

BANCA  **CENTRALE**
DELLA REPUBBLICA DI SAN MARINO

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

YEAR 2011



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CENTRAL BANK OF THE REPUBLIC OF SAN MARINO
Entity with public and private shareholders
Code Op. Ec. SM04262 – Endowment fund Euro 12,911,425.00 fully paid in

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Composition of the Statutory Bodies*

GOVERNING COUNCIL

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

BOARD OF STATUTORY AUDITORS

Irene Lonfernini - Chairman
Massimo Francioni**
Guido Zafferani

DIRECTORATE GENERAL

Mario Giannini - Director General
Daniele Bernardi - Deputy Director General

SUPERVISION COMMITTEE

Mario Giannini - Chairman
Antonio Gumina
Andrea Vivoli

** as at 27 May 2012*

*** resigned as from 28 March 2012*

The Articles of Associations of the Central Bank (Law no. 96 dated 29 June 2005, as subsequently amended and supplemented) require the Bank to report the achievement of its purposes to the Great and General Council which shall appoint the Chairman thereof, the members of the Governing Council as well as the Chairman of the Board of Statutory Auditors; in line with the responsibilities assigned by the Articles of Associations, the Bank has the duty and privilege to report to the Supreme Legislative Body about the activities carried out and the performance of the financial system of the Republic. This report, updated as at 31 December 2011, represents the information provided by the Central Bank pursuant to its own Articles of Association, to the Great and General Council.

As regards to the composition of the Statutory Bodies, it should be noted that:

Mr Francesco Ielpo has been a member of the Supervision Committee - as Inspector - for the entire financial year 2011, and resigned from such appointment as from 1 January 2012:

on 2 May 2012, Ms Irene Lonfernini was confirmed as Chairman of the Board of Statutory Auditors:

on 28 May 2012, the Meeting of the Shareholders of the Central Bank appointed Ms Sandy Concetta Stefanelli as new member of the Board of Statutory Auditors.

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Abbreviations

ABS	Associazione Bancaria Sammarinese (Bankers Association of San Marino)
AIF	Agenzia di Informazione Finanziaria (Financial Intelligence Agency)
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
ASSOFIN	Associazione finanziarie e fiduciarie sammarinesi (Association of the Financial and Fiduciary entities of San Marino)
CENTRAL BANK	Central Bank of the Republic of San Marino
CAUTA	Cartella unica delle tasse (Single Tax Bill)
COFER	Currency Composition of Foreign Exchange Reserves
EPC	European Payments Council
FMI	Fondo Monetario Internazionale (International Monetary Fund)
FSAP	Financial Sector Assessment Program
GRECO	Council of Europe Group of States Against Corruption
LISF	Law no. 165/2005 “Legge sulle imprese e sui Servizi Bancari, Finanziari e assicurativi” (Law on companies and on banking, financial and insurance services)
OECD	Organisation for Economic Co-operation and Development
RIS	Rete interbancaria sammarinese (San Marinense Interbank Network)
ROA	Return on Assets – ratio between gross return and total assets
ROE	Return on Equity– ratio between net profits and equity
SEPA	Single Euro Payments Area
SMAC	San Marino Card
SRD	Servizio scambio recapiti domestici (Service of exchange of “ <i>recapiti domestici</i> ”)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TEGM	Tasso effettivo globale medio (actual global average rate)
UPECEDS	Ufficio Programmazione Economica e Centro Elaborazioni Dati e Statistica (Office of Economic Planning, Data Processing and Statistics)

GENERAL CONSIDERATIONS OF THE CHAIRMAN

The European debt crisis that followed the crisis of the international financial and credit system which started in 2008, is having a serious impact on the real economy, and is clearly and negatively affecting enterprises, thus provoking a serious impact on consumers.

As a matter of fact, the crisis does not affect only the financial system itself, but is affecting the model of capitalistic society in its entirety and has led to considerable social tension: it might be time to build a new civil society.

Over the last few decades, especially in our continent, we experienced a change in the direction of both private and corporate investments, mainly directed towards the financial segment rather than to the economic sector. In fact, on one side the companies, rather than enhancing their productivity or expanding to new markets, preferred to diversify their activities through a stronger financialization of their business; private investors also shifted their focus from traditional sectors to areas of the financial environment characterised by higher risk, in exchange of potentials for greater and faster returns. Thus, after the dream was shattered due to the well-known events that affected the financial markets, the crisis of the real economy was unveiled. In addition to all this, and together with the loss of substance in the entrepreneurial work, an operating method emerged whose rules and conducts gradually lost contact with those contents that – in terms of value – were historically linked to work as an income-producing activity and to doing business as a social activity, instead of a merely economic matter. As a consequence, conducts increasingly less in line with those ethical values which should form the basis of civil society, gradually prevailed. This led to the exponential increase of practices and conducts which were not in line with such values, nor with legality itself, up to the entry of organised crime into the financial, credit and economic systems. This virus is infecting every sector of the society, and thus it is no longer possible to find a way out, a medicine capable of rapidly curing or at least preventing such slow agony. No technical or political governments seem to be able to guide us safely out of this situation, while unemployment, social unrest, indifference towards politics, the gradual parting from a shared system of values are all increasing: something that could be defined as a dangerous "ethical confusion".

Are we still on time to put the business at the centre of civil society as a factor of social growth, and to scale-down the role of finance by reconsidering it as an ancillary instrument for the development of enterprises?

Are we still on time to rediscover and reaffirm that social ethics which must form the basis of human society and which alone may realise the reconstruction of a society worth of this name, where social balance, the future of youth and the protection of the weaker classes are at the centre of political activities in a broad sense?

Are we still on time to modify our life style, bringing it back to a path of common sense and reciprocal respect, in order to leave a liveable society to the future generations?

Of course, we hope in a positive outcome, having clear in mind that the contribution of the financial system as supporting tool to the path towards recovery is also necessary to overcome the crisis.

The crisis which the European continent is experiencing started in the name of the Euro and of the indebtedness denominated in the new single currency, which was expected to represent the realisation of the great plan designed in the years when the catastrophe of the Second World War was still vivid. Nearly three generations of European ruling classes invested their entire capital in terms of historical reputation in that project, and it is legitimate now to expect that they produce the decisive effort required in order to give back a perspective to the idea of Europe which is not only economic, but also civil and political.

With particular reference to the financial and credit system of San Marino, the Central Bank, together with other Institutions of the Country - each to the extent of its relevant competences - is still committed to give its assistance in order to alleviate and overcome the crisis that is affecting the economy. The Central Bank must not be identified only with its supervisory functions - which represent an important part thereof - but also with all other functions that are usually allocated to it. There have been many and important changes in the laws and regulations governing the credit-financial sector, and there have been similarly important measures aimed at supporting the growth of professionalism and transparency of the system. Therefore, the Institutions are making an effort to implement structural changes aimed at curbing public expenditures and concretely supporting enterprises at the same time.

Before providing the analytical presentation of the main events that occurred during the financial year, it is worth focusing on the social-political environment in which the Central Bank and its management have operated and still operate.

It is clear - and it should be clear to everyone - that certain regulations (such as that on banking secrecy) as well as certain legislative deficiencies (such as in the implementation and application of anti-money laundering regulations) allowed the inflow in the past of large amounts of capital into the Republic and a proliferation of banks and financial companies which was not certainly justified by the size of the territory and its population, nor by the economic environment. The international financial crisis, the necessary adjustments to the European supervisory regulations, the presence of criminal organisations in the economic environment, the need to gain credibility within the international financial framework, imposed urgent and drastic clean-up measures, which clashed with those political, social and financial powers that were against changes and vigorously defended their wealth and power under the illusion that they would still be able to have their personal positions (in social, political and economic terms) prevail over the public interest and the collective good. Such a resistance is ascribable to a strong minority in the Country, which however launched a violent, disarranged and demagogic attack against those who, at every level (political, social and institutional) work for the change, exercise the powers of control granted by the law as institutional tasks and sanction any conduct which is against the law. Such a smear media campaign at a local level, although not shared by the majority, tried to delegitimise the authority of the institutions and their leaders, as - with regard to this Central Bank - it was even argued that pretending the respect of the rules and carrying on supervisory activities triggered the financial crisis in this Country!

In spite of itself, this Central Bank had to face a situation that it certainly had not created, and had to intervene with its supervisory powers in order to solve unimaginably serious situations in compliance with the regulations in force, thus trying to protect the entire system.

In this phase of emergency in which the Government and the Great and General Council, on one side, are promoting and launching many and important legislative innovations which will have a strong impact on the social environment (specifically, the tax reform, the recent provision concerning the crime of mafia-type association) and will provide for the adjustment of the legal system to the international standards (especially as regards to the fight against organised crime and money laundering), in which court authorities, on the other side, are conducting sensitive investigations both in terms of quality of the persons being investigated as well as in terms of the crimes alleged, and in which, in the end, the Central Bank is conducting inspections of the supervised entities in order to verify the overall health of the financial system in this situation of emergency, it is necessary that everyone - I repeat, everyone - at every level of participation to the

social life of the Country, offers his/her loyal assistance, fully sharing the targets identified. As mentioned above, these activities are opposed by some persons who act not in the interest of the financial system but only to defend their own personal interests or to prevent situations that are still unknown form emerging.

These people aim at creating confusion, with the purpose of having the healer seen as the destructor. Then they raised the game! The media campaign was followed by a judicial campaign, with petitions being filed to the court authorities without any clear legal ground - and on this point the court authorities will decide - and with the obvious intention to put pressure on the top management of this Bank on one side, and to relax the strictness of the supervisory action on the other side. Obviously, the aforementioned petitions not only do not represent the general feelings of the Country but, most of all, will not divert the Central Bank from the path undertaken - in the exclusive interest and for the good of the Republic - for the complete reorganisation of the credit-financial system, the assistance in the growth and professionalisation of such system and the cooperation with political forces in planning a sustainable future.

Besides the institutional activities, this Bank assumed additional tasks that exceed its specific functions.

In particular, I wish to mention the daily cooperation with the court authorities, within the context of activities that might be defined as typical of the judicial police, and this becomes even more complex when we are asked not only to report events that are characterised by *prima facie* profiles of illegality, but also to assign a judicial qualification to such events. The aforementioned commitment diverts the efforts of the inspectors from their tasks; therefore, a balance must be found between the legitimate needs of the court authorities and those of the Central Bank.

The last of the situations described above allows us to make new considerations as regards to the tasks and functions of this Central Bank, which are expanding and risk to divert the attention of the Central Bank from the main activity assigned to it both by LISF and by its Articles of Association. I refer, specifically, to Law no. 191 dated 6 December 2011, which establishes the supplementary pension system and in which the Central Bank is required to play a role of Custodian Bank, financial advisor and supervisor. It must be clear that the Bank does not intend to elude the new tasks assigned to it by law, but when these tasks exceed the institutional ones a compromise must be reached to avoid jeopardising its ordinary activities.

There are many requests for the Bank to present the project of the future financial system which it intends to pursue, and to implement concrete actions aimed at restructuring the financial system.

Now then, some clarification is necessary on this point about the distinction of the tasks and functions of the different Authorities and Institutions. The respective roles of the Government, on one side, and of the Central Bank, on the other, must not be confused and/or overlapped. This, however, does not mean that the intention is to abdicate a proactive, consulting role in assisting the executive power in the implementation of such program.

What future for the financial system of San Marino? The answer is simple, but its implementation is difficult and is not to be expected in the short period. While the investigation and cooperation with the supervised entities continue for the purpose of directing their development and professionalisation, the legislative and administrative regulations that govern the Central Bank are being reviewed, in order to better define the inspective and regulatory tasks, to clearly define the functions and the tasks of Chairman, Governing Council, Supervision Committee, Committee for Credit and Savings, with no overlapping or grey zones.

The project for the realisation of the Central Credit Register (Centrale Rischi) is now at an advanced stage. The Centrale Rischi will be used to monitor the system, and will serve also as further evidence of the goal of transparency and strictness pursued by the Central Bank.

Any project for the restructuring of the financial system of San Marino, however, requires first of all the normalisation of the current environment and the complete and definite emersion of those pathological situations that still exist. The implementation of this project is certainly not helped by the continuous de-legitimisation of the Central Bank and its top managers.

Subsequently - but we are already working to that effect - the complete integration of the financial and banking system of San Marino within the context of the European Economic Area - which may allow the development of an efficient financial market - must be reached. The main restrictions may be identified in the failure to access the funding systems of the Eurosystem by the Central Bank and by the other banks of San Marino.

We are working for the conclusion of cooperation agreements between the Central Bank and other foreign supervisory authorities for the purpose of allowing - to the extent possible - the very activity that the failure to participate in the European Union prevents. Lastly, as regards to the payment system, we are working on the satisfaction of the conditions requested for the purposes of the inclusion in the list of SEPA (Single European Payment Area) Countries.

The medium-term project which is being analysed with attention and interest, is to create a financial system where transparency, confidentiality, administrative simplification, tax benefits and supervision may represent a successful and attractive mix for foreign "investments".

The Central Bank is strongly committed to tightening the control levels on the cash flows within the Republic, with techniques and instruments which sometimes are more innovative and specific of those used in other Countries, thus confirming the pursuit of complete transparency which will be achieved even more with the full implementation of the directives on savings: the preparation of valid tools to fight the "laundering" of funds derived from criminal activities is the best signal to meet the expectations of foreign investors.

The development of an industry specialised in asset management may then be initiated, by providing flexible capitals dedicated to the Seed and Venture Capital, taking advantage of the fact that they have not been strongly developed in Italy. All this would make it possible, inter alia, to concretely support local businesses as well. The offer of such services - which are necessarily described herein in a generic and general manner - must be accompanied by a series of technologically advanced infrastructures, by specialisation centres located at the University of San Marino and connected to other international Universities, for the purpose of establishing also a research centre capable of training and keeping updated the personnel of the financial intermediaries. The Foundation of the Central Bank is significantly taking part in this commitment for professionalism growth by organising qualified courses – some already held and some new ones on schedule. Lastly, in order to increase the appeal of the financial centre being created, the respect of confidentiality (which does not mean secret) and a favourable tax treatment might be publicised, all in full compliance, as mentioned before, with international regulations, especially as regards to anti-money laundering issues and the fight against organised crime.

An ambitious project, then, that - it is worth repeating - must necessarily be based on the normalisation of the current system.

A project that, we hope, will obtain general appreciation and will be acknowledged as a proof of the progress made by the entire Country in technical terms and as regards to ideas.

We would like to thank the Government and, in particular, the Finance Secretary who is correctly pursuing reforms even in this difficult moment.

Sincere and grateful thanks go to the Governing Council of the Bank that, with care and professionalism, faced and continues to face the problems in which we have been involved for the past few months, to the Board of Statutory Auditors, to the Director General who works every day

with expertise and dedication, to the Supervisory Manager and all the members of the Supervision Committee who diligently and correctly perform their role even in the difficult social context in which they work, to all members of the staff who, at every level and with their daily commitment, make it possible to carry out tasks and functions assigned to us by law, in the exclusive interest of the Republic.

1 THE FINANCIAL SYSTEM

As at 31 December 2011, the financial system of San Marino was comprised of 11 banks, 28 financial/fiduciary companies, 1 investment enterprise, 2 management companies and 2 insurance companies (authorised to exercise as specified under letter G of Annex 1 of the Law on companies and on banking, financial and insurance services, the so called LISF); as at the same date there were 11 persons authorised to exercise the office of Professional Trustee.

In 2011, the following were removed from the Register of Authorised Persons: 1 bank due to a forced administrative liquidation (Credito Sammarinese) and 11 financial companies (one of which, at the moment of its cancellation, had been transformed in an investment company), of which, 4 due to forced administrative liquidation, 5 for voluntary winding-up and subsequent liquidation, and 2 due to the change in the corporate purpose with the renunciation to exercise reserved activities.

Table no. 1 - Authorised persons and insurance intermediaries

Authorised person	2009	2010	2011	31/03/12
Banks	12	12	11	11
Financial/Fiduciary companies	48	39	28	24
Investment companies	0	1	1	1
Management companies	2	2	2	2
Insurance companies	2	2	2	2
Total	64	56	44	40
Insurance and reinsurance intermediaries	61	62	62*	63

Source: Central Bank.

Notes: * The figure includes 5 natural persons, 33 legal persons, 14 banks and financial companies that carry out insurance mediation activities and 10 persons under a regime of business suspension pursuant to Regulation no. 2007-02.

The framework of the financial system is completed with the insurance intermediaries recorded in the Register of Insurance and Reinsurance Mediation. At the end of 2011, there were 62 intermediaries, 10 of whom suspended. In 2011, 3 new intermediaries were registered, and 3 were stricken off. Included in the list of foreign insurance companies authorised to conclude

contracts within the Republic of San Marino through intermediaries, there are 50 insurance companies, 36 of which are Italian and 14 of other countries.

In the first quarter of 2012, the number of financial/fiduciary companies was further reduced by 4 units. In detail, 2 companies were removed from the Register of Authorised Persons due to forced administrative liquidation, and 2 companies were removed from the same due to changes in the corporate purpose with renunciation to perform the reserved activities. Therefore, as at 31 March 2012 the financial system of San Marino was comprised of 11 banks, 24 financial and fiduciary companies, 1 investment company, 2 management companies and 2 insurance companies.

As regards to insurance intermediaries, in the first three months of 2012, 3 new dealers were registered, whereas 1 was suspended and 2 were removed. At the end of the first quarter of 2012, there were 52 foreign insurance companies authorised to operate in San Marino through intermediaries, 37 of which were Italian and 15 of other countries.

In terms of authorisations released for the exercise of reserved activities pursuant to Laws no. 165 dated 17 November 2005 and no. 42 dated 1 March 2010, table 2 shows the breakdown of the dealers as at 31 December 2011, based on the authorisations obtained.

Table no. 2 - Dealers entered in the Register of Authorised Persons*

Authorisations	Banks	Other financial companies	Total
Number of dealers	11	33	44
<i>of which authorised to exercise reserved activities pursuant to Law no. 165 dated 17 November 2005:</i>			
A) Banking activities	11		11
B) Loan granting activities	11	28	39
C) Fiduciary activities	11	28	39
D) Investment services	11	30	41
E) Collective investment services		1	1
F) Non-traditional collective investment services		2	2
G) Insurance activities		2	2
H) Reinsurance activities			
I) Payment services	11		11
J) Electronic money issuing services	11		11
K) Foreign Exchange brokerage activities	11	28	39
L) Assumption of equity interests	11	28	39
<i>of which authorised to exercise the office of trustee pursuant to Law no. 42 dated 1 March 2010:</i>			
Office of Professional Trustee	4	7	11

Source: Central Bank - Register of Authorised Persons, List of authorised Trustees.

Notes: * Situation as at 31/12/2011.

1.1 THE BANKING SYSTEM

1.1.1 Ownership Structures

As at 31 December 2011, 6 banks presented ownership structures linked to non-resident persons - mainly foreign companies, fiduciary companies or investment holdings; at the same date, the balance sheet assets pertaining to such entities was equal to Euro 1.6 billion (Euro 2.6 billion as at 31 December 2010), which represents 23.5% of the aggregate (Euro 6.7 billion).

In 2011 and in the first few months of 2012, internal and external factors fostered a process of concentration of the banking sector by means of combinations aimed inter alia at consolidating the market positions of the intermediaries involved.

To this regard, remark should be given to the three concluded initiatives which modified the picture of the ownership structures of the system. Specifically:

- The acquisition in July 2011 by the Istituto Bancario Sammarinese S.p.A. (IBS) of 85.35% of the share capital of Banca Agricola Commerciale S.p.A. (BAC), formerly held by Unicredit S.p.A., aimed at the subsequent integration of the two banks.
- The acquisition in February 2012 by Asset Banca S.p.A. of 100% of the share capital of Banca Commerciale Sammarinese S.p.A., with the simultaneous transfer in favour of the new parent company of individual legal relations in bulk (direct deposits, indirect deposits and loans) for an aggregate of Euro 210 million.
- The acquisition in May 2012 by Banca Partner S.p.A. of 100% of Credito Industriale Sammarinese S.p.A., previously held by Cassa di Risparmio di Rimini S.p.A., also aimed at the subsequent integration of the two banks.

1.1.2 Size and Structure of the System¹

2011 was characterised by a further sharp downsizing of the bank's balance sheets - mainly due to cash outflows and to the decline in indirect deposits - and to an income performance of the system that remains overall negative, although it has improved since 2010. A clear decline is also registered in the amount of equity, which is due inter alia to the worsening of assets' quality.

¹ In the table and in the charts the changes are calculated on the original values (without any rounding up/down). The data referred to the previous years may have changed compared with those published in the previous reports following successive changes made by the intermediaries.

The review of the data as at the end of 2011 (table no. 3) shows a decline in operating volumes (loans and deposits) and in the number of employees compared with 2010.

Table no. 3 - Main dimensional indicators of the banking system

Indicators	31/12/09	31/12/10	31/12/11
Dimensional indicators			
Total Assets	9,447	8,091	6,721
Due from banks	1,206	1,445	1,445
Gross loans to clients	5,198	4,854	3,838
Funding*	10,207	8,572	7,351
Direct	6,992	5,903	5,155
Indirect**	3,215	2,669	2,196
Interbank funding	421	465	315
Structural indicators			
Number of dealers	12	12	11
Number of branches	61	61	58
Number of employees (actual number as at 31 December)	702	679	639
Employees (% on the aggregate of employees)	3.5	3.4	3.3
Other statistical data			
GDP (current prices)***	1,575	1,492	1,472
Resident population	31,632	31,888	32,193
Employees	20,083	19,956	19,500
Population / Branches	519	523	555
Total assets / GDP	6.0	5.4	4.6
Total funding/ GDP	6.5	5.7	5.0

Source: Central Bank, UPECEDS (Resident population and employees) and IMF (GDP at current prices).

Notes: The figures concerning monetary balances are expressed in millions of Euro.

* Funding includes the aggregate of subordinated liabilities and is expressed net of own bonds repurchased by the reporting entity.

** Indirect funding is expressed net of own debt securities issued and gross of equity securities issued

*** The values of the GDP related to years 2009 and 2010 have been updated based on the data provided by the International Monetary Fund, and thus differ from those previously published.

With reference to operating volumes, it is worth noting that total funding of the banks declined by 14.2%, reaching Euro 7.4 billion (Euro 8.6 billion as at 31 December 2010), 5.2 billion of which from direct funding and 2.2 billion from indirect funding. It should be noted, however, that a slowdown was registered in the annual rate of decline, which passed from -16% in 2010² to -14.2% in 2011. The total amount of gross loans, which totals Euro 3.8 billion, registered a decline by 21% compared with the end of 2010 (Euro 4.9 billion).

² Between 2008 and 2009, there has been a greater decline in total funding, which dropped by 27.9% (from Euro 14.2 billion to Euro 10.2 billion).

At the end of 2011, the number of employees of the banking sector amounted to 639 units, down by 5.9% from the 679 units registered in December 2010; the relative impact on the aggregate of employees in the Republic is equal to 3.3%.

1.1.3 Assets and Loans

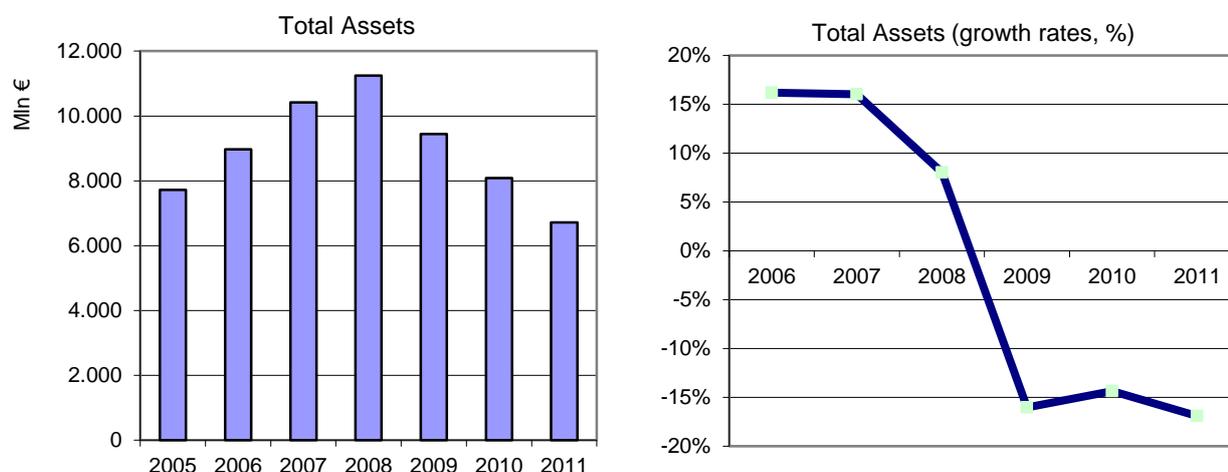
At the end of 2011, the assets of the system amounted to Euro 6.7 billion, down by 16.9% compared with 2010, thus confirming the downside trend started in 2009 (figure no. 1).

The decline in the assets of the system reflects a decline in the main components, such as loans to customers and the financial instruments in portfolio, against receivable from banks which remained virtually unchanged, and equity investments which registered an increase, although for limited amounts (table no. 4).

The decline in the loans to customers (-24.5%) with respect to the figures of 2010, reflects three different factors:

- The significant increase in value adjustments made on receivables (from Euro 146.6 million in 2010 to 385.5 million in 2011) due to the deterioration of the solvency of the borrowers, in an economic context characterised by serious criticalities, as well as to the adoption - also following the recommendations of the Supervisory body - of balance sheet policies more in line with the criteria for the assessment of the credit lines based on their expected realisation value.
- The forced liquidation of Credito Sammarinese S.p.A., whose loans - divided between the six transferring banks - have been posted to other assets in the financial statements, pending their transfer to the vehicle that will manage the activities for their recovery.
- The recovery of previous exposures.

The balance sheet value of financial instruments as at the end of 2011 registered a drop by 25.3%, less than the decline registered in 2010 (-45.5%), when the impelling liquidity needs due to the monetary repatriation related to the Italian “tax shield” (scudo fiscale) led to the erosion of the liquid assets of the system.

Figure no. 1 - Total assets of the banking system


Source: Central Bank.

