

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

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

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**YEAR 2013**





# Summary report

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

### Year 2013



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May 2014.

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## COMPOSITION OF THE STATUTORY BODIES \*

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Silvia Cecchetti  
Giovanni Luca Ghiotti  
Giorgio Lombardi  
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### **Board of Statutory Auditors**

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### **Directorate General**

Mario Giannini - Director General  
Daniele Bernardi - Deputy Director General

### **Supervision Committee**

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Francesco Ielpo  
Andrea Vivoli

The Central Bank Statutes (Law No. 96 dated 29 June 2005, as subsequently amended and supplemented) require the Bank to answer to the Great and General Council regarding the attainment of its objectives. The Chairman, members of the Governing Council and the Chairman of the Board of Statutory Auditors are appointed by the Great and General Council; consistently with the duties assigned to it by the Statutes, the Bank has prepared the Annual Report containing the summary of the activities performed during the previous year, and the performance of the financial system, which – pursuant to the Law – must be approved by the Shareholders' Meeting. The latter then forwards the Report to the Great and General Council through the office of the Secretary of State for Finance.

\* as at 28 May 2014



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## NOTICE

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Unless specified otherwise, data was processed by the Central Bank. The tables and charts show the changes as calculated on the original value (not rounded up/down). The data referring to previous years may have changed from when they were published in the previous reports due to subsequent disclosures made by the intermediaries. The source is not specified in the case of Central Bank data.

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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
CCS	Committee for Credit and Savings
CTU	Consulente Tecnico d'Ufficio (Court Expert)
EPC	European Payments Council
IMF	International Monetary Fund
FONDISS	Supplementary Welfare fund of the Social Security Institution
LISF	Law no. 165/2005 "Law on companies and on banking, financial and insurance services"
OECD	Organisation for Economic Cooperation and Development
RIS	Rete Interbancaria Sammarinese (San Marinense 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 and Shareholders, similarly to previous years, the financial year that has ended was marked by all sorts of problems, but was also a source of satisfaction in terms of the objectives that were achieved.

One of the main problems referred to the need to more strictly pursue a policy of reducing expenses, by identifying possible savings within the Bank, without compromising on operational efficiency. For some time now, we have introduced savings, by renegotiating the cost of certain products and services, and shedding some non-essential services. We are well aware that the current economic crisis compels us to implement significant savings, but at the same time as I will outline below, our objectives for growing and developing the system as well as complying with complicated international regulations may require us to incur mandatory operational costs that will be difficult to reduce.

A circumspect and prudent director with a long-term view is not the answer to indiscriminately reducing costs, but rather, the director that is able to correctly identify priorities and select investments in the pursuit of those primary objectives that will implement a modern and competitive financial system. One needs to be mindful that sometimes an investment made today could result in savings tomorrow, and that the simple restructuring of the corporate organisation could achieve cost savings. In short, we need to combine economic discipline with operational efficiency.

During the year that has just past, currently and well into future months, we will be experiencing corporate, organisational and structural problems that will not be easy to resolve.

The economic crisis gripping the country has very often resulted in the Central Bank being considered an Institution with undeserved privileges (especially in terms of salaries), excess staff in relation to the activities that need to be carried out, and which should be reduced in relation to the lower number of parties supervised. We do not share these criticisms. Firstly, the number of Central Bank staff, which includes the Financial Intelligence Agency, has not increased in recent years, but has remained unchanged. The financial and contract profile for Central Bank employees is governed by a 2005 collective labour contract, which the Bank is currently renegotiating with trade union representatives.

It should be noted that in repeated media campaigns that are exploited in respect of the tone used and incorrect content, the Central Bank is often perceived by the community as "an expenditure for the State"; in actual fact, thanks to the Bank's activities, in 2013, the State collected more than 17 million Euro, of which 16 million and 700 thousand Euro resulted from tax receivables recovered by the Overdue Tax Collection Service, and almost 400 thousand Euro from administrative penalties paid to the public coffers, with it being understood that whatever was paid by the State to the Bank went towards remunerating the services rendered by the latter.

Furthermore, it is incorrect to say that due to the reduced number of banks and investment companies, the Central Bank's activities would also have dropped, given the commitment required from managing the mandatory procedures introduced over the last three-year period (rather, 24 months between 2011 and the first quarter of 2014) that require a continual commitment by the Supervision Department in dealing with complicated and sensitive issues. First and foremost, the Central Bank cannot be identified solely as a Supervisory Authority. The monitoring and securities functions represent a significant profile, but are not the only ones. Equally important and onerous are other functions the Bank has been assigned by the Law that established it and the various special Laws issued recently.

In addition, we also need to take into account that over the last three years in addition to the surveillance activity, there has been greater focus on enacting international regulations on financial credit, especially in respect of combating money laundering, implementing the Monetary



Agreement and making the San Marinese credit and financial system more transparent, correct and compliant with international standards, to the extent that the Bank has achieved its objective of attaining full SEPA membership. The need to align our financial credit system to other compliant countries in terms of the regulatory profile, has resulted and obliges us further to invest in refresher courses and professional training for our employees; as well as receiving the support of consultants that can train our staff making them independent to operate in highly specialised fields.

## **THE CHANGED FINANCIAL CREDIT CONTEXT**

Growth as a Central Bank, the external image of an Institution that no longer merely carries out surveillance activities, full transparency in its operations and especially in its relation with international financial Institutions, have resulted in the concurrent growth of the San Marinese financial credit system, while making impossible to return to an operational model that caused international isolation in the past.

We have recently been cancelled from the black list, which was achieved in part due to the Double Taxation Agreement with Italy coming into effect, and which was also due – as stated by the Italian Ministry of the Economy itself in its press release - to having normalised the financial credit system, and incorporated international standards. In line with the actions and objectives of the State Congress, and especially with the Finance Secretary, during the current and previous terms of office, the Bank managed to achieve results over three years in an unstable socio-political context that have been recognised by everyone, with full appreciation voiced by the IMF, OECD, World Bank and other Institutions, including Italian credit institutions; recognition was also expressed during the IMF's last visit in February 2014 to San Marino, and during the Spring Meetings in Washington.

There are certainly still some significant critical aspects outstanding that were found by the IMF and this Bank. These critical aspects are linked for example with the Cassa di Risparmio della Repubblica di San Marino, and are being monitored on an on-going basis and where a return to profitability is being sought, while fully complying with the principles of sound and prudent management. The strategy pursued by the Ban up to now has been to support the Cassa, avoiding any negative impact on the system, and the Bank shall continue in this sense.

Included among the most significant initiatives that need to be completed in the shortest time possible is the Central Credit Register, which has been an objective of the Central Bank from the start of my term as Chairman, but which suffered setbacks due to other initiatives that were being concurrently pursued, and the initial resistance from the system that has now been overcome. The completion of the Central Credit Register is important not only from the perspective of making the system secure, but also because it constitutes a *condicio sine qua non* for the signing of the Memorandum with Bank of Italy.

Without doubt, compared to December 2010 when I became Chairman, due to the work that has been done, with the full and much appreciated cooperation of the State Congress, and especially the Secretary of State for Finance, we have a Central Bank that is better structured and organised, a financial credit system that is better monitored, transparent and sufficiently efficient, a regulatory context that is essentially complete (but that is updated and consolidated by new regulations): we now need to work on speeding up the other initiatives.

## **FUTURE OBJECTIVES**

For the sake of clarity, it is important to keep the economic plan separate from the financial plan.

From an economic perspective, it is hoped that the cancellation from the Italian black list will help San Marinese companies to increase their productivity, with commercial outlets to their closest market. Hopefully, support for companies will also be forthcoming from the concentrated efforts of the San Marinese banks and State Congress, so that funding can be provided at <<soft>> rates; similarly, it will be necessary to simplify administration in order to allow



companies to operate in a clear and streamlined regulatory context. We have begun discussions on certain programmes and initiatives with the ABS in so far as we are responsible and can be of assistance, making our technical support available. The objective must be to incorporate the most innovative funding techniques from the outside, transplanting them into our system to make it more efficient. We are carefully observing the initiatives – referred to by the IMF in the final document – that have been undertaken by business in nearby Emilia Romagna. In short, the banks need to play their part and come forward to provide the funding that is necessary to get the economy moving once again. This should be done securely, but also accepting the risk that is inherent to any financial and business activity.

The especially difficult economic situation being experienced and that is being felt at international level should not only be seen in negative terms; this could provide an opportunity to rebuild our economy and financial credit system, which will require a common and concerted drive from the different political and social Institutions in the country to achieve this. On the other hand, this common commitment will also be needed to achieve the objective of association with the European Union that requires the review, reorganisation and sometimes the establishment of operating <<structures>> that involve the country's social and political structure at various levels, and not just the financial system.

The financial system must grow and develop according to EU models, and must also allow our economy to grow. This is not a road that we can travel alone; we must do so in keeping and in conjunction with all the relevant Secretaries of State, each within the limits of their relevant independence, first and foremost with the Secretary of State for Finance, where this cooperation is already operational. This concerted action will make our financial system attractive for foreign intermediaries, which must find it worthwhile to establish themselves in our country, in order to implement an industrial project that will help us grow.

### **THE DIFFERENT INITIATIVES**

Firstly, clear and transparent information needs to be provided on our financial system, to show that it has incorporated all the international regulations, with a Central Bank that monitors and guarantees the system's stability. We are therefore changing our communication strategy, by enhancing relations with the information media, and by way of agreements already signed with State TV and currently being finalised with the University of San Marino. This communication strategy also intends clarifying and making the activities effectively carried out by this Bank more transparent for San Marinese citizens, where these activities are often misrepresented, either due to ignorance or on purpose.

Our medium-long term aim is to attract foreign financial investors of a high professional standing who would be able to provide sophisticated services in Finance Trading (letters of credit, credit insurance, etc.), Corporate lending (documentary credit, etc.), Venture Capital (start-up funding for businesses, for example, in the context of the scientific technology Park); in addition to asset management, Trusts and so on.

To make San Marino attractive for foreign investments, the different national Institutions will need to implement a telecommunications system and IT infrastructure that is technologically advanced, a simple administrative and taxation system, while also providing incentives, modern and welcoming hotel facilities, in short, whatever other countries with similar characteristics are unable to offer. As stated before, every Institution must play its part; the Central Bank is already working in this direction by carefully monitoring the new initiatives introduced by outside parties in the banking and financial sector.



It is consequently necessary to consolidate by making staff more professional, both in respect of employees from the Central Bank as well as all other San Marinese banks, with courses and internships organised by our Foundation and the University of San Marino. We will need to train people within our structure that are able to dialogue and interact with international Institutions and the Central Banks of other countries. The aspects of training and professional refresher courses were emphasised by the IMF and World Bank during the meetings held recently in Washington. This was the reason why we had asked the CBSM Foundation to take responsibility for this mission, both in respect of Central Bank employees, as well as Supervised Entities. With regard to the latter, focused interventions are being considered in conjunction with the ABS aimed at intermediaries, after having established their specific requirements.

Another strong message emanating from the international Institutions refers to the requirement of opening ourselves up not only to Italy, our primary and privileged partner, but also to other countries. We are in point of fact focusing on signing Memoranda with other Central Banks; besides Croatia and Liechtenstein, we have approached other interested countries, and hope to finalise these agreements shortly.

At the same time, as I said before, we are working in complete harmony with the Bank of Italy, with the mutual objective of signing an agreement by end of 2014. It will firstly be necessary however to introduce the executive project to implement the Central Credit Register. A CCR that will be able to exchange data with the Italian register and to dialogue with similar Central Credit Registers in other countries, while obviously fully respecting national sovereignty. The Memorandum with the Bank of Italy will definitively set the rules relating to the exchange of data between the two Central Banks, the scope and limits of operations for financial intermediaries and national banks in that country. The significance of consolidating our credit and financial system, and the quality of training and professional refresher courses for our operators, will then be measured in competitive terms in competition with Italian financial intermediaries.

### **ACTIVITIES OF THE CENTRAL BANK IN 2013**

To close, a quick look at the activities carried out in 2013, with reference to the attached report for a more detailed analysis.

The position evolved as follows between December 2010 and December 2013: in 2010, the 39 financial companies operating went down to 28 in 2011, 20 in 2012 and 14 in 2013. The number of banks currently operating is 7.

The reduction in the number of financial companies was not due so much to compulsory liquidations, but rather the introduction of a Regulation in February 2011 that finally stipulated the operational rules, leaving only the financial institutions on the market that were structured in a way that could comply with these prescriptions.

surveillance activity continued into 2013 based on the directives aimed at stepping in beforehand to resolve critical business positions and with tangible assistance, at times reaching voluntary liquidation in conjunction with the entity under surveillance. It was only in the event of serious situations that sometimes had criminal implications, or where there was an irredeemable asset deficit, that liquidation measures were taken to protect the *par condicio creditorum*. There were less disciplinary procedures compared to 2012, with four compared to eight.

Regulatory supervision also continued. Specifically, six Regulations and one Circular were issued, which introduced operating mechanisms that would provide greater transparency to the San Marinese financial system, the insurance business and on managing cash. Special reference needs to be made to Regulation No. 2013-05 entitled "Entry into the Single Euro Payments Area (SEPA)" which not only constitutes the main regulation to bring the San Marinese Payment System in line with European regulations and allowed us accession into SEPA, but it also anticipates the enactment of European Directive No. 2007/64/CE by extending the protection of the <<consumer>> to any customer of a San Marinese bank.



Of equal intensity was the documentary supervision that examined and monitored the business position of banks, financial companies, trust companies and insurance companies, in respect of their asset and organisational adequacy profiles as well as profitability in order to prevent deteriorations in the companies. There have been 141 of these interventions, with 36 already in the first three months of 2014.

There were 30 proceedings with sanctions in respect of company members in 2013 and these referred mainly to infringements of the rules on organisational and internal control structures. The recent Delegated Decree No. 24 dated 4 March 2014 partially amended the provisions, by more accurately identifying the parties that could be sanctioned, with the option of paying half the fine within twenty days from the notification of the sanction, and the introduction of a nine month deadline from when the infringements were reported to the start of proceedings, and more significantly, the introduction of a second instance judiciary in the case of appeals.

Certain amendments that were made during the ratification stage in Mid May have however raised concerns regarding the Central Bank's ability to maintain an adequate level of efficiency regarding sanctions, in that it has been weakened by new operational restrictions that could make it difficult to implement these, and instead favour litigation proceedings.

Furthermore, the condition of admissibility introduced to protect whoever decides to accept a role within the extraordinary administration bodies and the new subjective restrictions on professionals that are appointed, could make it extremely difficult to find suitable people, while also taking into account the circumstances of incompatibility and conflicts of interest that could arise.

During 2013, 19 inspections were carried out at the premises of supervised parties, of which two were of a general nature, nine related to sectors and eight were specific on behalf of the Judicial Authorities. The inspections were always conducted with full transparency and taking care to engage the party being inspected.

An increase in entries to the Trust Register was noted, with 15 new entries and a single cancellation. The Office has in addition offered the skills available for training and refresher courses for professional trustees.

The consulting undertaken on regulations was an especially intense, complex and careful activity, which was done to comply with the regulatory deadlines prescribed by the new Monetary Agreement. This referred to an analysis, research and comparisons between the national, Italian and European Institutions so that the Republic could incorporate the regulatory systems on banknotes and Euro coins as well as the measures to prevent and combat counterfeiting, all within a year of the Convention coming into effect. The confirmation of full compliance in respect of the new regulation was the prerequisite for accession into SEPA: the European Authorities recognised the excellent work done in this regard by the Central Bank. The usual technical and regulatory consulting support was also provided to the Finance Secretary to launch the financial and postal services, for the issuing of the first public debt by the Republic, the project to establish the Public Finance Institute, and the new taxation regimen relating to insurance policies. Furthermore, in compliance with the powers granted by Law, the Central Bank presented two sets of draft legislation: one referring to a partial reform of the Law on companies and on banking, financial and insurance services (so-called LISF) (especially in respect of updating the content, to introduce the office of the Banking and Financial Arbitration and new provisions on bank cheques), and the other referring to a reform on the Trust Act, specifically to enhance anti-money laundering controls.

The collaboration with the Court was conducted over two levels, as a Court appointed expert and as Judicial Police (pursuant to Art. 104 of LISF). The Secretaries of State involved are working to ensure that the Judiciary will have professionally and specifically qualified experts to call on in their investigations and preliminary work, both in order to alleviate the work load of the Central Bank's Governance body and to relieve it of duties that it is not always suited for.



There are also the complex services provided by the Treasury and Overdue Tax Collection office. With regard to the latter, it is noted that the registration of certain taxation is done with significant delays in relation to the relevant tax year, so that at times, the enforcement becomes unproductive: corrective measures are being considered with the Finance Secretary to anticipate and speed up checking times.

## **FINAL CONSIDERATIONS**

I could continue with my presentation, but I simply wanted to provide an outline for the main conferments, tasks and functions carried out by the Central Bank, the complex and varying professionalism required by employees, the responsibilities that are duly undertaken where the outcomes achieved are not always recognised, the priorities that have been met and which in recent years have become normal activities for the Bank. The presentation especially seeks to highlight, because it seems this is still necessary, that the Central Bank's surveillance activity constitutes and has certainly constituted an important function over the last three years, but this is not the Central Bank's sole operating profile.

As I have stated, there are currently other objectives: to grow the financial system to support the real economy, internationalise and bring operational specialisation to the system, training and professional refresher courses, clear and correct communication especially in respect of San Marinese citizens, attracting foreign operators that while operating in full transparency and operational correctness can support growth and develop the entire Republic.

This Central Bank is ready to play its part together with the other Institutions in the country; foremost, the Finance Secretary that represents the main and natural partner and with whom intent and actions are already in full synch, as mentioned previously. The undertaking on my part together with members of the Governing Council and Directorate General will continue to focus mainly on the Central Banks' professional growth to give it more authoritative standing not only domestically, but also in an international context, in the knowledge that an autonomous, independent and responsible Central Bank will contribute to improving the entire Republic of San Marino.

Thanks go to all the San Marinese political Institutions that are duly represented here today by the Finance Secretary and Foreign Affairs Secretary; with special thanks to the Finance Secretary with whom, *ratione materiae*, collaboration and interaction is more intensive.

Thanks are also extended to the Bankers Association of San Marino, with whom an arduous task is being undertaken to restructure the financial credit system.

Sincere and heartfelt thanks go to members of the Governing Council for the care, professionalism and constructive participation provided in exercising their duties.

Thanks also go to the Board of Statutory Auditors that carries out its role of checking and monitoring the Bank's operations with professionalism and in a confidential manner.

Thanks go the Director General who with personal sacrifice, continual focus and acknowledged professionalism carries out his role in an administrative capacity, but also as the interface with the Supervision Committee and the Foundation.

Best wishes to Andrea Vivoli who has deservedly taken on the role of Head of the Supervision Department, replacing Mr Gumina whose term of office has ended.



Thanks are extended to all employees, from the Deputy Director General through to whoever covers roles with minor responsibilities: achieving results is due to the work done by everyone, because we are like a large orchestra where the harmonious and collaborative effort of everyone's contributions matters. It is worth remembering on this occasion that the upcoming negotiations to renew the labour contracts must perforce take into account the Bank's need to contain costs, while respecting the superior interests of the country during this difficult economic situation we are experiencing.

Finally, a special word of thanks to the Shareholders' Meeting for the attention given to this Report, which it is hoped will be fully approved so as to then be forwarded to the Great and General Council according to the procedures prescribed by Law.



## 1 THE FINANCIAL SYSTEM

As at 31 December 2013, the financial system of San Marino comprised 10 banks, three of which are no longer operational<sup>1</sup>, 14 financial/fiduciary companies, 1 investment undertaking, 2 management companies (SG) and 2 insurance companies (duly authorised pursuant to letter G of Annex 1 of the Law on companies and on banking, financial and insurance services, the so-called LISF); at the same date, there were also 6 authorised parties to exercise the Office of Professional Trustee.

During 2013, one bank was cancelled from the Register of Authorised Parties, where the authorisation was revoked due its extended non-operations, as well as 6 financial/ fiduciary companies, of which 2 were subject to administrative compulsory liquidation, 3 to voluntary wind ups and consequent liquidation, and 1 for relinquishing its designated business.

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

Authorised parties	2011	2012	2013	31/03/2014
Banks	11	11*	10**	10**
Financial/fiduciary companies	28	20	14	13
Investment undertakings	1	1	1	1
Management companies	2	2	2	2
Insurance companies	2	2	2	2
<b>Total</b>	<b>44</b>	<b>36</b>	<b>29</b>	<b>28</b>
Insurance and reinsurance intermediaries	62	54	51***	51

Notes: \* Two banks, although still registered in the Register of Authorised Parties, did not appear operational.

\*\* Three banks, although still registered in the Register of Authorised Parties, did not appear operational.

\*\*\* The number includes 9 natural persons, 27 legal entities, 15 banks and financial companies that also carry out insurance mediation activities; out of the 51 intermediaries, 6 are subject to suspension pursuant to 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 2013, 51 intermediaries were registered, 6 of which suspended. In 2013, 3 new intermediaries have been registered whereas 6 have been cancelled. The list of foreign insurance companies, authorised to conclude insurance contracts in the Republic of San Marino through intermediaries, includes 54 insurance companies, 34 of which are Italian and the remaining 20 from other countries.

In the first three months of 2014, with reference to the insurance intermediaries, 1 new operator was registered whereas 1 was cancelled, and there were no suspensions. In the first quarter of 2014, 3 insurance companies were cancelled from the list of foreign insurance companies qualified to operate in San Marino through intermediaries, due to mergers.

Table 2 details the breakdown of operators at 31 December 2013 based on the authorisations issued, pursuant to Law No. 165 dated 17 November 2005 and No. 42 of 1 March 2010.

<sup>1</sup> The three non-operational banks are Banca Commerciale Sammarinese S.p.A., Banca Partner S.p.A. and Euro Commercial Bank S.p.A..



**Table 2 - Operators registered in the Register of Authorised Parties as at 31/12/2013**

Authorisations	Banks	Other financial enterprises	Total
Number of operators	10	19	<b>29</b>
<i>of which authorised to exercise the reserved activities pursuant to Law No. 165 dated 17 November 2005</i>			
A) Banking activities	10		<b>10</b>
B) Loan granting activities	10	11	<b>21</b>
C) Fiduciary activities	10	14	<b>24</b>
D) Investment services	10	13	<b>23</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	10		<b>10</b>
J) Electronic money issuing services	10		<b>10</b>
K) Foreign exchange mediation activities	10	11	<b>21</b>
L) Investment in equity interests	10	11	<b>21</b>
<i>of which, authorised to exercise the Office of Professional Trustee pursuant to Law No. 42 dated 1 March 2010</i>			
Office of Professional Trustee	4	2	<b>6</b>

## 1.1 The banking system

### 1.1.1 Ownership structures

At 31 December 2013, the shareholding structure of four banks (of which one was not operational) comprised non-resident parties, mainly foreign companies, fiduciary companies or investment holdings; at the same date, the assets of such banks amounted to Euro 1.7 billion (Euro 1.9 billion at 31 December 2012) equal to 27.5% of the total (Euro 6.1 billion).

During 2013, the process that began in 2011 to consolidate the banking segment continued with merger transactions. In August and December 2013, the en bloc sale of the assets and liabilities of Fincompany S.p.A. was concluded in favour of Euro Commercial Bank S.p.A. and by the latter in favour of Banca Cis – Credito Industriale Sammarinese Società per Azioni, which included the assets and liabilities originating from the financial company. Subsequent to these transactions, Euro Commercial Bank S.p.A. and the subsidiary Fincompany S.p.A. are no longer operational, limiting their activities to managing existing customers pending the complete transfer to the buyer and the divestment of the remaining accounts with the two intermediaries.

### 1.1.2 Size and structure of the system

During 2013 the process to restructure banks' financial statements was stopped, where this had been taking place since 2010. Volumes (total assets) stabilised at 6.1 billion Euro, a similar figure to the one recorded at the end of 2012.

From an asset perspective, a significant increase was noted in equity (from 500 to 577 million Euro) due to the asset consolidation operations of one operator, the revaluation of the shareholdings held by 4 banks in the Central Bank and the lower losses for the period. Total funding was stable (-1.7%), even though the components making this up were exposed to different dynamics (direct funding grew by 28 million and indirect funding fell by 151 million), for a total of 7.1 billion Euro.



Total gross loans for 4.2 billion Euro showed a drop of 6.3% compared to the end of 2012 (4.5 billion Euro).

At the end of 2013, the number of the employees in the banking sector was the same as 2012 (614 units); the relevant impact on the aggregate of employees in the Republic is essentially stable at 3.3%.

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

Indicators	2011	2012	2013
<b>Size indicators</b>			
Total Assets	6,721	6,122	6,141
Inter-bank loans	1,445	503	473
Gross loans to customers	3,857	4,472	4,188
Funding	7,332	7,261	7,139
Direct*	5,156	4,988	5,016
Indirect**	2,175	2,273	2,122
Interbank funding	315	161	71
<b>Structural indicators</b>			
Number of operators	11	11	10
Number of branches	58	59	59
Number of employees (actual number as at 31 December)	639	614	614
Employees (Total %)	3.3	3.2	3.3
<b>Other statistical data</b>			
GDP (current prices)***	1,478	1,401	1,357
Resident population	32,193	32,471	32,572
Employees	19,500	19,011	18,739
Population / Branches	555	550	552
Total assets / GDP	4.5	4.4	4.5
Total funding / GDP	5.0	5.2	5.3

Source: IT, Technology, Data and Statistics Office (GDP, Resident population and employees).

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

\* Direct funding, corresponding to the raising of funds from the public, also includes the aggregate for subordinated liabilities.

\*\* 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, similarly to financial instruments and cash available related to custodian bank activities.

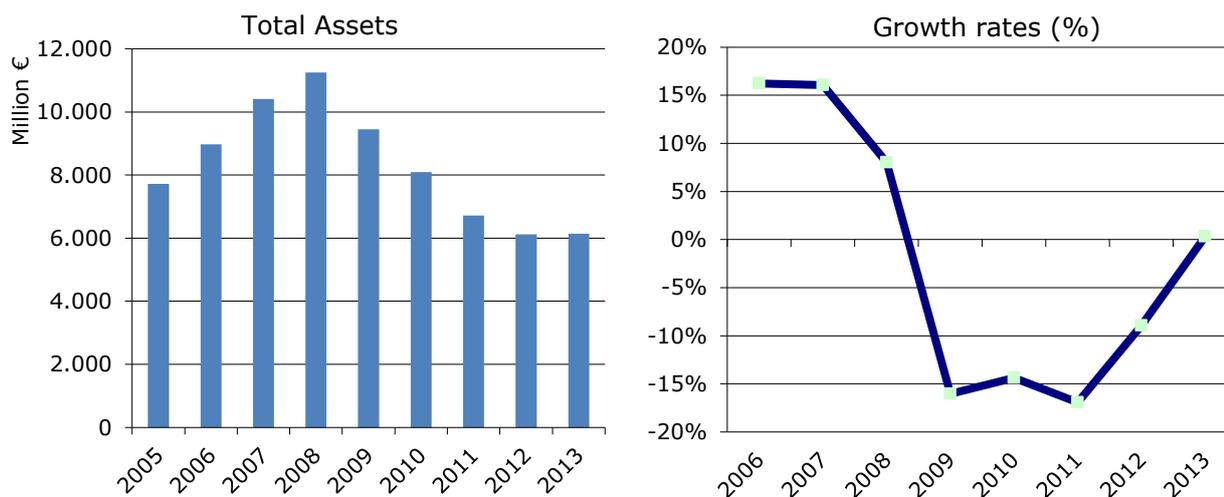
\*\*\* The GDP figures relating to 2011 and al 2012 were updated subsequent to the data provided by the International Monetary Fund; they therefore differ from those published previously; the 2013 GDP figure is a projection calculated by the International Monetary Fund.

### 1.1.3 Assets and loans

At the end of 2013, assets for the system amounted to Euro 6.1 billion. For the first time since 2008, this showed a slight growth rate (+0.3%), confirming that the disintermediation process for the sector over previous years seems to have ended.



**Figure 1 - Total assets**



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

Assets	2012	2013	Var %	Liabilities	2012	2013	Var %
Cash and cash equivalents	24	24	0.5%				
Inter-bank loans	503	473	-6.0%	Debts with banks	161	71	-56.2%
Customer loans*	3,875	3,654	-5.7%	Debts with customers	2,112	2,054	-2.7%
<i>of which Financial leasing</i>	133	283					
<i>of which assets pending leasing</i>	4	31		Debts represented by securities	2,767	2,827	2.2%
Financial instruments	844	1,101	30.4%	Subordinated Liabilities	103	126	22.9%
<i>of which debt securities</i>	763	954		Other items	479	485	1.2%
Shareholdings	167	195	16.7%	Capital and reserves**	664	551	-17.1%
Subscribed capital not paid in	48	11	-77.1%	Revaluation reserves	41	60	45.4%
Own shares	0	1		Net profit	-205	-33	83.8%
Fixed assets and other assets items	660	682	3.4%				
<b>Total Assets</b>	<b>6,122</b>	<b>6,141</b>	<b>0.3%</b>	<b>Total liabilities</b>	<b>6,122</b>	<b>6,141</b>	<b>0.3%</b>

Notes: Figures in millions of Euro.

\* Amounts net of adjustments. The item includes the amounts related to the financial leasing transactions included in the items "Financial Leasing" and "Assets pending leasing" in the financial statements.

\*\* Includes the General Banking Risk Fund, and profits and losses carried forward.



The main trends in assets related to the increase in financial leasing transactions (up from Euro 133 to Euro 283 million ), financial instruments (up from Euro 844 million to Euro 1,101 million), shareholdings (up from Euro 167 million to Euro 195 million), the decrease in debts with banks (down from Euro 161 million to Euro 71 Million), the increase in subordinated liabilities (up from Euro 103 million to Euro 126 million) and the decrease in capital and reserves (down from Euro 664 million to Euro 551 million).

The changes that occurred in financial leasing were due for the most part to en bloc acquisition transactions, with some of these taking place between companies in the Group, the assets of financial companies, and the remaining part, due to the signing of new contracts. These increases partially offset the contraction in the remaining technical formats of loans, resulting in an overall reduction in customer loans, for 221 million Euro (-5,7%), net of adjustments.

