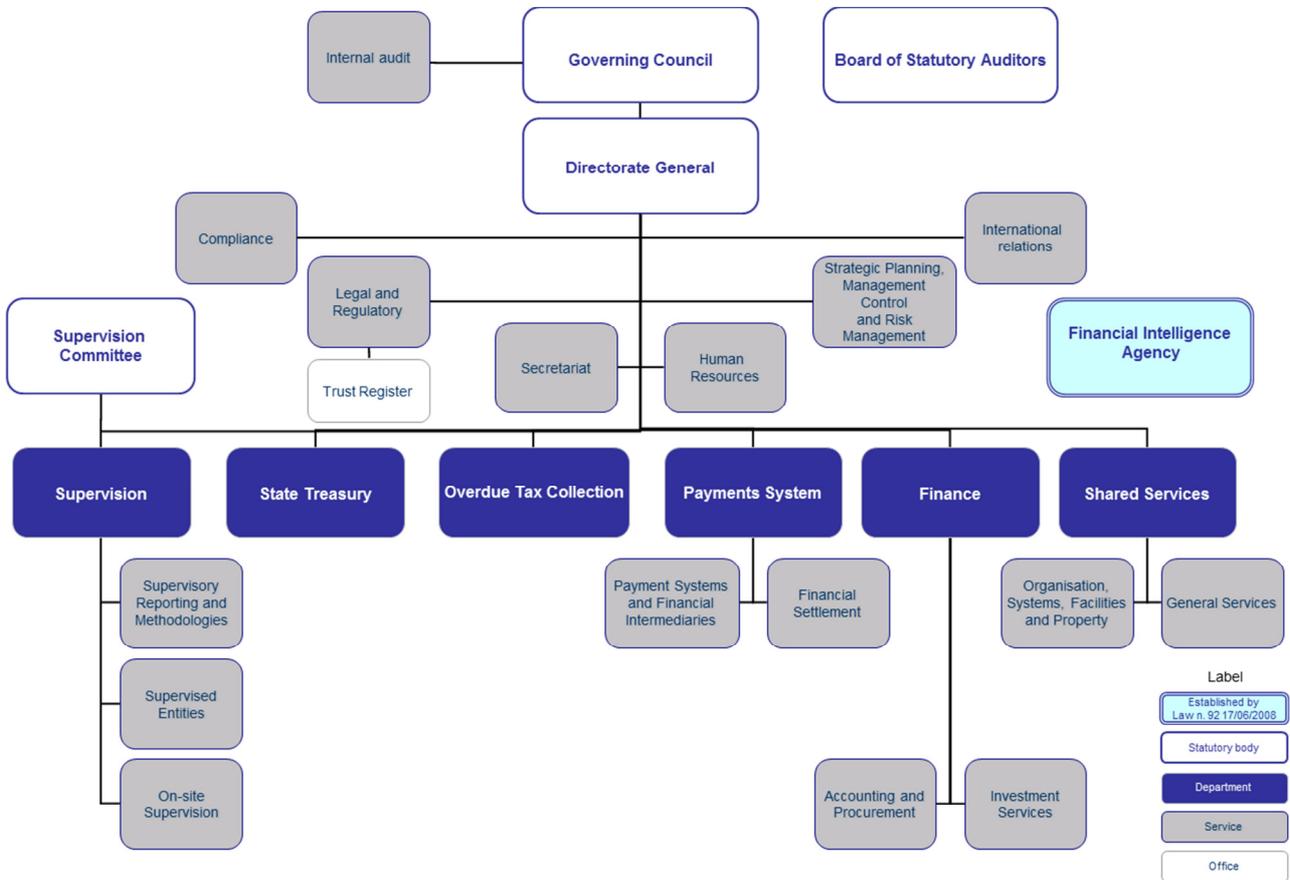
In 2012, a new impulse was given to the education activities performed by the Central Bank, and for this purpose, in 2013, some resources will visit supranational organisations and foreign Supervisory Authorities. In 2012, 2,200 hours of training were registered (25.30 person/hours), significantly higher than the 890 hours of 2011. As regards to the education activities, support was received by the Fondazione Banca Centrale, which, pursuant to the provisions of law, also organised courses focused on Trust, and in house courses were organised for the purpose of better satisfying the training needs with the involvement of a higher number of employees and the reduction of costs.

Following the completion of the corporate restructuring, in 2012 some adjustments were made to the organisational chart so as to make the structure even more functional and to limit, as in 2011, the resort to overtime and reduce the residual holiday leaves. At the end of February 2013, the organisational chart was further modified, with the establishment of the International Relations Office aimed at managing and developing the relations with the international bodies.



The organisational chart of the Central Bank, updated as at 31 March 2013 is shown below (Figure 31).

**Figure 31 - Organisational chart as at 31/03/2013**



### 3.2 The infrastructures

During the year, the activities continued for the consolidation of the technological infrastructure and the evolution of the information system in support of corporate operations, particularly as regards to the banking operations, of the Overdue Tax Collection functions and of Management Control.



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