Table no. 4 - Aggregate balance sheet of the banking sector

Assets	31/12/10	31/12/11	Var. %	Liabilities	31/12/10	31/12/11	Var. %
Cash and cash equivalents:	35	26	-25.9%				
Due from banks	1,445	1,445		Due to banks:	465	315	-32.3%
Due from customers*	4,547	3,435	-24.5%	Due to customers:	2,701	2,111	-21.8%
<i>of which Leasing</i>	94	120		Debts represented by financial instruments	3,191	3,031	-5.0%
Financial instruments	1,293	966	-25.3%	Subordinated Liabilities	55	55	
<i>of which debt securities</i>	1,243	925		Other items	833	564	-32.4%
<i>of which own bonds</i>	44	45		Capital and reserves**	1,018	777	-23.7%
Equity investments	129	172	33.9%	Revaluation reserves	47	35	-26.3%
Unpaid subscribed share capital	0	0		Profit for the year	-220	-167	24.1%
Treasury shares	0	0		Total liabilities	8,091	6,721	-16.9%
Fixed assets and other items of the assets	643	677	5.4%				
Total Assets	8,091	6,721	-16.9%				

Source: Central Bank.

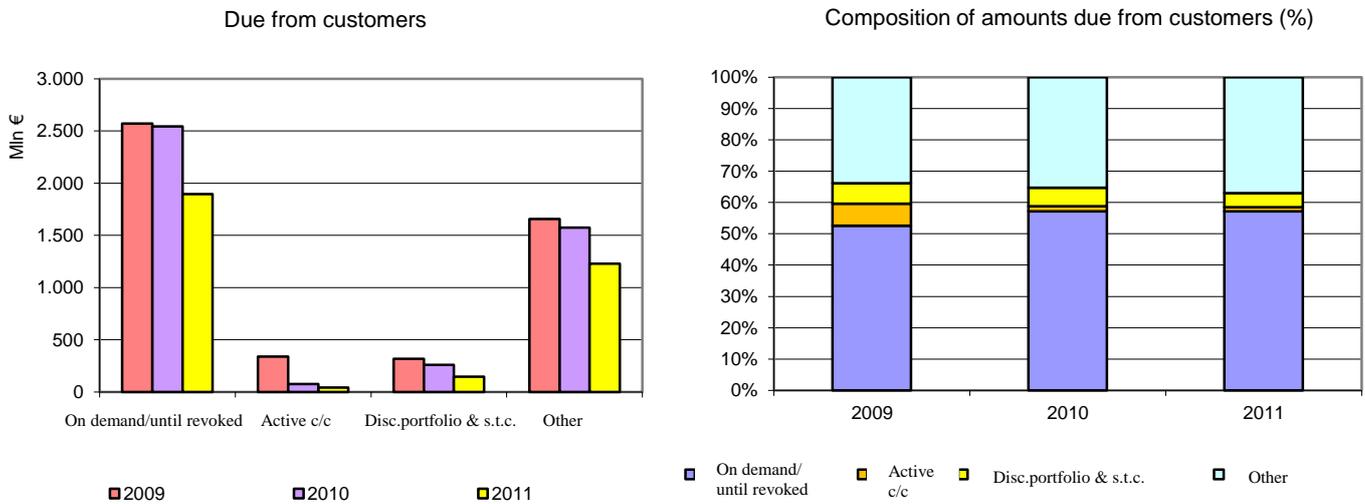
Notes: Amounts in millions of Euros.

* Includes leasing.

** Includes the reserve for general banking risks.

Due to the aforementioned dynamics, loans to costumers (figure no. 2), net of leasing, dropped from Euro 4.5 billion to Euro 3.3 billion, especially as regards the "on demand" and "until revoked" components.

Figure no. 2 -Break down of the loans to customers by technical form

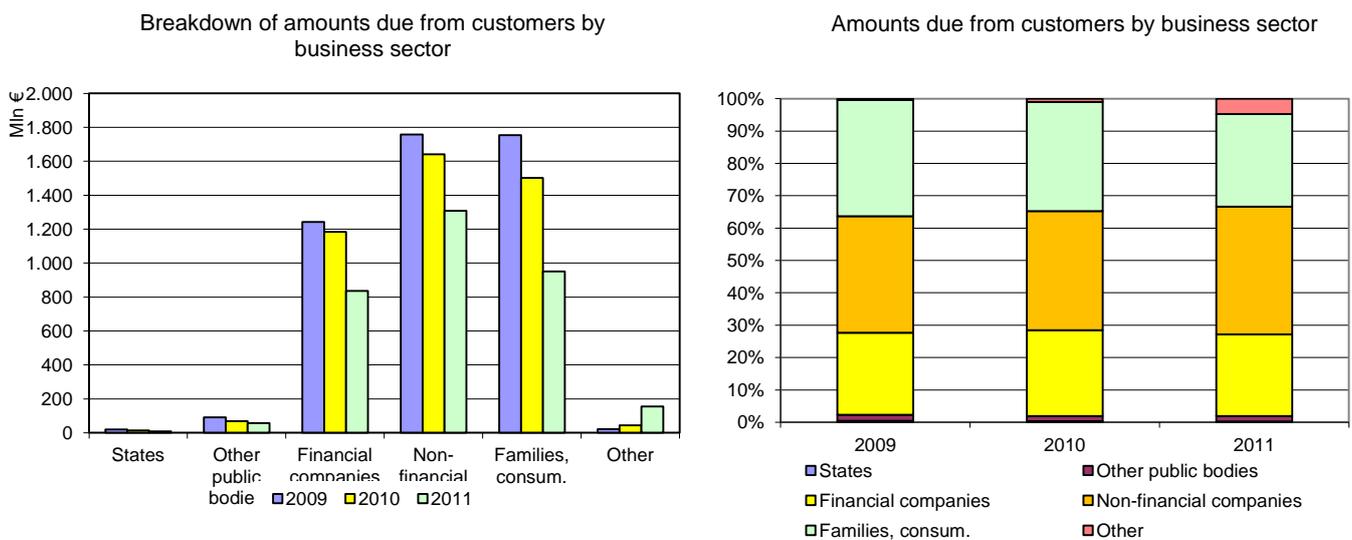


Source: Central Bank.

The analysis of the breakdown of lending by business sectors (figure no. 3) shows a widespread decline, with the only exception of the category "Other", whose increase reflects the reclassification made by an intermediary of existing credit exposures.

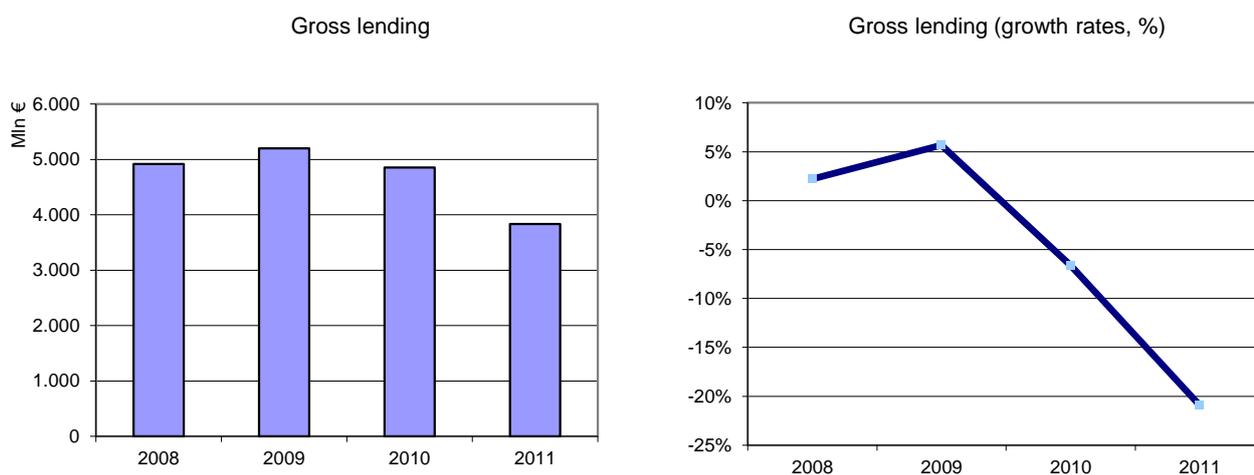
In terms of relative impact, the credit lines granted to non-financial companies active in the building, services and industry sectors prevail (39.5%), followed by those disbursed in favour of consumers (28.7%) and to financial companies (25.2%).

Figure no. 3 -Breakdown of amounts due from customers by business sector



The analysis of gross lending, which is the expression of the credit allocation policy of the banks as it represents the loans disbursed (regardless of any value adjustment made in the financial statements), shows a decline by 20.9%, from Euro 4.9 billion to Euro 3.8 billion (figure no. 4).

Figure no. 4 - Gross lending of the banking system



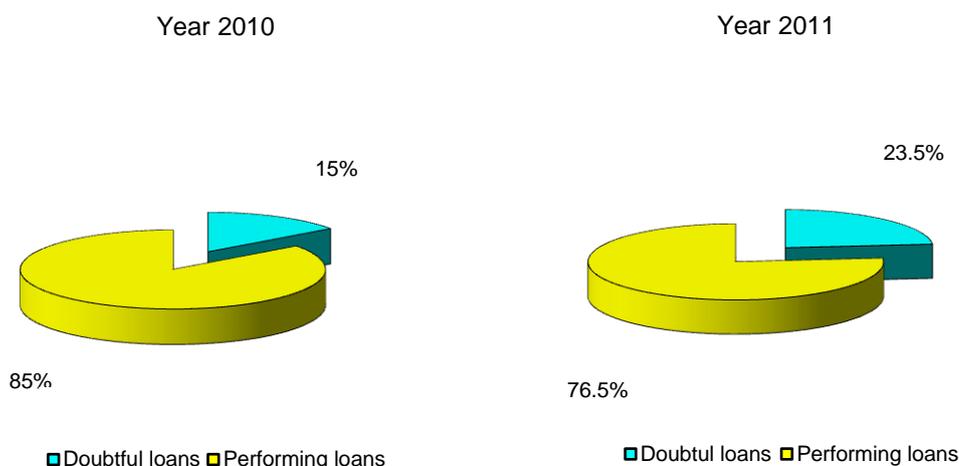
Source: Central Bank.

The total amount of doubtful loans³, expressed as gross values, was equal to Euro 901.9 million, compared with Euro 725.7 million in 2010, with an increase by 24.3%, thus confirming the deterioration of the quality of bank lending, on the background of the difficulties being experienced by borrowers; with reference to the foregoing, the impact of doubtful loans on the total increased from 15% in 2010 to 23.5% in 2011 (figure no. 5 and table no. 5).

The percentage breakdown of doubtful loans by category evidences the greater impact of non-performing loans on the total of the performing exposures, increased from 39.6% in 2010 to 42.9% in 2011 (figure no. 6).

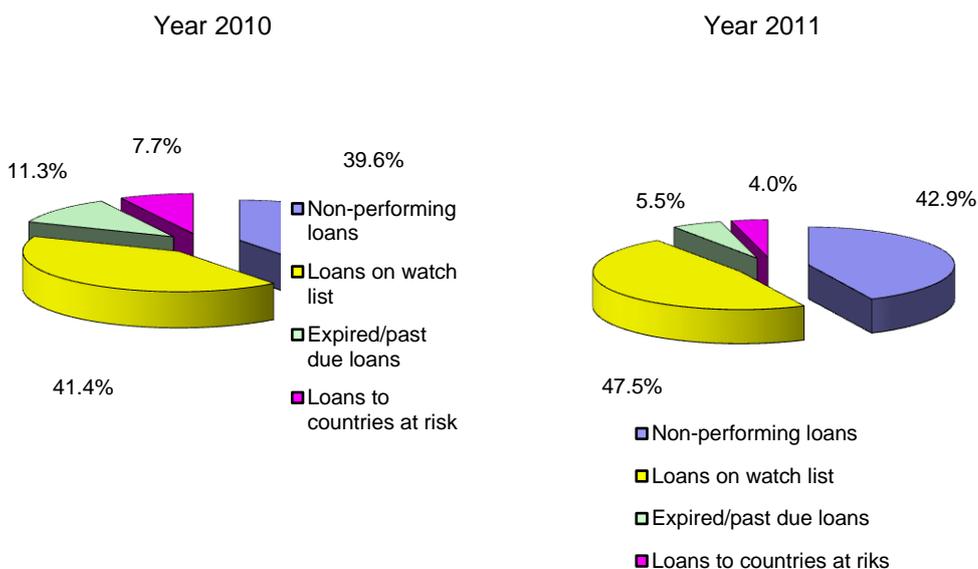
³ The aggregate, as indicated by current regulations, refers to the sum of non-performing loans, loans on watch list, expired/past due loans and unsecured loans to countries at risk.

Figure no. 5 - Credit quality: performing loans and doubtful loans (gross amounts)



Source: Central Bank.

Figure no. 6 - Composition of doubtful loans



Source: Central Bank.

Also the doubtful loans/lending and non-performing loans/lending ratios, both gross and net of adjustments, confirm the negative trend already evidenced in 2010 (tables no. 5 and no. 6); however, taking the adjustments made in the financial statements into account, the figure of the non-performing loans is mitigated, thus reducing the impact on total lending from 10.1% (gross amounts) to 5.4% (net amounts).

Table no. 5 - Doubtful loans/lending and non-performing loans/lending (gross amounts)

	2009	2010	2011
Doubtful loans/lending	8.5%	15.0%	23.5%
Non-performing loans/lending	2.9%	5.9%	10.1%

Source: Central Bank.

Table no. 6 - Doubtful loans/lending and non-performing loans/lending (net amounts)

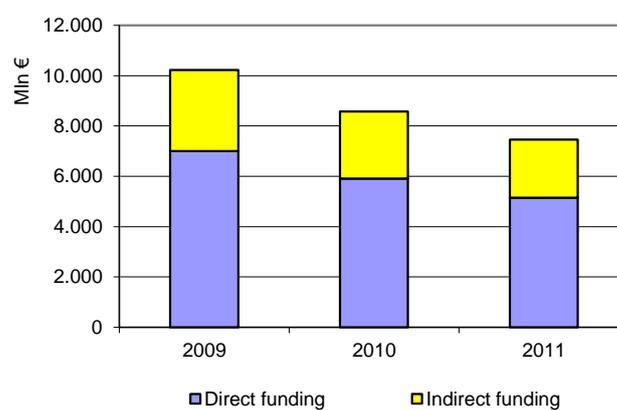
	2009	2010	2011
Doubtful loans/lending	6.7%	11.4%	17.2%
Non-performing loans/lending	1.5%	3.1%	5.4%

Source: Central Bank.

1.1.4 Funding

At the end of 2011, the total funding of the banks of San Marino from clients (figure no.7), was equal to Euro 7.4 billion, down by 1.2 billion compared with 2010 (-14.2%).

Figure no. 7 - Total funding of the banking system

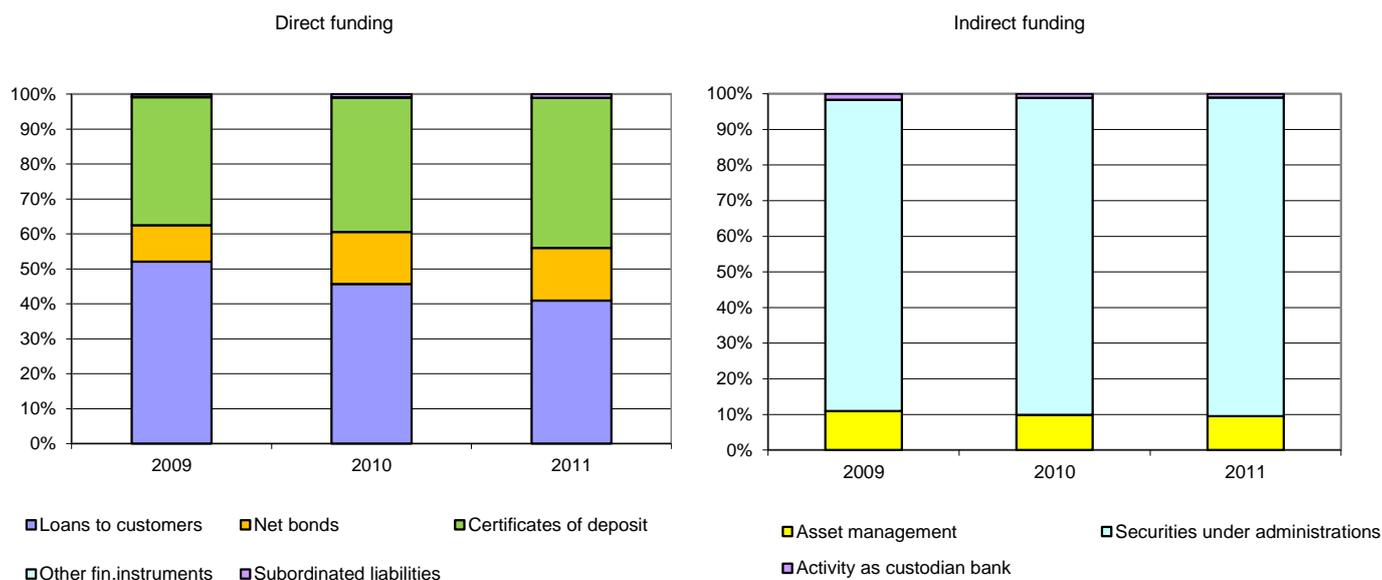


Source: Central Bank.

Direct funding, which totalled Euro 5.2 billion, registered a decline of Euro 0.8 billion (-12.7%) in 2010, with a slowdown of the downside trend of the previous year, when the decline was by 15.6%. The individual components of direct funding evidence a significant decline in the form of funding through bank deposits and similar forms (current accounts, savings passbooks, repo transactions), which dropped from Euro 2.7 billion to Euro 2.1 billion, a modest decline in bonds (from Euro 0.9 billion to Euro 0.8 billion) and the stability of certificates of deposit (unchanged at Euro 2.2 billion); the impact (just above 1%) of the other forms of funding, including subordinated liabilities, remains limited (figure no. 8).

Indirect funding⁴ totalled Euro 2.2 billion, down by Euro 0.5 billion from the end of 2010 (-17.7%); the major contraction was registered in the component of securities under custody and administrations (-0.4 billion).

Figure no. 8 - Composition of direct and indirect funding



Source: Central Bank.

⁴ Indirect funding is expressed net of own debt securities issued and gross of equity securities issued

Box no. 1 - Approval of Prospectuses for the solicitation of investments in San Marino bonds.

In 2011, pursuant to the current discipline governing investment solicitations, the Central Bank received 19 requests for the approval of prospectuses for the public offer of bonds related to bank issuers alone, compared with the amount of 35 requests filed in 2010, which represented 33 issues of banks and 2 of financial companies.

The deceleration in funding activities by the bank segment is confirmed also by the analysis of the maximum amounts that may be issued, as evidenced by the prospectuses approved in 2011; in fact, if in the issues of 2010 the maximum nominal amount was equal to Euro 281 million, in 2011 this amount dropped to Euro 195.6 million.

In 2011, 14 bonds related to issues distributed in 2008 and 2009 reached maturity; their maximum notional amount was originally equal to Euro 135.6 million.

During the first quarter of 2012, a recovery in the funding through the issue of bonds was registered, thanks to 11 requests for approval filed with the Central Bank, all related to bank issuers and for a nominal amount equal to Euro 150 million, with a significant increase compared to the first quarter of 2011, when 8 prospectuses were approved with a maximum notional amount of Euro 36 million.

The bank bonds issued in 2011 and distributed to the public are of the so called senior type, since no subordination clause has been envisaged; similarly, it appears that no bonds of the type in favour of professional customers have been issued, since no authorisation has been released for the inclusion of such issues within the context of the supplementary regulatory capital, as required by the current prudential regulations and laws.

In the non-banking segment, in 2011 a financial company issued subordinated bonds, reserving the offer and placement thereof exclusively to professional clients and thus outside the scope of the investment solicitation, which requires the approval of a prospectus by the supervisory authorities.

The financial structure of the bonds issued by banks in 2011 and in the first quarter of 2012 is mainly of a "plain vanilla" type, given that the coupon component is a fixed rate or floating rate one with the interest rates indexed to the short terms rates of the interbank market. In some limited cases, there have been step-up clauses, or mixed interest rate or inverse floater issues.

The average life of the senior bonds issued in 2011 was 3 years and 10 months, further reduced (to 3 years and 2 months) as regards to the issues made in the first quarter of 2012, thus evidencing a recourse to the issuance of bonds as an alternative funding instrument to other more traditional forms of bank funding in the medium term.

In 2011, the Central Bank also approved the placement to the public of two structured foreign financial instruments of a bond type, in compliance with the provisions of the regulations and laws currently in force as regards investment solicitation.

In the end, it is worth noting that in 2011, just as in the previous year, the Central Bank did not receive any requests for authorisation under article 31, sub. 3 of Law no. 47 dated 23 February 2006, as subsequently amended (Company Law) for the issue of bonds by corporate issuers not belonging to the financial segment.

1.1.5 Shareholders' Equity

The income dynamics affected the level of shareholders' equity⁵ of the banking system which, due to the effect of the results of the financial year 2011, amounts to Euro 645 million, with a drop of 23.7% compared with the previous year (Euro 845 million in 2010); the losses registered in 2011 (-167 million), mostly attributable to one intermediary only, also affect the equity ratios of the system, with a decline in the net equity/total assets ratio from 10.5% in 2010 to 9.6% in 2011.

The main balance sheet items provided for by the prudential supervision regulations⁶ - based on the data reported as at 31 December 2011 - show a similar trend with the regulatory capital / total assets and the tier 1 capital⁷ / total assets ratios that amount to 7.7% and 8.9% respectively. The solvency ratio of the system for 2011 is equal to 14.1%, down compared with the value of 15.6% registered in 2010.

1.1.6 Profitability and Efficiency

The review of the information contained in the reclassified profit and loss account of the banking system (table no. 7) evidences a general contraction of interim economic performance.

The earning margin, which expresses the ability of the bank to generate income, dropped from 226 to 144 million (-36.3%), confirming the negative trend of the previous year which was already characterised by a significant decline. Specifically, the upward trend of funding costs, in addition to the reduction of dividends, led to an erosion of the interest margin (-29.4%), amplified by the drop in revenues from services (-33.3%), affected also by the loss in assets under management and administration. The trend described above reflects, although for lower amounts, also the profits (losses) on financial transactions, down from Euro 3 million to Euro -10 million.

⁵ Shareholders' equity includes also the gains (losses) for the period and the reserve for general banking risks.

⁶ Please see Regulation no. 2007-07, part VII.

⁷ The tier 1 capital is comprised of capital element of prime quality.

Table no. 7 - Reclassified profit and loss account of the banking system

Reclassified profit & loss account	31/12/2010		31/12/11		Var. %
	Amount*	% Marg. Negotiated	Amount*	% Marg. Negotiated	
1 - Interest income and similar income	208	91.9%	201	139.1%	-3.6%
2 - Interest expense and similar charges	-94	-41.7%	-103	-71.3%	8.8%
3 - Dividends and other income	32	14.1%	5	3.4%	-84.7%
A - Interest margin	145	64.3%	103	71.2%	-29.4%
4 - Commission income	34	15.2%	29	20.4%	-14.5%
5 - Commission expenses	-5	-2.3%	-4	-3.0%	-16.8%
6 - Other operating income	49	21.6%	27	18.7%	-44.8%
7 - Other operating charges	0	-0.1%	0	-0.1%	-23.1%
B - Revenues from services	78	34.4%	52	36.0%	-33.3%
8 - Profit (loss) on financial transactions	3	1.3%	-10	-7.2%	448.8%
C - Earning margin (A+B+8)	226	100.0%	144	100.0%	-36.3%
9 - Administrative expenses	-98	-43.4%	-86	-59.3%	-12.9%
10 - Write-downs of intangible and tangible assets	-55	-24.3%	-34	-23.4%	-38.8%
D- Operating costs	-153	-67.7%	-119	-82.7%	-22.2%
E - Gross operating profit (D-E)	73	32.3%	25	17.3%	-65.8%
11 - Provisions for risks and charges	-147	-65.0%	-110	-76.1%	-25.3%
12 - Provisions to credit risk reserves	0	0.0%	-4	-2.9%	
13 - Write downs of loans and provisions for guarantees and commitments	-146	-64.6%	-385	-267.4%	163.8%
14 - Write backs of loans and provisions for guarantees and commitments	20	8.6%	22	15.2%	12.1%
15 - Write-downs of financial fixed assets	-32	-14.2%	-37	-25.9%	16.8%
16 - Write backs of financial fixed assets	0	0.0%	0	0.0%	0.0%
F - Net operating profit	-233	-102.8%	-490	-339.9%	110.6%
17 - Extraordinary proceeds	18	7.8%	343	237.8%	1,837.3%
18 - Extraordinary charges	-7	-3.2%	-24	-16.7%	235.9%
G - Gross profit from ordinary operations	11	4.6%	319	221.0%	2,930.8%
H - Gross Profit	-222	-98.2%	-171	-118.8%	22.9%
19 - Income taxes for the year	-3	-1.5%	-5	-3.5%	44.7%
I - Net profit**	-226	-99.7%	-176	-122.3%	21.9%
20 - Change in reserve for banking risks and general risks	6	2.6%	10	6.6%	60.2%
Profit for the year	-220	-97.1%	-167	-115.7%	24.1%

Source: Central Bank (bank's balance sheets)

Notes: * Amounts in millions of Euros.

** Change in reserve for banking risks and general risks

The operating costs, equal to 119 million, declined by 22.2% due to the simultaneous contraction of administrative expenses (-12.9%) and write-downs of fixed assets (-38.8%).

The aforementioned changes resulted in a gross operating profit equal to Euro 25 million, down by 65.8% compared with 2010, (73 million).

Considering the remaining items of the reclassified profit and loss account, the sensible variation (+163.8%) of the write-downs on loans and provisions for guarantees and commitments should be noted, for an amount equal to Euro 385 million in 2011, compared with a value of 146 in 2010; such trend was predominantly affected by the adjustments made by an individual intermediary, mostly off-set by the use of provisions for risks and charges already allocated.

The net result for 2011 amounted to -167 million, with a loss lower than 24.1% compared to the equivalent figure registered in 2010 (-220 million).