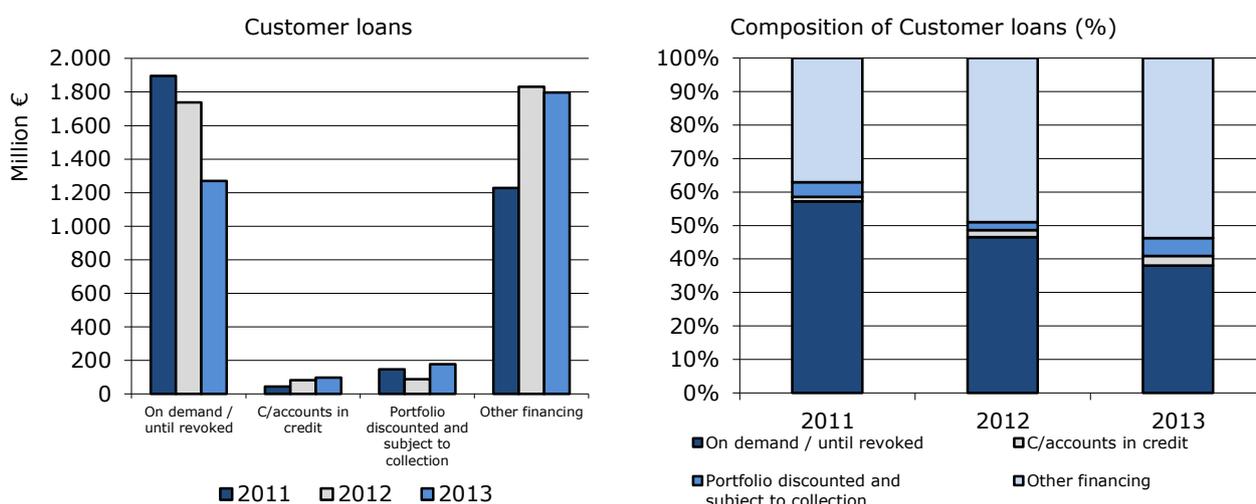
Financial instruments held in the portfolio increased by 256 million Euro, up by 30.4% compared to the end of 2012; this performance represented an inversion of the previously negative trend (-12.6% between 2011 and 2012), due also to the banks' improved liquidity position.

Holdings showed an increase in value of 28 million Euro, equal to 16.7%, which was due in significant part to the revaluations of holdings held; these included the holding in the Central Bank pursuant to Art. 75 of Law No. 174 dated 20 December 2013. The residual portion of the increase resulted from the acquisition of new holdings. The increased value in holdings resulted in an increase in the figure under the liabilities for the Revaluation reserves that went from 41 to 60 million Euro (+45.4%).

Share capital and the profit reserves of the San Marinense Banking System recorded a reduction in 2013 of 113 million Euro due to the use of equity to cover losses for the current and previous financial years, and to a lesser extent, due to one party leaving the banking system.

The analysis of credit exposures by technical form (Figure 2), excluding implicit receivables on leasing<sup>2</sup> recorded a substantial reduction in sight credits (-468 million Euro, equal to -26.9%), partly caused by the reallocation to the "Subject to collection portfolio" (up by 89 million Euro, equal to +100.8%).

**Figure 2 - Breakdown of Customer loans by technical form**

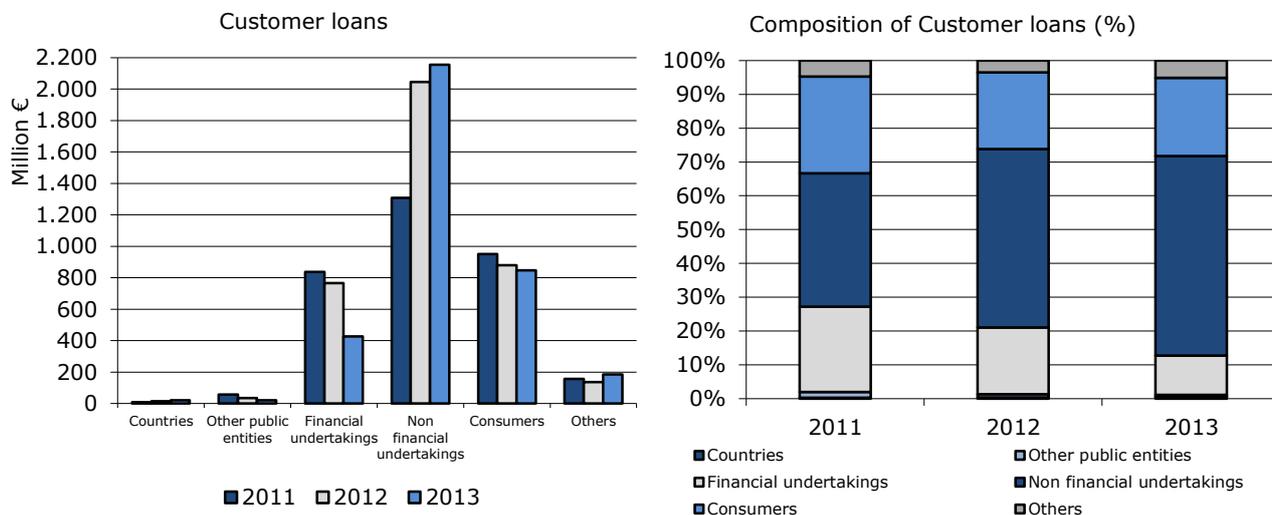


<sup>2</sup> These values, therefore, do not include the amounts related to the outstanding claim on the financial leasing transactions, in its two components: leased fixed assets and fixed assets pending leasing.



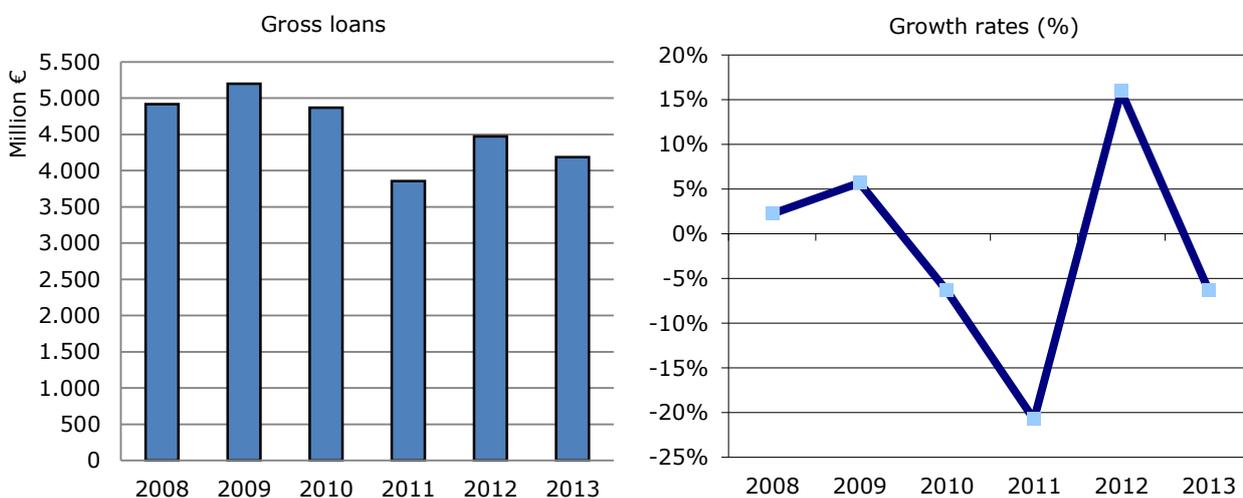
The breakdown for loans per business sector (Figure 3) showed a marked drop in funding provided to financial enterprises (339 million Euro, equal to -44.3%), as a consequence of the contraction in the financial enterprises' segment, with a corresponding slight increase noted in loans to non-financial companies (111 million Euro, equal to +5.4%). Exposure in respect of consumer households basically remained stable, with a slight drop from 879 to 847 million Euro (-3.7%).

**Figure 3 - Breakdown of Customer loans by business sector**



The figures relating to gross loans (Figure 4) showed a slight contraction compared to 2012, with a drop of Euro 283 million Euro (-6.3%), coming in at Euro 4,188 million Euro.

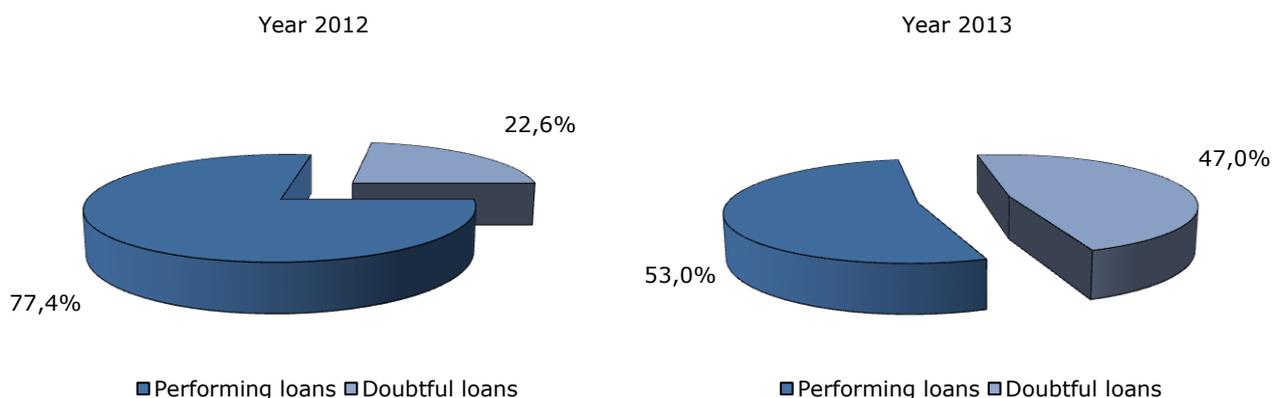
**Figure 4 - Gross loans of the banking system**



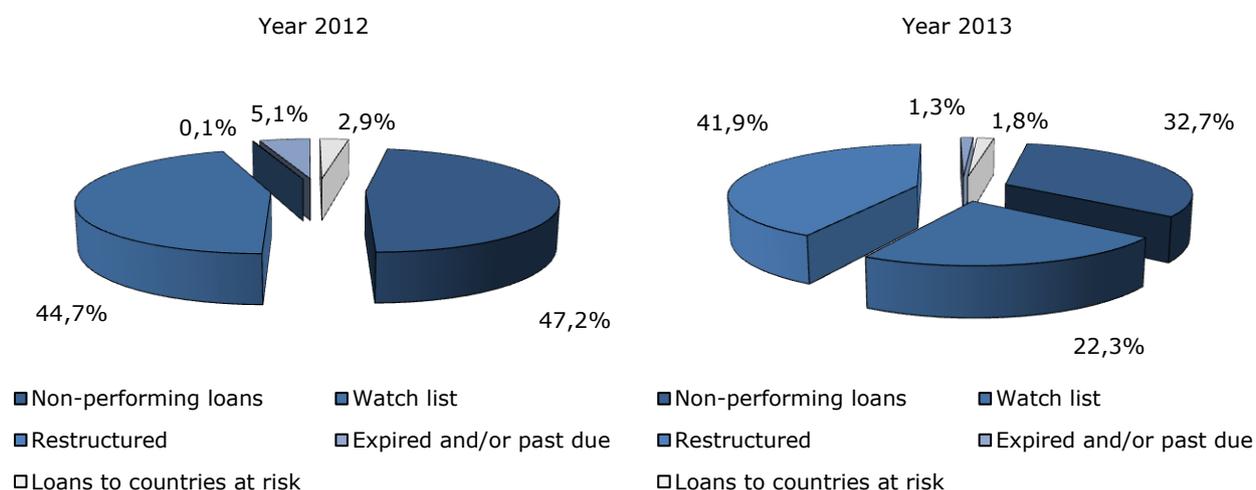
In respect of the quality of loans, at the end of 2013 the total gross amount for doubtful loans<sup>3</sup> stood at Euro 1,968 million Euro, which was up from the figure in 2012 (1,009 million Euro). Doubtful loans impacted on the gross loans total for 47% (22.6% at the end of 2012).

The significant increase in doubtful loans in 2013 is due mainly to the reclassification in the loans restructured by the exposure referring to the Restructuring Agreement pursuant to Art. 182 bis of the Italian Bankruptcy Law, which were payable by one bank in respect of companies in the Delta Group. This exposure that had previously been stated under the loans on the watch list, pending the conclusion of the Italian Delta Group's extraordinary administration, impacted for 18.1% on the gross total for loans.

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



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



The impact of non-performing loans, namely the exposure in respect of parties facing insolvency, over the total gross loans (amount paid) increased from 10.6% to 15.4% due to the

<sup>3</sup> Pursuant to Regulation No. 2007-07, the definition for doubtful loans includes the following: non-performing loans, loans on watch list, restructured loans, expired/past due loans and unsecured loans to countries at risk.



effect produced by the reclassification of performing loans acquired by companies of the Delta Group by an intermediary. Over the years, banks had made adjustments to the non-performing figures (to an extent of over 50 percent); these adjustments had already been recorded in the Profit and Loss Account, resulting in the impact on net loans going down to 7.5% (5.3% in 2012 – see Tables 5 and 6).

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

Indicators	2011	2012	2013
Doubtful loans / Loans	23.5%	22.6%	47.0%
Non-performing loans / Loans	10.1%	10.6%	15.4%

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

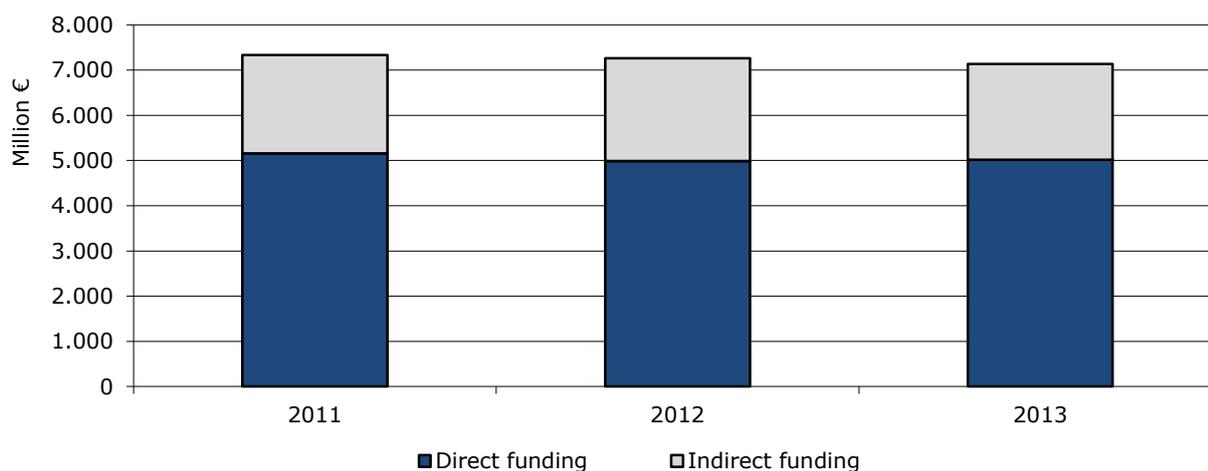
Indicators	2011	2012	2013
Doubtful loans / Loans	17.2%	14.9%	39.6%
Non-performing loans / Loans	5.4%	5.3%	7.5%

#### 1.1.4 Funding

A slight contraction of 123 million Euro was noted in total funding for the banking system at the end of 2013, coming in at 7.1 billion Euro compared to 7.3 billion Euro in 2012, marking a drop of 1.7% (Figure 7).

As stated previously, while the indirect portion (namely, the total amount for financial instruments and cash available for customers and/or managed on their behalf, net of the amounts already included in the direct funding) was affected by a drop of 6.6%, direct funding was essentially stable (+0.6%).

**Figure 7 - Total funding for the banking system**



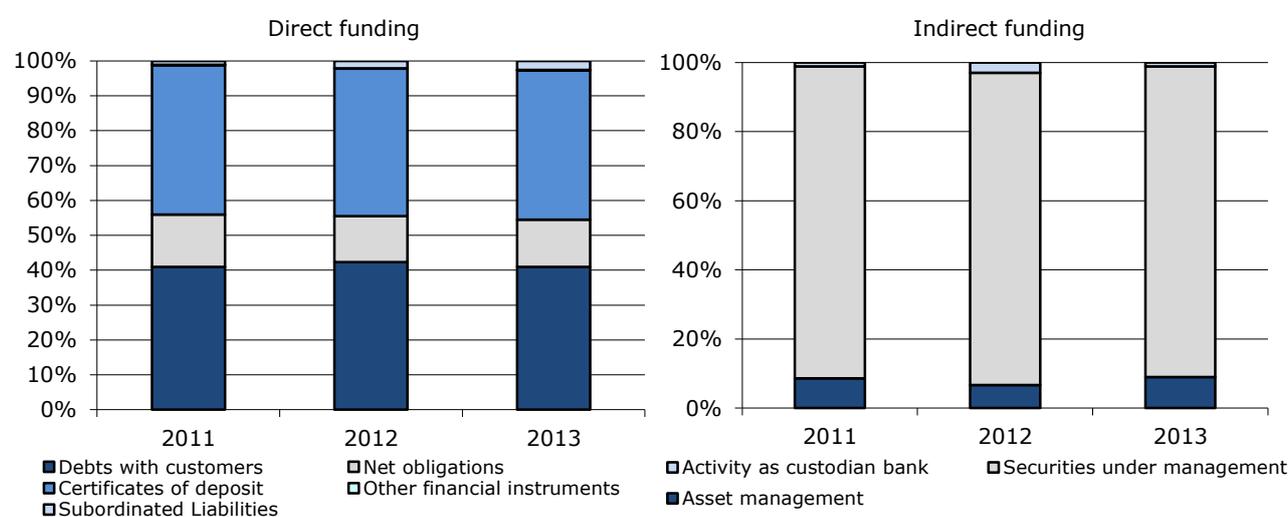
In this context, higher impacts were noted from certificates of deposits (42.9%) and debts with customers (41%), as the main source of funding for banks (Figure 8).

As in previous years, once again in 2013, banks made greater use of subordinated liabilities, which went from 103 to 126 million Euro in 2013 (+22.9%) taking into account the positive effects on issuers' capitalisation, given that – pursuant to the conditions stipulated by Regulation No. 2007-07 – these need to be recorded in their regulatory capital.

In so far as indirect funding was concerned, securities under management dominated (89.9% of overall figure), even though this was slightly down on 2012 benefiting asset management, where the impact was 9.0%. Financial instruments and liquidity referred to the activities as custodian bank, which was conducted on behalf of collective investment undertakings, coming down by 23.7% compared to the end of 2012, impacting marginally on the total for indirect funding (1.1%).

At 31 December 2013, four banks saw to the fiduciary administration of 117 million Euro, equalling 23.4% of the system's total<sup>4</sup> with operations concentrated in two types of mandates: type 1 (real estate assets) for 104 million Euro and type 2 (equity investments) for 13 million Euro.

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



**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**

During 2013, the Central Bank received considerably less applications compared to previous years, to approve prospectuses relating to public offerings of financial instruments, pursuant to the regulations on the solicitation of investments referred to under Title I, Part III of the LISF, continuing the negative trend that had already begun in 2011 into the current financial year. There were in point of fact only 2 applications submitted against the 18 from the previous year, referring exclusively to prospectuses for the public offerings of bank bonds issued under the laws of San Marino and relating to a maximum approved nominal amount of Euro 60 million, compared to 260 million in 2012. Both applications referred to senior type bonds, with a fixed rate coupon structure over a three year period. This aspect also represented an additional drop compared to the average term of 3 year and 2 months for senior bonds issued in 2012, and 3 years and 10 months for those issued in 2011. The reduced scale of applications presented, as well as the shorter term for bonds issued is indicative of the banks tendency to utilise different instruments for direct funding.

<sup>4</sup> The remaining portion of fiduciary activities is managed by the financial – fiduciary segment (see relative capital).



2013 saw no applications being submitted by authorised parties other than banks, with the year that has just closed once again continuing the trend that has been apparent since 2010.

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

	2009	2010	2011	2012	2013
<b>Banks</b>	<b>42</b>	<b>32</b>	<b>19</b>	<b>18</b>	<b>2</b>
Senior	39	31	0	17	2
Subordinated	3	1	0	1	0
<b>Financial companies</b>	<b>7</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
Senior	7	2	0	0	0
<b>Total</b>	<b>49</b>	<b>34</b>	<b>19</b>	<b>18</b>	<b>2</b>

The nominal placed value for the 2 loans referring to customers where the prospectus was approved in 2013 was Euro 48 million, with a placement rate of 80% in respect of the issue. This percentage is evident in values that are slightly up compared to the previous year, because in 2012 this parameter stood at 76%, confirming the banks ability to predetermine the volume of bonds that would be subscribed by customers, whilst still taking into account the smaller number of issues to the public in 2013.

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

	2012		2013	
	Nominal amount approved	Nominal Placed	Nominal amount approved	Nominal amount placed
<b>Banks</b>	<b>260,000,000</b>	<b>*200,680,000</b>	<b>60,000,000</b>	<b>48,166,000</b>
Senior	255,000,000	195,680,000	60,000,000	48,166,000
Subordinated	5,000,000	*5,000,000	0	0
<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>260,000,000</b>	<b>*200,680,000</b>	<b>60,000,000</b>	<b>48,166,000</b>

Notes: \* This figure differs from the one in the previous year's report because it refers to the entire placement period, which due to the subordinated issue, extended largely into the first half of 2013 and therefore beyond the date when last year's report was prepared. Consequently the totals were updated.

There were 16 bond issues reaching expiry in 2013, where these had been placed with the public in previous years, of which 15 had been issued by banks and 1 by a financial company. Therefore, considering the only 2 new public offerings in 2013, a drop was recorded in the frequency with which bond securities were issued, with the bond funding concentrated on higher issuances, taking into consideration that the impact of this type of funding over the total, direct funding remained stable in respect of the percentages recorded in recent years, namely between 15% and 16%.

While on the one hand, senior bank issuances offered to the public in 2013 were low, on the other, the greater drive especially in terms of structure and the type of securities issued, was evident in issuances reserved for professional customers. In 2013, the Central Bank was notified of three reserved bank bond issuances, of which one was senior, one subordinated and one convertible subordinated; the latter was reserved for shareholders of the issuing body for a total nominal issue of Euro 31 million, of which around Euro 26.2 million had been placed at 30 April 2014. At today's date, the placement stage for one of the three securities had not yet been completed.

Issuing bonds with a subordination clause aims to consolidate the issuing bank's equity, as these issuances are calculated in the supplementary regulatory capital; furthermore, the issuances that



include the option of being converted into shares of the issuing bank itself and if this is done within the set dates, also provide a prospective increase in the regulatory capital's principal and primary components, namely the share capital .

During the first quarter of 2014, it was noted that banks sought greater recourse to issuing bonds with funding solicited from the public. There were in fact 4 applications presented in the first three months of 2014, referring to a total nominal approved amount of Euro 110 million.

In respected of unauthorised parties, namely joint-stock companies not subject to the Central Bank's supervision, it is noted that no applications have been submitted for bond issues since 2009.



### **1.1.5 The capital**

The banking system's equity reached Euro 577 million, an increase of 15.6% compared to 2012 on an annual basis. The increase was mainly due to two factors: the asset consolidation transaction pursuant to Art. 13 of Law No. 153 dated 31 October 2013 that involved one bank for Euro 85 million, and the revaluation of holdings in the Central Bank of the Republic of San Marino's Endowment fund pursuant to Art. 75 of Law No. 174 dated 20 December 2013, which resulted in an increase of the revaluation reserves for Euro 19 million.

The dynamics referred to above made it possible to improve the system's capitalisation indicators, starting with the net equity ratio over total assets, which increased from 8.2% in 2012 to 9.4% in 2013.

From a prudential perspective, the figures referring to 31 December 2013 showed a significant improvement: against regulatory capital of 500 million Euro, there was an increase of 42.1% compared to 2012, the incidence on total assets went from 5.8% in 2012 to 8.2% in 2013, similarly to the increase for tier 1 capital (primary quality component) over total assets that went from 6.4% to 7.3% in 2013.

The solvency ratio (referring to the ratio between regulatory capital and total weighted assets for credit risk), as the main indicator for the credit system's stability level, showed an increase that went from 8.8% in 2012 to 13.6% in 2013, resulting – at system level – in compliance with the minimum requirements set by the regulatory provisions that stipulate a solvency ratio of at least 11%.

### **1.1.6 Profitability and efficiency**

The analysis of the reclassified profit and loss account (Table 9) while showing a general contraction in interim economic performance, also showed a slowdown in losses for the system that went from Euro 206 million in 2012 to Euro 33 million in 2013.

The income trend reflected the difficulties experienced by operators to extend their reference markets and attain greater integration at international level in respect of the credit market and San Marinense funding.

Critical areas persist in the capacity of certain banks to produce adequate income flows, especially with regard to money management (interest margin down by 41.1% compared to 2012), considering also that a portion of the assets are still held for trading and will only reconvert into becoming interest-bearing in the future.

Funding from services essentially remained stable, which was the result of progressively diversifying income sources. This made it possible to limit the contraction in the mediation margin, which went down by Euro 29 million (-21.6% compared to 2012), to close at Euro 105 million.

The containment in administrative expenses introduced by certain operators (from Euro 87 million to Euro 77 million, a drop of 11.4%) translated into a contraction in operational costs which went from Euro 118 million in 2012 to 111 million Euro in 2013; this was not sufficient however to offset the contraction in the mediation margin referred to above. The Cost Income Ratio (operational costs over the mediation margin) thus worsened significantly, going from 88.2% to 105.7%. This figure was strongly impacted by the trend in one bank, without which the figure would have been 84.8%.

The remaining items in the profit and loss account recorded a drop in the amount of adjustments carried out on loans (from Euro 275 million to Euro 74 million, down by 73%).

The result for the financial year was negative for Euro 33 million, an improvement compared to the -206 million Euro in 2012. The aggregate data was however affected by the different distribution of economic results for the period, with 6 banks that closed with a profit (for an aggregate of Euro 5.5 million) and 4 with losses (for an aggregate of Euro 38.8 million).

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

Reclassified profit and loss account	2012		2013		Var %*
	Amount	% Marg. Mediation	Amount	% Marg. Mediation	
1 - Interest received and other proceeds	178	133.0%	142	135.8%	-19.9%
2 - Interest paid and other costs	-105	-78.6%	-100	-95.0%	5.3%
<b>A - Interest margin</b>	<b>73</b>	<b>54.4%</b>	<b>43</b>	<b>40.9%</b>	<b>-41.1%</b>
3 - Commissions received	28	21.0%	27	25.8%	-3.9%
4 - Commissions paid	-5	-3.7%	-5	-4.6%	3.8%
5 - Other operating proceeds	26	19.5%	29	27.6%	10.8%
6 - Other operating costs	-1	-1.0%	0	-0.4%	66.3%
<b>B - Service revenues</b>	<b>48</b>	<b>35.8%</b>	<b>51</b>	<b>48.4%</b>	<b>5.9%</b>
7 - Dividends and other proceeds	1	0.7%	3	2.6%	216.3%
8 - Profits (losses) on financial transactions	12	9.2%	9	8.1%	-30.4%
<b>C - Mediation margin (A+B+7+8)</b>	<b>134</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>	<b>-21.6%</b>
9 - Administrative expenses	-87	-64.7%	-77	-73.1%	11.4%
10 - Value adjustments on intangible and tangible fixed assets	-31	-23.4%	-34	-32.6%	-8.9%
<b>D - Operating costs</b>	<b>-118</b>	<b>-88.2%</b>	<b>-111</b>	<b>-105.7%</b>	<b>6.0%</b>
<b>E - Gross operating result (D-E)</b>	<b>16</b>	<b>11.8%</b>	<b>-6</b>	<b>-5.7%</b>	<b>-137.9%</b>
11 - Provisions for risks and costs	-35	-26.0%	-6	-5.9%	82.3%
12 - Provision to credit risk funds	-7	-5.0%	-22	-20.8%	-225.4%
13 - Value adjustments on loans and provisions for guarantees and commitments	-275	-205.8%	-74	-70.9%	73.0%
14 - Value recoveries on loans and provisions for guarantees and commitments	7	5.3%	25	24.0%	255.8%
15 - Value adjustments on financial fixed assets	-55	-41.1%	-8	-7.7%	85.4%
16 - Value recoveries on financial fixed assets	0	0.0%	0	0.0%	0.0%
<b>F - Net operating result</b>	<b>-349</b>	<b>-260.7%</b>	<b>-91</b>	<b>-86.9%</b>	<b>73.9%</b>
17 - Extraordinary proceeds	75	56.0%	100	95.5%	33.6%
18 - Extraordinary costs	-4	-3.3%	-52	-50%	-1092.0%
<b>G - Gross profit from extraordinary operations</b>	<b>71</b>	<b>52.7%</b>	<b>-48</b>	<b>45.5%</b>	<b>-32.4%</b>
<b>H - Gross profit</b>	<b>-278</b>	<b>-207.9%</b>	<b>-43</b>	<b>-41.4%</b>	<b>84.4%</b>
19 - Income taxes for the financial year	57	42.6%	0	-0.1%	-100.1%
<b>I - Net profit**</b>	<b>-221</b>	<b>-165.4%</b>	<b>-44</b>	<b>-41.5%</b>	<b>80.3%</b>
20 - Variation to the fund for general banking risks	15	11.4%	10	9.7%	-33.2%
<b>Net profit</b>	<b>-206</b>	<b>-154.0%</b>	<b>-33</b>	<b>-31.8%</b>	<b>83.8%</b>

Notes: Figures in million of Euro. The changes and the interim results are calculated on the different values (not rounded up/down).

\* The percentage variations take into consideration the algebraic sign of the amounts they refer to.

\*\* Gross of the variations to the fund for general banking risks.

While still in the negative, the profitability indicators (Table 10) showed signs of a recovery with the return of assets (ROA) at -1.5% (-5.4% in 2012) and the return on equity (ROE) at -6.2% (-36% in 2012).

With regard to efficiency, administrative costs for employees came down to 125 thousand Euro compared to the previous 141 thousand Euro.



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

	2011	2012	2013
Return on Average Assets (ROA)*	-6.6%	-5.4%	-1.5%
Return on Average Equity (ROE)*	-22.4%	-36.0%	-6.2%
Cost-Income Ratio**	82.7%	88.2%	105.7%
Administrative expenses per employee***	133.8	141.0	125.0

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.

\*\*\* Figures in thousands of Euro.

### 1.1.7 Liquidity

In the past, exposure to the liquidity risk has been a highly critical aspect for the banking system, and as such has been closely monitored since 2009.

Once again in 2013, the Central Bank continued to constantly monitor the liquidity position of San Marinese banks, using the reports sent through on a weekly basis by intermediaries. This made it possible to identify, inter alia, possible mismatches between assets and liabilities, the assets readily available for liquidation, the level of deposits, in addition to the relevant breakdown according to customers' place of residence. In addition to the ordinary checking conducted on the indicator data received and the underlying trends, specific controls were introduced during the year in respect of certain institutions, aimed at understanding the reasons for the movements that emerged during the analysis.