Consequently, the main profitability indicators are negative also for 2011: in particular, the assets profitability (ROA) was equal to -6.6%, (-2.7% in 2010) while the own capital profitability (ROE) remains strongly negative, at -22.4% (-23.2% in 2010).

The aggregated data are also affected by a different distribution of the economic results for the period, with 5 bank that closed with a loss (for a total of Euro 179 million) and 6 banks that closed with a profit (for a total of Euro 12 million).

As regards the efficiency, the administrative expenses per employee are down to Euro 133.8 thousand from previous Euro 144.6 thousand, while the Cost Income Ratio indicator (operating costs/earning margin) increased from 67.7% to 82.7% (table n. 8).

Table no. 8 - Main profitability and efficiency indicators

	2009	2010	2011
Return on Average Assets (ROA)	1.6%	-2.7%	-6.6%
Return on Average Equity (ROE)	4.1%	-23.2%	-22.4%
Cost / Income Ratio*	51.3%	67.7%	82.7%
Administrative expenses per employee *	134.4	144.6	133.8

Source: Central Bank.

Notes: * Values in thousands of Euros.

1.1.7 Liquidity

The relevance of the liquidity profile of San Marino banking system represents specific factors, which only in part reflect the international financial market recent dynamics. As a matter of fact, San Marino banking and financial system shows peculiar features that, together with the external context development, have turned into criticalities. Among the specific factors that increase the liquidity risk exposure of our banks, the following ones are worth mentioning:

- The initiatives adopted by the Italian Government in order to facilitate the inflow of capitals from countries with privileged taxation system (the so called tax shield) which in the two-year period 2009-2010 led to strong outflows with the consequent erosion of the liquid reserves available.
- The use of the Euro, even though the banks of San Marino have no access to the Eurosystem funding.
- The still existing disproportion between the bank funding and the gross domestic product, which makes the management of temporary liquidity tensions less convenient.
- The high incidence of the deposits of non-resident persons, a component of funding which tends to be more volatile and sensitive to the external regulatory framework development.
- The lack of operators belonging to foreign banking groups which, instead, can benefit from the access to the aforementioned European funding systems.

The development of the banking market determined a reversal of the previous industrial model based on private customers' deposits, in which the banks of San Marino operated as net lenders on the international interbank markets (especially on the Italian one).

Since 2009, also in line with the orientations taken within the context of international cooperation (first of all, the Basel Committee), specific knowledge instruments were implemented in order to record, on a weekly basis, the structure by maturities of the banks' assets and liabilities (the so called maturity ladder), thus prompting at the same time the banks to adopt appropriate controls in order to govern, manage and monitor the liquidity risk exposure.

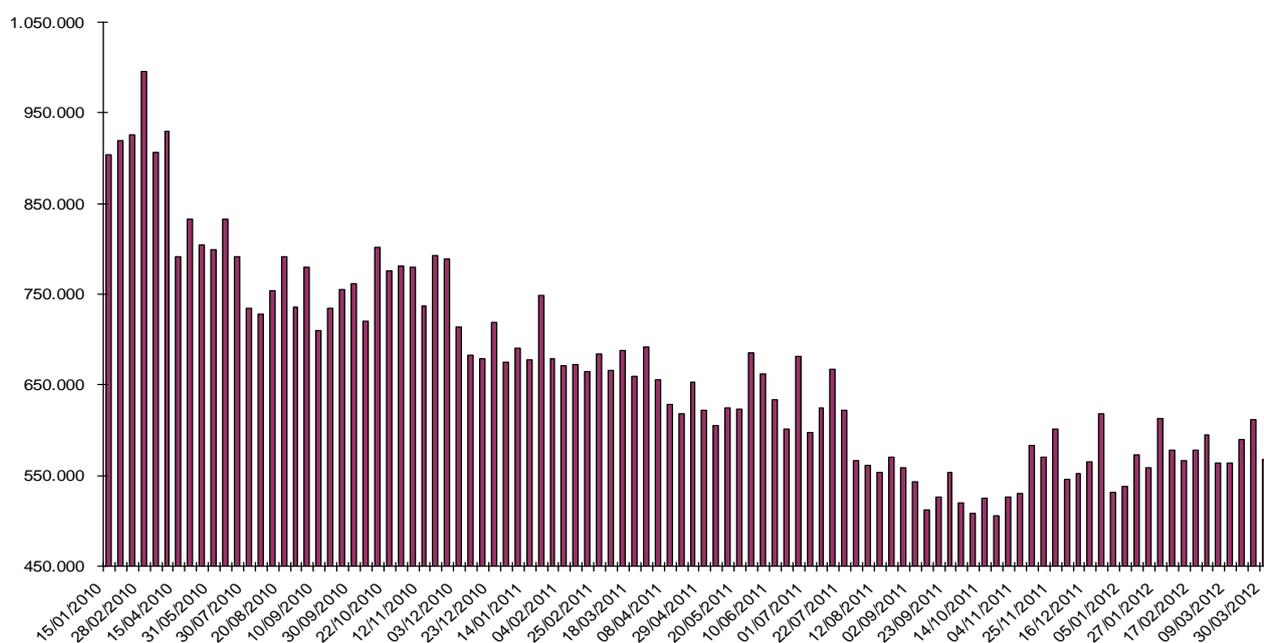
The data available led to the adoption of specific measures, aimed at facilitating the concentration of the liquidity available at the Central Bank so as to be able to act as clearing system between banks. Such measures include the reform of the regulatory reserve, the decree on last resort funding and the measures to facilitate the creation of voluntary deposits with the Supervisory Authority itself.

Within the system, the liquidity available within 7 days, i.e. the more liquid component that can be used to face immediate outflows,⁸ registered a significant drop in the last two years, from Euro 919 million in January 2010 to Euro 675 million in December 2010, and then to Euro 532 million at the end of 2011, (figure no.9)

⁸ The liquidity available is calculated as the sum of the assets which may be liquidated within 7 days (cash and free financial instruments) and the amounts due from banks net of any amounts payable to banks (in any case, which may be liquidated within 7 days). Interbank relations of the banks of San Marino are excluded,

As at 31 March 2012, liquid reserves remain substantially unchanged at Euro 568 million, in line with the stabilisation of bank funding. However, the distribution of the liquidity is much diversified amongst banks; some of them are in a situation of crisis, which is confirmed by the start of extraordinary procedures in 2011, such as the S.M. International Bank and Banca Commerciale Sammarinese⁹.

Figure no. 9 - Evolution of the liquidity of the system available within 7 days



Source: Central Bank.

Notes: Figures in thousands of Euros

⁹ The assets and liabilities of Credito Sammarinese, under forced administrative liquidation since 11 October 2011, were transferred to six banks of San Marino and thus the relevant values are now included in the respective balance sheets.

As at the end of the first quarter of 2012, the impact of on-demand deposits (i.e. deposits without any maturity constraint) related to foreign clients was equal to 38.7% on the total, with a significant decline from the previous year; in this context, all the first three banks of the system in terms of size and age, showed values just above 30%.

1.1.8 Cash Movements

As from the issue of Circular no. 2009-02 in December 2009, the banks of San Marino are required to transmit the data related to the payment services rendered on behalf of customers, including cash movements.

The reporting in question, recently implemented by Circular no. 2012-01, made it possible to focus the attention of the supervisory bodies on the banks, financial and fiduciary companies that appear to be active mainly in cash mediation, with the consequent emersion, during the inspection activities, of widespread violations of the anti-money laundering regulations - even of extraordinary seriousness.

At a system level, the reduction in the masses and stricter regulations as regards controls over non-bank intermediaries led to a physiological reduction in volumes, although the amounts remain quite high (table no. 9). In relative terms, the analysis of the cash turnover (obtained by comparing the sum of withdrawals and deposits with the total amounts due to clients, a data that approximates the portion of funding that may be used as monetary function), evidences a drop from 21.9% in the first quarter of 2010 to 12% in the same period of 2012.

Table no. 9- Cash movements at bank branches (excluding ATM)

Withdrawals	2010/I	2010/II	2010/III	2010/IV	2011/I	2011/II	2011/III	2011/IV	2012/I
Withdrawals at the counter	383,379	356,326	288,993	272,381	206,083	213,086	177,242	169,050	131,386
- of which, resident in San Marino	190,297	189,484	154,439	161,010	122,414	128,525	109,017	106,686	85,892
- of which, resident in Italy	177,624	154,751	126,087	101,948	77,169	77,886	63,698	57,846	43,189
- of which, resident in the EU Area excluding Italy	2,552	2,214	1,718	1,294	1,009	1,060	1,179	765	517
- of which, resident in the rest of the world	12,907	9,877	6,749	8,128	5,491	5,615	3,348	3,753	1,788

Withdrawals by business sector	2010/I	2010/II	2010/III	2010/IV	2011/I	2011/II	2011/III	2011/IV	2012/I
Withdrawals at the counter	383,379	356,326	288,993	272,381	206,083	213,086	177,242	169,050	131,386
- of which, Public Authorities	290	422	405	285	178	161	257	259	118
- of which, financial companies, not banks	50,838	38,889	24,581	22,929	17,221	15,853	12,568	7,277	4,066
- of which, non-financial companies	70,420	58,422	52,825	55,367	40,448	41,711	30,101	28,774	21,327
- of which Consumers	256,425	253,850	208,182	190,358	145,996	153,229	132,384	130,957	104,200
- of which Other	5,407	4,743	2,999	3,442	2,240	2,132	1,931	1,782	1,675

Deposits	2010/I	2010/II	2010/III	2010/IV	2011/I	2011/II	2011/III	2011/IV	2012/I
Deposits at the counter	255,682	250,592	196,847	183,847	150,359	167,202	154,147	140,145	113,090
- of which, resident in San Marino	185,144	179,371	152,293	146,416	119,400	133,646	128,672	116,789	92,230
- of which, resident in Italy	62,994	63,639	37,331	31,929	24,152	26,668	20,978	20,160	16,649
- of which, resident in the EU Area excluding Italy	480	416	614	284	1,300	251	207	159	148
- of which, resident in the rest of the world	7,063	7,166	6,608	5,218	5,507	6,636	4,290	3,037	4,064

Payments by business sector	2010/I	2010/II	2010/III	2010/IV	2011/I	2011/II	2011/III	2011/IV	2012/I
Deposits at the counter	255,682	250,592	196,847	183,847	150,359	167,202	154,147	140,145	113,090
- of which, Public Authorities	2,831	2,927	2,573	2,542	2,501	2,176	2,446	2,115	1,990
- of which, financial companies, not banks	53,937	33,758	43,059	23,587	12,058	12,300	5,744	6,548	4,929
- of which, non-financial companies	82,361	79,711	56,402	78,626	67,612	71,291	70,141	66,053	52,498
- of which Consumers	112,719	130,638	91,455	75,531	65,470	78,348	72,905	62,948	51,082
- of which Other	3,835	3,558	3,358	3,561	2,717	3,087	2,911	2,482	2,591

Source: Central Bank.

Table no. 9 summarises the trends in cash withdrawals and deposits at bank counters from 1 January 2010 to 31 March 2012¹⁰. The analysis of data evidences a decline by 41.2% in the withdrawals between 2010 and 2011 (from Euro 1,301 million to Euro 765 million) and a contraction by 31.1% in the deposits (from Euro 887 million to Euro 611 million). The downside trend is confirmed also after the date of 30 June 2010, i.e. the deadline for the repatriations requested to the customers within the context of the Italian tax shield, thus registering a quarterly average of the withdrawal flows equal to Euro 325 million in 2010, Euro 191 million in 2011 and Euro 131 million in the first quarter of 2012. With regard to deposits, the quarterly average was equal to Euro 222 million, Euro 153 million and Euro 113 million respectively.

In terms of allocation by business sector, a recomposition was registered in the cash flows, with a growing impact of the non-financial companies against a decline in the transactions carried out by non-bank financial companies (table no. 10).

¹⁰ As regards to the analysis of the data by residence of customers, it should be noted that the transactions carried out by the fiduciary companies of San Marino on behalf of non-resident persons have been recorded as counterparties with offices in San Marino.

Table no.10- Percentage allocation of the flows by business sectors

Percentage of the withdrawals by business sector	2010	2011	QUARTER I 2012
Withdrawals at the counter			
- Public Authorities	0.11%	0.11%	0.09%
- Financial companies, not banks	10.55%	6.91%	3.09%
- Non-financial companies	18.22%	18.42%	16.23%
- Consumers	69.85%	73.49%	79.31%
- Other	1.28%	1.06%	1.27%

Percentage of deposits by business sector	2010	2011	QUARTER I 2012
Withdrawals at the counter			
- Public Authorities	1.23%	1.51%	1.76%
- Financial companies, not banks	17.40%	5.99%	4.36%
- Non-financial companies	33.50%	44.96%	46.42%
- Consumers	46.26%	45.71%	45.17%
- Other	1.61%	1.83%	2.29%

Source: Central Bank.

The comparison of the allocation by residence with that by business sector, evidences the growing relevance of consumers and companies of San Marino, with an inversion compared with the persons belonging to the sector of consumers with residence in Italy, which was prevailing up until June 2011; at the same time, cash movements generated by non-bank financial companies virtually disappeared (table no. 11).

Table no.11- Allocation of the flows by residence and business sectors

Withdrawals by business sector and residence	31/03/2010	30/06/2010	30/09/2010	31/12/2010	31/03/2011	30/06/2011	30/09/2011	31/12/11	31/03/2012
Withdrawals at the counter	383,379	356,326	288,993	272,381	206,083	213,086	177,242	169,050	131,386
- of which Consumers	256,425	253,850	208,182	190,358	145,996	153,229	132,384	130,957	104,200
- of which, resident in San Marino	82,686	100,696	81,745	88,138	68,167	74,588	67,447	71,833	60,330
- of which, resident in Italy	171,007	149,709	122,782	99,083	74,841	75,735	62,201	57,020	42,630
- of which, resident in the EU Area excluding Italy	1,063	842	990	927	667	755	963	620	396
- of which, resident in the rest of the world	1,670	2,603	2,665	2,210	2,320	2,151	1,772	1,484	843
- of which, non-financial companies	70,420	58,422	52,825	55,367	40,448	41,711	30,101	28,774	21,327
- of which, resident in San Marino	53,584	47,380	45,257	46,539	34,973	36,247	27,251	25,845	19,962

Deposits by business sector and residence	31/03/2010	30/06/2010	30/09/2010	31/12/2010	31/03/2011	30/06/2011	30/09/2011	31/12/11	31/03/2012
Deposits at the counter	255,682	250,592	196,847	183,847	150,359	167,202	154,147	140,145	113,090
- of which Consumers	112,719	130,638	91,455	75,531	65,470	78,348	72,905	62,948	51,082
- of which, resident in San Marino	56,457	69,478	59,114	48,184	43,108	54,538	54,286	46,245	36,328
- of which, resident in Italy	55,035	58,682	31,124	26,280	20,527	23,109	17,822	16,154	13,869
- of which, resident in the EU Area excluding Italy	203	219	573	207	1,293	217	166	96	148
- of which, resident in the rest of the world	1,025	2,260	644	860	541	484	631	453	738
- of which, non-financial companies	82,361	79,711	56,402	78,626	67,612	71,291	70,141	66,053	52,498
- of which, resident in San Marino	74,371	73,520	46,287	71,251	59,746	62,515	64,329	61,035	47,998

Source: Central Bank.

1.2 FINANCIAL/FIDUCIARY COMPANIES SEGMENT¹¹

1.2.1 Size and Structure

At the end of 2011, the structure of the segment of financial/fiduciary companies and investment companies of San Marino was comprised of 29 players, of which 28 financial companies and trustees and 1 investment company. Compared with 2010, 11 financial companies are no longer in the system (of which one, at the moment of its revocation, had been transformed into an investment company), 4 due to forced administrative liquidation, 5 following winding-up and voluntary liquidation and 2 following a change in the corporate purpose.

¹¹ This segment also includes investment companies, formerly financial companies.

This sector evidenced a consistent drop in operating volumes and in the number of employees compared with 2010¹².

Total assets amounted to Euro 901 million (-21.8% from 2010) and the volume of lending in the same period was equal to Euro 667 million (-16.3%). The number of employees nearly halved, down from 206 units in 2010 to 120 units, a value that, against the total of employees of the financial system of San Marino (including management companies and insurance companies), represents a percentage of 15.5%. The main indicators are reported in table no. 12.

Table no. 12 - Main dimensional indicators of the segment of Financial/Fiduciary companies

Indicators	31/12/2009	31/12/2010	31/12/11
Number of dealers	48	40	29
Total assets	1,334	1,151	901
Gross lending*	902	797	667
Fiduciary activities	1,920	1,061	676
Number of employees**	250	206	115
Employees (% of total***)	1.2	1	0.6
Total assets / GDP****	0.8	0.8	0.6

Source: Central Bank, UPECEDS

Notes: Amounts in millions of Euros.

* Includes leasing activities.

** The number of employees is given by the Ufficio del Lavoro (Labour Office).

*** Total of the Republic of San Marino

**** Please see note in Table no. 3 on the updating of GDP data.

At the end of the first quarter of 2012, the number of financial/fiduciary companies and investment companies declined further to 25 units, 24 of which are financial and fiduciary companies and 1 is an investment company. In detail, 4 financial and fiduciary companies are no longer included in the system; 2 of these companies had been subject to forced administrative liquidation and 2 changed their corporate purpose, with renunciation to the performance of reserved activities.

¹² The system data do not include 4 financial companies which were removed from the register of authorised persons in the first months of 2012 and which, at the end of December 2011, employed an overall staff of 5 people and whose balance sheet assets amounted to Euro 22 million.

1.2.2 Assets and Lending

The total assets of the system - equal to Euro 901 million - are mainly comprised of Euro 648 million of receivables, Euro 198 million of fixed assets (tangible and intangible), Euro 27 million of equity investments and Euro 17 million of financial instruments (table no. 13).

Compared with 2010 a general decline was registered in all of the main items of the assets, with a greater percentage impact for securities (-48%) and equity investments (-33%).

Table no. 13 - Aggregate balance sheet of the financial/fiduciary companies sector

Assets	2010	2011	Var. %	Liabilities	2010	2011	Var. %
Fixed assets	281	198	-29.6	Short-term payables	704	584	-17.0
Total receivables*	770	648	-15.8	<i>of which, due to banks and financial institutions</i>	622	520	-16.5
<i>of which Leasing</i>	526	471	-10.5	Medium/long term payables	218	181	-16.9
Securities	32	17	-48.0	<i>of which, due to banks and financial institutions</i>	157	132	-16.2
Equity investments	41	27	-33.0	Other liabilities	30	13	-55.7
Other Assets	28	11	-58.9	Capital and reserves**	199	122	-38.7
Total Assets	1,151	901	-21.7	Total liabilities	1,151	901	-21.7

Source: Central Bank.

Notes: Amounts in millions of Euros.

* Includes leasing operations; figures net of adjustments provisions.

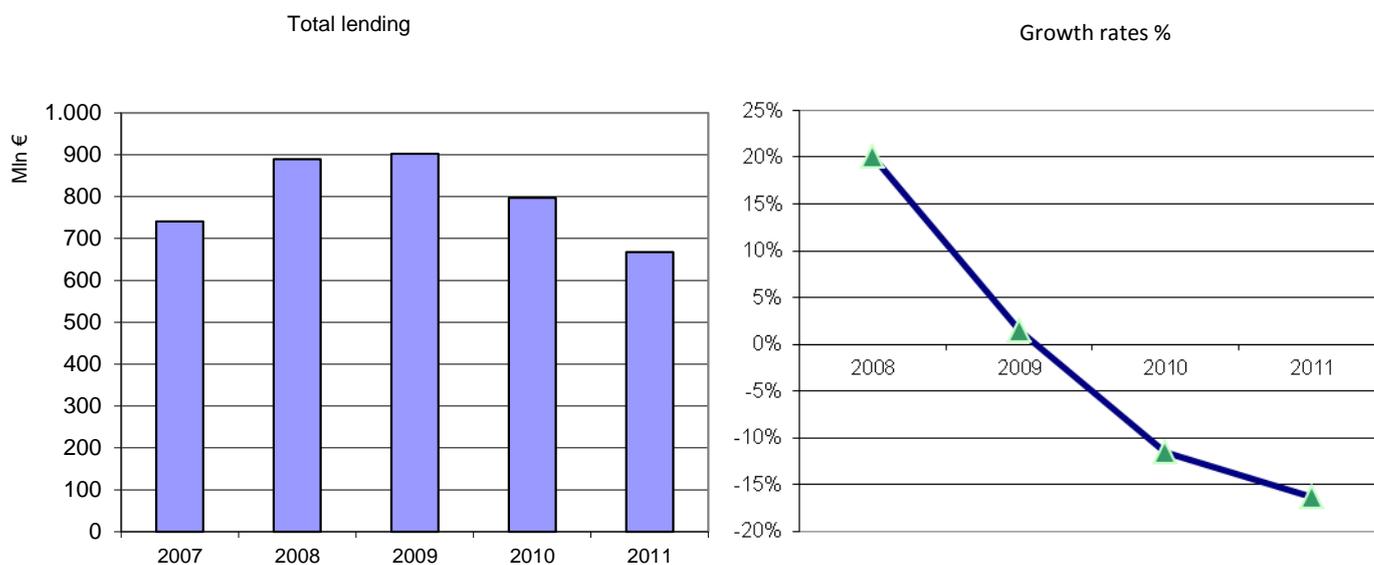
** Includes profit / loss of the period.

The aggregate of lending (gross figures) at the end of 2011, totalled Euro 667¹³ million, with a contraction by 16.3%. The negative trend mainly reflects the decline in leasing activities (-Euro 55 million), and short term receivables (-Euro 40.7 million).

The breakdown of gross lending by technical form (figure no. 11) evidences that leasing continues to represent the main technical form as for the previous financial years, with an impact of over 72.7% of the total receivables net of adjustments; this reflects also the organisational decisions adopted by some banking groups that concentrate some asset sectors with the subsidiaries, privileging a functional specialisation model.

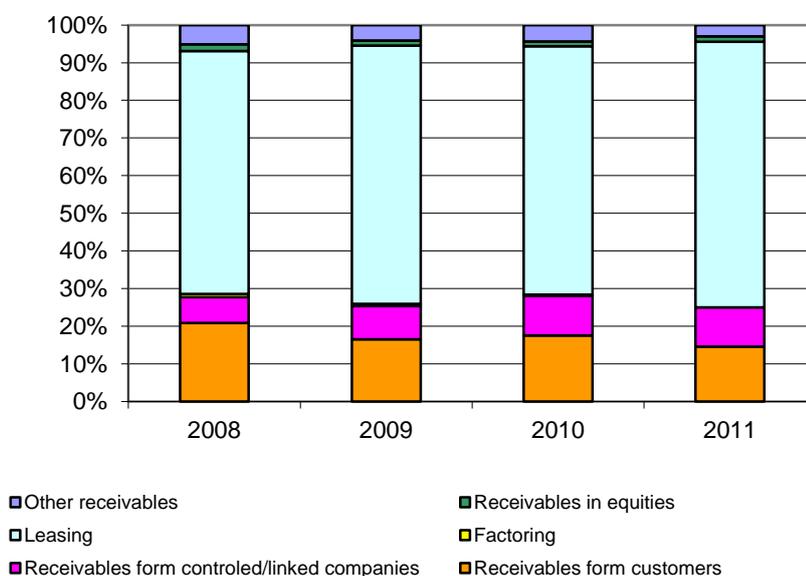
¹³ The value differs from "Total Receivables" since the latter is indicated net of bad debt adjustment provisions.

Table no. 10 - Gross lending of the financial/fiduciary companies sector



Source: Central Bank.

Figure no. 11 - Composition of lending by technical forms



Source: Central Bank.

Macroeconomic factors and reclassifications of the receivables - required also due to the Supervisory activities - affected the quality of the assets of the financial companies leading to a consistent increase in gross doubtful loans¹⁴ (up by 83.1%), from Euro 24.1 million to Euro 44.2

¹⁴ Meaning the sum of non-performing loans and loans on watch-list.

million. As a consequence, an increase was registered in the doubtful loans/lending ratio, which reached 6.6% from the value of 3% previously registered (table no. 14).

At the end of 2011, the adjustment risk provisions - created against the existing credit exposures (short and medium term) - declined from Euro 27.2 million to Euro 18.9 million (- 30.6%); overall, such provisions are equal to 42.7% of the amount of gross doubtful loans.

Table no. 14 - Doubtful loans/lending (gross amounts)

	2009	2010	2011
Doubtful loans/lending	1.8%	3%	6.6%

Source: Central Bank.

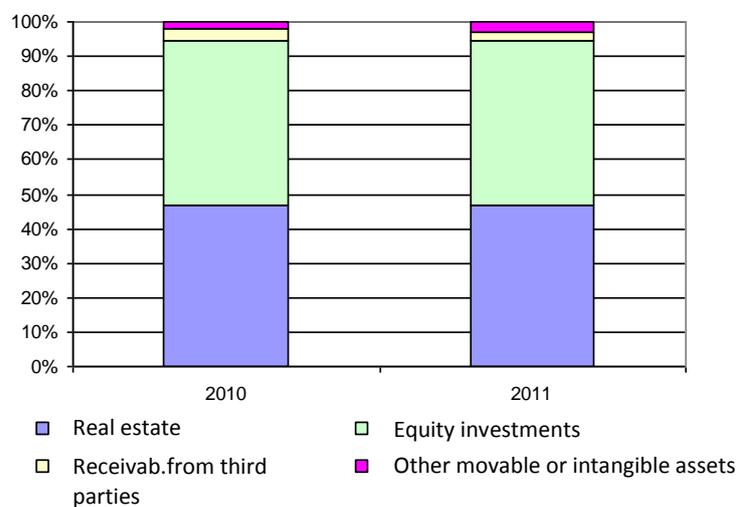
1.2.3 Fiduciary Activities¹⁵

As at 31 December 2011, the overall volume of fiduciary activities amounted to Euro 676 million, down by 36.3% from the end of 2010.