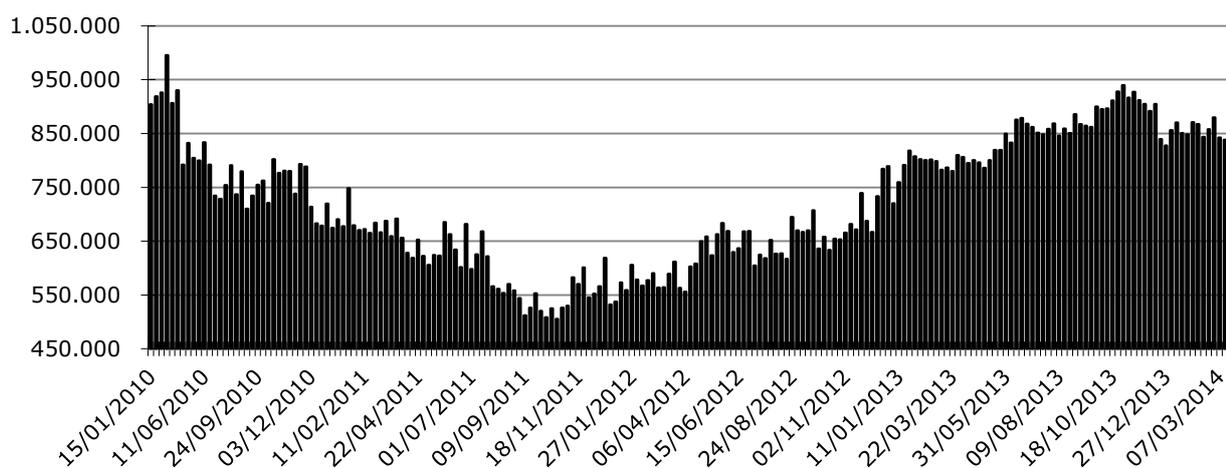
At system level, the liquidity available within 7 days, in other words, the most liquid portion that can be used to immediately address outflows<sup>5</sup>, showed a continuation in the positive trend that had begun towards the end of 2011. At the end of 2013, liquidity available within 7 days stood at 828 million Euro, with a 5% increase compared to 2012 (789 million). The improvement in liquidity becomes more apparent when we consider that the liquidity available within 7 days was on average 844 million Euro during 2013, with a peak of 939 million Euro in November 2013; for the first time recording an amount similar to what had been reached at the start of 2010 (Figure 9).

The liquidity position essentially stabilised during the first quarter of 2014, with average values coming in at around the same (851 million) as those of the previous year.

<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 inter-bank loans net of debts with bank (again, due and payable within 7 days). San Marino interbank relations are excluded from the calculation.



**Figure 9 - Trend in the system's liquidity available within 7 days**



Notes: Figures in thousands of Euro.

By analysing the level of cover for free deposits referring to non-resident customers, by using the 7 day liquidity available as an indicator of the system's capacity to face potential outflows of sight deposits, it is noted how at the end of 2013 the indicator stood at 143.5%, confirming the positive trend that had begun in 2011 (73.5%) and continued into 2012 (104.5%).

### **1.1.8 Cash movements**

By analysing the quarterly indicators for withdrawals and deposits made in banks that were provided by the San Marinese banks, we find confirmation of the downward trend already recorded in previous years in customers' use of cash.

This phenomenon is confirmed by the cash turnover rate (obtained by comparing the amounts for withdrawals and deposits at the counter to total debts with customers, which would come close to the portion of funding used with a monetary function), showing a drop of 11.7% in the fourth quarter of 2012 compared to the 10.4% for the same period of 2013 (the same indicator at the end of 2011 was 14.5%).

Table 11 summarises the trend in withdrawals and cash deposits made at the bank from 1 January 2012 to 31 March 2014<sup>6</sup>.

<sup>6</sup> When analysing the data broken down according to customers' residence, it should be noted that transactions carried out by San Marino fiduciary companies on behalf of non-resident parties have been recorded as counterparties with registered offices in San Marino.



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

Withdrawals according to residence	2012				2013				2014
	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>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>
- of which residents of San Marino	85,560	86,599	76,942	84,174	67,365	69,637	68,789	73,037	60,472
- of which residents in Italy	43,341	44,992	40,621	41,630	35,259	34,538	33,512	36,834	30,962
- of which, resident in the EU Area excluding Italy	521	1,224	755	491	313	616	613	635	342
- of which residents in the Rest of the World	1,773	2,734	2,303	2,398	1,647	1,967	2,085	1,766	1,983

Notes: Figures in thousands of Euro.

Withdrawals by business sector	2012				2013				2014
	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>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>
- of which Public Administrations	118	107	150	109	451	125	112	188	163
- of which non-banking financial companies	4,051	4,280	3,070	2,615	1,776	2,054	1,612	1,726	1,359
- of which non-financial companies	21,134	21,460	18,198	19,592	15,215	15,733	14,635	14,976	12,714
- of which Households	104,218	107,754	98,125	105,518	86,604	88,358	87,915	94,812	79,046
- of which Other	1,674	1,948	1,078	859	538	488	725	570	477

Notes: Figures in thousands of Euro.

Deposits according to residence	2012				2013				2014
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Deposits at the counter</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>
- of which residents of San Marino	91,407	99,349	106,831	100,436	87,340	93,015	104,695	89,171	78,773
- of which residents in Italy	16,267	18,005	14,833	14,845	14,821	13,361	12,293	12,072	10,471
- of which, resident in the EU Area excluding Italy	147	95	522	201	137	225	215	91	91
- of which residents in the Rest of the World	3,625	2,287	1,026	1,892	1,265	965	1,182	1,019	876

Notes: Figures in thousands of Euro.

Payments by business sector	2012				2013				2014
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Deposits at the counter</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>
- of which Public Administrations	1,990	2,260	2,319	2,199	2,099	3,582	4,857	4,117	4,034
- of which non-banking financial companies	4,840	5,083	2,895	4,767	3,879	3,558	2,586	1,589	1,364
- of which non-financial companies	51,924	54,908	57,057	56,944	50,928	51,926	57,481	52,790	45,107
- of which Households	50,109	54,146	59,115	52,847	45,897	47,776	52,596	43,124	38,970
- of which Other	2,583	3,339	1,826	617	760	724	865	733	736

Notes: Figures in thousands of Euro.

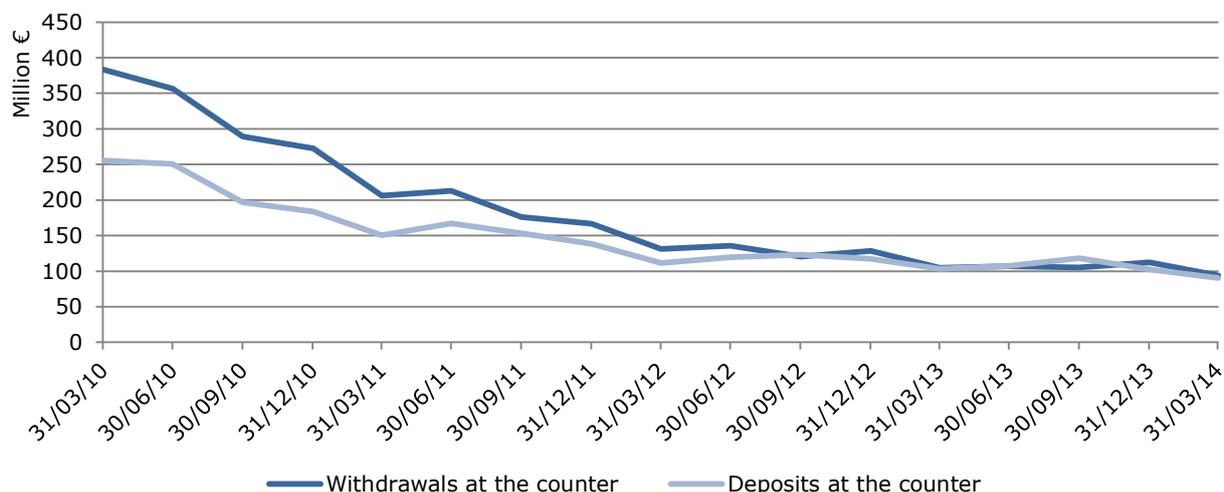
The 16.9% drop in withdrawals between 2012 and 2013 (from 516 million to 429 million Euro) coincides with the contraction of 8.5% in deposits (from 472 million to 432 million Euro); the



two changes resulted in the overall amount for withdrawals and deposits in 2013 to essentially even out at the end of 2013.

The figures for withdrawals and deposits during the first quarter of 2014 confirm the trend in previous quarters, with the amounts basically corresponding (Figure 10).

**Figure 10– Quarterly trend of withdrawals and deposits at the counter**



The breakdown of cash flows according to business sector (Table 12) shows varying trends among the different sectors: differences between non-financial companies and households (withdrawals down for non-financial companies and up for households, while deposits increased for non-financial companies and were down for households). Public administrations had withdrawn limited and consistent amounts, while the figures for deposits increased, resulting from households making increased use of cash payments. Non-banking financial institutions noted a consistent reduction in withdrawals and deposits at the counter, which was in line with the trend in previous years.

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

Percentage of the withdrawals by business sector	2012	2013	2014 I Quarter
<b>Withdrawals at the counter</b>			
- Public Administrations	0.1%	0.2%	0.2%
- Non-banking financial companies	2.7%	1.7%	1.4%
- Non financial companies	15.6%	14.1%	13.6%
- Households	80.5%	83.5%	84.3%
- Other	1.1%	0.5%	0.5%



Percentage of payments by business sector	2012	2013	2014 I Quarter
<b>Deposits at the counter</b>			
- Public Administrations	1.9%	3.4%	4.5%
- Non-banking financial companies	3.7%	2.7%	1.5%
- Non financial companies	46.8%	49.3%	50.0%
- Households	45.8%	43.9%	43.2%
- Other	1.8%	0.7%	0.8%

A review of the breakdown according to residence and business sector (Table 13) confirms the sharp drop in cash withdrawals by households resident in Italy: the average quarterly figures went from 41.9 million Euro in 2012 to 34.7 million Euro in 2013, and coming further down to 30.6 million in the first quarter of 2014. A similar trend is noted in respect of withdrawals by resident households, while the remaining categories did not record a stable trend of the different periods, and this also in terms of their limited extent.

The trends described for withdrawals are largely similar with regard to deposits (second part of Table 13).

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

Withdrawals by business sector and residence	2012				2013				2014
	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>131,195</b>	<b>135,549</b>	<b>120,621</b>	<b>128,693</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>
<b>- of which Households</b>	<b>104,218</b>	<b>107,754</b>	<b>98,125</b>	<b>105,518</b>	<b>86,604</b>	<b>88,358</b>	<b>87,915</b>	<b>94,812</b>	<b>79,046</b>
- of which residents of San Marino	60,190	61,984	56,244	62,843	50,606	52,575	52,959	56,708	46,862
- of which residents in Italy	42,785	43,792	39,984	41,062	34,920	34,218	33,167	36,461	30,640
- of which, resident in the EU Area excluding Italy	400	697	744	453	291	598	556	596	332
- of which residents in the Rest of the World	843	1,281	1,153	1,160	787	967	1,233	1,047	1,212
<b>- of which non-financial companies</b>	<b>21,134</b>	<b>21,460</b>	<b>18,198</b>	<b>19,592</b>	<b>15,215</b>	<b>15,733</b>	<b>14,635</b>	<b>14,976</b>	<b>12,714</b>
- of which residents of San Marino	19,787	18,682	16,532	17,890	14,162	14,499	13,611	13,961	11,826

Notes: Figures in thousands of Euro.

Payments by business sector and residence	2012				2013				2014
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter
<b>Deposits at the counter</b>	<b>111,446</b>	<b>119,736</b>	<b>123,212</b>	<b>117,374</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>
<b>- of which Households</b>	<b>50,109</b>	<b>54,146</b>	<b>59,115</b>	<b>52,847</b>	<b>45,897</b>	<b>47,776</b>	<b>52,596</b>	<b>43,124</b>	<b>38,970</b>
- of which residents of San Marino	36,053	39,030	46,024	39,905	33,821	36,588	42,369	33,347	30,622
- of which residents in Italy	13,488	14,637	11,965	12,291	11,603	10,591	9,457	9,220	7,699
- of which, resident in the EU Area excluding Italy	147	83	500	161	124	198	211	87	82
- of which residents in the Rest of the World	421	396	626	490	349	399	559	470	567
<b>- of which non-financial companies</b>	<b>51,924</b>	<b>54,909</b>	<b>57,057</b>	<b>56,944</b>	<b>50,927</b>	<b>51,926</b>	<b>57,482</b>	<b>52,790</b>	<b>45,107</b>
- of which residents of San Marino	47,546	50,800	53,802	53,530	47,295	48,877	54,033	49,419	42,049

Notes: Figures in thousands of Euro.



## 1.2 The sector of the financial/fiduciary companies and investment companies

### 1.2.1 Size and structure of the system

At the end of 2013, the segment referring to financial/fiduciary companies and investment companies consisted of 15 operators, of which 14 were financial/fiduciary companies and 1 an investment company. Among these operators, from August 2013, one financial company no longer operated in the reserved activities pursuant to D) K) and L) referred to under Annex 1 of the LISF, continuing with the granting of funding and fiduciary activities in respect of existing customers pending the complete transfer and/or divestment of existing account to other authorised parties (e.g. with reference to property leasing contracts and/or fiduciary mandate contracts etc.).

Compared to 2012, 6 companies were delisted from the system, of which 2 due to administrative compulsory liquidation, 3 due to voluntary wind up and liquidation and 1 subsequent to relinquishing all reserved activities.

The sector contracted significantly in terms of operational volumes and the number of employees compared to 2012, with this trend already evident in previous financial years (2010-2011-2012).

Total assets amounted to Euro 563 million (-22% compared with 2012) and the volume of loans for the same period amounted to Euro 546 million (-25.6% compared to 2012). The number of employees came down by 19 units, going from 83 at the end of 2012 to 64 at the end of 2013 which represents 0.3% of all employees in the Republic of San Marino. The main indicators are reported in Table 14.

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

Indicators	2011	2012	2013
Number of operators	29	21	15
Total Assets	901	721	563
Gross loans <sup>I</sup>	846	734	546
Fiduciary activities	676	414	381
Number of employees <sup>II</sup>	120	83	64
Employees (% Total <sup>III</sup> )	0.6	0.4	0.3
Total assets /GDP <sup>IV</sup>	0.6	0.5	0.4

Source: IT, technology, Data and Statistics Office.

Notes: Figures in millions of Euro.

<sup>I</sup> This item includes leasing activities and assets pending leasing.

<sup>II</sup> The number of employees is notified by the Labour Office.

<sup>III</sup> Total for the Republic of San Marino.

<sup>IV</sup> See the note in Table 3 on the updating of GDP data.

At the end of the first quarter of 2014, the number of financial/fiduciary companies came down by one unit, following the administrative compulsory liquidation one of these was subjected to, closing with a total of 14 operators; these included 13 that were financial/fiduciary companies and 1 investment company. Furthermore, during the first quarter of 2014, another financial company transformed its corporate structure, which will result in it being delisted from the list of authorised parties as it ceases to conduct the reserved activities once it has disposed of its existing business.

The trend in this segment was also impacted by the restructuring of banking groups that involved a portion of assets from financial companies being transferred to banks, with a consequent re-allocation of the relevant loan portfolios (see *infra*).



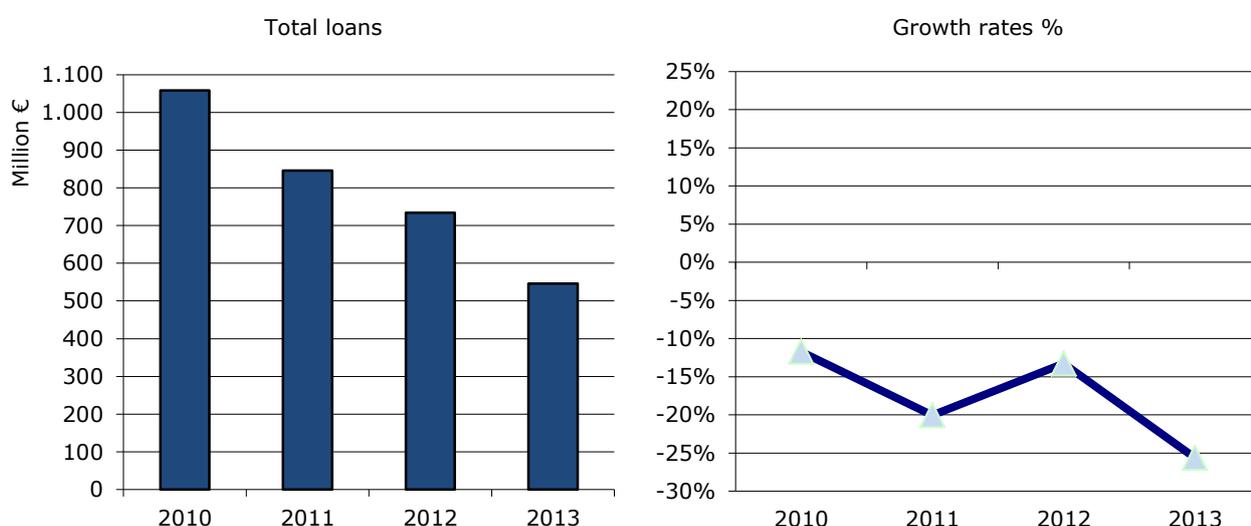
## 1.2.2 Assets and loans

Total assets for the system equalling Euro 563 million were mainly made up for Euro 518.1 million by receivables (net of relevant adjustment provisions), Euro 7.8 million for (tangible and intangible) fixed assets, Euro 15.5 million for financial instruments and Euro 11 million for equity interests (Table 15).

Similarly to 2012, the receivables item also included the exposures referring to leased assets, which covered transactions recognised among the items pending leasing, corresponding to items pending the initial leasing or relating to contracts terminated by the financial company.

The figures for 2013 confirmed the downward trend in the main aggregates, due principally as in 2012, to the exit of a significant number of operators, as well as transactions for the transfer of assets in respect of banking intermediaries, aimed at the progressive exit of selling companies from the market. This second aspect extended the downward trend in gross loans to 25.6% (Figure 11), which was up compared to the corresponding figure in 2012 (13.2%) and 2011 (20.0%).

**Figure 11 - Gross loans for the financial/fiduciary companies sector**



The total amount for loans (see Table 15), net of adjustments recorded a drop of 22.2% (148 million Euro in absolute terms), mainly due to the trend in the financial leasing segment, where leasing came down by 189 million Euro and assets pending leasing were down by 59 million Euro, similarly to assets held for trading (-45 million Euro). Overall, the contraction in loans was lower than the drop recorded in leasing given that the above stated asset transfer transactions were offset by the interim postings in respect of the selling banks, or in some cases, an increase in the bank deposits item (indicated in the table under "other asset items").

The reduction in fixed assets on the other hand was mainly a result of a reclassification in the accounts by one intermediary, referring to property owned under financial leasing (item "total assets"); this reallocation for around Euro 10 million contributed to reducing the downward change in loans.

**Table 15 - Aggregate balance sheet for the financial/fiduciary companies and investment companies' sector**

Assets	2012	2013	Var. %	Liabilities	2012	2013	Var. %
Fixed assets	19.1	7.8	-59.4%	Short term payables	507.2	475.6	-6.2%
				<i>of which: towards banks and financial institutions</i>	465.6	273.6	-41.2%
Total receivables*	666.0	518.1	-22.2%				
<i>of which: leasing</i>	389.2	200.0					
<i>of which: assets pending leasing</i>	168.5	109.6		Medium/long term payables	141.8	25.0	-82.4%
Securities	17.8	15.5	-12.6%	<i>of which: towards banks and financial institutions</i>	114.9	0.4	-99.6%
Shareholdings	11.0	10.5	-4.5%	Other liabilities items	2.2	1.7	-24.7%
Other assets items	6.9	10.9	57.4%	Capital and reserves**	69.6	60.6	-13.0%
<b>Total Assets</b>	<b>720.9</b>	<b>562.8</b>	<b>-21.9%</b>	<b>Total liabilities</b>	<b>720.9</b>	<b>562.8</b>	<b>-21.9%</b>

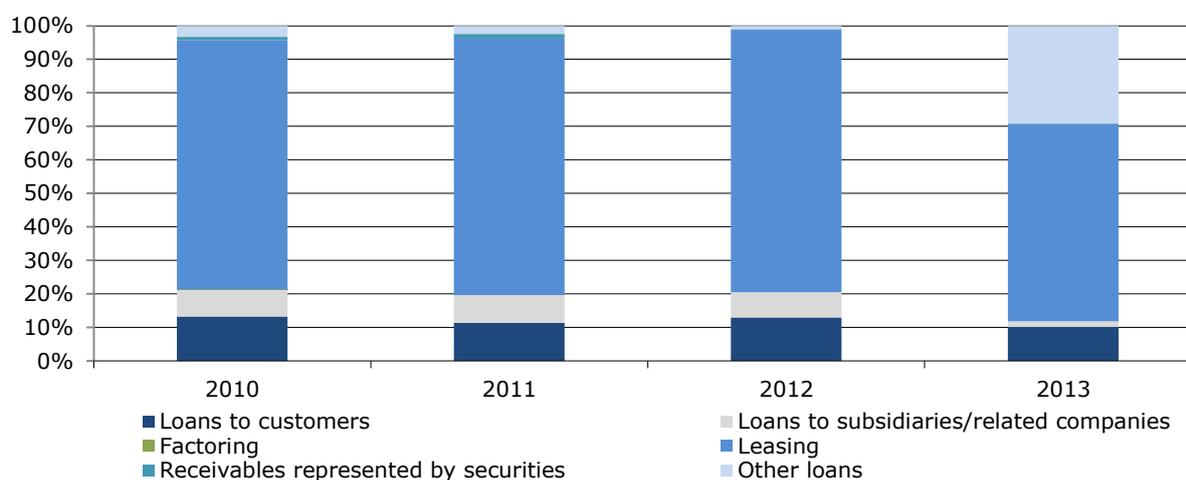
Notes: Figures in millions of Euro.

\* 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 breakdown showing gross loans according to technical forms (Figure 12) illustrates a contraction in the financial leasing component that while still representing the dominant form, had recorded a contraction compared to previous years, going from 78.3% to 58.9% (in terms of net value, the incidence on total assets went from 58.4% to 38.6%). In respect of the other gross loans' components, it is noted that customer loans marginally reduced its impact on total loans from 13.0% to 10.3%, while loans to related companies showed a sharper drop, going from 7.6% to 1.6%. The significant increase in "other credits" resulted from the transactions to transfer assets to banks referred to previously.

**Figure 12 - Composition of gross loans by technical forms**



The progressive decrease in the number of financial – fiduciary companies and the asset transfer transactions referred to resulted in a reduction in the figures for doubtful loans (going from 65 to 37 million Euro), with this also reflecting on the loan quality indicators: the ratio between doubtful loans/gross loans came down from 8.9% to 6.7% (Table 16).



This phenomenon formed the basis for the reduction in the risks provision for short and medium/long term loans, which came down from 51 to 16 million Euro. The ratio between this provision and the doubtful loans figure dropped from 77.4% to 42.5%, due to the reduction in the adjustment provisions' level of cover in the light of the decrease in impaired loans.

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

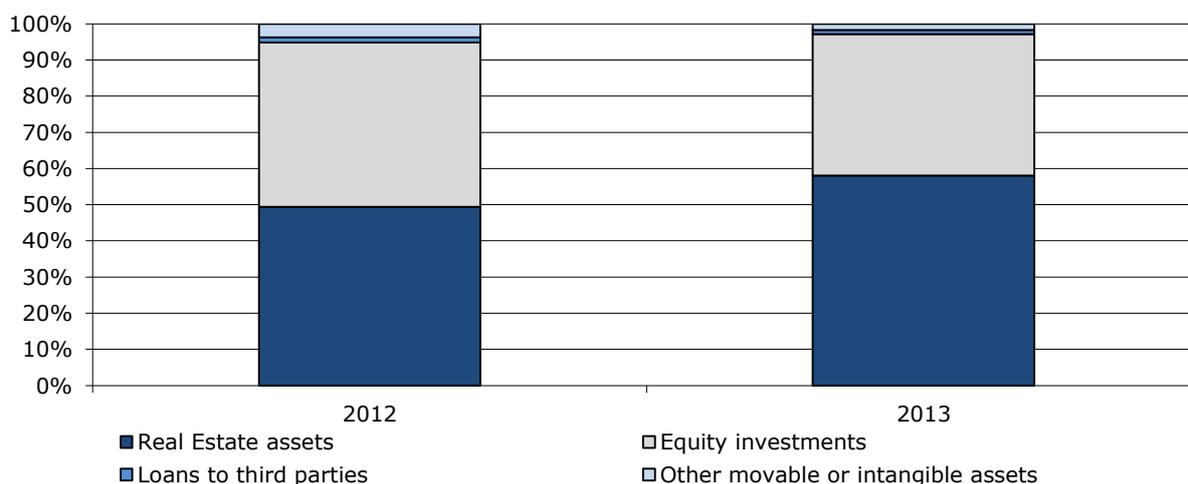
Indicators	2011	2012	2013
Doubtful loans / Loans	5.2%	8.9%	6.7%

### 1.2.3 Fiduciary activities<sup>7</sup>

At 31 December 2013, assets under fiduciary administration amounted to Euro 381 million, recording a decrease of 8% compared with the figure of the end of 2012, confirming the trend that had already been seen in previous years, even though this was to a lesser extent to what had been recorded at the end of 2012 (-39% compared to 2011). This referred to a recovery in type 1 mandates (Fiduciary administration of real estate assets), which partially offset the drop in the remaining fiduciary activities' items, especially type 2 mandates (Fiduciary administration of equity investments).

The breakdown for fiduciary activities by technical form (Figure 13) confirms the dominance of volumes referring to the fiduciary administration of real estate assets (type 1) for Euro 221 million (incidence of 58.1% over the total) and the fiduciary administration of equity investments (type 2) for Euro 149 million (incidence of 39.1% over the total). The remaining formats were therefore marginal: fiduciary loans to third parties represented 1% (equal to Euro 4 million), whereas the fiduciary administration of other movable assets or intangible assets represented 1.7% (Euro 6.5 million).

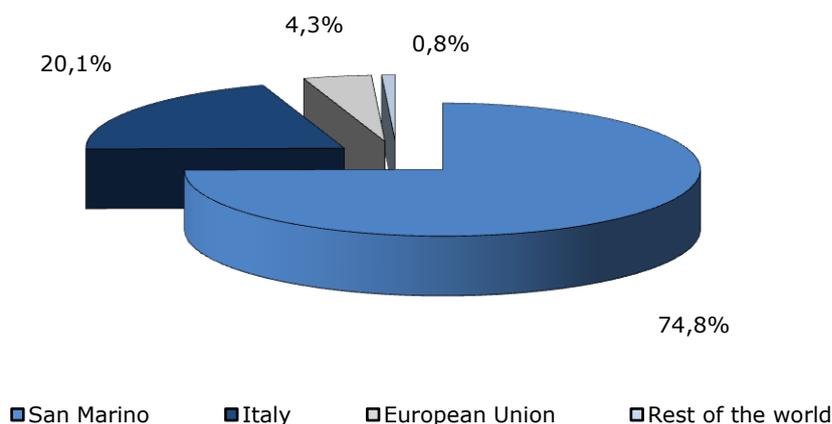
**Figure 13 - Composition of fiduciary activities by technical forms**



<sup>7</sup> This section refers exclusively to the financial – fiduciary companies segment. Figures relating to the assets under fiduciary administration by the banks were therefore not taken into consideration, with this total standing at 117 million Euro at the end of 2013.

Within the context of type 2 mandates "Fiduciary administration of equity investments", a clear prevalence was seen in the equity interests in San Marino companies (74.8% of the total amount); with distinctly lower figures, Italy represented the second country for the establishment of companies held on a fiduciary basis (20.1%), whilst the shareholdings in companies with registered offices in other countries were marginal, countries in the European Union nonetheless dominated at 4.3% (Figure 13).

**Figure 14 - Fiduciary administration of equity investments – breakdown of value of the units by country**



#### **1.2.4 Liabilities and capital**

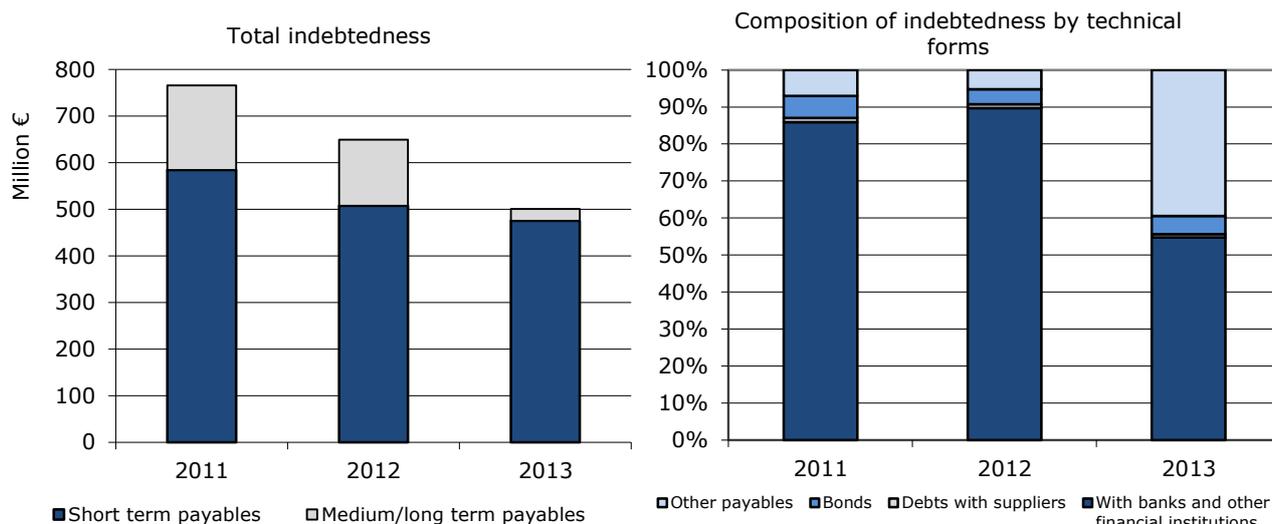
Liability items showed a significant drop in 2013, resulting from the same reasons set out above in respect of the asset items. The total short and medium/long term debt came down to 500 million Euro, dropping by 22.9% (-149 million Euro in absolute terms) compared to 2012.

Short term debt made up the main portion for 95.1% of total debt, closing at 476 million Euro at the end of 2013, to record a drop of 32 million Euro compared with the end of 2012. The residual portion of medium and long term debt showed a significant decrease from 142 to 25 million Euro in 2013 (-82.4%). This can be attributed mainly to the reduced medium/long term debt with banks (-114 million), due to the process to transfer assets and accounts from some financial companies to holding companies, and the ongoing restructuring in the financial/fiduciary companies' segment.

An analysis of the composition of debt found that while still representing the main source of funding, recourse to banks and financial institutions (short and medium to long term) came down significantly compared to the past, dropping from 89.4% to 54.7% of total debts (Figure 15).



**Figure 15 - Indebtedness and composition by technical form**



Capital in the segment for Financial – Fiduciary and investment companies recorded a decrease of 13% in 2013 (from 69.6 to 60.6 million Euro in 2013). The principal reason for this was the exit of marginal operators from the market, representing low capitalisation levels compared with the companies still operating; with a resulting improvement in the system's net equity/ total asset indicators (10.8% compared to previous 9.7%) and net equity / total indebtedness (12.1% compared to 10.7% in 2012).

The restructuring previously referred to in the financial companies segment and the recording of significant interim postings to receivables at the end of the financial year, and debt in respect of banks transferring assets and liabilities, influenced the system's asset figures and the analysis of prudential aggregates.

From the perspective of indicators, an improvement was noted in the capitalisation level, with a 19.2% increase in regulatory capital, which went from 63 to 75 million Euro, while the incidence of regulatory capital and tier 1 capital on total assets came in at 13.3% and 12.7% compared with the previous 8.7% and 8.6% respectively.

The solvency ratio (namely the level of cover on regulatory capital in relation to total weighted assets for credit risk) also showed an increase compared to the previous period (26.38% against 10.96%).

In the context of the basic consolidation referred to above, the cover on regulatory capital for operating risks was similarly adhered to.

### **1.2.5 Profitability and efficiency**

The contraction in the segment and mediated volumes resulted in a generalised, albeit inconsistent drop in income results, with a decrease in the mediation margin from 13.7 to 10.7 million Euro (-21.8%), due principally to the erosion of the interest margin from 10.2 million Euro to 7.4 Euro, representing a 27.1% drop, and to a lesser extent, to the 4.1% drop in income from services. Financial activities did not contribute significantly to the phenomenon referred to, given the insignificant levels involved.

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

Reclassified profit and loss account	2012		2013		Var %*
	Amount	% Marg. Mediation	Amount	% Marg. Mediation	
Interest received and other proceeds	26,614	193.7%	16,599	154.5%	-37.6%
Interest paid and other costs	-16,443	-119.7%	-9,188	-85.5%	44.1%
<b>Interest margin</b>	<b>10,171</b>	<b>74.0%</b>	<b>7,411</b>	<b>69.0%</b>	<b>-27.1%</b>
Commissions received	3,785	27.5%	3,696	34.4%	-2.4%
Commissions paid	-223	-1.6%	-169	-1.6%	24.2%
other financial revenues/costs	-208	-1.5%	-311	-2.9%	-49.6%
<b>Service revenues</b>	<b>3,354</b>	<b>24.4%</b>	<b>3,216</b>	<b>29.9%</b>	<b>-4.1%</b>
Profits on financial transactions	216	1.6%	114	1.1%	-47.0%
Dividends and other proceeds	0	0.0%	0	0.0%	0.0%
<b>Mediation margin</b>	<b>13,741</b>	<b>100.0%</b>	<b>10,741</b>	<b>100.0%</b>	<b>-21.8%</b>
Net administrative expenses	-5,215	-38.0%	-8,082	-75.2%	-55.0%
Value adjustments on intangible and tangible fixed assets	-880	-6.4%	-827	-7.7%	6.1%
<b>Operating costs</b>	<b>-6,095</b>	<b>-44.4%</b>	<b>-8,909</b>	<b>-82.9%</b>	<b>-46.2%</b>
<b>Gross operating result</b>	<b>7,646</b>	<b>55.6%</b>	<b>1,832</b>	<b>17.1%</b>	<b>-76.0%</b>
Provisions and value adjustments	-41,888	-304.8%	-7,446	-69.3%	82.2%
<b>Net operating result</b>	<b>-34,242</b>	<b>-249.2%</b>	<b>-5,614</b>	<b>-52.3%</b>	<b>83.6%</b>
Extraordinary proceeds	6,954	50.6%	846	7.9%	-87.8%
Extraordinary costs	-2,796	-20.3%	-1,499	-14.0%	46.4%
<b>Gross profit from extraordinary operations</b>	<b>4,158</b>	<b>30.3%</b>	<b>-653</b>	<b>-6.1%</b>	<b>-115.7%</b>
<b>Gross profit</b>	<b>-30,084</b>	<b>-218.9%</b>	<b>-6,267</b>	<b>-58.3%</b>	<b>79.2%</b>
Income taxes for the financial year	-454	-3.3%	-272	-2.5%	40.1%
<b>Net profit</b>	<b>-30,538</b>	<b>-222.2%</b>	<b>-6,539</b>	<b>-60.9%</b>	<b>78.6%</b>

Notes: Figures in thousands of Euro.

\* The percentage variations take into consideration the algebraic sign of the amounts they refer to.

The total for operating costs at end December 2013 was 8.9 million Euro, showing an increase against the 2.8 million for the same period the previous year (46.2%); administrative expenses impacted significantly to cause this change, compared with the reduction in Other operating revenue and proceeds. Consequently, the impact of operating costs on the mediation margin went from 44.4% to 82.9%, contributing to the contraction in the Gross operating margin, which went from 7.6 to 1.8 million (-76%).

Despite the drop in the mediation margins referred to above, the net operating result recorded an improvement of 28.6 million Euro compared to the previous year (+83.6%), due to the lower provisions and value adjustment in the 2013 financial statements, which went from 41.8 to 7.4 million Euro in 2013.

The postings referring to extraordinary operating costs dropped by 115%, going from 4.1 to -0.7 million Euro, resulting mainly from the sharp contraction in extraordinary proceeds (fell by 6.1 million Euro, equalling 87.8%).

The 2013 financial period closed with a 6.5 million deficit for the financial/fiduciary companies and investment companies segment, which was an improvement on the previous period's loss of 31 million that was impacted – as stated above – by the significant value adjustments carried out; these also as a result of the inspections carried out by the Central Bank.



The main profitability indicators (Table 18) confirmed the trend set out above, showing an improvement both in terms of the ROA that while still in the negative, came in at -0.9% (from -4.2% in 2012) and the ROW that went from -32% in 2012 to -10.1% at the end of 2013. Conversely, the increase in net administrative costs contributed to a worsening in the personnel cost indicators, standing at 126.3 thousand Euro compared to the 62.8 thousand Euro in 2012; similarly, the Cost Income Ratio (operating costs/mediation margin) rose from 44.4% to 82.9%.

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

Indicators	2011	2012	2013
Return on Average Assets (ROA)	-1.2%	-4.2%	-0.9%
Return on Average Equity (ROE)	-6.3%	-32.0%	-10.1%
Cost-Income Ratio*	77.1%	44.4%	82.9%
Administrative expenses per employee**	113.8	62.8	126.3

Notes: \* Operating costs/Mediation Margin.

\*\* Figures in thousands of Euro.

### 1.2.6 Management companies

Regulation No. 2006-03 on collective investment services was amended during 2013 specifically in respect of the section referring to offerings by foreign investment entities in the Republic of San Marino. The regulatory amendments were contained in Regulation No. 2013-06 that revised a number of supervisory provisions. While focused and well-defined, the regulatory amendment was necessary in order to bring the Republic's regulations in line with EU developments in recent years; specifically, to allow for public offerings by authorised parties based on simplified procedures for all the types of investment funds, established pursuant to EU Directives, in other words all the so-called harmonised funds or UCITS (Undertakings for Collective Investment in Transferable Securities). The main aspects simplified in terms of requirements for trading in harmonised European Funds in San Marino referred to the language prescribed for documentation, including accounting documents pertinent to the funds relevant to offerings. English documentation was now allowed, in addition to Italian, with the exception of documents containing key investor information, also referred to as KIID, which pursuant to EU requirements must instead be drawn up in Italian and delivered to the customer. In respect of the marketing of funds other than harmonised funds, the approval procedure with the Central Bank remains unchanged, where this represents the preliminary process before the public offering.

The number of San Marinese mutual investment fund management companies registered in the Register of Authorised Parties remained stable once again in 2013, and in the first quarter of 2014 rose to two. Both investment companies are duly authorised and qualified for activities D4, D6, E and F of Annex 1 of the LISF. At the start of 2014, the Central Bank completed a comprehensive evaluation on one of the management companies, issuing authorisation for them to also operate in respect of the reserved activities D4, D6 and E, because up until that time, the company had only been qualified for the F activity; in point of fact, the company had not operated recently in this sense for an extended time because it had been involved in amending its holding structure and restructuring the company.

At the same time that this authorisation was issued, the Central Bank approved the management regulation and prospectus drawn up by the company, and relating to three UCITS III mutual investment funds, based on San Marinese regulations (specifically Heading II, Title II of Part III of Regulation No. 2006-03), namely open funds directed at the general public that pursue an investment policy similar to the UCITS III funds established in the EU context. The placement and management of the three funds is currently in the start-up phase. These are the first San Marinese

registered funds intended and offered to the general public in the Republic's territory, to be approved by the Central Bank. Specifically, these funds require that a valuation process of the units is done on a daily basis.

The other management company that has been operating for several years, has focused its strategy solely on alternative type funds reserved for a professional customer base. Specifically, the alternative funds intended for professionals managed by this company are both open and close-end funds. The number of open-end funds remained stable at 11, while the number of close-end funds increased to one unit in 2013. Of the three close-end funds, one of these launched a number of years ago, specialises in investments in works of art; of the other two, as stated previously, one became operational in 2013 and the other in 2012. These refer to specific funds, reserved only for San Marinese banks, and were established pursuant to Decree-laws issued by the Republic, in relation to system operations and interventions to protect savings. More specifically, the fund established in 2012 was called "Loan Management". Last year's report referred to this as a fund held by San Marinese banks, and which had come about from the contribution of loans originating from the liquidation of Credito Sammarinese S.p.A.. Likewise, the other close-end fund established in 2013, called "Odisseo" was activated with the contribution of loans and real estate originating from the consolidation involving the bank Euro Commercial Bank S.p.A. and the financial company Fincompany S.p.A..

With reference to the close-end funds reserved exclusively for San Marinese banks, it is noted that the other management company activated a new fund called "Asset NPL" at the end of 2013. This fund was similarly subscribed with the contribution of loans, and included in the context of the systemic transaction to protect savings, involving the Banca Commerciale Sammarinese S.p.A..

In terms of volumes, at the end of 2013, the assets managed in relation to San Marinese registered open-end funds stood at 34 million Euro, recording a drop of around 6 million compared to the figure at the end of 2012. At the end of 2013, net equity relating to the close-end San Marinese funds was approximately Euro 98 million, up against the Euro 44 million recorded at the end of 2012. More specifically, of these 98 million Euro, 4 million related to the close-end fund investing in works of art, while the remaining 94 million Euro of close-end funds reserved to San Marinese banks and established in relation to system transactions, 67 million Euro related especially to two new close-end funds established at the end of 2013 and 27 million to the same type of fund authorised in 2012. Overall, the net equity of San Marinese funds at December 2013 stood at around 132 million Euro.

Looking forward, increasing recourse is noted to investment funds in the context of restructuring undertaken in the financial system, and greater focus by management companies on managing assets and items other than financial instruments, especially loans, with the consequent changes brought to their own organisational structures, operating processes, not to mention the required expertise.

### **1.2.7 Insurance companies**

During the 2013 financial year, the two San Marino insurance companies continued their activities, working in synergy with the credit institutions of San Marino and the other intermediaries operating in the Republic.

Premium collections in 2013 stood at around 115.4 gross million Euro, down by 14.8% compared to 2012.

At 31 December 2013, the total volume for investments from San Marinese insurance companies was approximately 461.4 million Euro, up by 27.3% compared to the previous year (362.3 million Euro at 31 December 2012).



During 2013, investments related to class C<sup>8</sup>, where the risk is borne by the companies, increased from Euro 47 million to Euro 75.3 million (up by around 60.3%). In this regard, it should be noted that 77.1% of the total is invested in bonds and other debt securities.

At the end of 2013, the investments where the risk is borne by the insured party, referring mainly to dedicated internal funds, amounted to Euro 386 million and registered an increase of 29.1% compared to 2012.

In so far as liabilities went, technical reserves stood at approximately Euro 457.2 million, up by 29.1% from the end of 2012.

Most of the technical reserves (84.4%) referred to contracts, where performance was linked with dedicated internal fund and market indices, whereas the remaining 15.6% consisted of mathematical reserves and other Class C technical reserves that increased from Euro 38.7 million in 2012 to Euro 71.1 million at the end of 2013.

With regard to costs related to accident claims, in 2013 they amounted, in aggregate, to approximately Euro 24.1 million, down by 5.4% compared with the Euro 25.5 million registered in 2012.

From the perspective of economic management, insurance companies recorded an aggregate loss of Euro 488 thousand (compared with an aggregate loss of approximately Euro 290 thousand in 2012). For the fifth consecutive financial year<sup>9</sup>, a negative economic result was recorded with a consequent worsening in profitability compared with 2012; this was mainly due to the high operating costs incurred, together with the significant drop in income from premiums, which resulted in a slight worsening in the ratio between losses and recognised gross premiums that went from 0.2% in 2012 to 0.4% in 2013.

There was a worsening of the expense ratio efficiency indicator (ratio between operating expenses and gross premiums accounted for) in 2013 coming in at 2.7% (around 2.1% in the 2012 financial year).

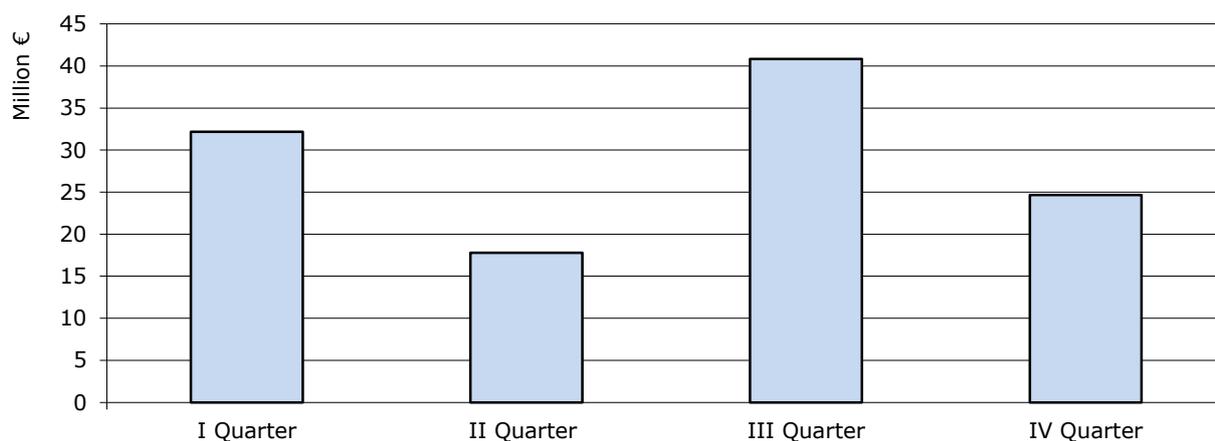
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<sup>8</sup> Class C investments are related to real estate properties (lands and buildings) and financial investments in companies of the group and other subsidiaries as well as in other financial instruments (shares, investment funds units, bonds, etc.).

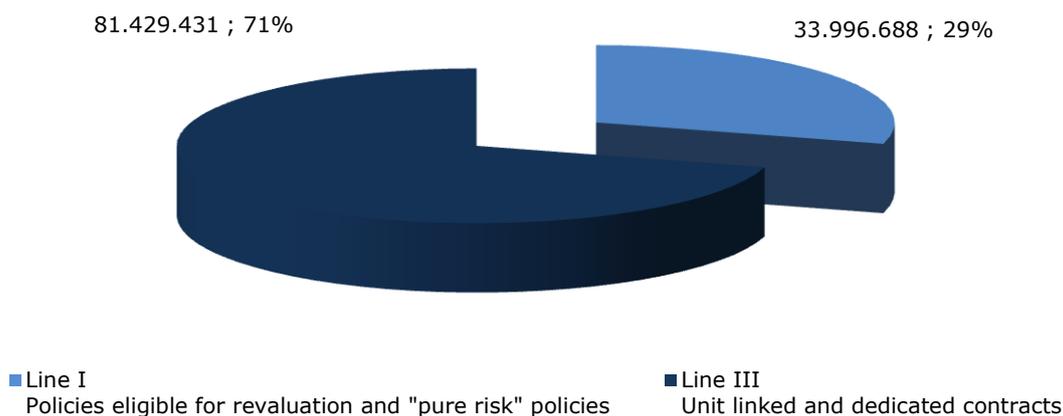
<sup>9</sup> Authorisation formalities for the two companies were completed in May 2009.



**Figure 16 - Breakdown by quarter of the gross premiums recognised in 2013**



**Figure 17 - Breakdown by insurance branch relating to the gross premiums recognised in 2013**



**1.2.8 Insurance and reinsurance intermediaries**

At the end of 2013, a total of 51 parties were registered in the Public Register of Insurance Intermediaries, divided into natural persons and sole proprietorships (9), companies (27) and banks and financial companies (15).

The recordings in the Register at 31 December 2013 are summarised in the Table below.



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

	<b>Section A Natural persons and sole proprietorships</b>	<b>Section B Companies</b>	<b>Section C Banks and financial financial companies</b>	<b>Total</b>
Assets	6	24	15	<b>45</b>
Suspended	3	3	0	<b>6</b>
<b>Total</b>	<b>9</b>	<b>27</b>	<b>15</b>	<b>51</b>

In 2013, there were 6 cancellations from the Register (2 of which related to previously suspended parties) and 3 new entries.

From the data provided by those included in the Register it emerged that the total for premiums mediated in 2013, excluding the funds collected on behalf of the two insurance companies incorporated in San Marino, was approximately Euro 43.4 million and concentrated mainly in the non-life sector, down slightly from the total premiums mediated in 2012.

### **1.2.9 Financial promoters**

During the summer of 2013, the Central Bank began a second round of consultations on the new draft Regulation on financial promotion and cold-calling, in order to enact Articles 24 and 25 of Law No. 165 dated 17 November 2005 (LISF), relating to financial promotion and integrate this into San Marinese regulations on this issue. The second round of consultations became necessary because the new draft regulation was more detailed and extended to areas that had not been included in the first draft that was submitted for discussion in 2012; it also took into consideration the observations that had come in the meantime from various contributors.

Regulation 2014-01 was issued in January 2014 on financial promotion and cold-calling, which became effective on 31 March 2014.

The Regulation introduced the public Register of Financial Promoters, extended the regulations governing the San Marinese financial system and potential operations that intermediaries were qualified to carry out, allowing for diversified channels in the offering and distribution of products, while at the same time introducing rules to guarantee and protect both the public and the operators themselves.

The regulation sets out detailed rules that govern cold-calling operations, especially in terms of conduct, transparency and organisation, both in respect of authorised parties and natural persons that carry out this activity outside the intermediary's premises, setting specific requirements for cold-calling offerings, in respect of incompatibility, as well as detailed provisions on the causes for suspension and cancellation from the register.

More specifically, registration in the register, which constitutes a prerequisite for carrying out cold-calling offerings, is only allowed in the case of natural persons, whether financial promoters that want to practise as self-employed professionals, or employees of authorised parties that intend operating outside the premises where the promotion and placement of investment services is conducted. Registration is conditional on having the mandatory prerequisite of integrity, which is required of bank members, as stipulated under Regulation No. 2007-07 and the specific professional requirements. The latter can either be proven based on certifications showing that assessment tests for registration in similar foreign registers or professional association registers have been successful, or by proving that these have been acquired over an appropriate time period, by working in capacities that characterise investment services. In terms of professional requirements,

these provisions constitute a guarantee that only highly qualified personnel is offering financial services and instruments to the public.

The Register for Financial Promoters - including the section dedicated to employees of authorised parties that work in cold-calling - is publicly available from the Central Bank, which is responsible for managing and keeping it updated. The Regulation further stipulates the powers of the Supervisory Authority and the obligations relating to communication, both for financial promoters that must for example, provide information on the activity conducted during the past year and any change to the data referring to them in the register, and authorised parties that are obliged to communicate the lapsing of registration requirements in respect of the people that they use. Furthermore, powers have been set out regarding interventions by the Central Bank to protect the public, in terms of suspending or cancelling those cold-calling from the register, when infringements specifically covered by the regulation occur.

Finally, a section of this regulation deals with the cross-border transactions of financial promoters register in the San Marinese register, which is obviously also done in compliance with the applicable regulations in the foreign country where they intend operating.

Subsequent to Regulation No. 2014-01 coming into effect on financial promoters and cold-calling, the Central Bank began to receive a number of applications for registration in the public register dedicated to employees of authorised parties that conduct cold-calling. These applications are currently being assessed, especially in terms of the professional requirements. Should these be successful, the Central Bank will publish them in the register as required by the regulation.

In respect of financial promoters that had already been registered, there was one single party registered at the end of 2013 that had been included for some years, but that was currently not operational.



## 2 THE INSTITUTIONAL FUNCTIONS

### 2.1 The Supervision and protection of investors

#### 2.1.1 Supervisory policy

Specifically focused interventions to protect and consolidate what existed and extend reference markets were required in the light of developments in international regulations, San Marino's undertakings in 2012 in the context of the Monetary Agreement, and the need to provide the banking and financial system with adequate tools to effectively manage operators in a modern way.

From this perspective, the actions by the Supervisory Authority aimed to create the foundations so that private initiatives could develop under secure conditions, fully cognisant of the risks being undertaken and that the controls adopted were adequate. With this objective, and in line with the supervisory guidelines emerging at European level and recommendations from the International Monetary Fund, specific inspections were planned in loco, in order to evaluate the quality of banking activities on which the liquidity, profitability and asset adequacy indicators of operators themselves were heavily dependent.

There are a multitude of priorities to address, as reported in the most recent reports from the Central Bank, with these including:

- the establishment of a Central Credit Register for San Marino that would be able to guide creditworthiness assessments on borrowers and the respective guarantors, and dialogue with similar European data banks;
- the development of relationships with similar foreign authorities. The signing of these agreements would make it possible for our operators to assess their expansion strategies abroad, and at the same time, allow the Central Bank to monitor operations outside its borders. In this context, top priority is given to relations with the Bank of Italy, with whom – as emphasised on a number of occasions by the Bank's management – discussions have been underway for some time, to reach the objective of signing a Memorandum of Understanding;
- bringing the legislative and regulatory framework in line with international standards, but at the same time ensuring these are market friendly, so as to support our intermediaries' operations, helping to improve the profitability indicator and increase the attractiveness of our banking and financial sector for foreign investments;
- the contribution to the National Risk Assessment, which as required by the new FATF recommendations, must be conducted - in conjunction with the other authorities responsible - in order to assess the vulnerability and adequacy of existing controls to avoid the risk of involving the banking and financial system in transactions directed at money laundering and terrorism financing;
- the assessment of the macro prudential impact on the financial system of international regulations on taxation and the exchange of computer data;
- training. Significant initiatives were undertaken recently together with sector associations and professional bodies, especially in relation with the organisational and functional profiles of banking and financial intermediaries' company structures. We need to continue in this direction in order to become fully conversant in the rules and analysis tools set at European level, starting with the new regulations on banks' capital requirements (the so-called CRD IV) and the regulations on international accounting principles. In the light of the above, joint training courses – often in conjunction with the University – will prepare operators in the banking and financial sector for the regulatory changes expected over the next two-year period.



### 2.1.2 The Supervision Committee

Art. 15 of the Central Bank Statutes assigns the Supervision Committee with the "powers to manage the supervisory functions of the Republic's banking, financial and insurance system, in its three components: inspections, information and regulations, as well as protecting investors".

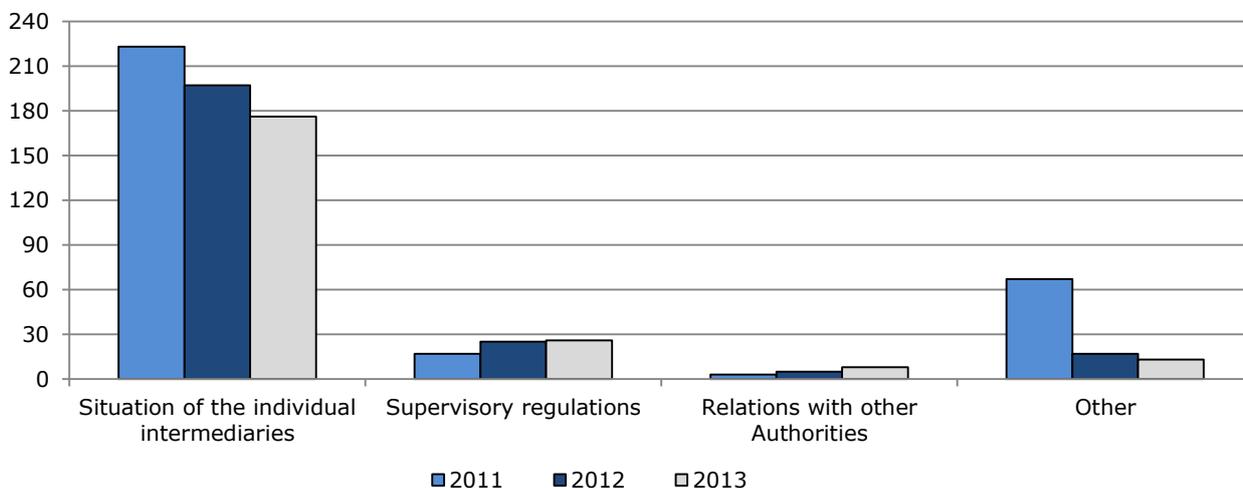
In compliance with the objectives of the Central Bank set out under Art. 37 of the LISF, this authority is exercised by the Supervision Committee based on a dual procedure: on the one hand, identifying strategic choices on which to base the supervisory activities, and on the other hand, coordinating the operations of individual Services making up the Supervision Department, which are tasked, inter alia, with directing the individual files regarding the provisions relevant to the statutory body.

The Supervision Committee conducts its activities through periodic meetings, where members review applications submitted the single supervisory services, or identified directly by the Supervision Committee, and make the relevant decisions.

During 2013, the Supervision Committee held 56 meetings, the same number as 2012, during which 223 decisions were passed (244 in 2012).

For the most part (176), decisions referred to the technical position of supervised parties, such as for example, authorisations, documentary interventions, audits, sanctions or the start of extraordinary proceedings. In the same period, 26 decisions were taken regarding the supervisory regulations and 8 related to relations with other San Marinese or foreign Supervisory Authorities (Figure 17). Compared to the decisions taken in 2012, there was a drop in resolutions regarding individual parties, compared with a slight increase regarding supervisory regulations and relations with other Supervisory Authorities.

Figure 18 - Supervision Committee, number of resolutions according to issue



The decisions taken by the Supervision Committee were, in some cases, subject to appeal in court for alleged legality issues raised by the defendants (see Box 2).



## Box 2: Status of disputes resulting from surveillance activities

### Premise

The implementation of disciplinary measures (suspending administrative bodies, extraordinary administration and administrative compulsory liquidation), as well as the frequency with which sanctions were imposed, have made it essential for the Central Bank in recent years to deal with the resulting judicial administrative proceedings, and defend the legitimacy of its own operations. After all, the same public objectives of protecting the banking, financial and insurance system's stability and safeguarding savers, characterising the supervisory activities, work towards defending the measures adopted with the highest level of determination possible.

### Disciplinary measures

Of the four disciplinary measures undertaken in 2013, only one was challenged, and this referred to the extraordinary administration of Fidens Project Finance. A decision is pending from the First Instance Judge. The other measures have consequently been closed off.

No challenge was raised in respect of the administrative compulsory liquidation order taken in February 2014 against Fidens Project Finance, following on from the close of the extraordinary administration.

With regard to the disciplinary measures taken in the past, it should be noted that out of the total of 11 disputes, 2 reached third instance decisions in favour of the Supervision Committee (Finproject and Pradofin), 1 dispute was waived by the plaintiff in the first instance phase, with the Central Bank's order consequently confirmed (Fincapital), 5 were decided in first instance hearings, with the appeals denied and the decisions becoming final in favour of the Central Bank (San Marino International Bank - now Banca Impresa San Marino -, Banca Commerciale Sammarinese, San Marino Investimenti, Business & Financial Consulting, HEDGEFIN), 3 were decided in first instance proceedings in favour of the Central Bank, but are nonetheless subject to appeal (Credito Sammarinese and Polis). In the case of the latter, a decision is pending from the Second Instance Judge.

### Sanctioning procedures

As specified in box 4 (see above/below), 37 sanctioning proceedings were finalised in 2013, with 7 of these proceedings initiated in 2012. Of these procedures, 4 were challenged before the administrative appeal judge, and are added to the others still pending. In total, there are 38 disputes pending a decision from the court, regarding sanctions imposed for over 400 thousand Euro.

During the first quarter of 2014, 29 sanctioning procedures were filed, with the relative payment orders not issued at 31 March 2014, so that the relevant application shall have to take into account the new regulations on the Central Bank's sanctioning procedures contained in Delegated Decree No. 77 dated 19 May 2014 that ratified Delegated Decree No. 24 dated 4 March 2014, which had become effective on the same day – with amendments. Reference is made to box 4 "Sanctioning procedures" on page 61 for further details.

### Other disputes

The Central Bank also defended the challenge of two letters sent to the intermediaries in 2010 (Credito Sammarinese and Polis). These resulted in 4 disputes that are currently at the first instance hearing stage. In respect of the interlocutory stage of the aforementioned disputes, in all four of them the administrative Court of first instance decided in favour of the plaintiffs, whereas for two of the above judgements, the Appeal Court decided in favour of the Central Bank. The Court of second instance has not yet handed down its decisions for the remaining two interlocutory proceedings.



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

During 2013 and in the first quarter of 2014, the Supervision Department was involved with checking on financial companies' compliance with the new capital and organisational standards introduced by Regulation No. 2011-03, and with developing analyses and intervention tools, and managing extraordinary procedures.

Special attention was given to consolidation operations in the banking segment, aimed at preventing the deterioration in the technical positions of two intermediaries, which could have repercussions on the rest of the system, and neutralising the potential destabilising effects resulting from the business crisis.