With reference to the composition of the funds under fiduciary management (figure no. 12), 95% of the overall volume is nearly equally divided between real estate trust management, for Euro 316.6 million (which represents 47% of the total), and fiduciary management of equity investments, for Euro 323.4 million (48%). With reference to the remaining 5%, trust loans to third parties account for 2% (equal to Euro 14.1 million) whereas the fiduciary management of other movable or intangible assets accounts for 3% (Euro 21.6 million). As evidenced in figure no. 12, the breakdown of fiduciary activities for 2011 almost exactly reflects - although in a scenario of generalised declines - the similar breakdown of the previous financial year, confirming that the decline affects the entire sector and not individual components.

¹⁵Following the introduction of the Circulars no. 2010-02 and no. 2010-03, which modified the subject matter of the fiduciary activities as well as the presentation statement, the data of the fiduciary activities is not comparable with that of the previous years. It should be borne in mind that, following the Circulars no. 2010-02 and no. 2010-03, the fiduciary activities no longer include direct asset management activities.

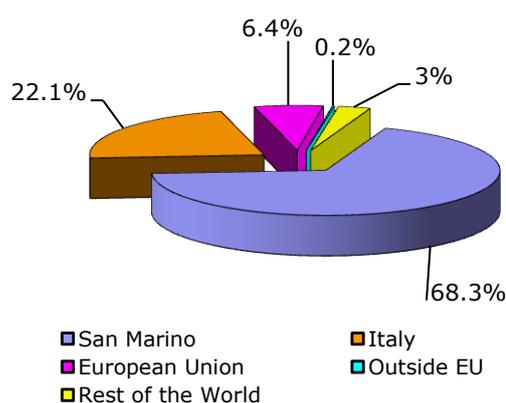
Figure no. 12 - Breakdown of fiduciary activities by technical forms



Source: Central Bank.

As regards to trust mandates of type 2 "Fiduciary Management of Equity Investments", the analysis of the breakdown by country of incorporation of the participating company confirms the prevalence of San Marino (68.3% of the total amount), followed by Italy (22.1% of the total), whereas significantly lower shares refer to the other geographical areas (figure no. 13).

Figure no. 13 - Fiduciary management of equity investments - breakdown by value of the shares

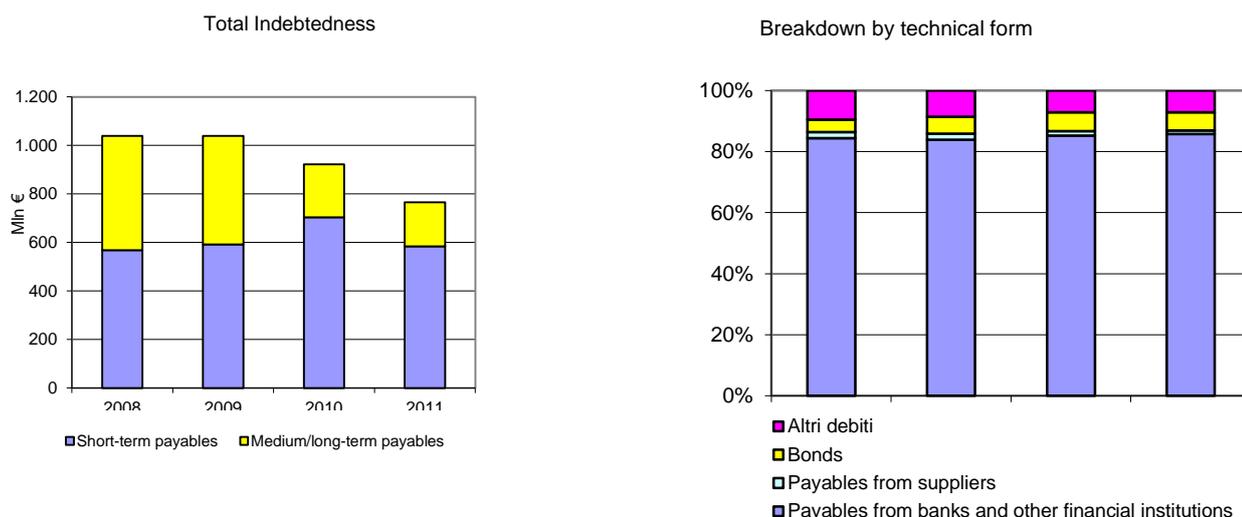


Source: Central Bank.

1.2.4 Liabilities and Equity

At the end of 2011, the indebtedness of the financial/fiduciary companies totalled Euro 765 million (Euro 922 million in 2010 - figure no. 14).

Figure no. 14 - Indebtedness and breakdown by technical form



Source: Central Bank.

In detail, the decline (-17%) of the liabilities reflects the reduction in short term payables (- Euro 119 million) and medium to long term payables (-Euro 37 million). The two items registered a drop mainly ascribable to the decline in the amounts due to banks and other financial companies: the short term component totalled Euro 584 million (with a drop of Euro -102 million in the amounts due to banks and other financial companies); the medium-long term component amounted to Euro 181 million (with a drop of Euro 25 million in the component related to banks and financial companies).

The analysis of the relative weight of the two items evidences that, in terms of relative relevance, bonds issued as source of financing remained virtually unchanged as at 31 December 2011, at Euro 45 million.

Net equity registered a decrease by 38.7%, from Euro 199 million in 2010 to Euro 122 million. The decline, greater than those registered in the other asset items, entailed a lower impact both compared with total assets (13.5% against 17.2% previously registered) and indebtedness (15.9% compared with 21.5% of 2010).

1.2.5 Profitability and Efficiency

The drop in balance sheet assets and operating volumes led to a reduction in all interim results, confirming the negative trend registered also in the previous year (table no. 15).

Specifically, the earning margin registered a decrease of 53.6%, from Euro 41.9 million to Euro 19.4 million. The aforementioned decline mainly reflects the erosion of the interest margin, down from Euro 26.7 million to Euro 13 million, with a drop of 51.4%. Revenues from services totalled Euro 6.4 million against Euro 14.7 million registered in the previous year.

Table no. 15 - Reclassified profit and loss account of the segment of financial/fiduciary companies

Reclassified profit & loss account	31/12/2010		31/12/11		Var. % 2011/2010
	Amount*	% Marg. Negotiated	Amount*	% Marg. Negotiated	
Interest income and similar income	39,271	93.7%	32,245	165.6%	-17.9%
Interest expense and similar items	-17,787	-42.4%	-19,596	-100.6%	10.2%
Dividends and other income	5,170	12.3%	315	1.6%	-93.9%
Interest margin	26,653	63.6%	12,964	66.6%	-51.4%
Commission income	18,370	43.8%	8,141	41.8%	-55.7%
Commission expenses	-801	-1.9%	-293	-1.5%	-63.4%
Other financial revenues/charges	-2,915	-7%	-1,475	-7.6%	-49.4%
Revenues from services	14,654	35%	6,373	32.7%	-56.5%
Profit on financial transactions	619	1.5%	134	0.7%	-78.3%
Earning margin	41,926	100%	19,470	100%	-53.6%
Net administrative expenses	-24,389	-58.2%	-13,741	-70.6%	-43.7%
Write-downs of intangible and tangible assets	-1,976	-4.7%	-1,363	-7.0%	-31%
Operating costs	-26,365	-62.9%	-15,104	-77.6%	-42.7%
Gross operating profit (loss)	15,560	37.1%	4,366	22.4%	-71.9%
Provisions and write-downs	-22,813	-54.4%	-17,037	-87.5%	-25.3%
Net operating profit (loss)	-7,252	-17.3%	-12,670	-65.1%	74.7%
Extraordinary income	14,429	34.4%	4,196	21.6%	-70.9%
Extraordinary charges	-11,199	-26.7%	-1,647	-8.5%	-85.3%
Gross profit from extraordinary operations	3,229	7.7%	2,549	13.1%	-21.1%
Gross Profit	-4,023	-9.6%	-10,122	-52%	151.6%
Income taxes for the year	-1,119	-2.7%	312	1.6%	-127.9%
Profit for the year	-5,142	-12.3%	-9,810	-50.4%	90.8%

Source: Central Bank.

Notes: * Values in thousands of Euros.

The aforementioned changes also modified the contribution of the individual components to the generation of the earning margin, thus increasing the relative weight of the interest margin, which went up to 66.6% from the value of 63.6% registered in the previous year, against revenues from services which now amount to 32,7% compared to 35% of 2010.

Operating costs, represented by administrative expenses and write-downs on tangible and intangible fixed assets (excluding those underlying leasing agreements), dropped significantly from Euro 26.4 million to Euro 15.1 million (-42.7%), whereas the gross operating profit amounted to Euro 4.4 million, against Euro 15.6 million registered in the previous year.

Despite the decline by 25.3% in provisions and write-downs (from Euro 22.8 million to Euro 17 million), the net operating result, which still shows a negative sign for Euro 12.7 million, evidenced a worsening by 74.7% compared with 2010.

The financial/fiduciary companies and investment companies system ended 2011 with a loss for the period of Euro 9.8 million, against positive taxes for the same period for Euro 312 thousand (- Euro 1.1 million in 2010). This situation mostly reflects the recognition of revenues for prepaid taxes by one company.

The main profitability indicators evidenced a significant decline: specifically, the ROA amounted to -1.4% (from -0.6% in 2010) whereas the ROE registered a negative value of 6.1% (-2.2% in the previous year). Concerning the efficiency profiles, the administrative expenses per employee are slightly down to Euro 114.5 thousand from Euro 118 thousand registered in 2010, while the *Cost Income Ratio* (given by the ratio of operation costs to earning margin) registered a considerable drop from 62.9% to 77.6%.

Table no. 16 - Main profitability and efficiency indicators

	2009	2010	2011
Return on Average Assets (ROA)	1.1%	-0.6%	-1.4%
Return on Average Equity (ROE)	5.9%	-2.2%	-6.1%
Cost / Income Ratio*	53.1%	62.9%	77.6%
Administrative expenses per employee**	117.8	118.4	114.5

Source: Central Bank.

Notes:* Operating costs / earning margin

** Values in thousands of euros.

1.2.6 Management Companies

At the end of 2011, 2 management companies incorporated under the laws of San Marino and authorised to provide collective investment services pursuant to regulation no. 2006-03, i.e. to create and manage investment funds, were recorded in the Register of Authorised Persons, that is to say, the same number of the previous year. Therefore, collective asset management segment did not register any notable trends, also in light of the fact that one of the two management companies has been virtually inactive during 2011, also due to the initiation of the forced administrative liquidation process of the controlling bank.

At the beginning of 2011 the only management company active had ten special funds under management, all reserved to professional investors and of the alternative type, since they pursue an investment policy which deviates from the usual prudential rules for the reduction and diversification of risk, and from the general prohibitions and "other prudential rules" set by the Central Bank for the funds targeted to the public in general and for funds other than alternative funds.

Specifically, of the aforementioned ten funds, nine are of the open-end type with the determination of the value of the shares on a weekly basis, and one is of the closed-end type, which allows anyway the collection of new subscriptions on a half-yearly basis, and pursues a particular management policy that privileges the investments in works of art.

Between the end of 2011 and the first months of 2012, the company launched two additional open-end funds, thus reaching a total of twelve funds incorporated under the laws of San Marino.

The overall assets of the funds incorporated under the laws of San Marino increased in 2011 and in the first few months of 2012, from Euro 31 million as at the end of 2010 to Euro 33 million as at December 2011 and, at the end of the first quarter of 2012, totalled Euro 36 million.

As regards to the regulations governing the collective investment services, it should be noted that, in December 2011, the Central Bank issued Regulation no. 2011-05 which implemented some limited changes to the Regulation 2006-03 and, notably, to the regulation governing closed-end funds. Specifically, the regulatory measure created the category of closed-end funds with contribution, i.e. of those funds whose units are subscribed by means of a contribution of assets, and defined the publishing obligations with specific reference to the funds

with the contribution of credits, thus borrowing the regulations currently in force for the banking activities.

To this regard, in the first months of 2012 the first application was registered for the approval of the regulations of a special reserved alternative investment fund with the contribution of credits, whose procedure is still pending.

1.2.7 Insurance Companies

In 2011, the two insurance companies of San Marino, whose authorisation process ended in 2009, continued with their activities by exploiting the operational synergies existing with the credit institutions of San Marino and with the other intermediaries active in the Republic.

The total of premiums collected registered a slow-down from the previous year; specifically, the gross premiums recorded in 2011 were equal to approximately Euro 93.8 million, down by 9.9% compared with 2010 (figure no. 15 - distribution of gross premiums in 2011).

As at 31 December 2011, the overall volume of the investments of insurance companies of San Marino amounted to approximately Euro 236.1 million compared with Euro 164.6 of the previous year. More in detail, the investment related to class C, whose risk is borne by the companies, increased from Euro 24.9 million to Euro 34.1 million (up by 37.1%) 73.7% of which is invested in government securities and in other listed bonds.

At the end of the financial year 2011, those investments, whose risk is borne by the insureds and which are related entirely to internal dedicated funds, amounted to Euro 202 million, up by 44.6% from the previous financial year.

As regards to the liabilities, technical reserves totalled Euro 227.3 million, up by 44.9% compared with the previous year. Most of the technical reserves (89.2%) is ascribable to contracts whose benefits are linked to internal dedicated funds, whereas the remaining 10.8% is comprised of actuarial reserves and other class C technical reserves, which increased from Euro 17 million in 2010 to approximately Euro 24.6 million at the end of 2011.

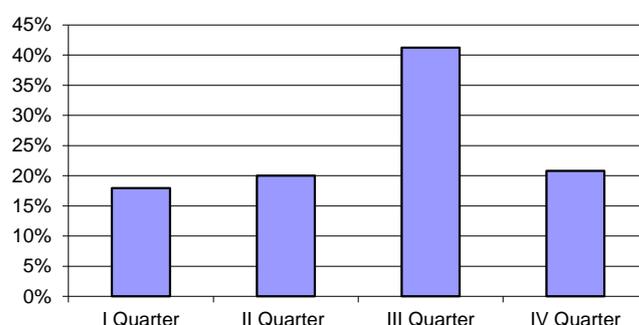
Under the economic management profile, the insurance companies registered an overall loss of Euro 2.3 million (approximately Euro 1.3 million in 2010). The third year of operations is characterised by the worsening of the profitability compared with 2010, mainly due to the crisis of the European sovereign debt which, together with the decline of the premiums, determined a

considerable deterioration in the ratio between losses and recognised gross premiums, which moved up from 1.3% in 2010 to 2.5% in 2011.

In terms of efficiency, it is also worth noting the worsening of the expense ratio (ratio between operating expenses and gross premiums recognised) which was equal to 2.9% (approximately 2.1% in the financial year 2010).

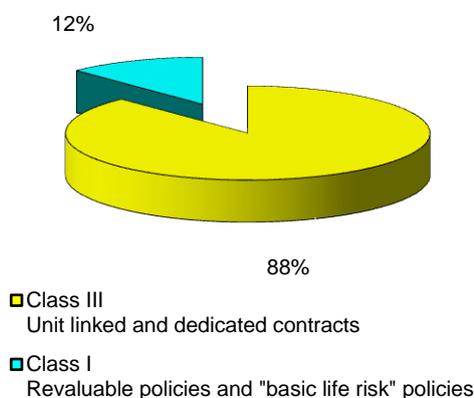
As regards to claim related charges, in 2011 they amounted to an aggregate of approximately Euro 18.3 million, up by 3.8% compared with the Euro 17.6 million of 2010.

Figure no. 15 - Distribution by quarter of the gross premium recognised in 2011



Source: Central Bank.

Figure no. 16 - Distribution by class of insurance of the gross premium recognised in 2011



Source: Central Bank.

1.2.8 Insurance and Reinsurance Intermediaries

As at the end of 2011, the number of insurance intermediaries recorded in the Public Register held by the Central Bank was unchanged from the end of 2010, with 62 entries divided into natural persons and sole proprietorships (6 entries), companies (42 entries) and banks and financial companies (14 entries).

The situation of the Register as at 31 December 2011 is summarised in the table below.

Table no. 17 - Register of insurance intermediaries

Status	Section A Natural persons and sole proprietorships	Section B Companies	Section C Banks and financial companies	Total
Assets	5	33	14	52
Suspended	1	9	0	10
Total	6	42	14	62

Source: Central Bank.

In 2011 3 intermediaries were removed from the register (two of which due to company liquidation) and 3 new intermediaries were registered.

From the data provided by the persons entered in the Register, it emerged that the total amount of the overall premiums mediated in 2011, excluding the premiums collected on behalf of the two insurance company incorporated under the laws of San Marino, amounted to approximately Euro 40 million, mainly related to the non-life class, down compared with the Euro 42 million of mediated premiums of 2010.

1.2.9 Financial Promoters

In 2011, there were no significant changes in the segment of financial promoters authorised to carry out their activities on a door-to-door basis in the Republic of San Marino, given that only one person, who has been registered for many years now, is qualified to carry out such activities.

Under the regulatory profile, during the first months of 2012 a public consultation was held as regards to the draft of a regulation prepared by the Central Bank with reference to financial promotion activities. The draft regulation, which implements articles 24 and 25 of the LISF, has the purpose of updating the regulation currently in force on this subject in the Republic of San Marino. Specifically, the regulation will introduce important and additional elements for the

protection of potential clients, envisaging specific provisions about the honourability, incompatibility and professionalism requirements necessary for the purpose of performing such activity and for the publishing of a register of financial promoters held by the Central Bank. The regulation in question also defines specific causes for the suspension and removal from the register, the organisational and conduct rules that the financial promoters are required to respect, and the exercise of the powers of supervision over the financial promoters by the Central Bank.

The issuance and coming into force of the regulation in question is expected by the end of the first half of 2012, and will also take into account the remarks received during the consultation period.

2 THE INSTITUTIONAL FUNCTIONS

2.1 SUPERVISION AND PROTECTION OF INVESTORS

2.1.1 Contextual Factors

The banking and financial system of San Marino is living one of the most troubled period in its history. The last three years evidenced - sometimes in a traumatic manner - the incompatibility with the current regulatory and supervisory environment of many entrepreneurial initiatives, based on the previous development pattern, which relied on bank secrecy, fiduciary mandate and corporate anonymity rules.

The previous regulatory and structural environment facilitated the inflow of capitals from abroad (mostly from Italy) and the creation of a multitude of financial dealers of small and medium size, not belonging to any group.

Absent any external obligations, most of the intermediaries focused on the management of the relations with clients (often *marginal*) in search for confidentiality. The financial services offered were focused on the traditional banking and financial activities (deposit funding and disbursement of loans to consumers and enterprises), on one side, and the fiduciary activities on the other.

The low level of operating costs, favoured by the reduced investments in structures and qualified personnel, and the substantial lack of flexibility of the demand against the economic

conditions applied (given the higher relevance of the confidentiality profile) ensured profitability and the possibility to remain on the market also for the weakest or unstructured initiatives.

Also at an institutional level, the continuous inflow of liquidity made the start of structural reforms capable of strengthening the financial stability of the system (central credit register, deposit protection fund, provisions for last resort borrowing...) less of a priority.

The different approach adopted over the last few years by the foreign Supervisory Authorities vis-a-vis the so called offshore and low taxation countries, led to:

- A considerable disadvantage for San Marino, which was included in the so called Italian black lists with serious consequences under the economic, financial and commercial relations profile. The new policies adopted by the European countries to combat international tax evasion determined also relevant outflows of capital, thus creating liquidity tensions amongst the intermediaries of San Marino, especially after the last Italian tax shield (2009-2010). The dramatic decline in the volumes mediated and the continuous outflow of capitals led to a real "disintermediation" process, which sharpened the existing fragilities thus entailing potential risks for the stability of the system.
- A greater awareness, at the country- system level, of the urgent need to modify the previous development pattern based on the inflow of capitals looking for anonymity. To this regard, the need to proceed with the requalification of the system into a context strongly integrated with the European markets is widely acknowledged.
- A deep review of the supervisory rules and practices, in line with the recommendations of the international bodies. The path towards the regulatory alignment - still under way - is considerably complex by virtue of the standardisation requirements resulting from the new monetary agreement signed in Brussels on 27 March this year, and entails the implementation of most of the Community acquis on the banking and financial issues within the next 4-6 years.

Consequently, a considerable reduction in traded volumes was registered, and the criticalities inherent in the system worsened, thus determining an even faster selection of the healthy and prudent entrepreneurial initiatives which are capable of identifying paths of permanent growth, against those more fragile which were often dealing with "marginal" customers.

The financial sector, considerably weakened by the outflow of capitals, must face demanding challenges, including the difficult target of economic balance. Even the recent assessment mission of the IMF, whose final report has been recently published, highlighted the

vulnerability elements of the segment and the actions to be taken in order to avoid a further decline.

2.1.2 Supervisory Policy

In 2011, the Supervisory Authority had to face demanding challenges in the management of the crisis of many banking and financial intermediaries (Box no. 2). In this context, it found and proposed solutions - sometimes innovative - to the executive and legislative body, in order to guarantee the protection of savings and the stability of the system.

The risk-based approach adopted by the Central Bank in conducting the analysis and intervention activities privileged corporate situations characterised by dramatic technical-organisational inefficiencies or those with a greater potential to be involved in money-laundering transactions.

In the definition of the inspection plan and in the conduction of the off-site controls, due account was taken of the indicators of anomalies emerged in the mediation of cash by banking and financial entities; additional instruments will shortly be adopted to guarantee an even stricter control of the monetary inflows and outflows from and to the system.

In "macro-prudential" terms, particular attention was paid to the liquidity profile of the banking system: any tensions from certain players may in fact quickly jeopardise business continuity, in light of the objective and structural limits of the Central Bank in acting as lender of last resort, due on one side to the impossibility of issuing money and on the other side to the fact that San Marino is not a member of the European System of Central Banks.

The instruments implemented so far, such as the legal reserve or the voluntary deposits with the Central Bank that are remunerated at market rates, made it possible to face situations of temporary difficulty occurred between 2009 and 2011; however, these were insufficient actions, which require additional financing channels by means, inter alia, of agreements with other European central banks (first of all, the Bank of Italy).

Under the stability profile, the concern for the decline in the financial sector and the urgent need to identify new development lines were shared with the International Monetary Fund. To this regard, the need is felt for greater clarity as regards to the different roles played by the Authorities and by the private operators, taking into account the intense debate raised on the new development pattern which should be defined and implemented.

To this regard, it has been stated on many occasions that the Supervisory Authorities have the responsibility to provide the framework for the legitimation of the Country system at an international level, to introduce instruments for the strengthening of the protection of savings and financial stability and to foster the development of new products or operating segments.

The Authorities, however, may not - and must not - replace the bank and financial entrepreneurs in the definition of the business model to be adopted. The definition of the regulatory framework and controls represents the solid basis without which there is no future for the financial system; the players of the system have the responsibility to implement their specific development project on this basis.

The approach followed by the Central Bank has also the support of the International Monetary Fund, which, also in its latest assessment report on San Marino - published in May 2012 - stressed the urgency for the private sector to identify development paths which may also be alternative to the traditional banking and financial services, and which would point on any potential competitive edges.

The discussion on the possible business model for San Marino may not elude the identification of the minimal conditions without which any possible development would not be feasible.

Firstly, it is necessary to continue with the "renovation" of the financial system. The positive comments received by OECD and Moneyval on the results achieved must prompt all the stakeholders to continue even more intensively in the process of alignment with international standards and on the path towards transparency, which is the basis without which the target of integration with other markets would be unreasonable.

In this context, the actions of the Supervisory Authorities are aimed at:

- Completing the path towards awareness for all financial intermediaries, so as to fully assess the risks linked to their operations.
- Supporting the internal consolidation process of the system by means of aggregations between banks, with a view to capital strengthening and an increase of the critical mass required to achieve economic stability.
- Completing the regulatory framework and strengthening the tools for remote auditing;
- Providing utmost cooperation to national and foreign control Authorities.

- Continuing with the search for solutions capable of fostering the funding of the system even during liquidity tensions.

The target of the requalification of the system may not disregard a review of also the institutional and social-economic structures of the Republic of San Marino. Reference is made, *inter alia*, to the adoption of a strategic plan shared at a political level, which generates clear and transparent international diplomatic relations, rules for the labour market aligned to those of Europe, a higher degree of economic-financial integration with Italy and the European Union.

The Authorities of San Marino are therefore required to create the basic conditions which may facilitate, on one hand, the attraction of qualified foreign investments in the financial sector and, on the other hand, their operations abroad or the offer abroad of the financial services, instruments and products of San Marino.

In the meantime, before the barriers to in- and out-flows are lifted, the players of the system should gain more strength through investments which are targeted to a greater efficiency of corporate management which would allow competitive economic conditions to be applied.

The alignment to the highest international standards represents a necessary precondition, but it is not sufficient to ensure the consolidation and development of the financial market of San Marino.

Assuming a greater focus - in the short term - on private and institutional domestic customers, a possible way to realise the aforementioned structural investment may be to start "consortium" initiatives through which the production of centralised financial services (for instance, by means of the creation of a bad bank of the system that would facilitate the recovery of non-performing loans, or of an electronic money institution that would manage and issue payment cards, or of asset management companies) but also of different ancillary and instrumental services (e.g., for the management of information systems or real estate properties) may be shared.

Cost economies and the income flows resulting from the services offered to existing customers (allocated to a lower number of intermediaries) may be helpful to sustain the aforementioned investments in the requalification processes in the disbursement of credit and in the supply of services to customers (including financial consultancy and asset management).

Efficient and competitive structures with a clear industrial plan and adequate resources, represent the necessary basis for future development. Considering the economic limitations to the investments to be made, together with the recovery of efficiency within the context of the banking and financial services already offered, the only forms of operational diversification possible in the

short term are those that require a lower investment in fixed capital, with a greater value added (e.g., investment services, asset management).

Additionally, the activities for the accreditation of the Central Bank with the Supervisory Authorities of other countries will continue, for the purpose of establishing profitable relations and full cooperation, first of all with the Bank of Italy.

Once the normalisation and requalification process of the existing players of the system has been concluded, it will be possible to start a path towards the integration of the financial system of San Marino into the larger European single market; in this context a low taxation may represent only one of the factors that attract investments, but certainly not the only or major one.