During 2013, the Head of the On-site Supervision Service and a Supervision Committee Inspector took part in the meetings and activities of the National Anti-Money laundering Commission, pursuant to Art. 15 bis of Law No. 92/2008. They provided contributions on the risk factors encountered in their surveillance activity, which was also partly discussed during the hearing at the Commission that analysed the infiltration of organised crime.

In addition, the On-site Supervision Service and Supervisory Reporting and Methodologies Service worked to update and provide the necessary statistics for the periodic Moneyval reports, as well as attending the Plenary Meeting held in September 2013 in Strasbourg.

Details of these activities are provided in the paragraphs that follow.

#### **Box 3: Disciplinary procedures and developments in the current business crises**

##### **Premise**

The previous report detailed the more significant factors of the context that had produced a disturbing increase in the disciplinary procedures initiated by the Central Bank. Specifically between 2011 and 2012, a total of 19 disciplinary procedures were filed, which included the suspension of the administrative bodies, extraordinary administration and compulsory liquidations. In this regard, reference was made to the difficult economic situation, the consequences of the progressive reduction in volumes administered between 2009 and 2011, the attempt at infiltration by organised crime, marginality, and finally, certain business initiatives that were initiated during the 2000's in a different historic, economic and legal context.

The comprehensive supervision action undertaken over the last three years – focusing on the one hand at strengthening the financial system, with the consolidation/concentration of intermediaries, and on the other, at facilitating the exit of marginal intermediaries wherever possible, from the supervisory context – resulted in a significant drop in the number of procedures initiated during 2013 and the 1st quarter of 2014 (5 in total) compared to previous years; even though the "long-term" effects of some of these negative factors referred to continue to exist.

##### **Criteria behind adopting measures**

The adoption of these types of measures, which have been the direct responsibility of the Central Bank for some years now, have always been considered by the latter as a last resort to solving business problems. Wherever possible, the Central Bank tries to solve corporate crises by using non-traumatic procedures, and preventive measures provided for in the LISF or, ultimately, inspired by moral suasion. The objective is to make owners and the management aware of the critical aspects of the business situation, so that the intermediary in difficulty would adopt the necessary corrective measures (such as recapitalisation, organisational restructuring, change in management, etc.) prior to the onset of a crisis, either on a voluntary basis or on the request of the Supervision authority (see for example, Art. 46 of the LISF).

Wherever possible, the Central Bank also facilitated the voluntary exit from the market, where minimum conditions for an orderly voluntary liquidation existed.



It is therefore evident that disciplinary procedures are only activated in the most serious situations, where the corporate crisis is not resolved independently by the corporate bodies, which is often a result of highly irregular or unreliable management structures, or characterised by formidable conflicts of interest.

Where the crisis is irreversible, due to extremely serious irregularities, that at times also involve *fumus delicti*, or a capital deficit that cannot be absorbed by the owner or third parties, the only solution is to adopt liquidation procedures, especially in order to protect the *par condicio*.

### **Procedures initiated during 2013 and the 1st quarter of 2014**

A comparison between the previous report from 2012 and this one, shows that the number of disciplinary procedures has gradually come down compared to the previous two-year period. In 2012, 8 disciplinary procedures were initiated, following on from the 11 from the previous year; in 2013, 4 disciplinary procedures were started, of which 1 related to the suspension of the administrative bodies (Finworld S.p.A.), 1 to an extraordinary administration (Project Finance S.p.A.) and 2 to administrative compulsory liquidations, 1 of which involved Finworld, subsequent to the close of procedures to suspend the administrative bodies and the other referring to SIBI Finanziaria S.p.A., following on from the close of extraordinary administration that had started in September 2012. During the first quarter of 2014, the administrative compulsory liquidation of Fidens Project Finance S.p.A. took place, following the close of extraordinary administration proceeds that had begun in October 2013.

The reasons why the Central Bank undertook these measures, and which were also relevant to other cases, referred mostly to:

- management irregularities and regulatory infringements (legislative and the Supervisory Authority measures that govern intermediaries' operations) which were often characterised by a significant number of conflict of interests;
- significant inadequacies and/or disfunctioning of the organisational structures and of the internal control procedures that also resulted in the deterioration of technical balances;
- the expected loss of capital.

### **Status of procedures outstanding in 2013 and the outlook for the main business crises**

In 2013, the Central Bank continued its management of extraordinary administration procedures and administrative compulsory liquidation. The following is noted in respect of the more significant:

- 1) **Banca Commerciale Sammarinese S.p.A. (BCS).** Previous reports detailed the reasons for the complexity of the serious crisis that had affected the bank, and the solutions identified to overcome this. The 2012 Report specified that Asset Banca had taken over BCS share capital, and had acquired its assets and liabilities, and that the transfer was currently underway. The extraordinary administration was in fact completed in June 2013, with the gradual transfer of the entire company to Asset Banca S.p.A.. Based on a consolidation operation and the taxation benefits, it was possible to return BCS to the hands of the ordinary corporate bodies identified by the "Asset" holding company; the company is currently not operational;
- 2) **Credito Sammarinese S.p.A. (CSA).** The bank has been placed under administrative compulsory liquidation since 11 October 2011. The end of 2012 and the start of 2013 saw the completion of the asset transfer from the six banks, which had become transferees of CSA asset and liabilities to the "vehicle" company specifically established to manage the assets of the former CSA (Reserved close-end fund, called "Loan Management", administered by Scudo Investimenti SG). During the year, those managing the procedure settled some of the outstanding positions relating to CSA liabilities, reducing this in favour of the credit system, and are currently preparing for an en bloc sale of the remaining assets. Therefore, once the distribution has been completed for unsecured creditors (the distribution to preferential creditors



took place during 2012), the liquidators will most probably close off the procedure during the current year;

- 3) **Polis S.p.A.** During 2013, the liquidators of the company that has been under compulsory liquidation from 2 September 2011, continued with the significant work to recover non-performing assets and the return of assets held in trust; the work is almost entirely completed. At the start of 2013, the distribution to preferential creditors that had begun at the end of 2012 was completed. The liquidators will carry out an additional distribution to unsecured creditors, and then dispose of the last remaining assets en bloc. It is expected that the procedure will be closed off during the current year;
- 4) **Fincapital S.p.A.** As is well-known, the liquidation procedure that started in January 2011, has been characterised by extremely complex and sensitive aspects, both due to the dimensions and multifunctional nature of the company's operations, and the significant criminal implications that have been widely covered in the national and Italian press. These complex aspects combined with the need to minimise any risk to the corporate image, are the reason for the delay in implementing the settlement signed in September 2011 between the Procedure's authorities and the banking credit system. Nonetheless, despite the difficulties in implementing the relative agreement, the situation has been simplified considerably, given that the entire credit banking segment has been reduced to a single bank, which has become the transferee of all the other banks' debt positions. Regardless of the complex transfer of assets and liabilities, which should be concluded during this year, the liquidators must in any case complete the procedure to return the assets held in trust, to the single remaining bank, before being able to close off the procedure;
- 5) **San Marino Investimenti S.p.A. (SMI).** The previous report referred to the Company's administrative compulsory liquidation that had been initiated on 9 July 2012, the reasons for this and the serious problems that had emerged, especially regarding the international implications due to the network of companies in other countries that could be connected to SMI and/or the controlling shareholder, and which often had their registered offices in countries with a legal system that little was known about. Despite this, the liquidators have continued to recover and settle assets, in order to proceed with the first distribution to creditors. Despite this, it is still early to provide an assessment on what the prospects for a speedy settlement of this procedure could be, given the obvious difficulties;
- 6) **Berfin S.p.A.** The bank has been placed under compulsory liquidation since July 2011. Following on from the filing of the Balance sheet liabilities in October of the same year, the liquidators with due authorisation from the Central Bank began returning assets held in trust at the end of 2011, with this completed during 2013. Even though the expected disposal of assets and liabilities that would have undoubtedly facilitated the settlement process was not finalised, the liquidators worked assiduously to recover assets, to the extent that during the 1st quarter of 2014, the Central Bank authorised the distribution to preferential creditors, based on the liquidators' request.



#### **2.1.4 Regulatory interventions**

During 2013, the Central Bank issued 6 Regulations and one Circular in respect of its regulatory interventions.

The first regulation adopted referred to Circular No. 2013-01 on prudential supervision. Specifically, in implementing Part VII of Regulation No. 2011-03, in addition to setting specific disclosure obligations for parties other than banks, authorised to carry out lending activities, this Circular provided appropriate application provisions and interpretations of the above stated Regulation No. 2011-03, which parties that the regulation is applicable to must adhere to in order to comply with the disclosure obligations relating to sending information through to the Supervisory Authority.

The second regulation in chronological order is Regulation No. 2013-01, which for the second time amended and reviewed the provisions pertinent to the Register of Authorised Parties, which was established in 2006 by the Central Bank in implementing Art. 11 of the LISF. The more significant innovations introduced are worth mentioning, due to the greater transparency they afford the San Marinese financial system:

- extending the obligation previously applicable only to banks, to all authorised parties (financial companies, insurance companies, etc.) of having to publish their financial statements with the relevant reports in the Register, including the identity of shareholders with holdings of more than 5% of the share capital;
- the creation of a new section in the List of Cancelled Parties, in which all companies that had previously been registered are recorded, with details of the period between the original registration date and the cancellation date, as well as the formal reasons that caused the cancellation.

Regulation No. 2013-02 updated two previous Regulations, namely No. 2008-01 (on life insurance activities) and No. 2009-01 (on the preparation of financial statements for life insurance companies). In Regulation No. 2008-01, we note especially that the limits allowed to life insurance companies has been raised to cover their technical reserves in bank deposits and unlisted and not rated debt securities, issued by parties in San Marino authorised to conduct banking activities. In Regulation No. 2009-01 the intervention was limited to reformulating an attached prospectus to the regulation, intended to describe the cover of technical reserves.

Regulation No. 2013-03 was then issued to implement Art. 66 of Law No. 200 dated 22 December 2011 (Mediation Guarantee Fund), which governed the procedure for establishing and operating the fund, which is funded by San Marinese banks, and where the latter use the intermediary services provided by foreign intermediaries subscribing to the Italian and European payment systems, on a contract basis.

On 28 August 2013, the Central Bank issued Regulation No. 2013-04 and No. 2013-05 on "Euro banknotes and coins" and the "Single Euro payment Area" respectively.

Regulation No. 2013-04 is purely technical in nature in that it refers to the implementation of Law No. 101 dated 29 July 2013 (Compendium of provisions on banknotes and coins), which governs the organisational requirements, procedures, terms and processes that those handling cash (banks, post offices, transportation of cash, currency exchange offices, etc.) must comply with in their handling of cash. This is also pertinent to the withdrawal of Euro banknotes or coins that are unsuited for circulation or suspected of being counterfeit, according to operating standards set at European level.

Regulation No. 2013-05, entitled "Entry into the Single Euro payment Area (SEPA)", represents an additional and important addition to the regulatory compliance undertaken, in order to ensure that the San Marinese financial system becomes more integrated with those in Europe.

Specifically, Regulation No. 2013-05 aims to standardise the San Marinense Payments System with the European based rules, adopted pursuant to EU Regulation No. 260/2012 of the European Parliament and Council, in order to create the so-called single Euro payment area, or "SEPA". In point of fact with its common technical and commercial requirements for bank transfer transactions and direct debits in Euro, coming from and into countries subscribing to SEPA, EU Regulation No. 260/2012 laid the foundations to offer more secure, competitive, easy to use and reliable payment services at European level. It was thanks to the prompt intervention by the Central Bank in respect of its regulations that the Republic of San Marino was able to join the forum of SEPA countries, in this way avoiding the serious damage that would have been caused by its exclusion, albeit temporary.

Regulation No. 2013-05 is especially relevant because besides the rules introduced for SEPA purposes, on the regulatory front, it anticipates the implementation of European Directive No. 2007/64/Ec dated 13 November 2007 on "parties' rights and obligations on the issue of payment services" (so-called PSD), directed at Payment Institutes and Services, extending the protection provided to the "consumer" to any customer of the San Marinense banks.

As in the previous year, once again in December 2013, a Regulation was issued entitled "Miscellany of measures aimed at reviewing current supervisory provisions", which adopted provisions that referred to varying issues but that were grouped together given their urgency, specific nature and the minor impact it would cause to supervised parties, being mainly driven by the need to update/coordinate different sector regulations.

Finally, it is worth mentioning the considerable amount of assistance and consulting provided on a technical level by the Central Bank, with over 30 requests received both from operators in the San Marino financial system, and foreign parties (often approaching the Central Bank to show their interest in our legislation), with the Bank providing consulting on interpretations and analyses of current regulations in the financial sector.

### **2.1.5 Information supervision**

During 2013, updating was done to the reporting models and relevant operating manuals used by authorised parties to prepare and send the Central Bank the statistical reports for supervision purposes.

The updates were motivated by two main reasons: the changes to supervisory regulations and the need to extend the database to support analysis and intervention activities. The first group refers to the interventions of the reporting model and operating manuals for reporting on the prudential supervision of financial companies (subsequent to Circular No. 2013-01 being issued). while the second is related to the updates regarding banks' Prudential Supervision, banks' financial statements (entire financial year and first six months), Compulsory Reserve and shareholder reporting.

In addition to the interventions regarding the reporting model and the relevant operating manuals, a review and fine-tuning of internal processes continued throughout 2013, aimed at achieving greater efficiencies and effectiveness in preparing and analysing supervisory reporting data, and in interfacing with authorised parties. In this context, the main interventions referred to launching a specific project for the implementation of a supervisory computer system that would raise the potential for processing reporting data; this also in light of the need to prepare statistics on the system for the International Monetary Fund (see paragraph below) and European Union as from 2016, subsequent to the Republic of San Marino signing the Monetary Agreement in 2012.

Further work on internal processes referred to the formal interaction with authorised parties to confirm reported data that was statistically "anomalous", and to clarifying the aspects determining the main trend changes recorded (270 requests in 2013). The processes underlying the



activity were analysed at the end of 2013, in order to streamline the phases for preparing procedures and sending documentation. As from the beginning of 2014, e-mail communication will also be used to speed up sending times for requests, while the ordinary internal checks to the organisational structure remain unchanged.

Subsequent to the issuing of Regulation No. 2013-03 (Mediation Guarantee Fund), an operation was put in place to collect and process the data needed for its operational functioning, in terms of the initial establishment of the fund, calculating the relevant interest of individual banking intermediaries, and from the start of 2014, updating the fund holdings held by individual contributing parties.

#### *2.1.5.1 Compulsory reserve*

As from the start of 2013, the regulations on the Compulsory Reserve (ROB) gradually underwent review. This accorded the option of establishing a term deposit, up to 50% of its amount, with the granting of debt securities with characteristics that would be considered eligible by the European Central Bank for re-financing transactions. This initial intervention actually reduced the amount for banks' cash contribution to 4%, and was subsequently extended further in December 2013, when the portion of the securities contribution was increased to 60% of the compulsory reserve deposit, by using Republic of San Marino Government securities in this regard.

At the start of 2014, the Central Bank launched a special Technical Commission with the Bankers Association of San Marino, in order to analyse and discuss possible interventions for reducing the Compulsory Reserve. The Commission's work was conducted during January 2014 in a tranquil and collaborative environment making it possible to carry out an overall review of the Compulsory Reserve in a few sessions. The first intervention to amend the compulsory reserve took place in May 2014, with the elimination of the securities contribution, freeing up financial instruments for the banks' ordinary operations, while at the same time bringing down the compulsory reserve to 4%. This initial step that was approved by the ABS will be followed by others, aimed at achieving further reductions in the compulsory reserve, while complying with the Central Bank's balances and the availability of financial resources that can be used – where necessary – in interventions on the system.

#### *2.1.5.2 Coordination and support activities within the context of relations with International Bodies*

As in previous years, in 2013, the Central Bank was heavily involved in managing its relations with international bodies, which in terms of their functions, are called on to carry out the certification of rules and practices that exist in the San Marinese financial system, regarding the best recognised standards set by international regulators.

In this context, the Central Bank kept in constant contact with the reference persons from the International Monetary Fund involved in the preparation and subsequent follow-up of the mission pursuant to Art. IV of the FMI Statute. The meetings held and ongoing relations were an invaluable source of exchange, especially in respect of developing the San Marinese financial system and the strategic choices put in place regarding the Central Bank.

Working in conjunction with the International Relations Service, established in 2013, significant contributions were provided by the Service to analyse the positioning of the San Marinese banking and financial system in respect of EU regulations and its compliance with the free movement of capital principle. Specifically, support was provided to the relevant State Departments in preparing their responses to the questionnaire sent in 2013 by the European Union, in order to understand the level of equivalence with sector regulations.

With regard to taxation, members of the Service actively took part in the meetings held in San Marino in November 2013 and in Brussels in February 2014 with members of the European Commission TAXUD, which dealt with issues relating to the reforms of the directive on taxation on savings income. A similar contribution was provided to analyse the application procedures for the



United States regulations on fighting tax evasion stipulated in the Foreign Account Tax Compliance Act (FATCA), where the different and most appropriate forms of cooperation were examined together with the role that San Marinese financial intermediaries will be called to carry out and the impact in terms of disclosure obligations in respect of the United States' Internal Revenue Service.

In so far as the statistics for the Monetary Fund are concerned, during the second part of 2013, in addition to preparing the normal data for the IMF, the Central Bank worked in two completely new areas in this regard: preparing the *Financial Soundness Indicator*, and coordinating *Technical Assistance* for the financial sector relating to Statistics on overseas countries (Balance of Payments and international investment position). The two projects were managed by the internal structure at the Supervision Department dedicated to Supervision Information, as the Central Bank does not have a specially dedicated unit for these types of statistics. Staff in this area was involved on an ongoing basis from the end of 2013 and in the case of the former, also at the beginning of 2014.

The *Financial Soundness Indicators* (FSIs) are summarised indicators relating to a financial system's level of stability, which are used both in respect of macro-prudential analysis on the stability of financial systems, and to provide transparent information for analysts. The International Monetary Fund began developing FSIs at the end of the 90s, by working with experts from 122 countries; the initial gathering of data dates back to the early 2000s, after a trial phase that involved 62 countries. The management of FSIs as a tool to analyse financial systems' vulnerability however, received a renewed impetus from the financial crisis in 2008, and additional consolidation is expected in this regard in the near future, in conjunction with the international community. By July 2013, more than 80 countries were providing the IMF with their FSIs on a periodic basis; the number of countries is growing constantly, with the objective of reaching 100 shortly.

There are currently 40 FSIs, broken down into the first grouping of 12 (*core indicators*) referring to the main technical aspects of the banking system (Capital Adequacy, Asset Quality, Profitability, Liquidity and Sensitivity to Market risk) and another 28 (*encouraged indicators*) that specifically analyse the risk factors inherent to the remaining segments of the financial system and in other relevant areas (e.g. real estate and household sectors). With regard to the characteristics of the financial system, experts from the IMF working with technical experts in individual countries, identify a set of indicators that are considered appropriate to process and provide on a periodic basis to the IMF. The indicators for individual countries are published on a special internet site managed by the International Monetary Fund (<http://fsi.imf.org/>).

With the technical assistance in the area of financial statistics, in November 2012, San Marino accepted that it would process 16 indicators on a quarterly basis: 11 Core Indicators<sup>10</sup> and 5 Encouraged Indicators; this required preliminary work in order to recalculate a series of historic FSIs starting from 2008, and developing an appropriate re-calculation methodology for the indicator data, because these were being sent in different data format by the banks to what was required by the IMF. This extensive project that was constantly supported by technical experts from the IMF, began in July 2013 and was completed in early 2014, with the final set of data prepared for the historic basis from 2008-2013 and the International Monetary Fund's approval of the relevant methodology (so-called Metadata) for processing information that will also be used to send the FSIs to the IMF on a quarterly basis in respect of subsequent periods.

Additional work is currently underway to revise the banks' main indicator formats, in order to facilitate the FSIs calculation, by changing the data set required from banks and therefore make it unnecessary for the Central Bank to recalculate the data. This work falls within the broader revision framework of supervision indicators, aimed at complying with the additional statistics required by the International Monetary Fund (*Monetary and Financial Statistics* on a quarterly basis) and the European Union (following on from the signing of the Monetary Agreement in 2012).

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<sup>10</sup> The one indicator not included from the list of 12 *Core indicators* was not considered relevant for San Marino by the International Monetary Fund.



The first technical assistance mission took place in San Marino in September 2013 to compile the statistics relating to the foreign section, specifically to prepare the balance of payments and the Republic's international investment position. This initiative was a follow-up to the recommendations of the International Monetary Fund, which during the Art. IV Mission in 2012 had noted that these statistics were lacking for San Marino, and encouraged their adoption.

The Balance of Payments provides statistics on the different types of transactions (like those of a commercial, financial nature, to pay incomes) that occur over a specific time period between all the units resident in a country and outside countries. Combined with the international investment position, which represents a type of overall equity position for all units resident in a country in relation to other territories, it provides very useful indicators for assessing the sustainability of economic and financial systems in a country on an integrated basis, to detect any imbalances and therefore prepare accurate economic and financial policies.

The technical assistance mission lasted for two weeks and involved the Central Bank for the portion relating to the financial system and the Public Administration's IT, Technology, Data and Statistics Office regarding data on the economic sector. During the mission and in the weeks following, the problems relating to identifying the data needed to compile the statistics and the sources for this data were examined. At the end of the mission, the International Monetary Fund issued its final report, detailing the activities that the Central Bank and IT, Technology, Data and Statistics Office needed to carry out to the prepare the country statistics.

Additionally, the Central Bank was involved:

- in regular meetings held at the IMF within the scope of the Spring and Annual Meetings, where during bilateral meetings, information was provided on the country position, and progress was examined on the implementation of the recommendations provided in previous appraisal missions;
- in the preparation of *ad hoc* questionnaires such as the IMF Financial Access Survey, aimed at measuring the level of access and utilisation of the financial services by companies and households;
- in analysing trends in the banking and financial system with the Fitch Ratings that assigns a rating to a country's medium-long term perspective.

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

### *2.1.6.1 Documentary controls*

As in previous years, in 2013 the Central Bank conducted ongoing documentary controls, based on the data, information and more generally, the documents that the Bank itself requires from intermediaries on a regular basis.

The activity aims to mainly analyse the overall corporate situation of banks, financial/fiduciary companies and insurance companies by reviewing the capital and organisational adequacy, liquidity and profitability profiles of the intermediary, together with conducting verifications on the ownership structures and company members, for the purpose of assessing the intermediary's ability to achieve satisfactory economic, financial and capital balances, in compliance with the prudential supervisory regulations and, in general, with the principle of sound and prudent management.

Monitoring the above stated technical profiles, by also checking on compliance with rules and regulatory requirements, made it possible for the Supervisory Authority to intervene in the case of critical positions, in order to prevent a possible deterioration in the company's position,



requesting from the corporate bodies to maintain or restore the adequacy conditions and remove any anomalies.

The documentary analysis and verification also supports the investigations subsequent to the applications filed by the supervised persons for 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 authorised intermediaries, the outsourcing of corporate functions, expansion of the distribution network, etc.).

In 2013, the monitoring continued regarding the process to adjust 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)", which came into force on 1 July 2011.

A substantial portion of the work was also dedicated to monitoring operational specialisation processes, and the stopping of reserved activities and related conversion of the corporate purpose, with the intermediary's exit from the scope of supervision. Similarly, voluntary liquidation processes decided on by companies were reviewed so that the associated formalities could be carried out without consequences for customers or the system. Finally, in the first quarter of 2014, off-site supervision began a review of the process for authorised party's holdings in the share capital, to bring these in line with the regulatory changes relating to the LISF on ownership structures.

The monitoring activities presented some differences in the actual positions found. Nonetheless, in broad terms, the possible interventions and those adopted can be classified as follows:

- fact-finding, to expand the set of information available to the Supervisory Authority. These interventions made it possible to analyse the the intermediaries' operations as required to prepare the relevant corrective measures, and which aimed at removing any malfunctions and irregularities on the part of supervised entities that had emerged during previous controls;
- 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 or financial profiles.

In 2013, 141 interventions for off-site supervision of a fact-finding, preventive and corrective type were carried out on authorised persons of the banking, financial and insurance sector, including supervised persons (insurance intermediaries). In the first three months of 2014, there were 36 of the same type of interventions.

The following table shows the off-site supervision interventions divided by purpose (preventive, fact-finding and corrective interventions) carried out in 2013 and in the first quarter of 2014 with regard to banks and financial/fiduciary companies only.



**Table 20 - off-site supervision interventions**

Type of intervention	2013		2014 I Quarter	
	Banks	Financial companies Fiduciary companies	Banks	Financial companies Fiduciary companies
Fact-finding	43	30	11	9
Preventive	4	6	1	0
Corrective	9	13	6	3
<b>Total</b>	<b>56</b>	<b>49</b>	<b>18</b>	<b>12</b>

Another portion of the off-site activities referred to communications to intermediaries related to authorisation proceedings, responses to various types of questions and initiating sanction procedures, as well as those related to problems that arose (and/or applications presented in the framework of disciplinary measures (suspension of administrative bodies, extraordinary administration and compulsory administrative liquidation). In the period from 1 January 2013 – 31 March 2014, the following communications, inter alia, were sent:

- a) 322 connected to authorisation processes<sup>11</sup>. Specifically, 204 authorisations were issued, whereas 28 were denied<sup>12</sup>. There were 73 preliminary interventions, the same as in 2012<sup>13</sup>. With regard to the main authorisation procedures, there were 46 authorisations issued and 11 denied for prudential supervision, 5 authorisations and 1 denied for ownership structure, 13 authorisations and 2 denied for Article of Association amendments, 61 authorisations and 2 denied for applications to waive compulsory reserves. Finally, it should be noted in respect of the initiatives to consolidate the banking and financial system, 11 authorisation were issued of the acquisition for en bloc assets, the transfer of assets and liabilities and/or business branches;
- b) 79 related to replies to enquiries on different topics, especially concerning the interpretation of supervisory regulations;
- c) 122 referred to relations with other public authorities (FIA, Court authorities, etc.);
- d) 169 related to the opening of sanctioning procedures and to the actual imposition and/or dismissal of the charges<sup>14</sup>;
- e) 127 referred to exchanges with disciplinary procedure bodies, in the scope of which directives are provided to the extraordinary procedures body and/or liquidator or responses provided on different kinds of queries.

Again in 2013, off-site supervision has been significantly involved in the supervision of the disciplinary procedures (suspension of the administrative bodies, extraordinary administration, administrative compulsory liquidation). In 2013, there were 20 procedures pending, 2 of which were closed and 4 initiated during the year. Of the procedures initiated in 2013, one referred to the suspension of the administrative bodies, one to extraordinary administration and 2 to compulsory liquidation. One compulsory liquidation was initiated in the first quarter of 2014, following the close of the extraordinary administration that had started in 2013 (see Box 3: Disciplinary procedures and evolution of the current corporate crises).

<sup>11</sup> The scope of the authorisation procedures also includes the release of clearances and/or approvals or other authorisation-related actions, however described.

<sup>12</sup> Those denied included both the rejection of applications submitted, and the incorrect filing of applications where the authorisation procedures required by the regulations were missing.

<sup>13</sup> This figure does not include the interventions in the preliminary phase, which are already included with the fact-finding interventions.

<sup>14</sup> These communications also include those relating to the recipients of sanctions conducted whoever described, such as those aimed at enforcing the right to a defence.

Finally, subsequent to confirmed infringements of supervision regulations by intermediaries discovered during inspections and documentary checks, in 2013, 7 proceedings that had been initiated in 2012 were closed, and 30 proceedings were started and closed. 29 proceedings were opened in the first quarter of 2014 (see Box 4: Sanctioning procedures).

There were 9 documentary checks ordered on authorised parties in 2013 regarding the investment services area and issuing of financial instruments (of which, 5 were fact-finding, 1 preventive and 3 corrective), while 26 communications were sent, of which 21 referred to authorisation procedures and 5 to regulations. There were 6 documentary checks in the first quarter of 2014 (of which, 5 were fact-finding and 1 corrective), while 12 communications were sent, of which 9 referred to authorisation procedures and 3 to regulations.

#### **Box 4: Sanctioning procedures**

##### **Premise**

During 2013 and the first quarter of 2014, the Central Bank continued to carry out sanctioning procedures against company members (Directors, Statutory Auditors, and Director Generals), in addition to auditors of authorised persons, pursuant to Decree No. 76/2006, once the relevant prerequisites had been ascertained. Sanctioning procedures have been initiated and completed against insurance and reinsurance intermediaries.

As in previous years, similarly in 2013 and the first quarter of 2014, the irregularities found mainly referred to infringements of the prudential supervision regulations, especially with regard to the provisions regarding organisational and internal control structures.

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

There were 30 sanctioning proceedings that started and were completed in 2013, with these relating to 1 bank, 2 financial companies and 4 insurance and reinsurance intermediaries. Of the 30 measures, 28 applied sanctions for a total of Euro 68,500 and 2 were filed. 4 cases have been appealed before the Administrative Court, and their impact is therefore pending. Of the sanctions imposed during 2013, an amount of Euro 34,500 has been collected in favour of the Most Excellent Chamber. Furthermore, during 2013, 7 proceedings initiated at the end of 2012 were finalised, applying sanctions for a total of Euro 27,000, of which Euro 3,000 has been collected.

During the first quarter of 2014, 29 sanctioning procedures were filed relating to one bank and one financial company in compulsory liquidation, with the relative payment orders (or order to file) not yet issued at 31 March 2014, so that –as stated above – the relevant application shall have to take into account the new regulations on the Central Bank's sanctioning procedures contained in Delegated Decree No. 77 dated 19 May 2014 that ratified Delegated Decree No. 24 dated 4 March 2014, which had become effective on the same day – with amendments.

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

The Central Bank conducted its activities in respect of the proceedings that started and were finalised in 2013 in the context of the regulatory framework provided by Law No. 165/2005 and Delegated Decree No. 76/2006, which:

- a) governs the administrative procedure and the relevant terms for challenging and effectively imposing the sanction;
- b) provides the parameters that the Supervisory Authority must adhere to regarding the extent of the sanction.

In imposing sanctions, the Central Bank took into consideration not only the restrictions and parameters referred to above, but also the internal constraints of logic, consistency, the in-depth preliminary work and adequate motivation for the administrative sanction, applying well-defined



parameters and/or assessment criteria, in addition to those set by the legislator, with the main ones referring to:

- checking whether the charge to be filed was solid and feasible, by correctly identifying the applicable rule that was infringed, and whether it was possible to prove the irregularity that was ascribed to the person receiving the sanction;
- verifying the recipient of the sanction's term of the appointment as a corporate official (to be considered liable for the irregularities, the recipient of the sanction must have held the appointment for an adequate period of time, or the conduct and/or resolutions must have been executed/adopted during the period in which this person was in office);
- detailed analysis of the objections presented by the person the charges relate to, and subsequent indication as to whether such objections have been upheld or rejected in the motivations for the sanction, specifying the reasons why the objections are deemed to be satisfactory or not satisfactory (or partially so).

### **Recent regulatory amendments**

Pursuant to Art. 41 of Law No. 150/2012, the Central Bank provided technical support for the issuing of Delegated Decree No. 24 dated 4 March 2014 bringing reforms on this issue. In extremely simplified terms, by amending certain regulations under Law No. 96 dated 29 June 2005 and other provisions under Delegated Decree No. 76/2006, the main innovations in terms of the Central Bank's sanctioning procedures related to:

- a) accurately identifying the party that would potentially receive sanctions. In this regard, the most significant innovation refers to the extended definition for parties liable for sanctions, which was initially restricted to those that carried out administrative, management and controlling functions, and now also includes the employees that are entrusted with specific corporate operational and internal audit functions;
- b) provider a broader category of criteria that the Central Bank needed to adhere to in applying sanctions, as well as cases for exclusion;
- c) the introduction of a 9 month deadline from reporting the infringement, for the sanctioning procedures to start;
- d) providing the option of extinguishing the sanction with immediate voluntary payment, by paying half the amount imposed within 20 days from notification of the sanction;
- e) the introduction of a second instance judiciary in respect of challenges to sanctioning proceedings.

#### **2.1.6.2 Inspections**

The 2013 inspection plan has been prepared using a consolidated approach and based on the indications from all supervisory services, as well as the elements gathered during previous inspections. Planning was carried out by adopting a *risk-based* approach, taking into account, for each intermediary, the level of exposure to credit, financial, liquidity, operating and money laundering risks, the status of the governance systems and risk control procedures, the level of capitalisation and the revenue generation capability, in compliance with the principles of sound and prudent management.

In 2013, 19 inspections were carried out at the premises of supervised parties, which was up on the number in 2012.



Specifically, 2 inspections of a general nature (1 bank and 1 financial company), 9 sector-related (8 banks, 1 SG) and 8 inspections of a specific nature were conducted on behalf of the Judicial Authority (5 banks and 3 financial companies). There have been 11 inspections for supervisory purposes, with an incidence over the total (58%) largely in line with 2012.

The general inspections were conducted to implement the plan prepared at the start of the year, while the sector-related inspections were done to meet fact-finding requirements that emerged during other inspections.

The drop in extraordinary and unplanned inspections made it possible to conduct more complex and extensive inspections. Specifically, it allowed for a general inspection on a bank to be completed at the beginning of 2013, and a new one to start at the end of the financial period.

Table 21 summarises the inspections carried out in the last three-year period (2011-2013) and in the first quarter of 2014 (dedicated entirely to continuing the inspections started in December 2013), specifying the standard person-days needed to conduct these activities. The increase in person-days dedicated to on-site inspections compared to 2012 is due principally to the significantly reduced absorption of inspectors in the preliminary work conducted on behalf of the Judicial Authority (see paragraph 2.6.2.).

**Table 21 - On-site supervision inspections and their impact in terms of person-days**

	2011			2012			2013			2014 I Quarter		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	13	10	1	8	7	2	14	4	1	0	0	0
of which general	1	4	0	1	4	0	1	1	0	0	0	0
of which sector-related	9	2	0	2	1	2	8	0	1	0	0	0
of which specific	3	4	1	5	2	0	5	3	0	0	0	0
<b>Total</b>	<b>24</b>			<b>17</b>			<b>19</b>			<b>0</b>		
Number of person-days	1,243			467			1,348			399		

The outcome of the inspections resulted in sanctioning proceedings being initiated, voluntary settlement proceedings relating to the supervised parties, the opening of one extraordinary procedure and the transmission of reports to other Authorities. Specifically in 2013, 10 reports of suspicious transactions were sent to the Financial Intelligence Agency (4 for banks and 6 for financial companies), as well as 13 exchanges of information by way of collaborating in anti-money laundering operations (5 for banks, 8 for financial companies). Furthermore, during the first quarter of 2014, the Agency was sent an additional 3 exchanges of information in terms of collaboration, and one supplement to a report already transmitted.

The principal critical areas found during the inspections referred to the inadequacy of corporate governance, the inefficient internal controls and an approach to credit risk that did not comply with the principles of sound and prudent management, which in certain cases, resulted in risks being taken on in an uncontrolled manner, with a lack of value adjustments recorded on loans. Other critical areas referred to abnormal exposure to liquidity and legal risks and risks to the corporate reputation, as well as findings of deteriorated corporate profiles (unbalanced financial structure and shortfalls in economic management). Financial relations with parties involved in investigations into organised crime also emerged occasionally.

Based on the critical areas found and the objective of making inspections more effective and efficient, three new sector-related inspection cycles were identified in respect of banks that will



begin in 2014: one cycle dedicated to credit risk, taking into consideration the *asset quality review* recommended by the IMF, one cycle dedicated to risks pertinent to managing cross-border payment flows and one directed checking that corporate accounts were properly kept. Finally, on-site follow-ups are envisaged, aimed at checking that the critical aspects found in previous inspections have been overcome.

With regard to inspection procedures, during 2013 further physical and logical security controls were implemented, and document management was further optimised. When conducting inspections, attention was always given to the activity's transparency and interaction with the party being inspected. A review was also started regarding the structure of inspection relations within the context of the general review project for processing supervision data.

## **2.2 Management of counterfeit banknotes in Euro**

Law No. 101 dated 29 July 2013 was issued in order to implement the European Directives aimed at combating this phenomenon, in line with the Republic of San Marino's undertakings in terms of the Monetary Agreement signed on 27 March 2012. Consequently, on 31 August 2013, Central Bank Regulation No. 2013-04 was issued entitled "Regulation on Euro banknotes and coins" which constitutes, *inter alia*, the reference regulation on the issue of Euro banknotes and coins suspected of being false. This regulation made it possible for San Marino to bring its procedures in line with other countries using the Euro.

Pursuant to this regulation, Euro banknotes and coins suspected of being false are sent by cash handlers to the Central Bank, who as the relevant national authority then forwards these to the analysis centres responsible for checking and intelligence.

Should banknotes and coins in currencies other than the Euro be suspected of being false, and given that these do not fall under the scope of application of Regulation No. 2013-04, cash handlers forward these directly to the Anti-counterfeiting Central Office ("Ufficio Centrale per il Falso Monetario - UCFM"), established at the Central National Interpol Office of the Republic of San Marino.

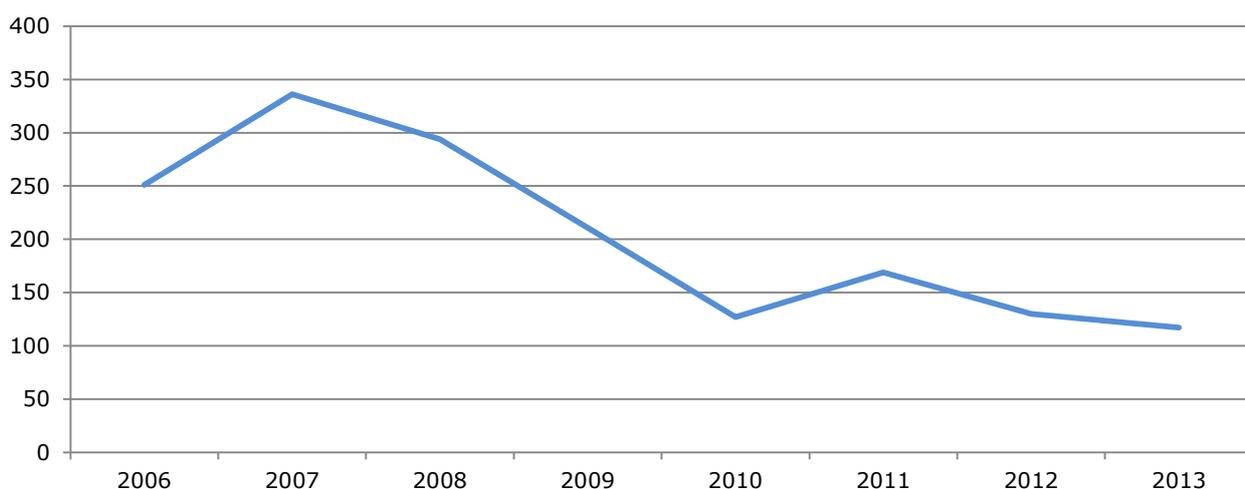
The Central Bank maintains ongoing contact with the relevant Italian Authorities, continuing to forward reports on suspected false Euro banknotes and coins by using the Euro Falsification Findings Computer System (SIRFE), made available by the Central Anti-fraud Payment Methods' Office (UCAMP), falling under the Ministry of the Economy and Finance (MEF).

The Figures below show the most significant data relating to activities carried out in 2013 and their comparison with the values of previous years.

In 2013, 117—banknotes in Euro were withdrawn from circulation and found to be counterfeited, down 10% from the previous year (130 banknotes recognised as counterfeits in 2012). It is noted further that there were some cases of counterfeit Euro coins reported, which currently do not present critical levels.

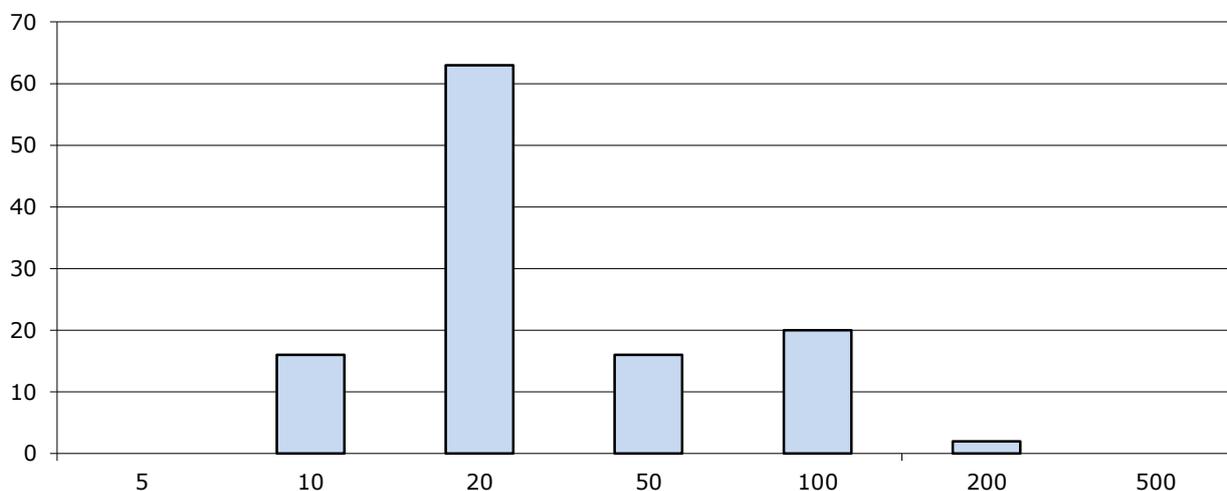


**Figure 19 - Number of counterfeit banknotes: comparison with annual data for the period 2006-2013**



The most instances of a counterfeited denomination referred to the 20 Euro banknote (63 pieces, equal to 53.9% of the total), followed by the 100 Euro banknote (20 pieces, equal to 17.1% of the total), the 50 Euro banknote (16 pieces equal to 13.7% of the total) and by the 10 Euro banknote (16 pieces, equal to 13.7% of the total).

**Figure 20 - Counterfeit banknotes withdrawn from circulation in 2013: breakdown by denomination**

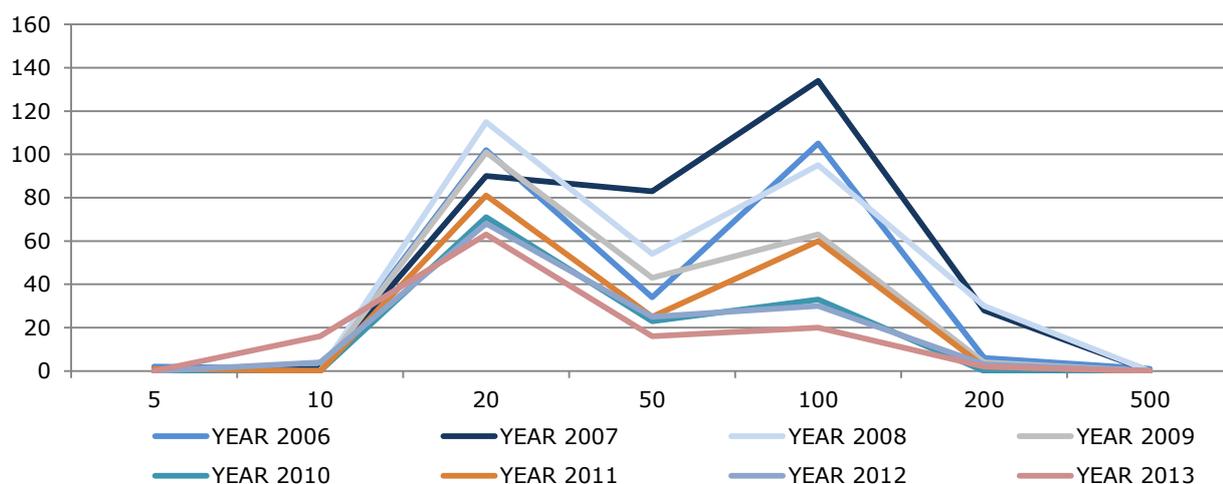


The breakdown shows that the 10, 20, 50 and 100 Euro denominations represent 98.3% of the total counterfeit banknotes, compared with 97.7% in 2012.

Also when considered over a longer time frame (2006-2013), the counterfeit banknotes confirm a concentration on the 10, 20, 50 and 100 Euro denominations, as shown below in Figure 21.



**Figure 21 - Denomination of counterfeit banknotes: comparison with annual data for the period 2006-2013**



The drop recorded in San Marino in 2013 countered the trend in Italy, where the total increase for the 2013-2012 period was 7.9% (133,388 banknotes in 2013, compared to 123,622 banknotes in 2012). Furthermore, data published by the Bank of Italy showed that the higher number of withdrawn banknotes in 2013 referred to the 20 Euro banknote (equal to 43.7% of the total), followed by the 50 Euro banknote (equal to 25.7% of the total) and by the 100 Euro banknote (equal to 18.6% of the total).

The European Central Bank communicated that in the second half of 2013, 353 false Euro banknotes were withdrawn from circulation, 98% of these in Eurozone countries. There was an 11.4% increase compared to the volume recorded in the previous six month period (317 thousand). In general terms, there were more 20 Euro banknotes (43%) and 50 Euro (35%) banknotes counterfeited, which in total represented 78% of the total, followed by the 100 Euro banknote (12.9%).

### 2.3 Cash procurement

The Central Bank continued its supervision of the cash procurement process from Italy, and management of requests for cash from the San Marinense banking system, in accordance with the procedures identified as from 2008, in compliance with the procedures set jointly at the time with the relevant Italian Authorities and pursuant to the current internal and European regulations applicable on this subject.

In line with the Central Bank's intention of limiting the use of cash, requests from the banking system recorded a significant reduction of 25.3% from the previous year.

Within the context of providing this service, the Central Bank has not supplied the banking system of San Marino with 500 Euro banknotes since 2008, and stopped supplying 200 Euro banknotes at the end of 2011.

A specific Central Bank internal regulation 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.

In compliance with the formalities required pursuant to the regulations of the respective countries involved, parties in charge of cash transportation 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 Regulation No. EC 1889/2005 and Delegated Decree No. 74 dated 19 June 2009.

As from January 2013, the Central Bank made a new IT procedure available to the San Marino banking system, as an instrument to be used exclusively for all operating communications, authorisations and reports related to the management of cash.

Due to the security and confidentiality requirements of the data related to the cash transfers, this procedure uses the technical infrastructure of the San Marinense Interbank Network (RIS)<sup>15</sup>.

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

The Central Bank also channelled the banknotes that were unsuited for circulation and had accumulated over the years with the San Marino banking system back to the Italian system, in order to receive a refund.

## **2.4 Trust Register**

2013 confirmed the increase use of the trust as an institution, with 15 new trusts registered and 1 single cancellation.

At the end of 2013, the number of trusts registered in the Register, net of cancellations stood at 91, showing a 14 unit increase compared to the end of 2012 (77 trusts registered at 31/12/2012). This trend is consistent with the one recorded since April 2010 (month in which the register was established and responsibility for this passed from the Office of Industry to the Central Bank, with 21 trusts registered).

During 2013, the Office also imposed an administrative sanction for the first time, which was paid to the State.

Once again in 2013, the Office was intensely involved in responding to the questionnaires sent by experts of various organisations for international cooperation (OECD, Moneyval, International Monetary Fund, etc.). It also participated in discussion tables, held internally and externally.

Finally, as with every year, the Office made available training courses directed at aspiring professional trustees, as well as courses for trustees that were already qualified, where they required mandatory annual refresher courses to keep up their registration.

## **2.5 Regulatory advice activity**

The year 2013 was especially intense for the Central Bank in terms of this aspect; the regulatory deadlines dictated by the new Monetary Agreement, the aggravated internal socio-economic scenario, as well as the increased opening sought on an international level drove output significantly higher in respect of legislation, covering the financial, taxation and insurance areas.

While not always corresponding with its own mission statement, the Central Bank was called on a number of occasions to make a determining contribution to this aspects not only to support public offices working in conjunction with the responsible Secretaries of State from a

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<sup>15</sup> The San Marinense Interbank Network (RIS): electronic network that all banks subscribe to, ensuring interbank communications in San Marino, guaranteed by specific security systems, compliant with adequate certification techniques, the 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.



technical viewpoint, but also to analyse, prepare and implement complex regulations in very tight time frames.

Regarding the consulting provided in terms of legislation resulting from San Marino's undertakings in terms of the new Monetary Agreement, mention must be made of all the research, analysis, interaction with national stakeholders and relations with reference persons at European and Italian level conducted independently for the most part by the Central Bank. The objective being for the Republic to incorporate the entire Community acquis on Euro banknotes and coins, within a year of the Agreement becoming effective, including bringing measures to prevent and combat counterfeiting in line on an administrative and criminal level.

Thanks to the decisive contribution made by the Central Bank and the draft regulations prepared and revised during the entire legislative process, San Marino managed to enact the following within the set deadlines:

- a) two laws, namely No. 101 (Collection of provisions on banknotes and coins) and No. 102 (Criminal provisions to combat fraud and counterfeiting) without needing to issue urgent decrees;
- b) Delegated Decree No. 116, which implemented Law No. 101, providing an analytical breakdown on the extent of administrative sanctions for each infringement of the new regulations,

with the latter receiving full compliance certification from the Joint Committee, consisting of delegates from the European Commission, the European Central Bank, Italian Ministry of the Economy and Finance and Bank of Italy, regarding the content and adoption time frames, and formalised with Central Bank Regulation No. 2013-04.

The positive response from Europe in respect of the Monetary Agreement, as well as the anti-money laundering regulations, supported San Marino's application to be accepted into the Single Euro Payment Area (referred to as SEPA), which was confirmed in 2013, well in advance of the material launch of the new regulations at European level (1 February 2014).

Citing only the more significant projects, the Central Bank was also notably involved during 2013 with the Secretary of State for Finance, with regard to:

- a) assistance at a technical and regulatory level, working in conjunction with the Postal Administration Management, to launch postal financial services and convert the Entity into a joint-stock company (S.p.A.);
- b) the first issuing of public debt by the Republic, which from a regulatory perspective, concluded with the adoption of Delegated Decree No. 173 in December 2013;
- c) analysis and consulting at technical level on the project to establish the Public Finance Institute (IFP), to manage public assets, with the draft law approved in its first reading at the end of April 2013;
- d) consulting and drafting of both Delegated Decree No. 89 dated 23 July 2013 and Regulation No. 7, adopted by the State Congress on 29 November 2013, referring to the new San Marinense taxation regimen on insurance coverage relating to risks located in San Marino, with the introduction of stamp duty on premiums paid, and the obligation for foreign insurance companies to elect a tax representative in San Marino.

With reference to the latter that involved pure taxation issues, it should be noted that even though the actual regulatory phase has been completed with the Circular Letter of the Taxation Office prot. 33625/2014, the Central Bank is still called on to assist with taxation administration in so far as the subsequent interpretative and application phases go, even formulating responses to the questions submitted for its consideration.



From a consulting perspective at a legislative level, during 2013 the Central Bank was not restricted to providing support whenever required to do so, but also played a pro-active role.

Pursuant to Art. 45 section 2 of its Statutes, and in accordance with the resolution taken by its Governing Council and the Supervision Committee, the Central Bank submitted two sets of draft legislation to the State Congress, through the office of the CCR:

a) on 1 August, a reform draft to the LISF, directed mainly at:

- updating and simplifying the procedures for establishing financial companies in San Marino, by incorporating the Community acquis;
- providing the Central Bank with the option of instituting a type of Banking and Financial Arbitrator, to incorporate European Directives on the out-of-court settlement of litigation in the financial and payment contexts;
- imposing a barrier to the entry of supervised parties into the ownership structure in respect of foreign parties that do not provide sufficient guarantees of transparency and knowledge regarding their own beneficial owners (regulation then included as an excerpt and with amendments to the most recent Budget Law);
- introducing a basic legislative definition for the cheque in its various formats (bank, prepaid, drawer/receipt cheque), and referring the detailed regulations to the Central Bank Regulations, thus making it possible to abandon the extensive application of regulations on bills of exchange and San Marinese "bank drafts";
- clarifying the inclusion of Credit Consortia among the parties supervised by the Central Bank;

b) on 13 September, a reform draft to the Trust Act and secondary sources, directed mainly at:

- eliminating the obligation for trusts under San Marinese Law, but with their administration registered abroad (non resident trustees), to appoint a resident agent and register the trust in San Marino, on the basis of The Hague Convention dated 1 July 1985, and to contain the risks to corporate reputation for the Republic as it remains objectively impossible to exercise effective control over these trusts;
- render the trust irrevocable, in relation to the different type of entity compared to the fiduciary mandate (principium of entrustment to the trustee) and against the risks of possible misrepresentation or simulation in using the instrument;
- consolidate the anti-money laundering controls, by also redefining the professional activity of a trustee in more effective and less empiric terms, in accordance with Moneyval provisions;
- introduce a deadline for registration in the Events Log for data where this is applicable;
- increase the entity's general level of transparency, by restoring the regimen of advertising the Trust Register in a more calibrated format, making it mandatory to appoint a guardian even in the case of existing beneficiaries that lack actual rights, and also adding in among the information that it is mandatory to provide in the Certificate that is transcribed into the above stated Register the identity of the latter, similarly to San Marinese Notaries involved in the phase to establish the trust.



## 2.6 Cooperation with the Unique Court

### 2.6.1 The preparation of expert reports

In order to integrate the institutional functions required by current regulations (Central Bank Statutes, Law No. 96 dated 29 June 2005 and subsequent amendments) and to guarantee that collaboration continues with the Republic of San Marino's Unique Court, the Central Bank has held a mandate from the latter since 2007 to carry out technical support functions as a Court appointed technical expert (CTU) on economic-financial issues in civil actions and conciliation proceedings; with this also conducted pursuant to Art. 2 of Law No. 59 dated 30 April 2002.

It should be noted that an inappropriate overlapping occurs in carrying out the role of the CTU with the role as the Supervisory Authority, especially in proceedings that involve the supervised parties of the Central Bank itself as parties in the case.

### 2.6.2 The activity as Judicial Police pursuant to Art. 104 of the LISF

Relations between the Central Bank and the Judicial Authority are governed by Art. 104, paragraph 4 of the LISF, in which it is stipulates that for the execution of judicial investigations to be carried out at the premises of authorised persons, the Law Commissioner may avail him/herself of the cooperation of the Central Bank.

By using the resources of the On-site Supervision Service, this collaboration resulted in 8 accesses to the premises of supervised parties in 2013 (reported as specific inspections in Table 22) and in 11 preliminary activities being conducted, which was significantly down from the previous year. In terms of person-days, the absorption in 2013 of resources within the scope of the activities assigned by the Judicial Authority recorded reduced percentages (as shown in Table 22).

Some staff from the On-site Supervision Service that had been involved in the preliminary phases of international rogatory proceedings or that had carried out the resulting investigations in reports presented to the Court, were called on as witnesses during the hearings (proceedings in San Marino against SMI members, proceedings in Vibo Valentia against members of Credito Sammarinese).

The Judicial Authority assigned no new projects during the first quarter of 2014.

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

Year	2011	2012	2013	2014 I Quarter
On-site inspections	8	7	8	0
Preliminary investigation activities	23	35	11	0
<b>Total</b>	<b>31</b>	<b>42</b>	<b>19</b>	<b>0</b>
% person-days (estimates)	27%	60%	7%	0%

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

As the Supervisory Authority, the Central Bank once again in 2013 was appointed by the Law Commissioner, pursuant to Art. 37 of Decree-law No. 134/2010 to act as custodian for the funds that had been seized by banks or fiduciary companies that assume judicial custody thereof on orders issued by the above stated Commissioner.



This activity that refers to restrictions where appropriate judicial custodians have been appointed, materialises in the issuing of technical opinions on ensuring proper custody.

## 2.7 The Currency Authority

Pursuant to Art. 2 of Law No. 41 dated 25 April 1996, the Central Bank is empowered to qualify other San Marinese institutions to carry out transactions in foreign currencies and/or foreign exchange in accordance with Art. III.V.12 of Regulation No. 2007-07 "Regulation on savings and banking activities" and subsequent amendments.

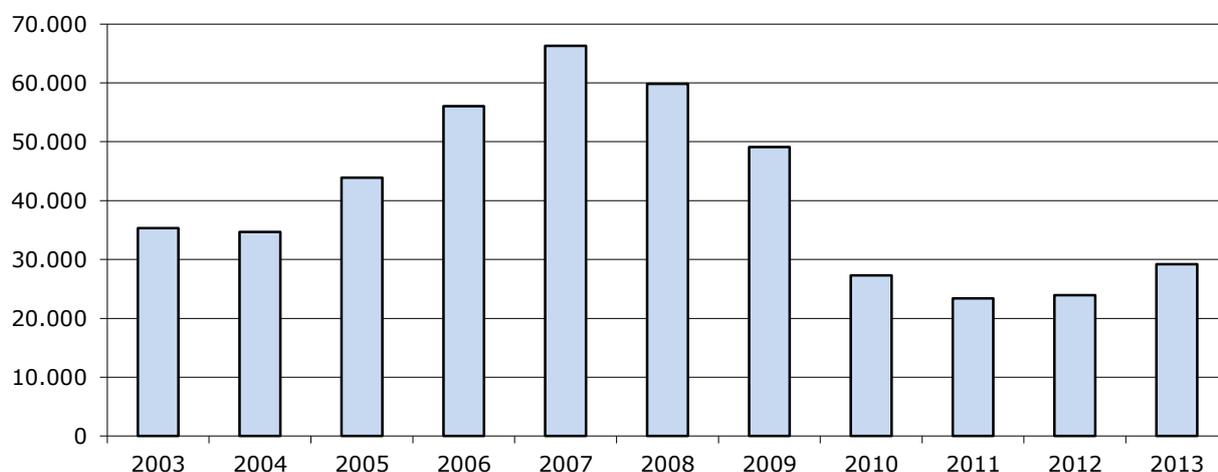
In compliance with Art. 36 of its Statutes, the Central Bank carries out the role of Currency Authority for the Republic of San Marino. It is therefore responsible for exclusively managing currency accounts, with the option of delegating other banks or branches operating in the territory in this regard, in accordance with current laws, and monitoring that currency-related provisions are duly applied.

As from the 1 August 2000, banks in San Marino that carry out incoming and outgoing transactions for amounts of Euro 15,500 or more abroad must send the Central Bank notification of the currency transaction using the relevant Statistical Currency Notification Forms (CVS).

Due to the events experienced in 2013, there were 6 banks in San Marino authorised to carry out currency and/or foreign exchange transactions directly with foreign entities. These banks are obliged to send the CVS to the Currency Authority on a monthly basis via the San Marinese Interbank Network (RIS).

The flows transmitted by the banks of San Marino to the Central Bank during the period 2003-2013 are shown in Figures 22 and 23.

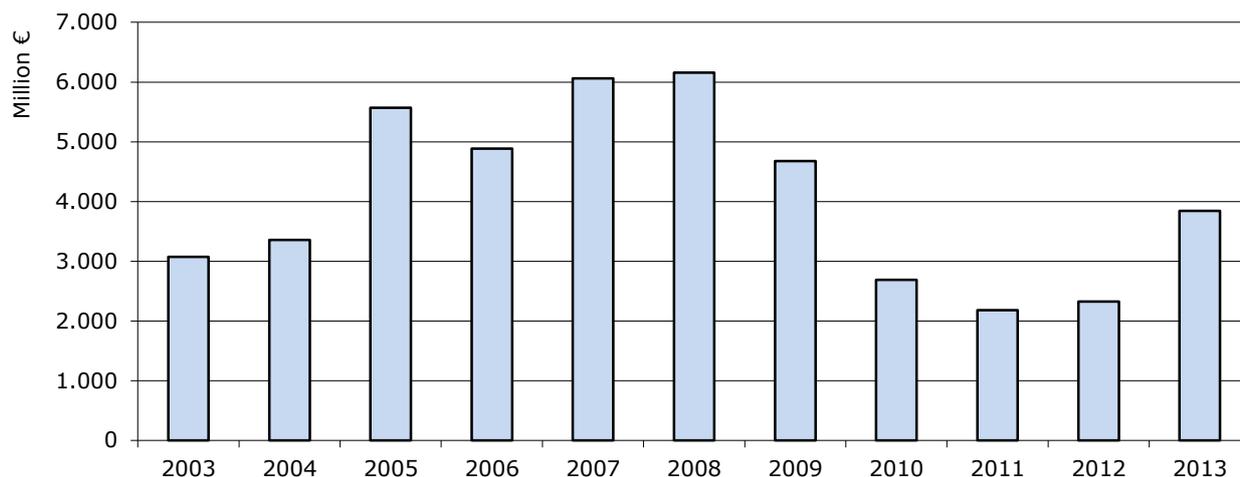
**Figure 22 - Total flows (number of CVS)**



There were 29,206 CVSs received from banks in 2013, compared with the 23,932 registered in 2012, up by 22% (Figure 22), whereas the value of the amounts settled increased from Euro 2,326 million to Euro 3,841 million, up by 65.2% (Figure 23).