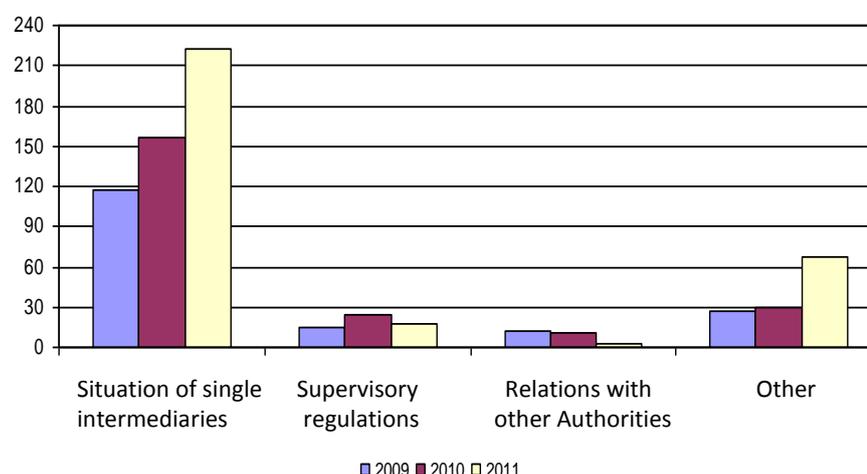
2.1.3 The Supervision Committee

The exercise of the institutional supervisory functions, aimed inter alia - in compliance with the provisions of art. 37 of the LISF - at preserving the stability of the financial system and at the protection of savings, is structured in two separate - although are strictly connected – phases: the "strategic-decision making" phase, which is the responsibility of the Supervision Committee, and the "implementation" phase, realised with to the support of the Services comprising the Supervisory Department, which assess and initiate the individual files (see below).

The Supervision Committee is statutorily vested with “the powers for the management of the supervisory functions of the banking, financial and insurance system in its 3 components - on site, reporting and regulatory - as well as for the protection of investors”. In 2011, the Supervision Committee intensified its action and held 81 meetings in which 270 decisions were taken, compared to the 71 meetings held and the 221 decisions taken in 2010.

Such decisions were related mainly to the technical position of the supervised entities, taking into account also the gradual deterioration of the economic-capital balances of many medium and small size intermediaries, or the coming out of serious organisational deficiencies or violations of laws that required the adoption of corrective measures, or even severity measures in the most serious crises that could not be autonomously solved by the supervised entities.

Figure no. 17 - Supervision Committee: number of resolutions broken down by topic



Source: Central Bank.

In some cases, the decisions adopted by the Supervision Committee have been challenged in court on grounds of alleged legitimacy issues raised by the defendants.

Box no. 2 - Progress of the litigations concerning supervision activities.

Premise

Following the increase in the number of extraordinary procedures (suspension of administrative bodies, extraordinary administration and forced administrative liquidation) during the period 2010/2011, as well as the increase in the number of sanctioning procedures during the same period, it is now urgent for the Central Bank to adequately face the resulting administrative and jurisdictional litigations, in order to firmly defend the legitimacy of its actions. However, the same public purposes ascribed to the Central Bank for the protection of the stability of the banking system and of the position of the investors, impose to the Supervisory entity to defend its own actions with the utmost determination, confident of their legitimacy.

Severity measures

A total number of 14 severity measures were adopted between 2010 and 2011, 8 of which were challenged before the administrative judge. Of the 8 resulting litigations initiated against the Central Bank, 2 reached the Court of Cassation level and the relevant decisions were in favour of the supervisory actions taken (Fin Project and Prado-Fin); 1 litigation was abandoned by the petitioner in the proceeding of first instance, with the subsequent consolidation of the measure taken by the Central Bank (Fincapital, forced liquidation measure); 1 litigation has been definitively judged in the proceeding of first instance with the rejection of the appeal and consolidation of the sentence due to omitted filing of the challenge (S.M. International Bank,

procedure for the extraordinary administration); as for the remaining 4 litigations, two of which are related to Credito Sammarinese S.p.A. under forced administrative liquidation, 1 to Polis S.p.A. under forced administrative liquidation, and 1 to Banca Commerciale Sammarinese S.p.A. under extraordinary administration, the judgement of the Court of First Instance is still pending.

Sanctioning procedures

As specified in box no. 6 (see below), 64 sanctioning procedures were concluded in 2011, 3 of which were dismissed by the Central Bank and 34 were challenged. Of the challenges, 5 were abandoned by the petitioners because the relevant appeals were lodged after the terms provided and were therefore dismissed by the Court. Of the remaining 29 appeals not yet decided, 27 were related to the entire sanction procedure, whereas 2 to a part only of the alleged irregularities.

Other litigations

The Central Bank defended its positions also within the context of the challenge of two letters transmitted to intermediaries in 2010 (Credito Sammarinese and Polis). This led to 4 litigations which are still to be decided by the Court of First Instance. As regards to the interim stage of the aforementioned litigations, in all cases the administrative judge of first instance decided in favour of the petitioners, whereas the judge of appeal decided, for two of such proceedings, in favour of the Central Bank. As regards to the two remaining interim proceedings, the Court of second instance has not decided yet.

2.1.4 Activities of the Supervision Department

Also in 2011, the analyses and interventions of the Supervision Department were focused:

- On the functioning and adequacy of the governance and control systems.
- On the ability of the intermediaries to obtain satisfactory economic-financial balances, in line with the prudential limits provided for by the supervisory regulations.
- On the reliability of corporate representatives and transparency of the ownership structures.

The off-site and inspection evidence highlights the need for a requalification of the corporate structure, in which business targets such as the retention and expansion of the customer base are still prevailing on prudential targets like the strengthening of the control procedures, thus exposing the intermediary to the unconscious assumption of risks which may undermine its stability and reputation in the medium term.

During the year, a considerable portion of the activities of the Supervision Department was focused on the extraordinary procedures started pursuant to the LISF, a summary of which is included below.

Box no. 3 - Severity measures and evolution of current corporate crises.

Premise

The current negative economic situation, associated with factors which are specific of San Marino, such as a) the considerable reduction of the assets under management during the period 2009/2010, which continued - though to a lesser extent - also in 2011, which put the liquidity of the system to the test; b) the continuous evolution of the regulatory framework with reference to its adjustment to the international standards, which made some entrepreneurial activities launched in the first years 2000, i.e. a different historic and legal environment, incompatible, c) the attempt by criminal organisations to penetrate the financial environment of the country, represent some of the most significant causes of the considerable increase in the number of extraordinary procedures or severity measures initiated last year by the Central Bank: i) suspension of the administrative bodies, ii) extraordinary administration, iii) forced administrative liquidation.

Supervisory policy

The adoption of this kind of measures, for which the Central Bank holds direct responsibility since November 2010, is by the latter regarded as a last resort measure in the process of solving critical corporate problems. Whenever possible, the Supervisory Department tries to resolve corporate crises through less distressing procedures, by means of the preventive measures provided for by the LISF or, ultimately, inspired by moral suasion criteria. The purpose is to make the owners and the management aware of the critical aspects of the corporate situation, so that the intermediary in trouble may adopt of its own initiative or pursuant to an order of the Supervisory Authority (e.g. art. 46 of the LISF) the necessary corrective measures prior to the occurrence of a crisis (such as, recapitalisation, reorganisation, change in management, etc.).

In some cases, the Central Bank also favoured the spontaneous exit from the market, where the minimum basis existed for a clean voluntary liquidation.

Thus, it is clear that the initiation of extraordinary procedures (or of severity measures), is limited for the Supervision Department to the most pathological situations, where the corporate crisis may not be autonomously resolved by the corporate bodies, often as a consequence of seriously abnormal or unreliable management structures.

If, due to the extreme seriousness of the irregularities detected and/or to the existence of a capital deficit, the crisis is irreversible, a measure for the liquidation of the company must be adopted, for the purpose of:

- a) Separating financial undertaking from ownership, trying to preserve the residual corporate value through transfers of assets and liabilities, business units or legal assets identifiable in bulk to other intermediaries.
- b) Preserving the equal treatment of creditors.

Extraordinary procedures initiated in 2011

During 2011, the number of severity measures initiated by the Central Bank has increased. In 2010, 2 measures for forced administrative liquidation (Fin Project and Prado-Fin) and 1 measure for the suspension of the administrative bodies (Fincapital S.p.A.) were adopted, whereas in 2011, 11 procedures were started. Three of them (Berfin S.p.A., Credito Sammarinese S.p.A., Polis S.p.A.) were related to the suspension of the administrative bodies due to the satisfaction of the urgency requirement and of the other legal requirements, three were related to extraordinary administration (S.M. International Bank S.p.A., Credito Sammarinese S.p.A., Banca Commerciale Sammarinese S.p.A.), five were related to forced administrative liquidation (Fincapital S.p.A., Berfin S.p.A., Polis S.p.A., Credito Sammarinese S.p.A., Uno S.p.A.). In the first months of 2012, the procedures related to Fin Project and Prado-Fin were started afresh, in compliance with the

decisions issued by the administrative Court of Cassation, which confirmed the decisions of the Court of Appeal in favour of the State Congress and of the Central Bank. The two financial companies were returned to the ordinary operations by the Court of First Instance.

Of the 11 procedures started, 3 were originated directly from inspections conducted, 3 from off-site investigations and, for the remaining 5, related to the "Credito Sammarinese" group (2 suspensions of the administrative bodies, 1 extraordinary administration and 2 forced liquidations) from inspections and the subsequent off-site supervision.

The reasons more frequently given to ground the severity measures adopted by the Central Bank are related to:

- Administrative irregularities and violation of rules (both legislative rules and measures provided by the Supervisory Authority) which regulate the operations of the intermediaries, in some cases also characterised by the *fumus delicti* (adequate evidence of guilt).
- Considerable inadequacies of the organisational structures and of the internal control procedures, which caused the deterioration of technical balances.
- Expected capital losses.

Furthermore, the significant outflow of the last few years also evidenced, in some measures adopted in 2011, the existence of the assumption of illiquidity.

In the three extraordinary procedures of S.M. International Bank S.p.A., Credito Sammarinese S.p.A. and Banca Commerciale Sammarinese S.p.A., the Central Bank authorised the Official Receivers to suspend the payment of the liabilities pursuant to art. 82 of Law no. 165/2005.

In this context, the State Congress by means of the Decree-Law no. 186 dated 28 November 2011 "Misure urgenti a sostegno dei depositanti di Banche in regime di sospensione dei pagamenti" (Urgent measures in support of the depositors of the Banks under the payment suspension regime), allowed – prior to the satisfaction of certain prerequisites - the execution of "micro payments" in order to mitigate the consequences of the suspension of the payments, combining in the best possible way the principle of equal treatment of creditors with clear reasons of substantial fairness under the social-economic profile.

Progress of the proceedings and evolution of open corporate crisis occurred in 2011

As regards to the solutions adopted or currently not yet defined for the severity measures of 2011, it should be borne in mind that:

1) **S.M. International Bank S.p.A (SMIB)**. After the completion of the first and most difficult phase of the procedure for the expiry of the payment suspension period, the procedure, started on 10 February 2011, has been extended by the Central Bank for further six months pursuant to art. 78, sub. 6 of Law no. 165/2005, for the purpose of allowing the intervention of a bank of San Marino which was interested in taking over the control thereof. The solution, not yet defined in detail, would allow the return to the ordinary functioning of the SMIB thanks to a new corporate mission and the access to a stronger banking group.

2) **Credito Sammarinese S.p.A. (CSA)**. The extraordinary administration procedure started on 12 July 2011 was characterized from the beginning by extreme illiquidity and, thus, by the suspension of the payments, started at the same time of the implementation of the extraordinary administration procedure. Given the large capital deficit, the failure of the "ownership" to cover the losses and the lack of any real and serious alternatives, the extraordinary administration was closed with the application by the special bodies of the forced administrative liquidation, which was started by the Central Bank on 11 October 2011. The solution, which was actually adopted in order to protect the depositors and, more in general, to ensure continuity to the credit relations, involved the transfer of legal assets in bulk to six banks that acted as transferees. This solution for the protection of the clients of Credito Sammarinese has been adopted also thanks to the

implementation of the Decree-Law no. 174 dated 27 October 2011, “*Misure urgenti a sostegno di operazioni a tutela del risparmio*” (*Urgent measures in support of actions aimed at protecting savings*), which created an instrument in support of the "system activities" by means of tax benefits, when such transactions are aimed at protecting savings and ensuring the stability of the banking system, as is the case of the transfers in bulk of assets and liabilities within the context of a forced administrative liquidation.

3) **Banca Commerciale Sammarinese S.p.A.** (BCS). The search for the solution – which, however, at the moment is only partial - was complex both due to the vanishing of the interest originally expressed by a foreign investor, and to the adaptation of different needs such as, on one hand, the need to find an effective and prompt solution for the protection of the depositors in light of the nearing of the expiry of the final term for the suspension of payments, and, on the other hand, the advisability of a prior verification in terms of lawfulness of certain debit and credit relations of the BCS, in order not to burden the investing bank with excessive legal and image risks. In brief, Asset Banca, also for the purpose of consolidating its presence on the territory, took over the entire capital of BCS and, with the aim of providing an immediate answer to the needs of the depositors, acted as transferee of a business unit of the subsidiary. The extraordinary administration procedure will continue until its natural expiry, also for the purpose of removing the serious administrative irregularities and organisational malfunctions which form the underlying reason for the extraordinary administration procedure.

4) **Fincapital S.p.A.** The liquidation procedure was started on 7 January 2011 and after a two-month suspension of the administrative bodies was characterised from the beginning by extremely complex and sensitive elements, due to the size and multifunctional character of the activities of the Company and to the major implications of a criminal nature about which extensive information has been provided in the press. The statement of liabilities was lodged in May 2011. As of today, within the context of the procedure, the Central Bank authorised in May 2011 and February 2012 the re-registration of the shares fiduciarily held by Fincapital. In addition, on 20 September 2011 the Central Bank approved the contractual arrangement agreed between the Procedure and the bank creditors, which provides for the transfer of the assets and liabilities of the financial company by the end of June 2012. The solution actually adopted protects the interests of the entire class of creditors and minimises, through the segregation of the assets transferred, any risks linked to the transfer of assets deriving from an illegal source. Thus, an effort was made to combine the need of legality of the procedure with the purposes inherent the current regulatory framework for a fast definition of the forced liquidations. The transfer in bulk of the assets and liabilities to the creditor banks will facilitate also the protection of private counterparties of Fincapital within the context of real estate leasing contracts. Under this last profile, the agreement satisfies also the petitions for social protection.

5) **Berfin S.p.A.** The company, initially subject to the suspension of the administrative body from 27 May 2011, was then placed under forced liquidation on 15 July 2011. On 24 October 2011 the statement of liabilities was lodged. The Procedure, subject to the prior authorisation of the Central Bank, at the end of 2011 initiated the activities for the partial repayment to the grantors, notwithstanding the obvious precautions aimed at avoiding jeopardising the possibility to definitively allocate the assets to all assigns. As of today, the liquidator is assessing some possible solutions aimed at facilitating the prompt definition of the liquidation procedure through the transfer of corporate assets and liabilities.

6) **Polis S.p.A.** Following a period of suspension which started on 8 July 2011, the company has been placed under forced administrative liquidation on 2 September 2011. The statement of liabilities was lodged on 6 December 2011. The Procedure is currently making a dramatic effort to

recover the "non-performing" assets and started the activities for the return to the grantors of the assets (securities and cash) fiduciarily held.

7) **Uno S.p.A.** The company was placed under forced administrative liquidation on 21 November 2011. The statement of liabilities will be lodged shortly.

2.1.5 Regulatory Measures

In 2011, the regulatory activities of the Central Bank have been particularly significant, not only in terms of direct exercise of its peculiar regulatory powers, but also in the form of impulse, proposal and technical assistance to the Management - and in particular to the Minister for Finance and Budget - in the preparation of the different primary measures that, in 2011, affected the banking system of San Marino and that, due to their role within the system and/or to their social purposes, are particularly significant. The following are particularly worth mentioning:

- The Delegated Decree no. 111 dated 22 July 2011, “Misure a garanzia della stabilità del sistema bancario della Repubblica di San Marino” (Measures to guarantee the stability of the banking system of the Republic of San Marino).
- The Decree-Law no. 174 dated 27 October 2011, “Misure urgenti a sostegno di operazioni a tutela del risparmio” (Urgent measures in support of the activities to protect savings).
- The Decree-Law no. 186 dated 28 November 2011, “Misure urgenti a sostegno dei depositanti di Banche in regime di sospensione dei pagamenti” (Urgent measures in support of the depositors of Banks under a payment suspension regime).
- The Law no. 200 dated 22 December 2011 - article 66 “Fondo di garanzia per la Tramitazione” (Settlement Guarantee Fund);

With specific regard to the regulatory measures of the Central Bank, these will be outlined in brief below and broken down by economic type of the recipients.

2.1.5.1 Financial Companies

Financial companies are certainly those which, of the different categories of supervised persons, were most affected in 2011 by the regulatory actions of the Central Bank. Regulation no. 2011-03, “Regolamento dell’attività di concessione di finanziamenti (società finanziarie)” (Regulation of lending activities (financial companies)), which came into force on 1 July 2011, represents in fact the first uniform and updated body of rules implementing the LISF, which

regulates, in terms of structural supervision as well as in terms of prudential supervision, the non-bank companies that grant credit.

Regulation 2011-03 has now extended to the financial companies all those provisions about quality and transparency of the ownership structures, capital adequacy (to cover credit risks and operating risks), organisational adequacy (particularly as regards to the internal control system and to the orderly internal distribution of powers and responsibilities), fairness of the relations with clients, which align to the international standard the segment of the financial companies of San Marino, thus marking, just as the Regulation of 2007 for the banks, a real breakaway with the past. The supervisory procedures introduced are the same already adopted by the banks, although applied with necessary mitigations and adjustments in relation to the different range of activities, and, more specifically, to the impossibility to carry out public fund raising activities other than within the limits provided for the issuing of bonds.

The principle of proportionality, which inspired the measure in question, is even more meaningful in the transitional rules of the measure, namely in those rules aimed at pre-existing financial companies, i.e. incorporated under the laws and regulations in force prior to the LISF; for these companies, the new provisions will be applied gradually in time (until the end of 2013) and, most of all, in a modular manner as regards their size. The Central Bank, also with the intent to satisfy - to the extent possible - the requests of the category as regards the need to proportionally adjust the requirements to the different complexity of the operations, has defined, in light of a greater complexity of the structure, three different models of financial company:

- A. *Specialised* company fully operational, subject to an ordinary supervision regime.
- B. *Specialised* company with limited operations, subject to a simplified supervision regime.
- C. *Non-specialised* company, authorised to carry out also other reserved activities pursuant to art. 156, sub. 1 of the LISF, but subject to a stricter supervision regime.

This last model in particular, which is reserved solely to the companies that are already on the market with a wide corporate purpose and that have no intention to specialise in the credit activities, requires a minimum share capital of Euro 2.5 million, compared with the Euro 2 million required under model A and Euro 1 million of model B, and an absorption ratio of operating risks of 25% rather than 15%.

By contrast, the simplifications granted to the specialised financial companies with limited operations compared with fully operational ones include, in addition to halving of the minimum share capital requirements, as mentioned above:

- Simplified determination of the regulatory capital (which virtually coincides with net equity).
- A lower absorption ratio of credit risks (6% rather than 8%).
- Lower limits to the concentration of risks (33% and 10% instead of 25% and 8%).
- Higher relevance threshold on the transactions with related parties (10% instead of 5%).
- No restrictions on the transformation of maturities (medium/long term loans).
- No specific limit in the assumption of equity investments in non-financial companies.
- Higher authorisation thresholds on bulk purchases (40% instead of 20%).

This model, however, may be accessed only by those companies that maintain the aggregate of their weighed assets within Euro 50 million (size limit as a systemic control) and entails the application of the following restrictions:

- Bond issuance within the ordinary limits applied to non-financial companies.
- Exercise solely of the credit activities reserved, in all of their forms other than the release of guarantees and comfort letters.
- Reference market limited to the national territory.

It also entails the doubling (from 20% to 40%) of the weighing ratio to apply to the exposures towards such companies.

By the end of 2012, each financial company shall identify by means of a strategic plan to be filed with the Supervisory Authorities, which of the three models described above is the appropriate model, without prejudice to the possibility to specialise in other reserved activities among those already included in its corporate purpose, or to modify the latter in order to convert to a company no longer supervised by the Central Bank.

Among the effects produced so far in 2011 by this measure, particularly worth mentioning are the determination for the first time by each financial company of its regulatory capital, and the transmission to the Supervisory Authority of all the documents and certifications required under the new regulation for the purposes of the first general inclusion in the master file, with the relevant verification, as regards to direct and indirect shareholders holding more than 5% of the share capital, of the honourability requirement and of the ability to ensure a healthy and prudent management. The higher capital and organisational standards required to exercise the

activity also prompted many players of the system to reconsider their permanence on the market, thus contributing to the decline in the number of financial companies of San Marino, also through voluntary liquidation procedures.

With reference, again, to the new regulations applied to the financial companies, reference should also be made to Circular no. 2011-01, which in November 2011, by implementing Regulation no. 2011-03, also realised a massive and pervasive reorganisation and updating action of the entire legislation governing the periodic information requirements adjusted to the newly introduced prudential supervision procedures.

2.1.5.2 Banks

Together with the Regulation on financial companies, on 1 July 2011 Regulation no. 2011-02, which represents the second update of the “Regolamento della raccolta del risparmio e dell’attività bancaria” (Regulation on public fund raising and banking activities), came into force.

The main innovations compared with the previous version, consist in:

- The strengthening of the requirements provided for the ownership structures as a guarantee of the actual knowledge of the controlled entities.
- The rewording of the honourability requirements for members and shareholders based on a greater guarantee and better alignment with the similar Italian regulations.
- The use of self-certification, for both residents and non-residents, only as integrations or in a residual way, and not as replacements, of the honourability certificates, which are always required with reference to the place of prevailing residence in the last five years period.
- The introduction of a removal procedure by the Supervisory Authority, to be applied as a precautionary and urgent measure when serious irregularities are detected during the inspection against certain corporate representatives (special suspension procedure) in line with the most up-to-date international directions for bank supervision.
- In the conversion from *communication* to *authorisation* of all the procedures related to the exceeding of the threshold for the investment in the share capital of the banks.
- The introduction of a monitoring procedure with at least a three-year frequency, on the maintenance of the requirements by the shareholders, to be performed by the Supervisory Authorities and the Director General, and by the Board of Directors, which was previously

envisaged only for directors and statutory auditors upon the natural renewal following the expiry of the office.

- The introduction, for the prudential purposes of the capital requirements:
 - a) For the credit risk, of a strengthened weighing ratio for non-performing loans (200%.);
 - b) For operating risks, of the Basic Indicator Approach - BIA method, adopted by Basel II, in lieu of the previous proxy.
- The intensification of organisational procedures for managing credit risks through:
 - a) A more frequent reporting to the Board of Directors.
 - b) More complete investigations about the granting of loans.

As regards to the transitional rules contained in the Regulation in question, it should be noted that also the ownership structures of the banks, just as those of the financial companies, have been affected at the end of the previous year by the same process of inclusion in the master file and verification of the requirements, as redefined by the new regulations and according to the new provisions provided for therein.

With reference, again, to the banking segment, reference should be made also to Regulation no. 2011-07 “Regolamento per la gestione e il funzionamento del fondo di garanzia” (Regulation for the management and functioning of the guarantee fund), which, by implementing the Delegate Decree no. 111 of 2011, governs:

- The management and funding of the Guarantee Fund through the mandatory contributions of the banks and of the branches of foreign banks entered in the Register of Authorised Persons.
- The cases and forms of the interventions.
- Sanctions for omitted payment.
- Minimum and maximum repayment limits.
- Features of the protected deposits.
- Quantitative limits and protection requirements.
- Notices related to the Fund to the clients of the banks.
- The coordination between the activities of the Fund and the regulations of the extraordinary proceedings referred to in Part II, Title II, Item I and II of the LISF.

Lastly, again as regards to banking regulations, it is also worth mentioning Regulation no. 2011-04 “Regolamento in materia di servizio scambio recapiti domestici (SRD) - Aggiornamento I” (Regulation on the service of exchange of "*recapiti domestici*" (SRD) - Update I) which, by shortening the terms for the reporting of the amounts not paid to the negotiating bank, adapted them to those applied in the Italian payment system.

2.1.5.3 Management Companies

With reference to the management companies, in 2011 the second update of the Regulation on collective investments introduced:

- The possibility to create closed-end investment funds also with the so called *contribution* of real estate properties and credits.
- A specific publishing regime in lieu of the ordinary procedures, if the funds are assigns of credits, in compliance with the provisions already existing for banks and financial companies.

This measure, even if limited as regards to the extent of its purposes, represents a considerable development in the regulations of this new financial segment in San Marino, still at a start-up stage.

2.1.5.4 Trustees

The measures issued by the Central Bank in 2011, although not implementing the LISF but Law no. 42 dated 1 March 2010, and relevant implementation decrees, include Regulation no. 2011-01 “Regolamento per l’esercizio professionale dell’ufficio di trustee nella Repubblica di San Marino - Aggiornamento I” (Regulation for the professional exercise of the office of trustee in the Republic of San Marino - Update I) and Regulation no. 2011-06 “Regolamento attuativo in materia di trust e di vigilanza sui trustee finanziari” (Implementing Regulation on trust and supervision on financial trustees), which came into force on 28 April 2011 and 30 December 2011 respectively.