**Figure 23 - Amounts settled by the banking system of San Marino**



To comply with the requirements resulting from the Republic of San Marino accession to the International Monetary Fund, on a quarterly basis, the Central Bank forwards the latter statistical data reports on the *Currency Composition of Foreign Exchange Reserves (COFER)* and data related to the *Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)* on an annual basis.

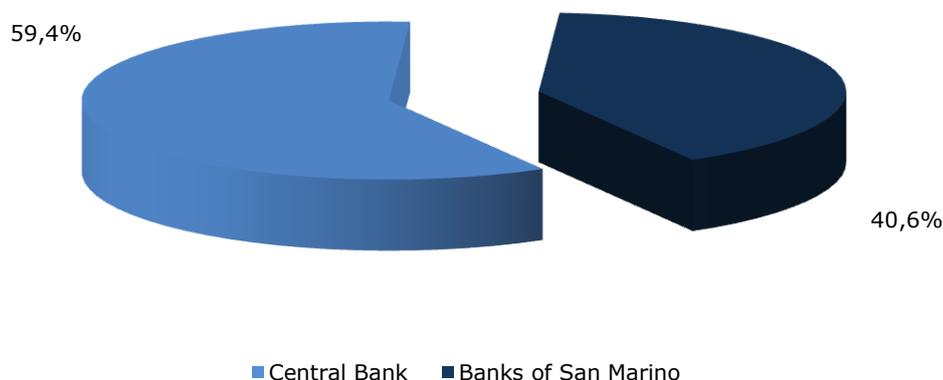
## **2.8 The payment system**

Articles 37 and 38 of the Central Bank Statutes assign it the function of managing the payment system. This role provides for the management, regulation and supervision of the Republic of San Marino's payment system, in order to ensure that the banks of San Marino operate on the national payment system in a secure, stable and efficient manner.

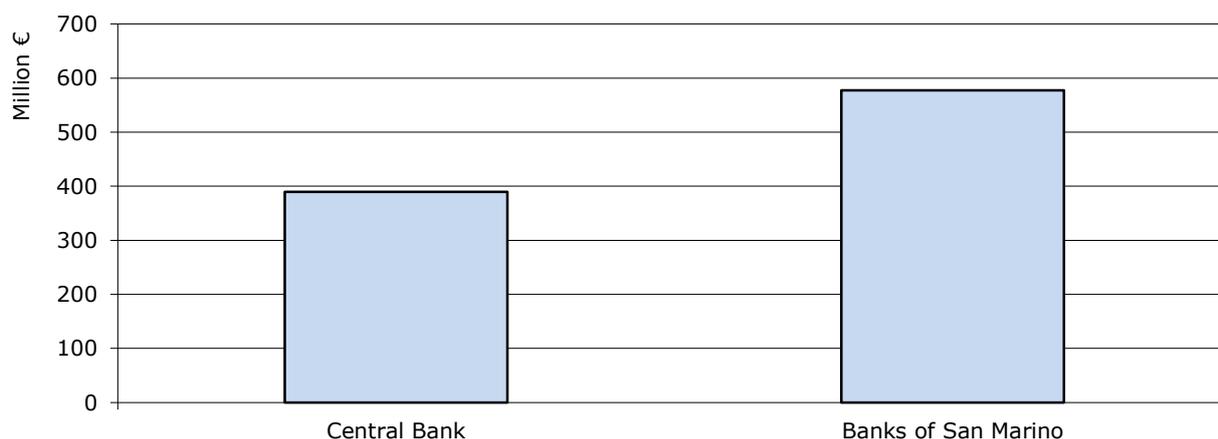
In respect of payment instruments channelled via the RIS, the national payment system recorded a decrease of 5.6% in the number of payment transactions, against a drop of 18% in the global value of the amounts settled.

In 2013, the banking system transmitted approximately 349 national wire transfers, for a value of Euro 966 million. Figures 24 and 25 show the breakdown in percentages and in 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), with the latter characterised by a high number of transactions for small amounts.

**Figure 24 - Breakdown of the number of national wire transfers transmitted**



**Figure 25 - Amounts settled through national wire transfers**



Compared with the previous year, the wire transfers transmitted on the national network increased by 4.1%, whereas their amounts decreased by 10.3%.

A further increase was seen in the use of the national *Direct Debit* in 2013 compared to the previous year, namely the payment instrument whereby the creditor asks to debit the debtor's account. In fact, approximately 314 thousand orders were recorded, for a value of approximately Euro 61 million; the increase from 2012 represents 5.1% of the number of *Direct Debits* transmitted by the Central Bank to the banks of San Marino, and 1,8% of the amounts settled.

Pursuant to Regulation No. 2007-04 and subsequent amendments, pertaining to the service for the exchange of domestic contact details (SRD), the Central Bank satisfied its two-fold role of member and manager of the service. This role as SRD service manager aims to ensure that deadlines and methods envisaged for the exchange of credit instruments, documents and correspondence are complied with for San Marino banks.

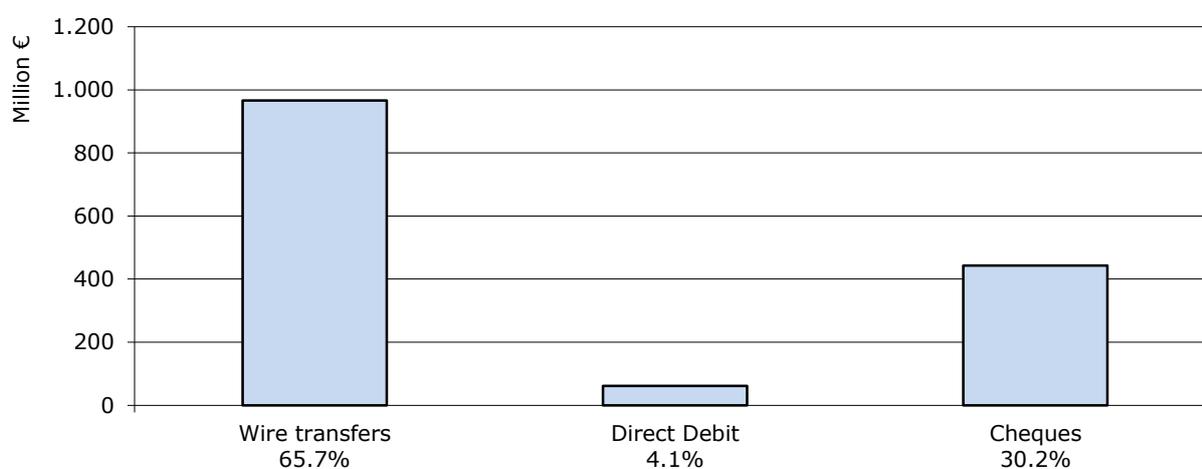


Within the context of the SRD service, the Central Bank managed, inter alia, the exchange of national cheques, traded and processed on San Marino banks, which in addition to the physical exchange, also provides for the electronic exchange of accounting flows and images through the RIS, as a prerequisite to the daily exchange being carried out.

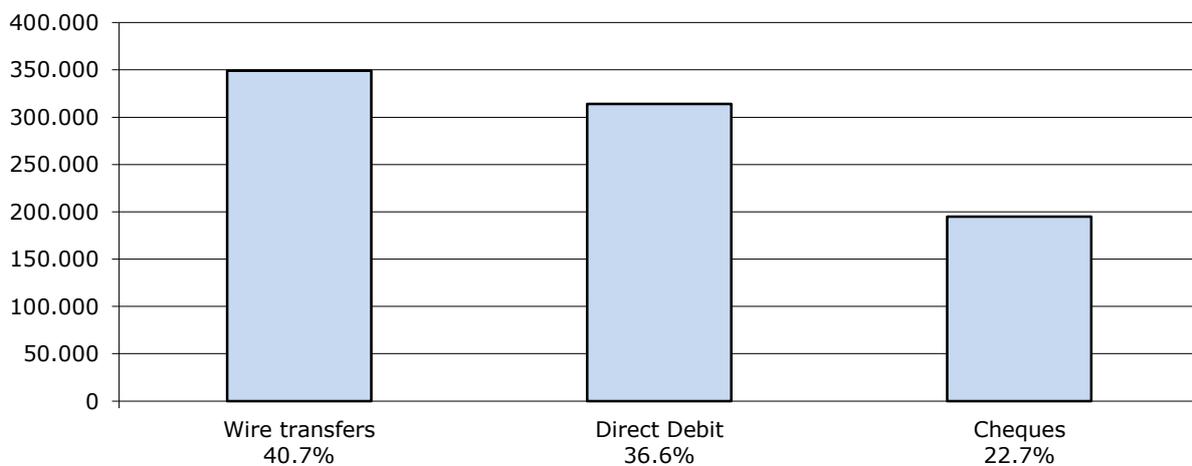
The national cheques exchanged in the SRD service in 2013 totalled around 195 thousand units for a value of Euro 443 million; this means a decrease of 28.8% in the number and a decrease of 32.5% in value.

Figures No. 26 and 27 respectively show the value and number of the payment instruments settled through wire transfers, *Direct Debit* and cheques channelled through the RIS for the year, as well as the percentage by type on total orders channelled.

**Figure 26 - Amounts settled through wire transfers, Direct Debits and cheques**



**Figure 27 - Number of orders settled through wire transfers, Direct Debits and cheques**



The Central Bank participation in the TARGET2 payment system, gross settlement system is ensured via the automatic access through the Bank of Italy as a *CB Customer (Central Bank Customer)*. Interbank communication for TARGET2 participation is guaranteed through accession to the SWIFT<sup>16</sup> network, which continues to ensure the Central Bank's interbank accessibility at international level.

In respect of participation in the Italian retail payment system, the Central Bank maintained its indirect accession through the Italian intermediary bank, for the purpose of also guaranteeing payment services to the Public Administration. Nonetheless it should be noted that as from 1 February 2014, the traffic channelled through the payment systems referred to above, especially wire transfers, stood at zero in respect of outgoing transfers, and came down to very few units for incoming transfers, due to the natural migration towards SEPA payment instruments.

### **Box 5: The Single European Payment Area - SEPA**

Based on the analyses conducted by the Central Bank in 2012, and given the undertakings by the Republic of San Marino with the signing of the Monetary Agreement dated 27 March 2012, a series of meetings continued in 2013 with the relevant European and Italian authorities for the purpose of jointly identifying the scope of adjustment needed considering the specific nature and steps required for San Marino in terms of procedures and deadlines for accession to the SEPA (*Single Euro Payments Area*). Central Bank Regulation No. 2013-05 came into effect on 31 August 2013 regarding SEPA, and on 12 December 2013 the *European Payments Council (EPC)* reached its decision to include the Republic of San Marino among the countries participating in SEPA, with effect from 1 February 2014.

SEPA is a project promoted by the European Central Bank and the European Commission, with the European Payments Council responsible for its implementation. 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 to extend the process for the European integration of retail electronic payments in Euro made with instruments other than cash (transfers referred to as *SEPA Credit Transfers* and direct debits referred to as *SEPA Direct Debits*), for the purpose of facilitating efficiency and competition within the Eurozone.

The role of the Central Bank is therefore to provide support to the San Marinese system in the process of standardising regulations and technical procedures within the deadlines set by the relevant European and Italian Authorities.

Accession to SEPA represents a fundamental step in the internationalisation of the San Marinese banking system, while at the same time, making it possible for households, companies and the public administration to benefit from more efficient payment services, aligned to European standards.

#### **1. The strategic value of accession to SEPA**

Accession to SEPA represents Europe's recognition of the progress made by the Republic of San Marino and the professionalism of the San Marinese stakeholders involved in the accession process. The potential offered by SEPA standards, linked to the management of a single payment account to make wire transfers and debits at a pan-European level, define a new scenario and consolidate the possibility of integrating our banking and financial system with European capital markets. Less and more certain times for the execution of wire transfers, lowering the costs for cross borders wire transfers, the possibility of using the account opened with the bank in San Marino to effect debit entries required by European invoicing entities wherever these may be located, the efficient management of payments for the undertakings of San Marino that invoice clients resident in the other SEPA countries, define a new scenario which sees the participation of San Marino - on a par

<sup>16</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 whose activity consists of providing financial and payment services to the public.



with the other countries in the European Union and European Economic Area - right from the outset.

## **2. The new instruments used since 1 February 2014**

### **2.1 The SEPA Credit Transfer**

As from 1 February 2014, the SEPA (SCT) credit transfer has been used to effect payments to and from the SEPA area. This is in addition to the transfer used up to now at national level, and is characterised by a pre-set execution time of 1 business day, in line with the provisions of the Directive on payment services (2007/64/EC of the European Parliament and Council dated 13 November 2007). The provisions in the European Directives aim to computerise the transfer's processing on the bank's side, in order to reduce costs and execution times (the Directive stipulates that the beneficiary's bank should credit the transactions received "immediately thereafter", eliminating the banking practise of crediting on the day following receipt, and therefore the so-called "cleared value").

The SEPA transfer is an instrument that is harmonised at European level, and represents a basic service that intermediaries can supplement with additional functions. The costs for the transfer transaction are shared between the ordering customer and beneficiary, based on the agreements that they have with their respective banks: in this way, every customer knows the exact cost for the services beforehand, which will then be charged exclusively by his/her bank. Furthermore, so that the conditions relating to customers are explicit and transparent, commissions applied by intermediaries cannot be deducted from the transfer amount, but must be debited separately: the transfer amount is therefore credited in full without any deductions by the intermediaries processing the transaction.

The SEPA transfer was conceived to provide an easy-to-use service, and as such uses an IBAN code (International Bank Account Number). This has been in use in San Marino for some years now, and makes it possible to unequivocally identify the customer's account held at a financial institution.

To put in place a SEPA transfer, the ordering customer must provide his/her bank with the beneficiary's IBAN and BIC codes. In order to simplify the transaction further, certain banks do not ask for the BIC code, but arrange this themselves. Obtaining one's IBAN code is very simple: it always appears on the bank statement, and can be requested at any time from one's bank. The IBAN guarantees that the processing of transactions are fully computerised, and this is why one needs to pay special attention when providing this code, which is more important than any other information provided (e.g. the beneficiary's personal details).

### **2.2 The SEPA Direct Debit**

SEPA Direct Debits are instruments that allow a creditor to order a debit to be processed on his/her bank account in favour of a debtor's account (held at the same bank or a different bank), based on a mandate signed by the debtor customer prior to the transactions beginning and issued to the creditor him/herself. The SEPA Direct Debit mandate can refer to individual transactions or transactions in series. The European Payments Council has made provision for two distinctive direct debit Schemes, one referred to as the "CORE" scheme has been designed for relations between the creditor business and consumer payee, even though it can also be used by business payees, and a specific scheme for the typical needs relating to relations between businesses (B2B). As from 1 February 2014, the SEPA Direct Debit instruments have replaced the RID payment instrument, whereas the national San Marino Payment System retains the Direct Debit instrument for the Public Administration until 1 February 2016.

#### **2.2.1 The SEPA Direct Debit Mandate**

This is the contract whereby the debtor provides two distinctive authorisations:

- authorising the creditor to put in place one or a series of debits on its account;



- authorising one's own bank to debit the account based on instructions provided through the creditor.

The SEPA mandate never shows the amount for the transaction, in both the authorisations relating to a single transaction and those for a series of ongoing transactions. The basic information contained in the SEPA Mandate includes:

- the IBAN code for the current account to debit;
- the BIC code of the bank where the account is held;
- the name of the subscribing debtor;
- the creditor's identification code;
- the creditor's name and other supplementary information.

In the SEPA Direct Debit Schemes, the Mandate signed by the debtor must always be issued to the creditor, who is responsible for filing this as proof of the consent provided by the debtor in relation to the transactions, in the event of possible disputes.

The Schemes also allow for the mandate to be cancelled, or possible changes to be made to the content, for example, a change in the account to be debited, must be agreed on between the creditor and debtor.

The CORE Direct Debit Scheme provides greater protection to the debtor, in the form of the right to a refund even in the case of authorised transactions, which can be implemented within 8 weeks from the debit date.

Banks are not obliged to ask for the reasons underlying the refund application made by the debtor, but must only process this. In other words, even if the debtor has signed the authorisation mandate, in the event of an incorrect amount being debited, the debtor can exercise his/her right to a refund, assuming full responsibility in this regard.

### **3. Summarised schedule for harmonisation deadlines**

Pursuant to Art. 11 (paragraphs 1 and 2) of Regulation No. 2013-05, direct transfers and debits have been standardised to SEPA regulations as from 1 February 2014. National transfers and direct debits in favour of the broader public administration sector are excluded (channelled on to the San Marinese payment system), where the harmonisation to SEPA regulations has been postponed until 1 February 2016. The 1 February 2016 is also the effective date for Financial RIDs and RIDs with a fixed amount (see Art. 7 paragraph 1 of Reg. 2013-05), intending as:

- financial RIDs: direct debit transactions associated with managing financial instruments or executing transactions for investment purposes;
- fixed amount RIDs: direct debit transactions for an amount set at the time of issuing the debit authorisation.

### **4. Summarised table for harmonisation deadlines**

1 February 2014: Transfers - SCT (Sepa Credit Transfer);  
Direct debits - SDD (SEPA Direct Debit).

1 February 2016: National transfers;  
Direct debits in favour of the broader Public Administration sector;  
Financial Rids;  
Fixed amount Rids.



Pursuant to Art. 51 of Law No. 165 dated 17 November 2005 (LISF) and subsequent amendments, the Central Bank manages the protest information service, which consists of 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 transmitting the information report to the banks and financial companies of San Marino, on a monthly basis. A review of the reference regulations began in 2014, after which the relevant operating procedure conducted by the Central Bank will also be reviewed.

Pursuant to Decree-law No. 65 dated 14 May 2009, the Central Bank managed a Data bank in which should there be foreign incoming or outgoing payment transactions from the intermediary bank, the latter could conduct Customer Due Diligence on the San Marinense banks.

## 2.9 Register of fiduciary shareholdings (APF)

During 2013, the activities related to the Register of Fiduciary Shareholdings referred mainly to receiving reports from San Marinense and foreign fiduciary companies, and the exchange of information with the relevant offices and authorities.

Specifically, in 2013 the Central Bank continued to cooperate with Offices and Authorities that have access to the data contained in the Data bank. Information was released to the Control and Supervision Office on Economic Affairs, the Central Liaison Office and Commercial Registry of the Unique Court and the Office of Industry, Small Businesses and Trade pursuant to Law No. 98 dated 7 June 2010 and Decree-law No. 179 dated 5 November 2010. Data was also provided to the Unique Court, Civil Police - Anti-Fraud Unit, with this is in the context of criminal proceedings and/or international rogatory proceedings pursuant to Art. 29, paragraph 3 of Law No. 96 dated 29 June 2005 (Central Bank Statutes) and the Financial Intelligence Agency (FIA), regarding the functions assigned to this Authority on preventing and combating money laundering and terrorism financing, in accordance with Law No. 92 dated 17 June 2008.

Table 23 contains the summary data for activities carried out, with reference to the 2013 financial year and the first quarter of 2014.

**Table 23 - Impact of workloads resulting from the activities assigned by the Judicial Authority**

Reports/disclosures	2013	2014 I Quarter
Number of reports received from fiduciary companies and banks	201	64
Number of requests for information received from responsible Offices and Authorities*	38	14

Notes: \*Control and Supervision Office on Economic Affairs; Central Liaison Office; Office of Industry, Small Businesses and Trade; Unique Court; Civil Police - Anti-fraud Unit, Financial Intelligence Agency.

During the same period, the Office of Industry, Small Businesses and Trade was notified of a failure to comply with disclosure procedures on the part of two companies, according to the requirements set by Art. 5 of Law No. 98/2010, for the purposes of applying administrative sanctions.



## 2.10 State Treasury

From the time Law No. 35 dated 3 March 1993 became effective, the public Treasury service is managed by the Central Bank.

The Treasury Department carries out this important function in compliance and based on the guidelines set out in the State's Accounting System, as provided under Law No. 30 dated 18 February 1998, the Accounting Regulation under Decree No. 53 dated 24 April 2003 and the Agreement signed between the Central Bank and Public Administration dated 22 April 2004, in addition to the relevant Three-year Economic Contract for services rendered by the Central Bank to the Public Administration.

During the 2013 financial year, the Treasury Department carried out a total of 81,653 transactions on behalf of the Public Administration, which was slightly up from the previous period. More specifically, 15,025 collection orders were processed, 44,502 payment mandates, 20,682 pending incoming items and 1,444 pending outgoing items.

Incoming items managed on behalf of the State, Entities and the broader public sector through collection orders amounted to over 1,339 million Euro, coming down by 18% compared to the 2012 financial year.

With regard to outgoing, Payment Mandates in excess of Euro 1,209 million were carried out, down by 19.6% from the previous financial year.

**Table 24 - Volumes processed expressed in relation to total orders**

Entity	2011		2012		2013	
	In-coming	Out-going	In-coming	Out-going	In-coming	Out-going
C.O.N.S.	6,947,779.64	6,240,256.53	6,405,714.77	5,721,543.59	6,253,604.78	5,583,856.14
University	7,721,610.39	6,195,246.71	7,797,647.86	6,117,505.39	7,402,874.90	5,664,854.66
A.A.S.L.P.	44,351,896.27	42,591,901.72	43,747,511.01	41,757,422.76	38,650,744.17	36,800,962.63
A.A.S.F.N.	24,883,995.90	23,828,917.33	21,027,721.85	20,371,417.51	16,054,253.16	15,626,511.25
State Board of the Games	483,927.78	282,236.13	499,921.73	280,431.60	454,936.01	325,266.87
A.A.C.N.M.	835,450.36	466,811.33	667,437.57	351,656.64	657,821.84	328,668.81
I.S.S.	320,280,484.03	304,652,012.86	288,237,043.54	281,563,234.67	259,853,260.09	250,973,068.97
FONDISS	0	0	2,949,562.96	0	7,717,976.55	1,458,637.04
Most Excellent Chamber	764,511,638.53	610,425,846.56	684,729,478.97	611,846,181.32	694,109,941.41	638,217,343.33
A.A.S.S.	685,261,813.88	642,263,220.68	578,579,690.37	536,253,854.88	308,518,606.94	254,839,934.26
<b>Total</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>	<b>1,339,674,019.85</b>	<b>1,209,819,103.96</b>

Notes: Data updated as at 31/03/2014.

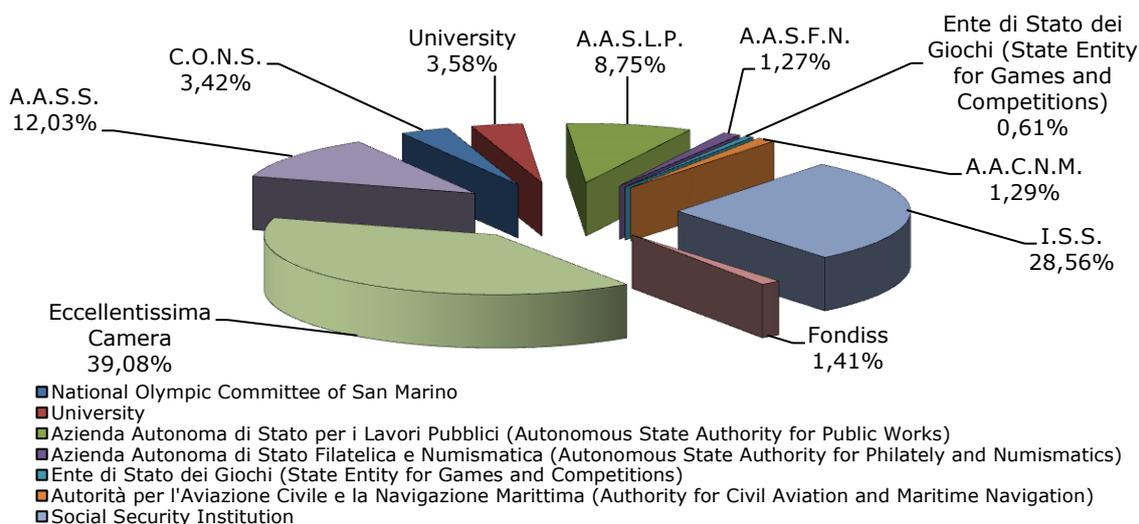


**Table 25 - Volumes processed expressed in relation to the number of orders**

Entity	2011					2012					2013				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	407	121	2,284	70	2,882	402	105	2,190	58	2,755	440	101	2,162	90	2,793
University	331	163	2,981	37	3,512	377	125	2,694	74	3,270	290	135	2,460	38	2,923
A.A.S.L.P.	512	334	5,904	72	6,822	556	322	5,734	74	6,686	612	357	6,088	88	7,145
A.A.S.F.N.	183	29	549	113	874	220	40	558	92	910	251	29	657	99	1,036
State Board of the Games	135	41	117	57	350	139	37	148	67	391	191	47	191	68	497
A.A.C.N.M.	448	217	125	30	820	413	229	123	36	801	545	298	176	37	1,056
I.S.S.	3,669	4,611	15,418	189	23,887	3,637	4,675	14,818	236	23,366	3,483	4,066	15,576	197	23,322
FONDISS	0	0	0	0	0	2	281	0	0	283	2	1,114	33	0	1,149
Most Excellent Chamber	6,737	13,403	11,711	527	32,378	6,730	13,551	11,770	597	32,648	6,774	13,589	10,917	629	31,909
A.A.S.S.	1,501	1,109	5,795	154	8,559	1,425	1,013	5,957	196	8,591	2,437	946	6,242	198	9,823
<b>Total</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>	<b>15,025</b>	<b>20,682</b>	<b>44,502</b>	<b>1,444</b>	<b>81,653</b>

Notes: Data updated as at 31/03/2014.

**Figure 28 - Percentage volumes for collection and payment transactions executed by the Treasury Department in 2013**



The Agreement entered into between the Central Bank and commercial banks of San Marino on 24 February 2005 stipulated that the payments due by the users to the Public Administration, Entities and Public Companies could be carried out at any bank branch in the territory of the Republic. As in previous years, the Treasury has similarly been involved in directly collecting payments due to the State at its branches.

In addition to managing collections, the Treasury Department also manages outgoing payments on behalf of the State. During 2013, the preferred payment method used by Entities in respect of their beneficiaries was the bank transfer, whereas the use of drawing and receipt cheques recorded a significant drop, thanks in part to the Central Bank's actions to raise awareness in this regard over recent years.

Management of the San Marino Card (SMAC) project continued in 2013, with the objective to incentivise purchases within the San Marinese territory. The Treasury Department managed the

refunds and collections associated with this project on a daily basis, using the direct debit and bank transfer instruments. Since 2012, the SMAC Card project has been supplemented by the Electronic purse (*borsellino elettronico*) service, which allows card holders to accumulate credit that can be spent on purchases, but to also recharge the card, and use this as e-money.

The direct debit service that has been operational since 2005, continued to effectively ensure the payment of the Autonomous State Authority for Public Services utilities, and of all other utilities such as those related to the I.S.S., Elementary Schools and Kindergartens.

During 2013, the Treasury Department continued to provide deposit services to the broader Public Administration, mainly in the technical format of the current account, which was structured and formulated according to the Entity/Office's requirements.

The Treasury Department also continued to cooperate with the Social Security Institution (I.S.S.) in managing the supplementary welfare system known as "FONDISS" that has been operating since July 2012, based on the procedures provided for by Law No. 191 dated 6 December 2011.

During 2013, the Treasury Department provided support to the preliminary work needed to accede to the European payment service referred to as SEPA, a significant objective that the Republic of San Marino ably met, with SEPA transfers starting from 1 February 2014.

Since 2005, the Treasury Department has also been responsible for collecting funds due to the Overdue Tax Collection Department, especially in respect of tax collection notices and collections made by the Collection Officers in respect of enforcements. In 2013, 790 attachments on payment orders were managed, in respect of which the Magistrate, pursuant to Law No. 11 dated 23 March 2007 and on demand from the Overdue Tax Collection Department, issued the necessary notification against parties that at the time of settling the payment order, were delinquent for debts owed to the State or the Public Entities entered in the Register.

Finally during the 2013 financial year, the Treasury Department produced periodic reporting for the broader Public Administration, as required by current regulations and agreements between the parties. Specifically, on a daily basis, it provides cash ledgers with the summary of incoming and outgoing movements for each Entity, whereas on a monthly basis, it provides cash audits, with the balances between volumes processed by the Treasury and balances on the current accounts of banks where the Entity's funds are deposited. At the end of the financial period, statements of account are prepared for all Entities, containing a summary of all accounts and reconciliation statements between these balances and the cash ledgers.

## **2.11 State Tax Department**

The Central Bank's Overdue Tax Collection Department is responsible for collecting taxes, contributions and sanctions for the Broader Public Administration Entities (the Most Excellent Chamber, the Autonomous Authorities, the Social Security Institution and the State Entity for Games and Competitions), as well as those relating to the Central Bank itself and the Financial Intelligence Agency.

The collection assignment is provided with a listing that the creditor Entities send to the Overdue Tax Collection Department, containing the names of debtor parties, the description and amount owing.

The Law to establish the Overdue Tax Collection dates back to 2004, and the Overdue Tax Collection Department became fully operational the following year. Based on this law, the legislator amended the management of tax collection, replacing the Manu Regia procedures with the tax collection notice.



In order to effectively carry out the function assigned to the Central Bank, the Overdue Tax Collection Department installed computer programmes that could speed up its work processes.

Collections via the tax collection notice usually refer to amounts that were not voluntarily paid by the tax payer with the deadlines set by Law. The collection is usually initiated by sending a tax collection notice, containing the information received by the State Tax Department as the enforcing entity, the methods of payment applicable and procedures for possible appeals. Once fifteen days have lapsed from the due date on the tax collection notice that was duly notified, the notice becomes enforceable and the State Tax Department puts in place the measures required to collect the amounts owing in the register, within the deadlines and based on the procedures set by Law.

The Single Tax Bill (CAUTA) is also collected after being entered in the register; in this case, the request for payment from the creditor entity does not originate from a previous default by the tax payer, but refers to the first demand for payment; the deadline for the CAUTA payment is set by Law at 31 March of each year; this notice only becomes enforceable on the part of the Overdue Tax Collection Department after the default notice has been sent.

To recover amounts owing, the Law makes provision for movable and real estate assets to be attached and sold; credit held with third parties can also be attached: if the debtor has a credit in respect of a third party, the Overdue Tax Collection Department can directly recover the amount owing by the tax payer from the latter, based on the procedures set by Law.

The Law also provides for a salary to be attached within the limit of one fifth of the amount, whereas pensions may not be attached: nonetheless sometimes it is the tax payer that makes available a portion of their pension to pay off their debts.