If, on one hand, the second measure has a more specific content, and intervenes only on those issues delegated to the Central Bank by Law no. 42 dated 1 March 2010, thus implementing articles 28 sub. 5, and art. 33 sub. 3, of the aforementioned Law, the first measure, on the other

hand, is much more substantial and involves considerable amendments to the regulation of the authorization to the professional exercise of the office of trustee in San Marino, such as:

- The automatic alignment, by means of the referral technique, of the honourability requirements with the provisions envisaged for the corporate representatives of banks, as well as the application of the same criteria, instruments and procedures for their verification by the Supervisory Authority.
- The automatic alignment, again thanks to the referral technique, of the list of countries which do not cooperate for anti-money laundering purposes, building on that of the countries subject to strict monitoring, which is defined in the AIF directions and is updated on the internet site of the latter.
- The introduction of a preferential regime for the purposes of the authorisation of the *specialised* fiduciary companies that are no longer at a start-up stage, consistently with the policies already mentioned in the Circular no. 2008-06 and later confirmed in Regulation no. 2011-03.
- The limitation of the compliance requirement of financial companies for authorisation purposes, to the prudential supervisory provisions only, with the intent to restrict in a more objective manner the perimeter of the impeding violations.
- The elevation of the monetary thresholds for the relevance of the administrative sanctions for authorisation purposes, in order to take into account the increased volumes of sanction activities of the Authorities, also in terms of values.
- The introduction of a limit to the extensive effect of the training requirements for authorised professionals who, as members of the board of directors, may be delegated and appointed as persons responsible of the office of trustee.
- The granting, to anyone interested in the subject, of the possibility to attend the training courses on the subject of trusts, with the purpose of favouring the development of specific professionalisms in San Marino.
- The requirement of the written form for the final test to be passed, at the end of the enabling training course, for the purpose of obtaining the authorisation, with reference to the need to better ensure the homogeneity, impartiality and transparency of the audit procedures.

2.1.6 Supervisory Reporting and Methodologies

In 2011, the effort for the strengthening of the instruments for the off-site analysis available to the Central Bank continued, thus widening the statistical basis available and instructing new indicators of anomaly, which made it possible to promptly detect possible errors or inconsistencies committed by the supervised entities in the preparation of the reporting schedules.

The audits on the quality of the statistical data entailed repeated interventions to request amendments to the reported information due to deficiencies in the administrative-accounting structures of the players of the system, even of large dimensions, or to solicit the transmission of the reports, especially by small size entities that often outsource the function for the preparation of the reports to external professionals.

In the second half of the year, three consultation procedures were launched for the issue of as many measures on supervisory reporting, aimed at implementing the provisions of Regulations no. 2011-02 (for the banks) and no. 2011-03 (for the financial companies) as well as at increasing the informative relevance of the data gathered on the use of payment instruments by bank customers.

Under the first profile, Circular no. 2011-01 defined the periodic information requirements for the financial companies as regards to prudential supervision, based on the different timing provided for the adjustment to the new provisions. Specifically, with this measure:

- The so called "pre-existing" financial companies (authorised prior to the entry into force of the LISF) are provided with clear indications on the reporting requirements to be fulfilled as regards to the transitional regime provided for under Part XI of Regulation no. 2011-03 as well as to the individual organisational decisions that will be taken.
- The role of the Central Bank in the assessment of the capital and organisational requirements for the purposes of the subsequent publication on the Register of Authorised Persons of the prudential regime of the financial companies is specified, so as to allow also third party intermediaries to identify the weighing to apply to exposures against such companies.
- Directions are provided on the compilation of the reporting schedules to be prepared with reference to the reference date of 30/09/2011, taking into account the provisions of art. XI.V.1, sub. 1 of the aforementioned Regulation that envisages - as from such date - the requirement for the pre-existing companies to calculate the regulatory capital and to respect

the limit to medium-long term investments (referred to in art. VII.VI.1 of the aforementioned Regulation).

The text of the Circular will shortly be updated with the schedules related to all other prudential institutions (such as the solvency ratio, the limits on the concentration of risks also vis-a-vis related parties, etc.), taking into account the deadlines for the implementation of the prudential rules provided for the companies with limited operations (30 June 2012) and for fully operational companies, that is to say for those companies that intend to maintain also the previous authorisations, subject to a stricter capital regime (31 December 2013).

With reference to payment instruments - with Circular no. 2012-01 on 13 April this year - the information set available to the supervisory bodies about cash movements for relevant amounts made by clients of the banks on a monthly basis, has been widened. Circular no. 2012-01, which repeals Circular no. 2009-02, will allow the strengthening of the informative instruments for detecting any movements which are anomalous in statistical terms and to provide a contribution to the other national Authorities in combating financial crimes.

Further measures were related to the methodology for the determination of the relevant threshold rates for the application of the provisions against usury, pursuant to art. 207 of the Criminal Code, aligning the criteria in question with the innovations recently introduced also in Italy. In particular, the methodology provides for:

- The use of the average weighing of the relevant TEGMs (*tasso effettivo globale medio*, or actual global average rate) notified to the Central Bank by the banks and financial companies of San Marino in compliance with Circulars no. 43 and no. 28F dated 18 May 2005.
- The measurement, for each category of transaction, of the two higher TEGMs among those which refer to the first two or the last two classes of amount, respectively.
- The identification of substitute parameters for categories of credit transactions which do not show an adequate number of reports from banks or financial companies, with the application of corrective factors that would take into account the different cost of the funding between banks and financial companies as well as between the credit system of San Marino and that of Italy.
- The adjustment of the TEGMs, taking into account the delay between the period of measurement and that of application, based on the changes in the rate applied on the main funding transactions of the Eurosystem, as determined and notified by the European Central Bank (www.ecb.int).

- The determination of the threshold rate by increasing by a quarter of a point the TEGMs determined and adjusted as above and adding a margin of four percentage points. The difference between the threshold rates and the TEGMs may not exceed 8 percentage points.

During the year, the accounting guidelines for the companies operating in the nautical leasing sector were also shared with ASSOFIN, also for the purpose of defining uniform conducts to be adopted by the financial entities involved in the "Rimini Yacht" fraud in the presentation of balance sheet data.

Box no. 4 - Renegotiation of the agreement for the settlement of Italy - San Marino payment transactions.

Within the context of the exercise of the informative supervision duties, part of the activity was dedicated to the performance of the controls of competence on the payment flows "settled" on the Italian system by specialised counterparties (Iccrea Banca S.p.A. and Istituto Centrale delle Banche Popolari Italiane S.p.A. - ICBPI) based on specific agreements.

As known, as from May 2009 the continuation of the "settlement" relations with Italy has been possible by means of the creation of a Data Archive kept and managed by the Central Bank, which registers the information of the clients that carry out payment transactions cross border (San Marino - Italy and vice versa), in compliance with the provisions of the Decree-Law no.65 of May 2009 and of the implementing Regulation of the Central Bank no. 2009-03.

One of the major criticalities encountered in 2011 was the decision - notified by Iccrea Banca in May - to terminate the agreement that ensured the settlement services to six banks of San Marino. The Central Bank reacted immediately and started to assess the availability of another "settling" institution (ICBPI) to provide its services also to the other banks of the system. Last summer, following continuous contacts and in agreement with the banks and the Bankers Association of San Marino, a new agreement was executed - between October and November 2011 - which ensured operational continuity to the banks being migrated.

This is an important and by no means simple target, also in light of the contractual amendments finally introduced according to which - in case of termination - a minimum prior notice of at least 9 months is required (compared to the previous term of 3 months) as well as, in any case, the obligation for the Italian settling bank to continue providing its payment services to the banks of San Marino until the moment when the migration to another institution of the same kind will be completed.

In a scenario of greater stability in the relations, the attention is focused on the ambitious target - which however may not be eluded - of aligning the standards of San Marino with those defined at European level within the SEPA context.

2.1.6.1 Coordination and Support Activities in the Relations with International Organisations

The process for the adjustment to the best international standards on banking and financial supervision, anti-money laundering activities and administrative and tax cooperation led to an intense activity in support of the preparation of documents and the participation to meetings with

representatives of supranational organisations (IMF, Moneyval and OECD) responsible for the validation of the different members states.

Starting from the participation of San Marino to the *Financial Sector Assessment Program* (FSAP) in November 2009, the cooperation with the International Monetary Fund has been consolidated, allowing the definition of common methodologies of analysis of the criticalities and vulnerabilities of the system. Both in the annual assessment report of 2011 and in that of 2012 some key points were identified on which the action of the Central Bank has been focused.

First of all, the progress made in the implementation of the recommendations expressed during the FSAP 2009, such as the strengthening of on-site supervisory activities, the review of the regulation governing bank secrecy, the strengthening of the independence requirements of the Central Bank, the measures in support of the banking system's liquidity, the introduction of a prudential regulation also with reference to the financial companies, the provision of rules for a healthy and prudent management of fiduciary companies, the enhancement of the cooperation relationships with the Financial Intelligence Agency, have been recognised.

On the other hand, some residual weak areas remain in the provision of qualified personnel for the Authorities and in the absence of any agreements that would allow the Central Bank to have access to external funding forms from other Central Banks, although this deficiency reflects the fact that San Marino is not a member of any supranational organisation.

Under the macro-prudential profile, the analysis conducted by the International Monetary Fund identified four main macro areas of risk, such as: the financial exposure to countries hit by recession belonging to the Euro area, the need of recapitalisation of the Cassa di Risparmio, the complicated relations with Italy that may jeopardise the growth potentials of San Marino, and the difficulties of the entities of San Marino to identify a new development model.

Box no. 5 - The execution of the new monetary agreement.

After negotiations initiated in Autumn 2009, on 27 March 2012 the Republic of San Marino entered the new monetary agreement with the European Union. Upon entry into force of the new monetary agreement - set for the first day of the month following the date in which both San Marino and the European Union will have mutually notified the completion of the respective procedures on this issue - the current monetary agreement related to the use of the Euro, which was executed on 29 November 2000, shall cease to have effect.

The content of the new agreement is considerably wider compared with the previous agreement of 2000. The new monetary agreement, in addition to reconfirming the right of San Marino to use the Euro as its official currency and to regulate the aspects related to the issue and management of

coins in Euro by San Marino, establishes the commitment of the Republic to adopt a significant portion of the Community acquis in its laws and regulations with reference to five macro areas, namely: anti-money laundering, prevention of fraud and counterfeiting of the Euro, rules related to the coining of money and banknotes denominated in Euro, banking and financial laws and regulations, production of statistics. The macro area that will bring about the most significant changes and implications for the banking and financial system and the Supervisory Authority is, of course, that of the adoption of European laws and regulations governing banking and financial issues, which includes inter alia the Basel III and Mifid regulations (for a first analysis of the implications consequent to the agreement in question, reference should be made to box 2 of the report of the Central Bank of 2010).

The expected timetable for the implementation of such activities for the adoption of such laws and regulations is based on the structure and impact of the individual rules to be adopted. In any case, the maturities set are structured on three time frames: one year, four years and six years. As an indication, there are approximately some fifty legal acts of the European Union identified in the monetary agreement to be implemented in the laws and regulations of San Marino.

However, the universe of the regulations to be adopted is not static in time, given that the European Commission may on an annual basis, whenever deemed appropriate, review the set of provisions in order to take into account the regulatory evolution of the European Union and the amendments introduced to the acts in force. As regards to the new provisions that will be added from time to time, a mixed committee - comprised of representatives of the Republic of San Marino and of the European Union (in turn, comprised of representatives from the European Commission, the Italian Republic, the Central European Bank) - shall set appropriate and reasonable terms for their adoption by San Marino. It is worth noting that such mixed committee has also the responsibility to examine the measures adopted by San Marino and, in exceptional cases, to modify the terms for the adoption already set.

The new monetary agreement determines, therefore, a process for the regulatory convergence of the financial system of San Marino toward the European Union, although as of today it does not recognise any "European passport" to intermediaries or products from San Marino. The transposition of a significant portion of the Community acquis in the legal system of San Marino and the consequent greater harmonisation of the financial system of San Marino with the European system represent in any case a necessary precondition - although obviously not sufficient - in view of achieving a greater integration with the single market or with the individual markets of the countries of the European Union.

For the purpose of facilitating the implementation of the regulations of the European Union within the framework of San Marino, the implications of which exceed the scopes of the financial system, since they affect several institution of the State, the agreement recognises the right of San Marino to request the technical assistance of the entities that comprise the delegation of the European Union, i.e., as mentioned above, the European Commission, the Italian Republic and the European Central Bank.

The new monetary agreement defines the institutional and regulatory framework that will be assumed by the financial system of San Marino in the next few years, within the perimeter of which the activities of the intermediaries and the action of the Supervisory Authority will be carried out. Obviously, the operating environment that will emerge as from the next few years following the transposition of the aforementioned Community acquis in the legal system of San Marino, will bring about changes of a considerable scope, of a macro-economic nature on the overall configuration of the financial system and of a micro-economic nature on the management of the processes in the individual intermediaries. This possible scenario represents, on one hand,

the basis on which the individual intermediaries will be asked to define their corporate strategies and, on the other hand, a guideline for the planning activities of the Supervisory Authority for the next few years.

In view of this, the Supervisory Authority will start a further and in-depth review of the provisions currently in force, especially of those related to the supervision activities, through a continuous and gradual process that will continue for several year. In addition to the regulatory activities, the transposition and adoption of the aforementioned Community regulations will entail the implementation of many new processes, with the likely review also of the technical-IT related infrastructures used so far.

2.1.7 Controls over the Banking and Financial System

2.1.7.1 Off-site Controls

In 2011, the activities for the analysis of the corporate situations of banks and financial companies continued , an the same did their monitoring for the main purpose of assessing the ability of the intermediary to achieve satisfactory economic, financial and capital assets in compliance with supervisory prudential regulations and, in general, with the principle of a healthy and prudent management, taking into account the consistency of the organisational structures of the supervised entity as regards to size and risks, as well as to the effectiveness of internal control procedures.

The monitoring of the technical profiles made it possible to prevent potential critical situations, in terms of capital adequacy and risk curbing, of organisational structures, profitability and liquidity profiles.

In 2011, Regulation no. 2011-03 “Regolamento dell’attività di concessione di finanziamenti (società finanziarie)” (Regulation of the lending activities (financial companies)) and Circular no. 2011-01 “Obblighi informativi periodici delle società finanziarie in materia di vigilanza prudenziale” (Periodic information requirements for financial companies with regard to prudential supervision) were issued: this led to a significant effort aimed at verifying the adjustment of the intermediaries to the new regulations. In cases where the authorised entity decided to cease to carry out the reserved activities, the supervisory activity included the monitoring of the processes for the transformation and/or liquidation of the company, so that the exit from the market would have occurred in a framework of orderly transformation and/or voluntary liquidation, without any inconvenience or damages for the clients.

The off-site supervision interventions were carried out assessing the specific situation of the supervised intermediaries. The resulting supervisory actions was, therefore:

- Of a preliminary type, linked to actions aimed at finding the information necessary to the control activities. These actions allowed in-depth analyses on the operations of the intermediaries, preparatory to the corrective measures, and aimed at verifying the removal, by the supervised entities, of any malfunctions and irregularities emerged during previous inspections.
- Of a precautionary type, aimed at prompting the adoption, by the supervised entity, of measures capable of preventing the deterioration of technical profiles.
- Of a corrective type, when the interventions require the adoption of specific corrective actions that the supervised entity must implement in order to remedy any anomalies related to the deterioration of technical profiles (e.g., organisational, capital, profit and financial profiles).

In 2011 there have been 367 off-site supervisions of the preliminary, precautionary and corrective types carried out on the authorised persons (banks, financial/fiduciary companies, insurance companies, management companies and investment companies). In the first quarter of 2012 a total of 22 of such interventions were registered.

The following table specifies the off-site supervision interventions broken down by purposes (precautionary, preliminary and corrective) carried out on banks and financial/fiduciary companies during 2011 and in the first quarter of 2012.

Table no. 18 - Interventions of off-site supervision

Type of intervention	Banks (2011)	Banks (1st quarter 2012)	Financial companies Fiduciary Companies (2011)	Financial companies Fiduciary Companies (1st quarter 2012)
Preliminary	145	9	129	5
Precautionary	29	1	7	1
Corrective	21	4	39	3
Totals	195	14	175	9

Source: Central Bank.

The foregoing is related to only a portion of the off-site supervisory activities carried out vis-a-vis authorised persons. During the period between 1 January 2011 and 31 March 2012, the following communications were, inter alia, released:

- 383 related to inspections.

- 129 of a regulatory nature, with reference to the interpretation of rules, replies to questions of different nature, release of regulatory acts.
- 332 resulting from relations maintained with other authorities.
- 154 related to sanctioning procedures and to the imposition or dismissal of the sanctions.
- 179 related to extraordinary proceedings such as the suspension of the administrative bodies, extraordinary administration, forced administrative liquidation and the suspension of payments.

In 2011, the off-site supervision activity was focused in particular on the monitoring of the trend in the severity measures (suspension of administrative bodies, extraordinary administration, forced administrative liquidation), in light of the considerable increase in the number of such procedures, which rose from 3 in 2010 to 11 in 2011, (dedicated box no. 6). This led to a significant increase of the authorisation processes of the bodies involved in the procedures as well as in the activities aimed at identifying solutions for the corporate crises still pending.

In 2011, also due to the increase in the inspection activities of 2010 and to the general strengthening of the procedures for the control over the activities of the intermediaries, and following the progressive completion of the regulatory framework especially as regards to financial companies, 64 sanctioning processes were concluded, 15 of which were initiated in 2010 (box no. 6).

Box no. 6 - Sanctioning procedures.

Premise

In 2011, also due to the strengthening of the procedures for the control over the activities of the intermediaries and to the gradual completion of the regulatory framework, there has been a proliferation of the sanctioning procedures initiated by the Central Bank against corporate representatives (Directors, Statutory Auditors, CEO) and auditing companies of banks and financial companies, pursuant to the Decree no. 76/2006.

In 2011, the sanctions were imposed mainly due to the violation of the prudential supervision regulations, especially as regards to the prescriptions on the subject of organisational and internal control structures.

Procedures initiated and sanctions imposed

64 procedures were concluded in 2011, including those started at the end of 2010, and involved 6 intermediaries (2 banks and 4 financial companies). In one case, the proceeding was initiated but not concluded due to the death of the intended subject of the sanctions to be imposed; in three cases the initiated procedures were dismissed following an in-depth review of the counter deductions of the persons subject matter of the allegations.

In four proceedings, the payment has been made by the intermediary jointly and severally liable, pursuant to art. 141, sub. 3 of the LISF and to art. 23 of the Decree no. 76/2006.

The monetary sanctions overall imposed amounted, as at the end of 2011, to Euro 555,000, Euro 170,000 of which have been actually collected for the account of the Most Exc. Chamber. The payment of the remaining amounts and the possible enforced collection, or the payment by the person jointly and severally liable are suspended by virtue of the challenges filed in court against the procedures by 34 intermediaries affected by the aforementioned sanctions, 5 of which have been dismissed following the waive to the action, whereas the remaining 29 have not been defined yet.

To this regard, it should be noted that, within the context of some of the aforementioned litigations still pending, a question of constitutional legitimacy has been raised which has not been regarded as clearly ungrounded by the competent Court. In brief, it has been claimed that art. 141 of Law no. 165/2005 is in contrast with the Declaration of the rights of the citizens and with the fundamental principles of the legal system of San Marino, in the part in which the aforementioned art. 141, although it defines as "judicial" the administrative appeal against the administrative measure of the sanction imposed by the Central Bank, in referring to art. 34 of Law no. 68/89 excludes, de facto, the possibility for the claimant to rely on a two level jurisdiction, since the decision on the appeal is assigned to the Administrative Court of Appeal as a Court of first and final instance.

Having said this, the Central Bank, during the month of November 2011, pending the decision of the Supreme Council of Guarantors (*Collegio Garante*), duly suspended the start of the other sanctioning procedures, completing only the few procedures started before the constitutional legitimacy issue had been raised.

However, on 30 January 2012, with the Decision no. 1, the Council of Guarantors for the Constitutionality of Rules declared definitively ungrounded the issue raised about the aforementioned art. 141 of the LISF, establishing that, inter alia, "*no violation of the equality principle may be identified in the provision of the law that admits the administrative legal proceedings in a Court of first and final instance against the sanctions imposed by the Central Bank, given that the form and the terms of the protection in question are equivalent to those envisaged in the legal system for all sanctioning measures issued against administrative violations*".

Assessment parameters in the imposition of administrative monetary sanctions

The regulatory framework guaranteed by Law no. 165/2005 and by the Decree no. 76/2006:

- a) Governs the administrative procedure and the relevant terms for appeal and the actual imposition of the sanction.
- b) Provides the parameters which must be followed by the Supervisory Authority as regards to the amount of the sanction, providing that the amount of the individual sanction is set by the supervisory authority also in consideration of the existence of more than one violation of the sane provision or of violations of different provisions committed with one single act or omission, of the reiteration of the illegal conduct as well as of any other element from which the seriousness of the offence may be inferred.

Having considered the procedural regulatory requirements and the requirements for a correct determination of the sanction to impose, mentioned above, the Central Bank, in the performance of the sanctioning activities, takes into account, as is true for any other sector of activity characterised by more or less wide margins of "administrative discretion", also the internal limits of reasonableness, consistency, in-depth investigation and adequate reasons of the administrative action, by applying well identified parameters and/or elements of evaluation, the main of which are the following:

- Verification of the validity and soundness of the charge to be made, through the correct identification of the violated rule and the possibility to prove the breach attributable to the person being sanctioned.
- Assessment of how long the person being sanctioned has been holding the office of corporate representative (in order to be considered responsible for the irregularities, the person being sanctioned must have held the office for an appropriate period of time, or the conducts and/or resolutions must have been carried out/adopted during the period when such person was in office).
- In depth analysis of the counter-deductions expressed by the person being indicted, and subsequent specification, in the reasons underlying the sanction, about the admission or rejection of such counter deductions, with the indication of the reasons why they are regarded as satisfactory or non-satisfactory (or partially satisfactory).

2.1.7.2 Inspections

The first half of 2011 was characterised by the consolidation of supervisory inspection activities, while in the second half of the same year the On-site Supervision Service was considerably involved in activities of an extraordinary nature, which prevented the completion of the audits envisaged in the inspection plan.

As usual, the inspection plan has been prepared based on the information that evidences a higher exposure of certain intermediaries to the aggregate of credit, financial, liquidity, operational and money laundering risks and with the aim to ascertain the level of exposure to such risks, the governance systems and the risk control procedures, the level of capitalisation and the ability to produce income, in compliance with the principles of a healthy and prudent management.

The activities carried out in 2011 entailed 24 accesses overall (virtually in line with the figure of 2010), of which: 5 general accesses (1 bank and 4 financial companies), 11 sector-related accesses (9 banks and 2 financial companies) and 8 specific accesses for the account of the Court Authorities (3 banks, 4 financial companies and 1 asset management company).

Within this context, 16 accesses were carried out for supervisory purposes (of a general as well as sector related nature, representing over 60% of the total, in line with the figure of 2010).

There have been 12 non-planned inspections, 4 of which were related to intermediaries which had already been inspected in 2010, while 8 were based on specific relations with customers for the purpose of supplementing the results of other inspections.

Three supervisory inspections have been conducted together with the AIF, on the basis of certain agreements for the preliminary phase prior to the initiation of the audits, thus achieving the desired target of enhancing the efficiency of the controls. The performance of joint inspections has

also led to the reduction in the number of reporting of suspicious transactions made by the Central Bank to the AIF.

Table no. 19 summarises the accesses for institutional purposes executed in the three-year period (2009-2011) with reference also to the first quarter of 2012, as well as the man-days spent to carry out the activities.

Table no. 19 – On-site supervision accesses and their impact in terms of man-days

Year	Entity	Total inspections	of which: general inspection(s)	of which: sector-related inspection(s)	of which: specific inspection(s)	No. Man-days
2009	Banks	7	0	3	4	561
	Financial companies	14	2	1	11	
	Other	1	1	0	0	
	Totals	22	3	4	15	
2010	Banks	6	1	1	4	1,207
	Financial companies	15	10	1	4	
	Other	2	0	1	1	
	Totals	23	11	3	9	
2011	Banks	13	1	9	3	1,243
	Financial companies	10	4	2	4	
	Other	1	0	0	1	
	Totals	24	5	11	8	
2012*	Banks	1	0	0	1	78
	Financial companies	2	1	1	0	
	Other	0	0	0	0	
	Totals	3	1	1	1	

Source: Central Bank.

Notes: * Data as of 31/03/2012.

As regards to the activities carried out during the first half of 2011, a general inspection carried out at a bank is worth noting, which engaged the department for approximately 5 months, due to the complexity and unreliability of the environment under inspection. The operational anomalies detected gave rise to further activities and to sector related inspections which involved other intermediaries.

The second half was characterised by a series of burdensome activities delegated by the Court Authority, which absorbed 42% of the staff of the department, both by way of in site activities acting as judicial police, and by means of off-site activities aimed at providing the Court Authorities with information in support of their investigations; for a more detailed explanation of the activities carried out for the Court, reference should be made to section 2.5.2.

The trend in the use of the resources within the context of activities in support of the Court Authorities is confirmed also in the first three months of 2012, and therefore in this period only one general inspection could be carried out at a financial company and one specific inspection (whilst a sector related inspection started at the end of 2011 is still in progress). Against this

backdrop, the target set, i.e. to close the first cycle of audits at the banks of San Marino not later than by 31 December 2012, appears to be impossible to achieve.

With reference to the inspections conducted, the lasting of criticalities related to the inadequacy of the corporate governance and of the internal control procedures is worth noting, which led to the exposure of the intermediaries to situations of conflict of interest, in particular between corporate interests and the interests of the shareholders and/or representatives, to deficiencies in the management of credit, liquidity, legal (specifically with reference to the money laundering risk) and reputational risk.

The irregularities detected following the inspections carried out, led to the adoption of severity measures whose details are shown in the dedicated box no. 3.

In 2011 and in the first quarter of 2012, 24 criminal complaints were transmitted to the Court Authorities.

With reference to the relations with AIF, in compliance with Law no. 92/2008, art. 14, and in accordance with the Memorandum of Understanding entered into between the Central Bank and the Financial Intelligence Agency, during the same period, there have been 43 reportings.

2.2 MANAGEMENT OF COUNTERFEITED EURO BANKNOTES

Pursuant to Regulation no. 2010-02 “Regolamento per il ritiro dalla circolazione di banconote e monete in euro sospette di falsità” (Regulation for the withdrawal from circulation of banknotes and coins in Euro, suspected of being counterfeited) the Central Bank, in its role of Currency Authority and guarantor of the payment system, performs the service for the withdrawal of banknotes and coins in Euro, counterfeited or suspected of being counterfeited, and transmits them to the competent Authorities for the appropriate controls and for the intelligence activities.

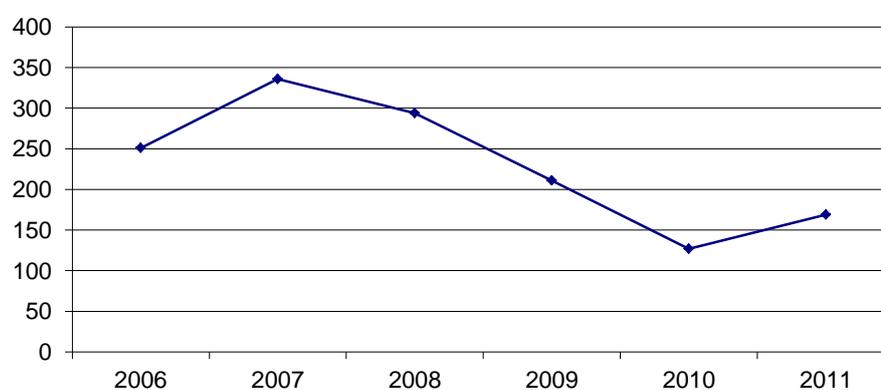
The above mentioned Regulation, which came into force on 1 January 2011, is applicable to all persons who manage or distribute cash within the context of their profession, thus aligning the regulations of San Marino with the most recent European directives to combat this phenomenon, and with the procedures applied by the other countries that use the Euro. Banknotes and coins in a currency other than the Euro are transmitted, by the professional traders mentioned above, directly to the Interpol of San Marino.

The Central Bank intensified the cooperation with the competent Italian Authorities for the purpose of harmonising the management of banknotes and coins in Euro suspected of being counterfeited, in line with the developments resulting from European regulations.

The tables below summarise the most significant data of the activities carried out in 2011 together with their comparison with the data of the previous years.

In 2011 169 banknotes in Euro were withdrawn from circulation and later recognised as being counterfeited, up by 33.1% if compared to the previous year (127 banknotes recognised as counterfeited in 2010), which partly reflects the widening of the number of persons who are required to comply with the Regulation.

Figure n. 18-Number of counterfeited banknotes: comparison of the data for the years 2006-2011

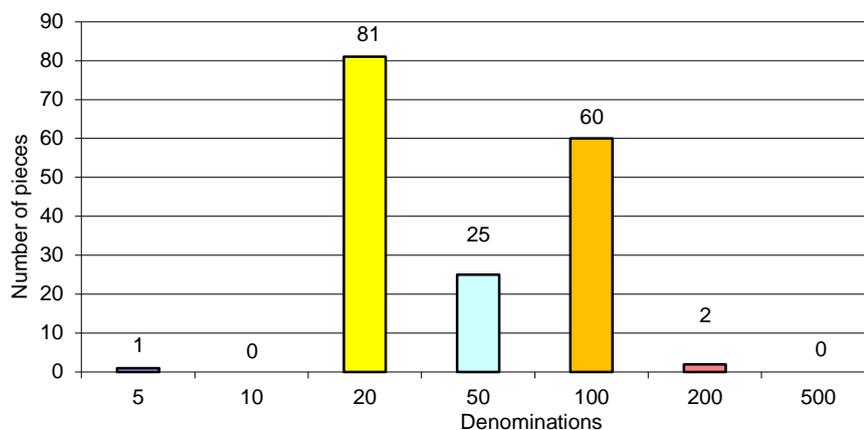


Source: Central Bank.

The increase registered in 2011 is evidenced also in Italy, where the total increase in the period 2011-2010 is of 5.3% (145,879 banknotes in 2011 against 138,559 banknotes in 2010).

The most counterfeited denomination is that of the 20 Euro banknotes (81 units, 47.9% of the total), followed by the 100 Euro banknote (60 units, 35.5% of the total) and the 50 Euro banknote (25 units, 14.8% of the total).

Figure no. 19 - Counterfeited banknotes withdrawn in 2011: breakdown by currency

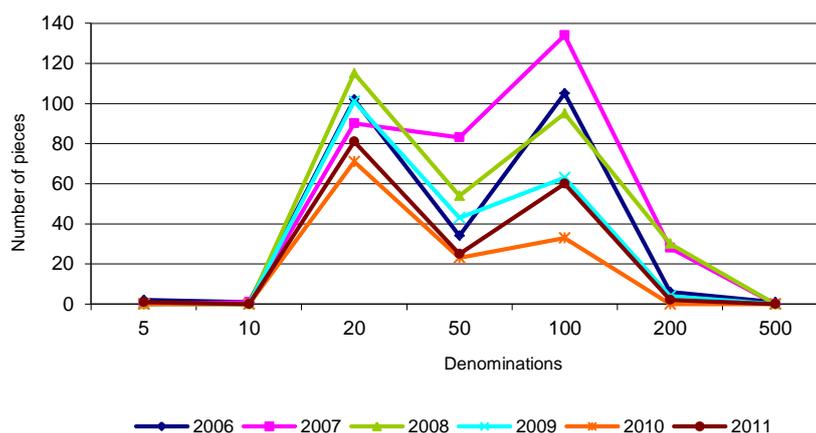


Source: Central Bank.

The distribution evidences that the denominations of 20, 50 and 100 Euros represent 98.2% of the total of banknotes counterfeited, compared with 99.2% in 2010.

The counterfeited banknotes withdrawn in the period 2006-2011 confirm a concentration on the denomination of 20, 50 and 100, as evidenced in the figure no. 20 below.

Figure n. 20-Denomination of counterfeited banknotes: comparison for the years 2006-2011



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Source: Central Bank.

Also in Italy the greatest number of banknotes withdrawn is that of the 20 Euro banknotes (56.9% of the total), followed by the 100 Euro banknote (21.7% of the total) and the 50 Euro banknote (18% of the total).

2.3 CASH PROCUREMENT

The demand for cash by the banking system of San Marino has been managed by the Central Bank through the service for cash procurement from Italy. This service has been performed by the Central Bank since 2008, in compliance with the procedures identified that year in cooperation with the competent Italian Authorities and in full compliance with the internal and European regulations from time to time in force as regards cash transfers.

The demand by the banking system registered a significant decline from the previous year, equal to 55.3%, in line with the directions of the Central Bank to limit the use of cash.

The Central Bank, within the performance of such service, is not supplying denominations of 500 Euros to the banking system of San Marino since 2008; additionally, as from the second half of 2011, the supply of the denomination of 200 Euros has been drastically reduced.

The supply of cash to the banking system is governed by a specific internal regulation of the Central Bank, subject to periodic updates aimed at enhancing the efficiency of the service, reducing operating risks and, thanks to the cooperation with the Police, maintaining high levels of security.

Pursuant to the EC Regulation 1889/2005 and to the Delegated Decree no. 74 dated 19 June 2009, as subsequently amended and supplemented, the persons in charge of the transportation of cash fulfilled the formalities required by the regulations of the respective countries involved, as regards to the obligation to provide the competent Authorities with the declaration of transportation of cash for an aggregate amount equal to or in excess of the countervalue of Euro 10,000.

2.4 THE TRUST REGISTER

2011 was the first full calendar year of the trust register held by the Central Bank, given that it was transferred from the *Ufficio Industria, Commercio e Artigianato* (Industry, Handicraft and Trade Office) on 14 April 2010.

As already mentioned in the annual report of 2010, in which it was specified that the number of new trusts registered was 21, the growing trend of the new entries in the trust register

was confirmed also for year 2011, when the number of new trusts registered was 24, thus bringing the total number at the end of the same year, net of those removed from the register, to 56 units.

In 2011, the Trust register Office, created within the Central Bank with the use of employees already allocated to another Department, has been involved in the ordinary activities for the registration of the trusts, recording of amendments, cancellation and release of certifications, as well as in extraordinary activities of analysis and processing of data and texts regarding the conclusion of the IV round of assessment of the Moneyval and the I round of assessment of the GRECO.

2.5 THE COOPERATION WITH THE SINGLE COURT

2.5.1 The Preparation of Expert Reports

Since 2007, the Single Court entrusts the Central Bank with the task of preparing expert reports as Court Appointed Expert (*Consulente Tecnico d'Ufficio* or CTU).

In 2011, 5 new tasks as expert were assigned, whose performance required approximately 120 man-days due to the specificity of the subject and the analysis and study efforts needed.

This activity, as it happens in other environments, might effectively be outsourced to professionals or other persons, and continues to take away qualified resources from the Central Bank for the fulfilment of its statutory tasks; as represented in more than one occasion to the competent Authorities, this creates an inappropriate overlapping of the role of CTU in proceedings that involve supervised entities, with the role of Supervisory Authority.

2.5.2 Activities as Judicial Police under art. 104 of the LISF

Pursuant to art. 104 of the LISF, the Court Authorities may avail themselves of the cooperation of the Central Bank for the performance of Court investigations, to be conducted both by means of in-site inspections and through other activities of a preliminary nature.

In 2011 this cooperation led to 8 accesses at the supervised entities (indicated in table no. 19 as specific inspections) and in the performance of 23 preliminary investigations.

The increase in numbers meant also an increase in workloads in terms of resources used, as evidenced in table no. 20 below.

The absorption of the resources of the On-site Supervision Service in terms of man-days into activities performed as requested by the Court Authorities represented 27% of total in 2011, with a peak of 42% in the second half of the year, due to the burdensome activities performed related to banking and financial intermediaries, also with reference to the investigations on facts in which forms of organised crime might be involved.

As mentioned in section 2.1.7.2 above, this trend is confirmed also in the first three months of 2012; the works on behalf of the Court Authorities, in fact, almost entirely absorbed the resources available in the first half of the quarter, and approximately 50% in the second half, for a total of 75% of the total resources of the Department as at 31 March 2012.

Table no. 20 - Impact of workloads for the activities requested by the Court Authorities

Year	Inspections in site	Inspections information inspections	Total	% of man-days **
2009	12	13	25	28%
2010	9	8	17	9%
2011	8	23	31	27%
2012*	1	23	24	75%

Source: Central Bank.

Notes: * Data as of 31/03/2012.

** Compared with the human resources available in the On-site Supervision Service.

2.5.3 Criminal Seizure of Amounts and Valuables pursuant to art. 37 of the Decree-Law no. 134/2010 and other Forms of Cooperation

In 2011, also due to the effect of the intensification of criminal investigations within the banking context, the cooperation requested from the Central Bank in the form of technical opinions with reference to the seizures made at the supervised entities has grown significantly, both in quantitative terms as well as in terms of complexity of the problems to be assessed. The regulation in question is not very clear as regards to the role and responsibilities of the Central Bank, since the latter has not the possession of the seized valuables.

2.6 CURRENCY- RELATED ACTIVITIES AND PAYMENT SYSTEM

The Central Bank performs the role of Currency Authority of the Republic of San Marino and controls the application of currency related provisions pursuant to art. 36 of its Articles of Association; furthermore, it also has the power to authorise the other credit institutions of San

Marino to perform currency and/or foreign exchange transactions, pursuant to art. 2 of Law no.41 dated 25 April 1996, in compliance with the limits and conditions provided for in art. III.V.12 of Regulation 2007-07, “Regolamento della raccolta del risparmio e dell’attività bancaria” (Regulation on fund raising and on the banking business).

The banks authorised to carry out currency activities may apply to be included in the SWIFT¹⁶ network, subject to the prior authorisation of the Central Bank, pursuant to Regulation 2007-07.

In 2011, the number of banks of San Marino authorised to carry out currency and/or foreign exchange transactions directly with foreign counterparties declined to 10, since, with the measure date 11 October 2011, the Central Bank ordered the withdrawal of the authorisation to exercise reserved activities to one of the authorised banks.

The currency regulations provide for the issue of "*Comunicazioni Valutarie Statistiche*" (Statistical reporting on foreign currency transactions, or CVS) for foreign transactions carried out through resident banks for an amount equal to, or in excess of, Euro 15,500, as specified in points 3 and 3.1 of the rules and scheme for the reporting of the CVS (Communication no. 1/2000 dated 11 July 2000).

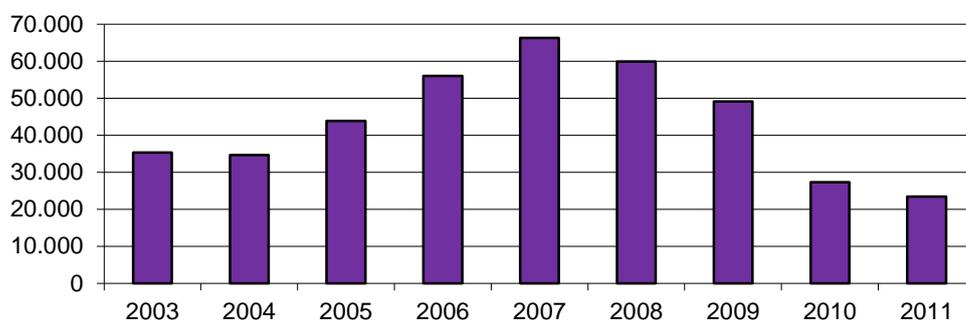
In 2011, the authorised banks of San Marino transmitted on a monthly basis the CVSs to the Supervisory Authorities through the Rete Interbancaria Sammarinese (San Marinense Interbank Network or RIS)¹⁷.

The flows transmitted by the banks to the Central Bank in the period 2003-2011 are represented in figures no. 21 and 22.

¹⁶ SWIFT (Society for Worldwide Interbank Financial Telecommunications): electronic network for the processing of international financial transactions. Created and managed by banks, it is accessible by any organisation the activities of which consist in the provision of financial and payment services to the public.

¹⁷ RIS (Rete Interbancaria Sammarinese): electronic network of which all banks are members, ensuring the interbank communications in San Marino, protected by particular security systems, compliant with the appropriate certification techniques; its function is to allow the exchange of electronic data between its users, in compliance with adequate security, confidentiality, integrity, authenticity, timeliness, reliability and efficiency standards.

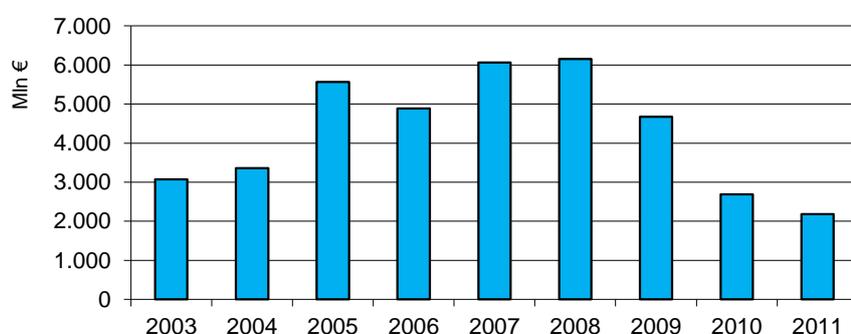
Figure no. 21 - Total flows (number of CVSs)



Source: Central Bank.

In 2011 a decline by 14.3% was registered compared with 2010 (figure no. 21) with reference to the number of CVSs received from the banks, which totalled 23,409 against 27,312 CVSs in the previous year, and a decrease in the size of the amounts settled from Euro 2,688 million to Euro 2,181 million, which represents a drop of 18.9% (figure no. 22).

Figure no. 22 - Amounts settled by the banking system of San Marino



Source: Central Bank.

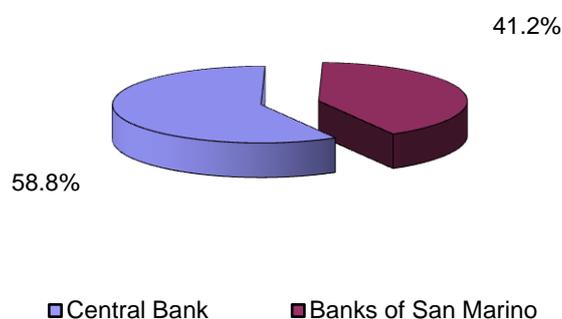
The requirements resulting from the accession of San Marino to the International Monetary Fund, include the reporting to such organisation by the Central Bank, and for this purpose, the Bank transmitted the quarterly reporting of the statistical data of the *Currency Composition of Foreign Exchange Reserves* (COFER) and the annual reporting related to the *Annual Report on Exchange Arrangement and Exchange Restrictions* (AREAER).

In compliance with its Articles of Association, the Central Bank also performs the function of managing, regulating and supervising the payment system of the Republic, as these activities are aimed at ensuring the complete, functional and efficient access to the national payment system by the banks of San Marino.

The national payment system registered an increase in the number of payment transactions by 0.2% against a reduction by 17.5% in the overall value of the amounts settled.

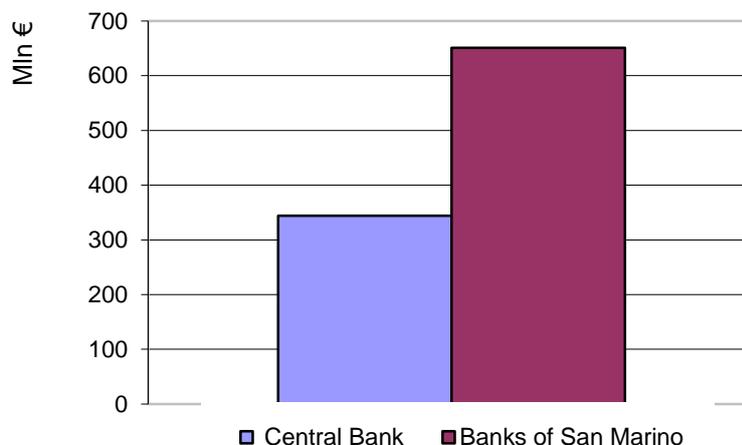
In 2011, the banking system transmitted approximately 327,000 national wire transfers, for an amount of Euro 995 million. It should be noted that the percentage impact of the number of national wire transfers transmitted by the Central Bank, compared with the overall volume of national wire transfers, reflects the specificity 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), as the latter are characterised by a high number of transactions for small amounts.

Figure no. 23 - Breakdown of national wire transfers transmitted



Source: Central Bank.

Figure no. 24 - Amounts settled by national wire transfers



Source: Central Bank.

Compared with the previous year, there has been an increase by 2.4% in the number of wire transfers transmitted on the national network, and a decline in the amounts by 14.3%

The use of the national Direct Debit instrument continued its positive trend from the previous year, as a consequence of the agreements reached mainly with the Azienda Autonoma di Stato per i Servizi Pubblici (Autonomous state-owned public services company). In 2011 297,000 orders were registered, for an aggregate of approximately Euro 58 million; the increase compared with 2010 represents 2.1% of the Direct Debits transmitted by the Central Banks to the banks of San Marino and 0.3% of the amounts settled.

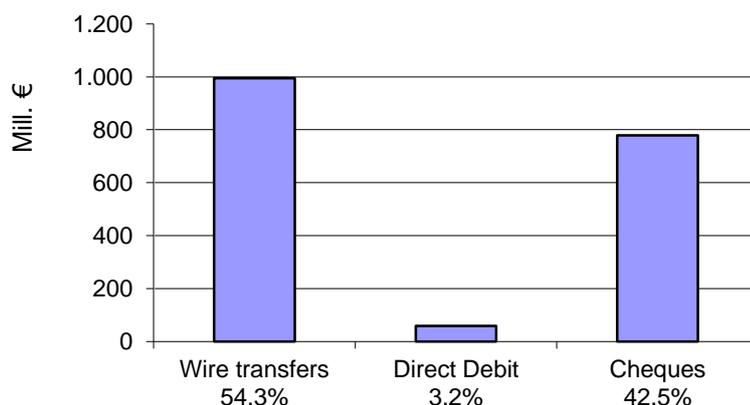
In compliance with Regulation no. 2007-04 as subsequently amended, known as "Regulation on the service of exchange of *"recapiti domestici"* (SRD)", the Central Bank performed the two-fold role of member and manager of such service, ensuring to the banks of San Marino the correct satisfaction of timing and methods provided for the exchange of debt securities, documents and correspondence.

In particular, the exchange of national cheques negotiated and drawn on the banks of San Marino, has been actively managed by the Central Bank, since in addition to the exchange of the actual cheques traded, the validation of the electronic exchange of accounting flows and images through the RIS is also provided for, as a condition required for the authorisation by the Central Bank to the execution of the daily exchange.

The national cheques exchanged within the context of the SRD service, in 2011, totalled approximately 296,000 units for a value of Euro 779 million; down by 3.9% in numbers and by 22.3% in terms of value.

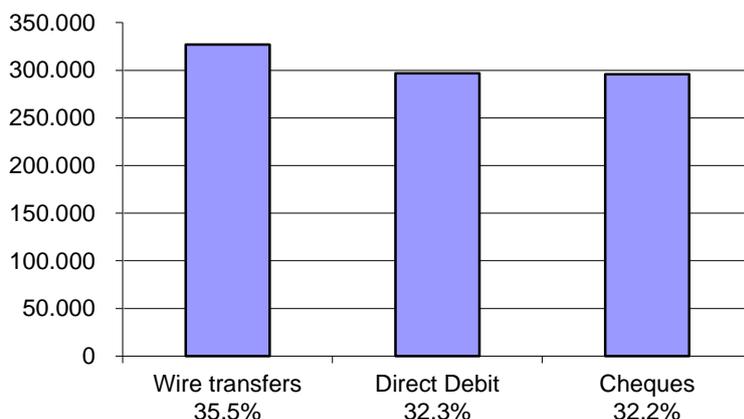
Figures no. 25 and no. 26 indicate the value and number, respectively, of the payment instruments settled by means of bank transfers, Direct Debit and cheques processed during the year through the RIS, as well as the percentage by type on the total of orders processed.

Figure no. 25 - Amounts settled by wire transfers, Direct Debit and cheques



Source: Central Bank.

Figure no. 26 - Number of orders settled by wire transfers, Direct Debit and cheques



Source: Central Bank.

With reference to the Data Archive established with the Supervisory Authorities pursuant to the Decree-Law no. 65 dated 14 May 2009, it should be noted that the banks of San Marino have been secured the possibility to continue to feed such archive by means of the transmission to

the Central Bank of the information flows processed by the RIS application system known as "File Transfer".

This archive contributed to guarantee to the banks of San Marino seamless access to the Italian payment system, taking into account the need for the Italian counterparties to verify the customers of the banks of San Marino in case of transactions settled on the Italian payment system.

The complete interbank accessibility of the Central Bank at an international level has been secured by the participation to the SWIFT system, through which it may access also the payment system TARGET2, gross settlement system of which the Central Bank has automatic access through the Bank of Italy, as a CB Customer (Customer of the Central Bank).

Pursuant to art. 51 of Law no. 165 dated 17 November 2005 (LISF) as subsequently amended, the Central Bank performed the service of providing information on protests, which consists in the aggregation of the data provided on a monthly basis by the banks of San Marino as regards to cheques protested in the calendar month of reference, and in the transmission of the report with the same frequency to all banks and financial companies of San Marino.

Box no. 7 - The single Euro payments area (SEPA).

In 2011 the Central Bank monitored the developments on the question of SEPA (*Single Euro Payments Area*), for the purpose of analysing the specific features and the steps that San Marino must follow in order to access it, times and consequences of such accession. SEPA is a project promoted by the European Central Bank and by the European Commission, the realisation of which comes under the responsibility of the European Payments Council - EPC. Purpose of SEPA is to extend the process for the European integration to electronic retail payments in Euro executed with instruments other than cash (wire transfers and direct debits), with the aim to facilitate efficiency and competitiveness within the Euro area. The citizens, enterprises and public administrations of SEPA countries are entitled to make payments in Euro in favour of beneficiaries located in any country of the Euro area, using a single bank account and a set of standard payment instruments. SEPA considers all retail payments in Euro as domestic payments, without distinction between national and cross border payments within the area.

SEPA is characterised by a standardised legal basis, European infrastructures for the processing of Euro payments, common operating technical standards and practices, standardised payment instruments (wire transfers and direct debits) and new, continuously evolving, client-oriented services. As a consequence of the introduction of standards, open and common payment practices and rules, and through the integrated processing of the payments, SEPA should provide the users with secure Euro payment services, at competitive fees, easy to use and reliable.

Greater economies of scale, the increased operating efficiency and the strengthening of competition should lead to an optimised downward pressure on the prices of electronic payment services in Euro; the effect should become significant especially for those countries where payments are relatively expensive compared with other areas of the European environment.

With the EU Regulation no. 260/2012 dated 14 March 2012, the date of 1 February 2014 was introduced, inter alia, as the definitive End Date for the introduction of SEPA standards.

The aforementioned Regulation sets the requirements for the wire transfers (SEPA Credit Transfers) and direct debits (SEPA Direct Debits) in Euro, amends EC Regulation no. 924/2009, and provides for the disposal of the relevant national payment instruments.

In light of the importance of the new Community regulations and in view of its coming into force soon, also in consideration of the commitments assumed by the Republic of San Marino with the recent execution of the Monetary Agreement on 27 March 2012, it is essential that the system of San Marino gets ready to the new scenarios that the higher standardisation of rules and schemes in Europe will offer to the banks, in the provision of their payment services, and to all users, citizens, enterprises and to the Public Administration.

The Monetary Agreement expressly provides under art. 9 that: "Credit institutions and, if applicable, other financial institutions authorised to carry out their activities within the territory of the Republic of San Marino may access the interbank settlement and payment systems and the securities settlement systems of the Euro area in accordance with the procedures and conditions set by the Bank of Italy in cooperation with the European Central Bank".

In application of this provision and in line with the commitment that the Republic of San Marino assumed on the issue of the implementation of the regulatory system, the correct procedures must be identified, together with the competent Community authorities of reference, for the participation of the banking system of San Marino to the European payment systems with SEPA standards. On this issue, it seems to be essential to initiate a joint effort with the Italian authorities in order to define possible procedures and rules for the participation of the banking system of San Marino to the European payment systems, for the purpose of exactly identifying the scope of the adjustments.

The Monetary Agreement already identifies the European regulations of reference which must be implemented in order to comply with the single payment area and the relevant time frame for the implementation (this framework also includes the regulations currently being issued). For the system of San Marino, the offer of SEPA payment services within the European scenario could become strategic from as early as the End Date, subject to the prior implementation of all regulations and, at the same time, to the completion of the path towards the recognition as a SEPA country with the Community EPC authorities of reference, in line with the accession by all national banks.