The collection of taxes is a highly sensitive matter: considering that it is usually in cases of enforcement that the Department acts, namely in all cases where the tax payer has not voluntarily made payment of what is owing within the deadlines set by law. This is done with the intention of collecting as much as possible, and without having prior knowledge as to how long it will take to close the file. In some cases, the tenacity and professionalism of tax collectors has made it possible to recover what was owing in situations where initially one would have thought it was not feasible to pursue enforcement measures.

In other cases, following meticulous checking locally and an unsuccessful attempt to contact the legal representative of the economic operator, or subsequent to the death or emigration of the person registered, the tax official can do nothing more than issue a negative attachment report due to the whereabouts of the party being unknown or because of a lack of means.

For the enforced collection to be effective, prompt recording in the register is absolutely essential, especially in respect of legal persons; in actual fact, it was found that with certain tax payers often owing significant amounts, the recording is only done some years later than the relevant tax year (e.g. the single phase annual returns), and at the time enforcement becomes possible, the conditions are no longer favourable to collect what is owing. It is hoped that measures will be introduced to correct the current regulatory framework in order to bring forward audit deadlines and intervene as soon as possible in respect of tax payers, so as to avoid additional debt accumulating.

It should be added that most recordings are done in respect of operators where insolvency proceedings have been initiated, or voluntary or mandatory liquidation proceedings: at 31 March 2014, the total credits due for collection relating to tax payers subject to insolvency or liquidation procedures corresponded to 75% of the total.

In respect of insolvency and liquidation proceedings, the Overdue Tax Collection Department manages all the formalities subsequent to these being initiated. Insolvency procedures generally take years and often close with assets that when they do exist are so insignificant that



they are unable to cover the preferred creditors (which include those proven as creditors by the Bank). Liquidation proceedings, especially mandatory proceedings often end without the debts against the economic operator being paid: more often than not, the liquidator applies for the liquidation procedure to close, citing the lack of assets.

From the start of its activities (1 January 2005), the Overdue Tax Collection Department has collected Euro 123.8 million (against a total of Euro 446.1 million recorded in the Register).

### **2.11.1 Entries in the Register**

During 2013, the Entities imposing taxation recorded entries for 112.6 million Euro and discharges for 26.4 million Euro.

Table 26 compares the entries and releases from the Register for 2011, 2012 and 2013. In 2013 entries increased by 136% compared to 2012, and the drop in entries in 2012 recorded the previous year.

Finally, Table 26 shows the percentages in terms of amounts and the number of entries released, compared with those entered in the Register in the same reference year. In 2013, 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 23.5% of the aggregate amount entered in the Register and 7.8% of the total number of entries. In absolute terms, there were 2,700 released entries in 2013, for a value of Euro 26.4 million.

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

Entries	2011		2012		2013	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Managed	61,372,047.61	41,744	47,664,898.12	31,361	112,584,441.58	34,324
Released	12,116,383.04	3,343	10,459,553.70	2,374	26,454,845.57	2,680
% Released	19.7%	8.0%	21.9%	7.6%	23.5%	7.8%

Table 27 compares the entries in the Register for 2012 and 2013, broken down according to the different imposing Entities. Compared with entries in the Register for the previous, 2013 saw an increase of 153.3% in total entries for the Most Excellent Chamber, an increase of 17.3% in the ISS Register entries compared with the previous year, a decrease of 25.9% for the State Autonomous Authority for Public Services, and 85.3% for the Central Bank. The Financial Intelligence Agency recorded entries for around 70 thousand Euro, whereas it had not recorded any in 2012. The State Entity for Games made no entries in both 2012 and 2013.



**Table 27 - Entries in the Register in 2012-2013 broken down by Entity**

Entity	2012			2013		
	Amount	Entries	Number of entries	Amount	Entries	Number of entries
Most Excellent Chamber	41,708,094.60	78	27,758	105,648,669.05	82	29,115
Social Security Institution	5,819,722.52	81	3,162	6,829,305.18	79	4,903
State Autonomous Authority for Public Services	27,045.00	7	421	20,031.57	9	269
Central Bank	110,036.00	4	20	16,235.78	5	23
Financial Intelligence Agency	0.00	0	0	70,200.00	2	14
<b>Total</b>	<b>47,664,898.12</b>	<b>170</b>	<b>31,361</b>	<b>112,584,441.58</b>	<b>177</b>	<b>34,324</b>

Table 27 clearly shows that the creditor entity with the highest number of entries is the Most Excellent Chamber, more than doubling the amount for collections in 2013. The Social Security Institution also increased the amount it registered. With Law No. 191 dated 6 December 2011, which regulates the establishment of the supplementary welfare pension, the legislator authorised FONDISS, the supplementary welfare fund, to make use of the compulsory collection procedures provided for in Law No. 70 dated 25 May 2004. In implementing this regulation, FONDISS recorded entries for close on 46 thousand Euro in 2013. With regard to entries for the Social Security Institution Register, the highest portion referred to welfare contributions where a consistent increase was seen in entries during the course of the year. The ISS had in fact recorded a 26% increase in entries in 2012 over the previous year, and 17% more in 2013 over the figure for 2012.

The amounts recorded for other creditor Entities were minimal compared to total entries.

The entries for the Most Excellent Chamber are subdivided according to the various offices as detailed in Table 28.

Among these, the highest number of entries were recorded by the indirect taxation section of the Tax Office. Specifically, entries for this office went from 30.1 million Euro in 2012 to 95.6 million Euro in 2013 (the main taxation items included: annual single tax bills for 61.4 million Euro, single tax bill notices for Euro 19.8 million, single tax bill settlements for Euro 2.1 million, single tax bill injunctions for Euro 2.2 million and interest for delayed payments for Euro 8.1 million Euro).

Entries for the direct taxation office recorded in 2013 came down compared to the previous year, going from 4.9 million Euro in 2012 to 3.8 million Euro in 2013. At the end of 2013, under entry 26, the indirect section of the Tax Office recorded entries for the 2012 extraordinary taxation of properties in respect of tax payers that had applied to make deferred payments for this tax (Art. 6, paragraph 4 of Delegated Decree No. 90 dated 23 July 2013). The entry referred to 22 tax payers for a total of 517 thousand Euro; most of these tax payers had made one payment instalment at the beginning of 2014.

Entries for the Registry Office referred mainly to the Single tax bill with 1 entry for a total amount of 4.5 million Euro. In 2013, this same office had recorded 567 thousand Euro for fines that needed to be collected on behalf of Italian Entities.

The entries by the other offices referred mainly to the imposing of sanctions, with the exception of the Vehicles Register referring to the registration tax for motor vehicles and the Study Grants Office whose entries referred to the refund required on scholarships where holders were no longer entitled to receive these.

**Table 28 - Entries in the Register in 2013 made by 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	95,606,111.42	7,691	25,729,749.78	2,173
Direct Taxes	3,839,202.07	596	35,504.46	15
Registry	5,184,142.19	19,849	76,470.93	232
Civil Police	407,545.14	720	7,906.76	11
Gendarmerie	25,297.50	41	630.50	3
Guardia di Rocca	20,372.68	31	0.00	0
Industry, Trade and Small Businesses	310,521.38	17	0.00	0
Labour	217,020.00	46	0.00	0
Vehicles Register	28,645.50	120	740.00	6
Study Grants Office	4,377.27	1	1,990.13	1
Inspectorate for the Control of the Territory	5,433.90	3	0.00	0
<b>Total</b>	<b>105,648,669.05</b>	<b>29,115</b>	<b>25,852,992.56</b>	<b>2,441</b>

### 2.11.2 Collection activities

In 2013, the Overdue Tax Collection Department collected 15.6 million Euro corresponding to around 24 thousand entries. These collections were in line with those of the previous year: in 2011, this figure stood at 15.7 million Euro and in 2012 at 22.4 million Euro (the highest collections in 2012 compared to the other years related to the additional extraordinary IGR for the 2010 tax year, for around 5.5 million Euro, where the legislator had identified the tax collection notice as an instrument to use immediately; the same tax for the 2011 tax year was included directly in the tax return).

In 2013, 169 thousand Euro was collected for default interest, and 107 thousand Euro in monetary sanctions. Both items refer to ancillary debt amounts recorded in the overdue tax collection notice, and are instituted when payment of pending amounts takes place subsequent to the expiry of the latter.

The Overdue Tax Collection Department granted 77 payment extensions for Euro 4.2 million. Compared to 2012, besides the number of extensions granted (77 against 65), the amount has also increased significantly (4.2 million Euro compared to 2.5 million Euro). There were 13 extensions guaranteed by sureties for an amount of approximately 719 thousand Euro. There were 64 extensions guaranteed by mortgages on assets for a total of 3.5 million Euro.

Of the extensions granted, 68 were extended to 60 months, which is the maximum allowed by Law.

From the extensions granted by the Overdue Tax Collection Department since 2005 until 31 December 2013, there is still 6.3 million Euro outstanding, against an initial figure for extensions of 7.1 million Euro.

During 2013, 38 insolvency or similar proceedings were ordered; during the same year, claims in the context of insolvency proceedings for 29.2 million Euro were filed (+349% compared to 2012).



### 2.11.3 Enforcement procedures

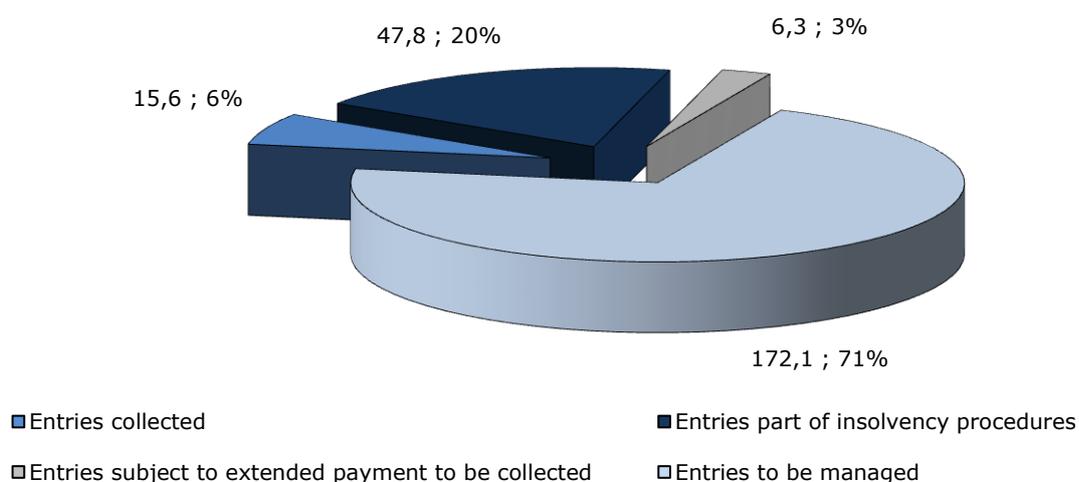
In 2013, 915 enforcement procedures were carried out, of which 519 referred to attachments of debts. The attachment of debts are implemented in cases where following a payment order issued against a defaulted tax payer, the Overdue Tax Collection Department asks the Treasury Department to partially or totally cover the debt. The Overdue Tax Collection Department informs the tax payer once the attachment is carried out, notifying them of the partial or total settlement of the debt registered.

Of the 396 attachments of assets, not all resulted in a proper attachment, because the debtor settled the debt once the enforcement activities had been initiated. There were nonetheless 195 attachments of assets during the year, with 11 attachments on salaries and 1 attachment relating to real estate. 93 negative attachments were registered due to unknown whereabouts or a lack of means.

At 31 December 2013, entries that were pending for Euro 172.1 million; those referring to tax collection notices that had not yet expired amounted to Euro 24.3 million. Included in the pending expired notices were debts that referred to parties subject to insolvency procedures that had been entered in the Register after the expiry of the deadline for lodging claims; also included were taxpayers (both natural persons and legal entities) that could no longer be attached because they lacked the means or were unavailable in the territory. Negative attachment reports were prepared for over 57 million Euro of debt in 2013.

Figure 29 details the summary of entries pending in the Register at 31 December 2013.

**Figure 29 - Summary of entries pending in the Register at 31/12/2013**



Notes: Figures in millions of Euro.

### 2.11.4 The Single Tax Bill (CAUTA)

The entry relating to the Single Tax Bill (CAUTA) allows the tax payer to pay the amount for fixed annual taxes in a single instalment; this refers to the first demand sent to the tax payer. The deadline for the Single tax bill payment is set by Law at 31 March of each year.

The entry is processed by the Registry Office that collects the data provided by the various offices responsible.

The collection within the initial deadline set for 2013 CAUTA entries consisting of 18,746 files for a total of 4.5 million Euro, referred to 15,757 tax payers and a corresponding total of 3.5 million Euro. Of these, 8,419 tax payers made a pre-authorized payment for a total of approximately 1.1 million Euro.

At 31 December 2013, there were 1,647 outstanding files corresponding to 574 thousand Euro.

Table 29 compares the Single Tax Bill entries for 2011, 2012 and 2013 at 31 December for each reference year. The data related to entries made and released in the Register in 2011 are considerably higher compared with those for the other years mainly due to an incorrect entry, which was subsequently remedied with its release and consequent issuing of a new entry.

At the end of 2013, there were 1,000 2011 Single Tax Bill files pending for collection for 384 thousand Euro, and 1,224 Single Tax Bill files from 2012 pending for collection for 443 thousand Euro.

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

Entries	2011		2012		2013	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Entered	5,903,414.20	19,384	4,689,104.75	18,653	4,516,204.27	18,746
Released	1,243,667.20	894	39,492.41	130	34,612.19	149
Collected by the Central Bank	4,190,612.40	17,204	4,142,247.90	17,106	3,898,048.34	16,930
To be managed	453,979.36	1,258	497,683.69	1,394	574,042.77	1,647
% Released	21.1%	4.6%	0.8%	0.7%	0.8%	0.8%
% Collected by the Central Bank	71%	88.8%	88.3%	91.7%	86.3%	90.3%
% To be managed	7.7%	6.5%	10.6%	7.5%	12.7%	8.8%

### **2.11.5 Manu Regia procedures**

During 2013, the Overdue Tax Collection Department collected 40,629 Euro corresponding to 36 files; in most cases this referred to collections associated with salary attachments or the voluntary transfer of pensions.

At the end of the year, 382 files were still pending for an amount of Euro 3.9 million.

The Manu Regia procedures still pending are difficult to settle; in certain cases relating to voluntary liquidations or offices that closed during the year, the relevant Entity has not yet submitted the relevant filing; in others, relating to tax payers no longer resident in the territory, that are deceased or lacking means, the Department will be preparing negative reports.

### **2.11.6 Auctions of movable assets**

Since it was established, the Overdue Tax Collection Department organises auctions for movable assets aimed at selling attached and confiscated assets.

The auctions are usually held every six months, with the purpose of preventing any loss in the value of the attached assets due to technical obsolescence or ageing, while at the same time, achieving the best possible return in the interests of the tax payer as well as the creditor Entity, and reducing storage costs to a minimum.



All parties can participate in the auctions of movable assets, including the attached tax payer, who has pre-emptive rights at the same price, on condition that the purchase contributes to improving the tax payer's debt position.

The sales process begins with the publication of the auction notice. All interested parties are given an opportunity to view the assets prior to the auction. The Bank's internet site is updated with the information relating to the auction, including a list of assets (with photographs) and the participation procedures.

Experience has shown that buyers that have participated once usually return for the auctions organised at a later stage.

There were two movable asset auctions held in 2013.

During the auction of movable assets No. 1/2013, held in the first half of the year, 269 lots were put on sale for a total of Euro 326 thousand, and the amount realised was Euro 171 thousand (53% of the value of the attachments).

Through the auction of movable assets No. 2/2013, 429 lots were put on sale, for a total value of Euro 312 thousand. The three phases were completed on 14 December 2013 and the aggregate amount realised was Euro 235 thousand (75% of the value of the attachments).

A sale by private tender was held in August, which resulted in a return of Euro 240 thousand.

Table 30 sets out the results from auction over the last three years. A comparison between these is impossible, because the auction's success depends on a number of factors that are not controllable (one of which is the type of assets on sale).

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

	2011				2012		2013	
	I auction	II auction	III auction	IV auction	I auction	II auction	I auction	II auction
Value of assets	88,650.00	432,000.90	101,320.00	217,221.82	970,225.98	411,184.51	326,031.00	312,427.00
Collected	44,770.00	217,132.21	41,000.00	58,152.36	151,046.78	181,033.53	171,273.37	234,968.05
% Collected	50.5%	50.3%	40.5%	26.8%	15.6%	44.0%	52.5%	75.2%

### **2.11.7 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:

- 1) an appeal before the Civil Court challenging the debt statement, where the decision is still pending;
- 2) two administrative appeals, of which one was denied on 12/11/2013, and the other is awaiting judgment.

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

Economies and financial markets continued to normalise during 2013, gradually and slowly emerging from the serious economic crisis that had begun in 2007.



Central Banks in the main countries and geographic areas continued to play a pivotal role in managing the process of gradually leaving behind the acute phase of the crisis, both by maintaining an expansive monetary policy, and closely monitoring the situation of the main players in the financial market, inviting them to implement incisive capitalisation interventions to make the banking and credit system more stable.

Due to the expansive monetary policy maintained by the ECB, interest rates over the very short term fell compared to 2012: in 2013, the average three month Euribor rate was 0.22%, against the 0.57% in 2012.

In the United States, the Federal Reserve gradually eased funding by reducing the buying of Government Bonds by 10 billion dollars a month (referred to as "Tapering") in order to stabilise and restore normal dynamics to financial markets.

The second half of 2013 was relatively less volatile in respect of issuers' credit markets in the countries of leading economies compared to 2007, the year in which the financial crisis began.

During 2013, sales of securities intended for the Central Bank's property securities portfolio generated profits for 4 million Euro, with a Money management margin of 2.7 million Euro; in total, the Financial management margin stood at 6.7 million Euro. The annualised return on the Central Bank's securities portfolio recorded 2.5%.

At the end of 2013, the volume of the Bank's securities portfolio was 265.6 million Euro compared to the 106.6 million Euro at the end of 2012, showing an increase of 149%; during the same period, Inter-bank loans came down from 194 million Euro to 89 million Euro, marking a drop of 54%, while loans to customers grew from 39.7 to 66.8 million Euro, recording growth of 68% in percentage terms.

Debts with banks increased over 2013 to 180 million Euro from the 87.5 million Euro at the close of 2012, indicating a percentage increase of 105%.

The increase in the portfolio balance during the course of 2013 was mainly the result of the liquidity that became available following the repayment of loans to the San Marinese banking system.

The management of the bond portfolio was characterised by intense buying and selling on both the primary and secondary markets, trying to realise profits in capital accounts resulting from rate movements and the contraction in the credit spread.

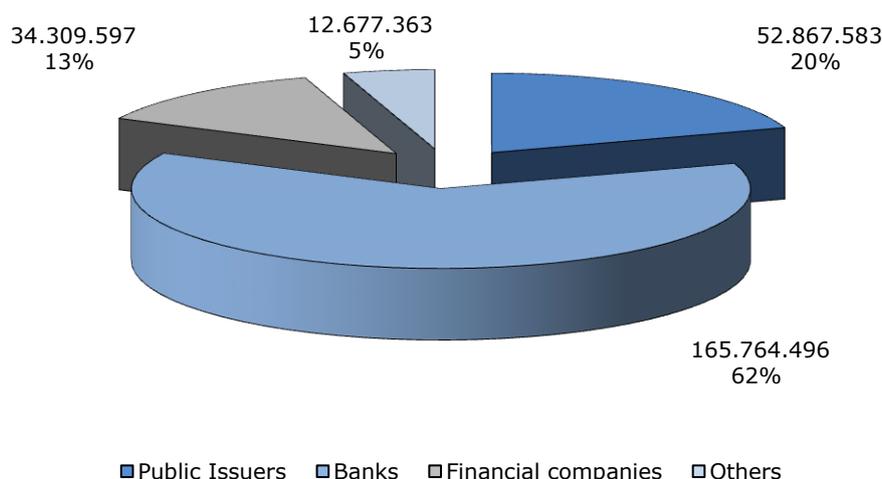
The contraction in the credit spread, already referred to above, made significant capital gains possible on the capital account, especially during the second part of the year.

Sustained activity in the buying and selling of bonds and the increased size of the portfolio resulted in traded volumes topping the two billion Euro mark during 2013.

Figure 30 details the composition of the bond portfolio at the close of 2013.



**Figure 30 - Composition of the bond portfolio**



Notes: Figures in Euro.

Figure 30 shows that during 2013, the main component of the bonds portfolio consisted of bonds from banking and financial issuers that had benefited from the strong cash injection by the monetary authorities, as well as the stabilising in the crisis and consequent improvement in budgetary parameters.

### **2.13 Second social security pillar**

Law No. 191 dated 6 December 2011 and subsequent amendments establishes the supplementary pension system in the Republic of San Marino, referred to as FONDISS, and assigns several functions to the Central Bank, specifically:

1. the function as custodian bank for FONDISS resources (article 14);
2. the supervisory function over FONDISS (article 13, paragraph 4).

Similarly to 2012, once again in 2013, the Central Bank provided advice and support to the Administration Committee of FONDISS on regulatory and operational issues for the launch of the supplementary pension system and collection of contributions.

Specifically, the Central Bank:

1. prepared the operational model, accounting structure and contracts for investments that could be made by FONDISS in time deposits with San Marinense banks;
2. worked in conjunction with the Administration Service selected by the ISS to harmonise operating process that involve the custodian bank (calculating unit value, limits, financial reporting);
3. revised and commentated the various drafts of the Regulation prepared by the FONDISS Administration Council and approved on 29 October 2013 by the Great and General Council;
4. contributed to the drafting of Delegated Decree No. 151 dated 29 October 2013, which introduced the amendments to Law No. 191 dated 6 December 2011;

5. together with the FONDISS Administration Council, formulated the strategy, methodology assumptions, process for calculating the unit value and defining the position of individual members.

In the first quarter of 2014, FONDISS began the recovery of previous amounts, calculating the unit and investment value. The Central Bank supported FONDISS in checking and setting up data (July 2012 – January 2014), in addition to carrying out the ordinary functions of custodian bank.

Table 31 shows the payment flows (transaction date) per calendar year (July – December for 2012) based on the type of payment (the type of payment could be changed by the entity prior to the final approval of its financial statements).

**Table 31 – Collection of welfare contribution payments**

<b>Year</b>	<b>2012</b>	<b>2013</b>
Compulsory contributions paid by employees	1,413,250.57	4,124,082.60
Contributions by self-employed workers	1,657.88	388,704.01
Contributions paid for independent separate management	25.00	87,836.45
Contributions relating to direct economic indemnity	17,780.69	56,274.67
<b>Total</b>	<b>1,432,714.14</b>	<b>4,656,897.73</b>

Note: figures in Euro.



### 3 INTERNAL RESOURCES

#### 3.1 Human resources and corporate staff

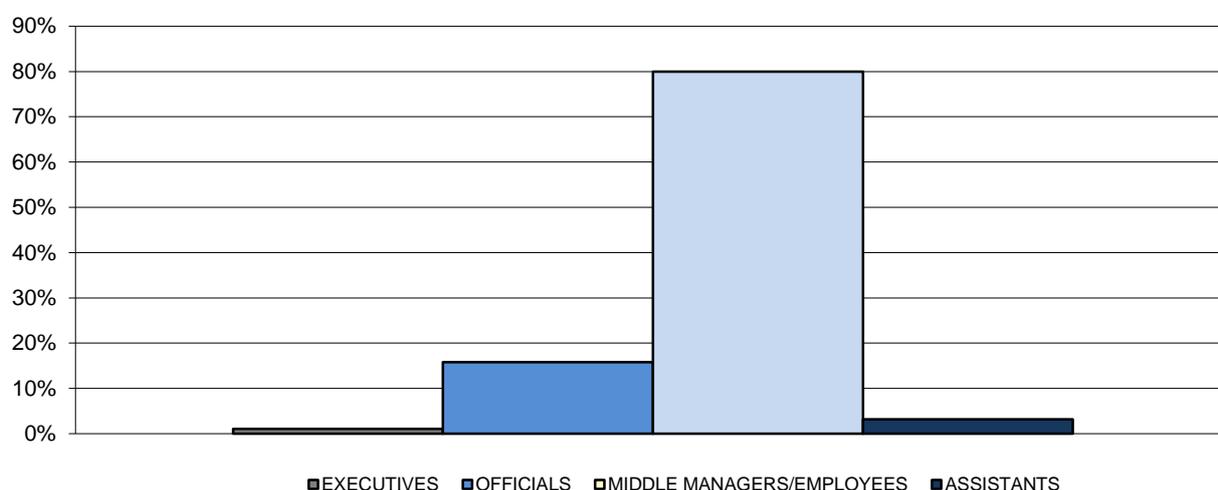
The Central Bank's staff component did not change in 2013; at the end of the year, it numbered 95 employees (including the Director General and staff from the Financial Intelligence Agency) equalling the number in 2012.

If we were to take into account secondments, long-term leave, maternity leave, part-time work and long term absences, the average number of resources effectively working in the Bank was 89.6.

Some statistical information to note with regard to staff: average age 41, female staff 49%, graduate employees 64%.

The breakdown of staff according to contract category is detailed in Figure 31.

**Figure 31 - Breakdown of Central Bank and FIA staff according to contract categories as at 31/12/2013**



Subsequent to the process involved in the spending review implemented, in 2013 the Central Bank initiated an independent rationalisation programme and containment of general and administrative costs that resulted, inter alia, in a reduction of overtime work rendered for 73% and accrued leave of around 42%.

Training hours came down from the previous year: from 2,200 hours in 2012 to 1,700 hours in 2013 (19.10 hours/man), while preference was given to training provided with international bodies like the International Monetary Fund and the World Bank, as well as foreign Supervisory Authorities, such as the Federal Reserve Bank in New York that organise free training sessions.

The support provided to the CBSM Foundation continued in 2013, with this entity organising the training courses on Trusts required by Central Bank Regulation No. 2010-01, and other training sessions with an excellent response in terms of participation.

In view of the Foundation's perspective – regarding the importance of having a dedicated full-time resource to oversee its initiatives – on 12 December 2013, it appointed Rita Vannucci, with an open-ended contract effective from 12 March 2014.

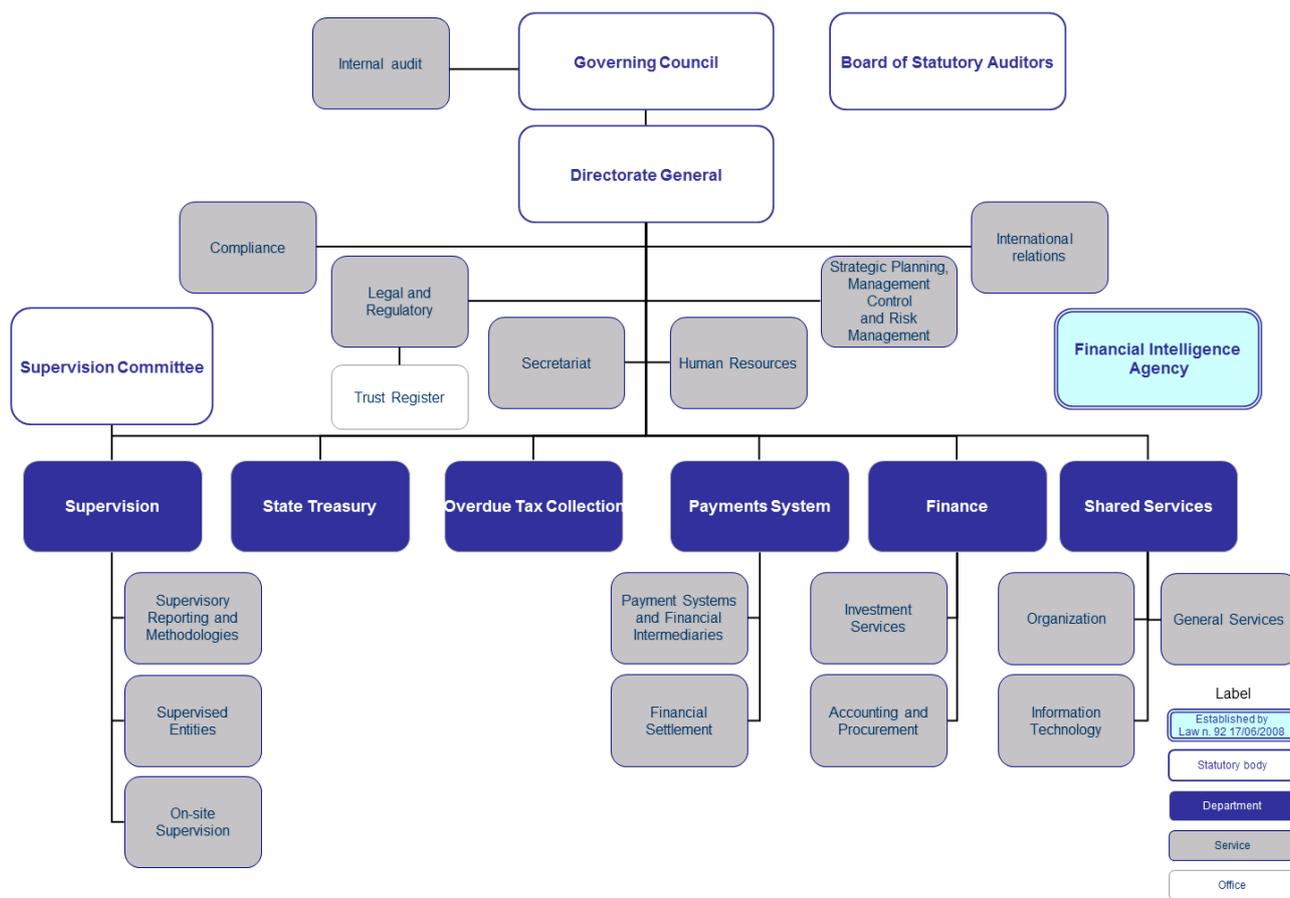
In the context of her appointment with the Foundation, – Ms Vannucci – may be required to provide legal consulting to the Central Bank: in this regard, the Bank signed a cooperation agreement with the Foundation on 14 March 2014 allowing it to utilise the consulting services of Ms. Vannucci.

This new resource will not only provide added value to the CBSM Foundation, but also to the Central Bank, to whom she will be providing consulting and support on legal and judicial issues.

Finally, notice is given that in March 2014, the contract was terminated between the Central Bank and Antonio Gumina, a Member of the Supervision Coordination Committee and Head of the Supervision Department; this function will be covered by Andrea Vivoli from 1 April 2014, who has been an employee of the Central Bank since 2008 and member of the Coordination Committee.

The organisational chart of the Central Bank, updated as at 31 March 2014 appears below (Figure 32).

**Figure 32 - Organisational chart as at 31/03/2014**





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