The Central Bank continues to constantly follow the evolution of the situation, especially because of the impacts that the new Community regulations will have on the financial system and on the Public Administration. The strengthening of the system and the acceleration of the migration towards SEPA are essential for the definition of a regulatory framework, currently only partially aligned with the provisions of the Monetary Agreement, within the End Date of 1 February 2014.

The process for the adoption of SEPA standards mainly represents a systemic adjustment, demanded by the European authorities and by the stakeholders; consequently, regardless of any possible negative aspects (cost for regulatory adjustments, cost for infrastructural adjustments, reduction in bank margins, cost of adjustments for the Public Administration, etc.), there will be, for the countries members of the Eurosystem, considerable positive aspects that may not be ignored in the interest of the citizens, enterprises and, in turn, of the Public Administration itself.

2.7 THE REGISTER OF FIDUCIARY INVESTMENTS

The evolution of the regulatory framework as regards to the knowledge of the ownership structures of the companies incorporated under the laws of San Marino and the increasingly

greater relevance of the principle of corporate transparency at a national and international level, determined in the legal system of San Marino, on one hand, the abolition of "*società anonime*" and, on the other hand, the introduction of the Register of Fiduciary Investments (Archivio Partecipazioni Fiduciarie or APF), pursuant to Law no. 98 dated 7 June 2010.

The aforementioned law, which came into force on 23 June 2010, delegates to the Supervision Department of the Central Bank the receipt of the reports concerning the APF and related to the identity of the grantors and, if other than natural persons, of the relevant beneficial owners, concerning the investments held by fiduciary companies, of San Marino or foreign, in companies of San Marino.

In 2011, the cooperation was further intensified with the bodies in charge of the exchange of information, pursuant to Law no. 98 dated 7 June 2010 and of the Delegated Decree no. 179 dated 5 November 2010 (*Ufficio di Controllo e Vigilanza sulle Attività Economiche*, *Ufficio Centrale di Collegamento*, *Cancelleria Commerciale del Tribunale Unico* and *Ufficio Industria, Artigianato e Commercio*) as well as with the *Tribunale Commissariale - Sezione Penale* (Commissioner's Court - Criminal Section) and the Civil Police Force - Anti-fraud Centre, these last ones within the scope of criminal proceedings and/or because of international rogatory pursuant to art. 29, sub. 3 of the Law no. 96 dated 29 June 2005 (Articles of Association of the Central Bank).

Within this context, the cooperation agreement entered into in 2011 between the Central Bank and the *Uffici di Vigilanza sulle Attività Economiche* (offices for the supervision of economic activities) (*Ufficio di Controllo e Vigilanza sulle Attività Economiche* and *Ufficio Centrale di Collegamento*) has the main purpose of establishing forms of cooperation and channels for the access to the data and information contained in the APF, within the more general context of the protection of the image and reputation of the financial system of the Republic and combat of financial crime, in cooperation with the other Authorities in charge.

In particular, the cooperation with the offices in charge of the exchange of information allowed the latter, in some cases, to satisfy administrative cooperation requests promoted by the competent Italian Authorities, within the context of the exchange of information between Italy and the Republic of San Marino.

Table no. 21 summarises the data on the activities performed, with reference to the financial year 2011 and to the first quarter of 2012.

Table no. 21 - Activities carried out: requests and reports received

Reports/Requests	2011	31/03/12
No. of reports received	243	56
No. of requests for information with the Offices and Authorities in charge*	64	11

Notes: * Ufficio di Controllo e Vigilanza sulle Attività Economiche; Ufficio Centrale di Collegamento; Ufficio Industria, Artigianato e Commercio; Tribunale Commissariale Civile e Penale; Corpo Polizia Civile - Nucleo Antifrode.

Furthermore, in compliance with the provisions of art. 5 of Law no. 98/2010, for the purposes of the application of the administrative sanctions, the omitted reporting by one fiduciary company of an equity investment held in a company of San Marino has been duly reported to the *Ufficio Industria, Artigianato e Commercio* (Industry, Handicraft and Trade Office).

2.8 THE STATE TREASURY SERVICE

As provided for by Law no. 35 dated 3 March 1993, the Treasury Department of the Central Bank is responsible for the Single Treasury Service of the State.

This public service is regulated by the "*Ordinamento Contabile dello Stato*" (Accounting system of the State) as provided for by Law no. 30 dated 18 February 1998, by the Regulation on Accounting referred to in the Decree no. 53 dated 24 April 2003, as subsequently amended and supplemented. Additionally, the activity of the Single Treasury service is regulated by a specific Agreement entered into on 22 April 2004 between the Central Bank and the Public Administration, and by a specific Agreement with three year maturity.

In 2011, the Treasury Department carried out a total of 80,084 transactions, slightly up from the previous financial year. More in detail, 13,923 collection orders were processed, 20,028 pending in-flow entries, 44,884 payment orders and 1,249 pending out-flow orders.

In terms of volumes, the in-flows managed through the collection orders on behalf of State and Entities of the wider public sector¹⁸, amounted to over Euro 1,855 million, up by 33.6% compared with 2010.

The out-flows managed by means of the execution of payment orders amounted to approximately Euro 1,637 million. Compared with the previous financial year they registered an

¹⁸ The Most Excellent Chamber, Autorità per l'Aviazione Civile e la Navigazione Marittima, Azienda Autonoma di Stato di Produzione, Azienda Autonoma di Stato Filatelica e Numismatica, Azienda Autonoma di Stato per i Servizi Pubblici, Comitato Olimpico Nazionale Sammarinese, Ente di Stato dei Giochi, Social Security Institution, Università degli Studi (hereinafter referred to, in brief, as Entities).

overall increase by 54.6% that, as evidenced in the table below, mainly reflects movements of the *Azienda Autonoma di Stato per i Servizi Pubblici*.

Table no. 22- Volumes processed expressed based on the total amount of the instructions

Entity	2009		2010		2011*	
	In-flows	Out-flows	In-flows	Out-flows	In-flows	Out-flows
The Most Excellent Chamber	1,012,933,756.14	756,068,628.87	869,607,998.85	651,401,823.60	764,511,638.53	610,425,846.56
Autorità per l'Aviazione Civile e la Navigazione Marittima	882,443.13	255,041.94	1,008,334.62	534,825.88	835,450.36	466,811.33
Azienda Autonoma di Stato di Produzione	38,269,122.80	34,837,686.96	37,596,081.48	35,420,602.75	44,351,896.27	42,591,901.72
Azienda Autonoma di Stato Filatelica e Numismatica	30,641,824.90	26,987,080.52	22,612,936.05	18,950,816.94	24,883,995.90	23,828,917.33
Azienda Autonoma di Stato per i Servizi Pubblici	104,253,092.29	57,422,887.30	161,086,429.54	82,371,351.68	685,261,813.88	642,263,220.68
Comitato Olimpico Nazionale Sammarinese	6,911,576.44	6,134,382.18	6,674,452.46	5,777,749.91	6,947,779.64	6,240,256.53
Ente di Stato dei Giochi	306,702.24	104,135.55	543,192.15	341,124.47	483,927.78	282,236.13
Social Security Institution	355,220,732.53	317,597,035.13	281,858,051.66	257,746,812.55	320,280,484.03	304,652,012.86
Università degli Studi	6,992,989.62	5,789,137.39	7,516,378.69	6,188,069.69	7,721,610.39	6,195,246.71
Totals	1,556,412,240.09	1,205,196,015.84	1,388,503,855.50	1,058,733,177.47	1,855,278,596.78	1,636,946,449.85

Source: Central Bank.

Notes: *Figures updated as at 31/03/2012

Table no. 23- Volumes processed expressed based on the number of instructions

Entity	2009					2010					2011*				
	REV	PPE	MAN	PPU	Totals	REV	PPE	MAN	PPU	Totals	REV	PPE	MAN	PPU	Totals
The Most Excellent Chamber	5,641	11,883	12,295	440	30,259	7,067	12,183	11,999	543	31,792	6,737	13,403	11,711	527	32,378
Autorità per l'Aviazione Civile e la Navigazione Marittima	643	182	72	16	913	692	192	145	51	1,080	448	217	125	30	820
Azienda Autonoma di Stato di Produzione	445	243	6,765	63	7,516	463	258	5,956	67	6,744	512	334	5,904	72	6,822
Azienda Autonoma di Stato Filatelica e Numismatica	216	56	680	72	1,024	222	45	564	79	910	183	29	549	113	874
Azienda Autonoma di Stato per i Servizi Pubblici	1,730	1,647	5,874	387	9,638	1,659	1,156	5,961	118	8,894	1,501	1,109	5,795	154	8,559
Comitato Olimpico Nazionale Sammarinese	349	110	2,120	60	2,639	321	94	2,050	43	2,508	407	121	2,284	70	2,882
Ente di Stato dei Giochi	11	22	14	26	73	140	35	133	47	355	135	41	117	57	350
Social Security Institution	2,507	4,507	14,040	115	21,169	3,575	4,704	15,140	150	23,569	3,669	4,611	15,418	189	23,887
Università degli Studi	265	392	3,117	42	3,816	294	160	2,986	52	3,492	331	163	2,981	37	3,512
Totals	11,807	19,042	44,977	1,221	77,047	14,433	18,827	44,934	1,150	79,344	13,923	20,028	44,884	1,249	80,084

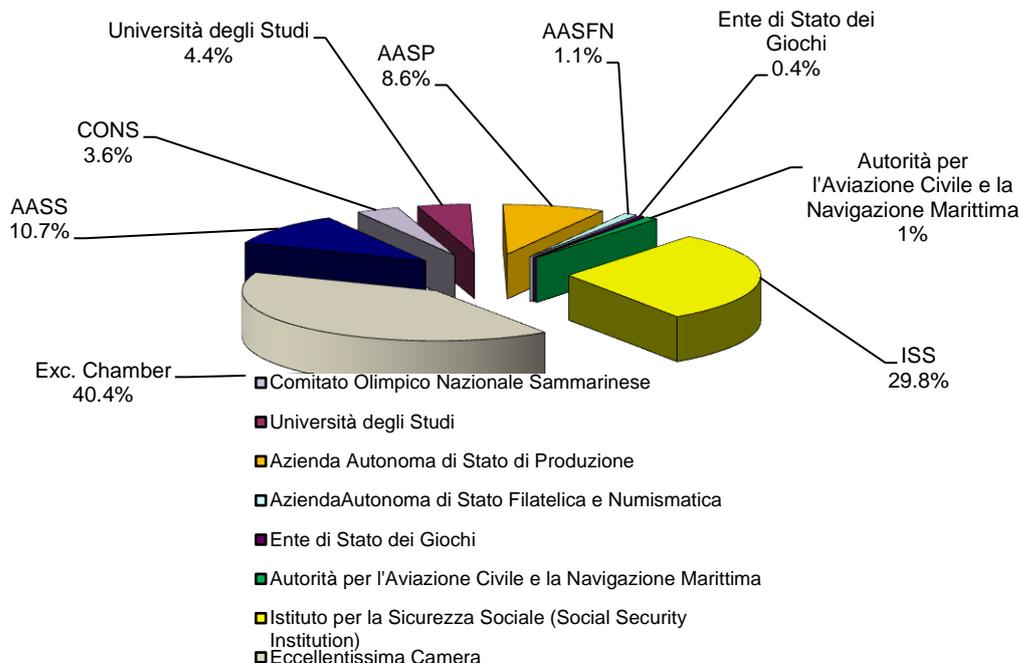
Source: Central Bank.

Notes: *Figures updated as at 31/03/2012

REV = Collection order, PPE = pending in-flow entries, MAN = Payment order, PPU = pending out-flow entries

Figure no. 27 below summarises the total of the collection and payment orders issued by each Entity in 2011.

Figure no. 27 - Number of orders: percentages broken down by Entity



Source: Central Bank.

In line with the previous financial years, also in 2011 the payment method preferred by the Entities vis-a-vis their beneficiaries has been the bank transfer, whereas the use of certified cheques was limited to specific cases.

To this regard, it is worth noting that in the last few years the Central Bank has implemented a sensitisation campaign directed to the users and to the Public Administration with the purpose of ensuring increasingly higher security and transparency standards in payments, consistently also with the recent provisions of anti-money laundering regulations.

The collection of inbound payments has been carried out through the entire network of bank branches present on the territory of San Marino; in fact, the Agreement entered into between the Central Bank and the commercial banks of San Marino on 24 February 2005, envisages that the payments due by the users to the Public Administration, Entities and Public Agencies may be effected at any bank branch present in the territory of the Republic.

The Direct Debit service has consolidated further since 2009 and has become more efficient, and now guarantees not only the payment of the utility bills of the Azienda Autonoma dello Stato per i Servizi Pubblici (Autonomous state-owned public services company), but also of all other utility bills, including those of the I.S.S., to the Direzione Scuole Elementari (Elementary Schools) and to the Scuole dell'Infanzia (Early Childhood Schools).

Also for the purpose of managing the financial flows linked to the project aimed at stimulating purchases within the Republic, named San Marino Card (SMAC CARD) use was made of the instruments of Direct Debit and bank transfer.

Some activities pertaining to the Overdue Tax Collection Department were managed at the office of the Treasury Department, specifically, the collections related to tax assessments overdue and the collection made by the Collection Officers within the context of enforcements. In 2011, 407 seizures have been managed in aggregate, related to payment orders, for which the Giudice Conciliatore, pursuant to Law no. 44 of 23 March 2007, and upon request from the Overdue Tax Collection Department, issued the specific decree against those persons who, at the moment of the settlement of the order, were in default vis-a-vis the State or its Public Entities for debts already assessed.

All the activities for the periodic reporting to the wider Public Administration have been carried out within the ordinary terms of law. In fact, the cash ledgers with the summary of in- and out-flows for each entity have been provided on a daily basis, whereas on a monthly basis the cash audits have been transmitted with the reconciliation of the volumes processed by the Treasurer and the balances of the bank current accounts on which the cash balances of the Entities are deposited, as well as the statements of account of such relations and the reconciliation statements between them and the cash ledgers.

2.9 THE STATE OVERDUE TAX COLLECTION SERVICE

2.9.1 Collection Activities

The Overdue Tax Collection Department is responsible for the State Overdue Tax Collection Service as regulated by Law no. 70 dated 25 May 2004 as subsequently amended. The Overdue Tax Collection Department is required to collect the taxes that the taxpayers did not pay upon maturity, pertaining to the Most Excellent Chamber, the *Aziende Autonome* (Autonomous state-owned public services companies), the Social Security Institution and, as from the year 2011,

also to the *Ente di Stato dei Giochi* (State Entity for Games), the Central Bank and the Financial Intelligence Agency

The competent offices of the wider public sector notify the list of taxpayers in arrears and the sums due by them through entry in the Roll. Each Roll is comprised of as many items as are the individual taxes, increased of sanctions and interest, if any, for which the Bank carries out the activities for their enforced collection in case of failure to pay within the terms provide in the Tax Assessment. Based on the Rolls received, the Bank, generally every two months, prepares the Tax Assessments with which it informs each taxpayer of the entry in the Roll and demands the payment within the maturity date specified therein; in case of failure to pay, the Bank will start the enforcement procedures.

The comparison of the data of the entries in the Roll of 2011 with those of the previous year, as shown in table no. 24 below, evidences a significant increase, both in terms of amounts and number of items. Such a considerable increase in the numbers of entries in the Roll confirms the difficulties faced by families and businesses in fulfilling their obligations.

The increase in the number of items related to the entries in the Roll in 2011 compared with those of 2010, is equal to 38.8%, whereas the increase in the relevant amounts is equal to 46%; the different increase in the amounts compared with that in number of items evidences that the average amount of each item entered in the 2011 Roll is increased compared to 2010.

As at 31 December 2011, the total of the entries in the Roll since 2005, first year of activity of the Overdue Tax Collection Department, was equal to Euro 285.8 million for a total of 197,120 items.

In the first quarter of 2012, a total of Euro 12.9 million, corresponding to 20,579 items, has been entered in the Roll.

Table no. 24 - Entries in the Roll and discharges

Items	Entries in 2009		Entries in 2010		Entries in 2011	
	Amount	No. of items	Amount	No. of items	Amount	No. of items
Items processed	37,270,669.74	29,183	42,027,758.40	30,068	61,372,047.61	41,744
Discharged items	8,861,160.40	2,494	6,943,736.46	2,665	12,116,383.04	3,343
% of discharged items	23.8%	8.5%	16.5%	8.9%	19.7%	8%

Source: Central Bank.

As regards to the discharges for year 2011, again with reference to table no. 24 above, the discharged items, i.e. amounts no longer to be collected since they have already been paid at the counter of the Entities and/or because they are incorrect, represented 19.7% of the total amount assessed and 8% of the total number of items. In absolute values, the discharged items in 2011 were approximately 3 thousand, for an amount of Euro 12.1 million.

Table no. 25 shows the breakdown of the entries in the Roll between the different Entities as well as of the discharges referred to year 2011. 198 Rolls were received by the Overdue Tax Collection Department, for an aggregate amount of approximately Euro 61.3 million.

Table no. 25 - Rolls and discharges in 2011, broken down by Entity

Entity	Entry in the Roll			Discharge of Roll	
	Amount	Rolls	No. of items	Amount	No. of items
The Most Excellent Chamber	56,222,855.43	106	38,642	11,772,784.40	3,148
Social Security Institution	4,595,109.53	71	2,609	315,017.86	161
Azienda Autonoma di Stato per i Servizi Pubblici	28,248.56	14	420	5,345.53	27
Ente di Stato dei Giochi	1,500.00	1	2	0.00	0
Central Bank	58,727.77	3	28	9,909.65	5
Financial Intelligence Agency	465,606.32	3	43	13,325.60	2
Total	61,372,047.61	198	41,744	12,116,383.04	3,343

Source: Central Bank.

As evidenced above, the entry in the Roll mainly results from the Most Exc. Chamber. Table no. 26 outlines in detail the entries in the Roll and discharges carried out in 2011 by the offices of the Most Exc. Chamber that have this prerogative.

Table no. 26 - Entries in the Roll for 2011 by the offices of the Most Exc. Chamber

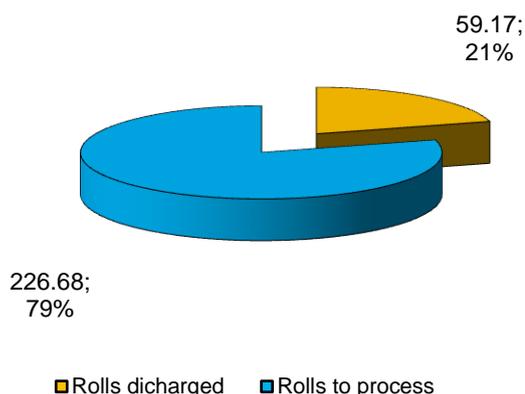
Office	Entry in the Roll		Discharge of Roll	
	Amount	No. of items	Amount	No. of items
Indirect taxes	35,540,667.59	6,480	10,064,688.58	2,147
Direct taxes	11,939,796.43	10,709	50,376.96	10
Register and Land Registry	6,149,493.49	20,228	1,300,755.81	942
Civil Police	423,546.32	809	7,982.30	18
Gendarmerie	18,224.00	50	809.75	3
Guardia di Rocca	6,057.80	13	404.00	1
Industry, Trade and Craft	1,120,000.00	123	10,000.00	1

Office	Entry in the Roll		Discharge of Roll	
	Amount	No. of items	Amount	No. of items
Labour	102,040.00	73	4,400.00	5
Transportation	31,665.50	150	3,367.00	20
City Planning	891,000.00	4	330,000.00	1
Management of Environmental and Farm Resources	364.30	3	0.00	0
Total	56,222,855.43	38,642	11,772,784.40	3,148

Source: Central Bank.

The difference between entries in the Roll and discharges made generates the Rolls to be managed, i.e. the group of items that, if not paid within their regular maturity, and absent any extension of the term of payment, will be subject to enforcement.

Figure no. 28 - Rolls to manage as from 01/01/2005 (start of the activities) until al 31/12/2011



Source: Central Bank.

Notes: Values expressed in millions of Euros; percentage on the total.

Approximately 24 thousands items were collected in 2011, for an overall amount of Euro 15.7 million. Additional interest and sanctions accrued on the Tax Assessments collected after their regular maturity, which were collected by the Bank for Euro 125 thousand and Euro 129 thousand respectively.

In 2011 the Bank granted 31 extensions on the Tax Assessments for a total of Euro 1 million. 5 of such extensions (for an amount of Euro 600 thousand) have been guaranteed by bank surety, whereas 26 (for an amount of Euro 550 thousand) by a mortgage on a real estate property. In 2011, interest on late payments was collected for approximately Euro 36 thousand. As at 31 December 2011, Euro 1.6 million were still to be collected against the extensions granted.

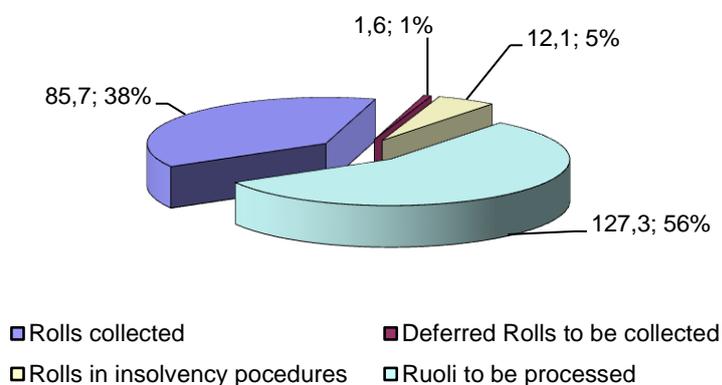
With regard to the payment extensions, it should be noted that the legislator, in the Decree-Law no. 31 dated 28 March 2012 “Interventi urgenti a sostegno del sistema economico e disposizioni fiscali diverse” (Urgent measures in support of the economic system and other tax provisions), under art. 11. provides for the possibility to extend the payment extensions from a maximum of 24 months to a maximum of 60 months. The new payment extensions may, thus, better satisfy the needs of the taxpayers, who will have the chance to defer the payment of the debt up to a maximum period of 5 years.

In 2011, claims were made within the context of insolvency procedures for Euro 3.6 million. As at 31 December 2011, claims for an aggregate of Euro 12 million were still pending. It is unlikely that such amounts will be collected since, in spite of the fact that most of the credits claimed by the Bank have the nature of privileged credits, the assets, if any, often have a small value.

In 2011, 718 enforcements were carried out, 326 of which were seizures of receivables and 392 were levies of execution against movable properties. Not all of the 392 levies of execution led to an actual seizure since, following the initiation of the enforcement, the debtor settled his/her debt., During the year, 247 levies of execution against movable properties were completed, 6 seizures of salary (pursuant to art. 61 of Law no. 70/2004, the extent of the seizure may not exceed 1/5 of the amount of each month salary, net of deductions and family allowances) and 8 real estate seizures; 1 failed seizure was registered due to untraceableness.

The chart below summarises the management of the entries in the Roll as at 31 December 2011.

Figure no. 29 - Summary of the management of entries in the Roll as at 31/12/2011



Source: Central Bank.

Notes: Values expressed in millions of Euros; percentage on the total.

With art. 13 of Law no. 184 dated 28 November 2011, the legislator provided for the application of an extraordinary additional tax on the income of each taxpayer for the tax year 2010, to be collected by means of Tax Assessment. The Tax Office - Direct Tax Section, has then prepared Roll no. 5/2011, based on which the Bank sent to the taxpayers the Tax Assessments with maturity on 29 February 2012.

The amount of the Roll was approximately Euro 6.2 million for a total of approximately 10 thousand Tax Assessments, 150 of which, for an amount of around Euro 600 thousand, were paid directly to the branches of the Tax Office by those businesses that had some credit to offset. The majority of the taxpayers paid the Tax Assessment within its regular maturity; as at 29 February 2012, in fact, 9,102 assessments had been paid (88.9% of the total) for an aggregate amount of approximately Euro 5 million (83.9% of the total). At the end of the first quarter of 2012, 679 assessments (6.6% of the total) for approximately Euro 300 thousand (5% of the total) were still to be paid.

The single tax bill (CAUTA), the Roll of which is created by the Register and Land Registry Office on a yearly basis, has been established for the purpose of allowing the taxpayer to pay in one single instalment the aggregate amount of certain taxes having an annual maturity (art. 1 of Law no. 53 dated 12 May 1989).

The Roll CAUTA 2011 implemented the provisions of Annex B of Law no. 129 dated 23 July 2010 that modified the nominal amount of the license payable by certain specific types of businesses. Overall, 3 CAUTA Rolls were processed in 2011, comprised, respectively, of 18,737 assessments for a total of Euro 5.3 million the first one, of 644 assessments for a total of Euro 609 thousand, the second, and of 3 assessments for a total of Euro 2 thousand, the third one. By the regular maturity of 31.03.2011, 15,917 assessments were paid, for an amount of Euro 3.7 million. At year end, 17,204 assessments had been paid, for an amount of Euro 4.2 million, whereas 1,258 assessments had still to be settled (6.5% of the total) for Euro 554 thousand (7.7% of the amount entered in the Roll). As at 31 March 2012, 1,219 assessments (6.3% of the total) were still unpaid, for an aggregate of Euro 440 thousand (7.5% of the amount registered in the Roll).

Table no. 27 - Comparison of the data of CAUTA for the years 2009, 2010 and 2011

Rolls	CAUTA 2009		CAUTA 2010		CAUTA 2011	
	Amount	No. of	Amount	No. of	Amount	No. of
Total Rolls processed	5,252,643.86	18,058	5,668,315.80	18,474	5,903,414.20	19,384
Total discharged	86,592.22	236	86,351.00	291	1,243,667.20	894
Total collected by the Central Bank	4,745,896.10	16,839	5,001,501.36	16,926	4,190,612.40	17,204
Total still to be managed	411,375.54	966	569,043.85	1,230	453,979.36	1,258
% Total discharged*	1.60%	1.30%	1.50%	1.60%	21.10%	4.60%
% Total collected by the Central Bank*	90.4%	93.2%	88.2%	91.6%	71%	88.8%
% Total still to be managed *	7.8%	5.3%	10%	6.7%	7.7%	6.5%

Source: Central Bank.

Notes: * Percentage on the total Rolls processed.

The table above compares the Rolls CAUTA for the years 2009, 2010 and 2011. The data specified therein are those as at 31 December of the reference year. These data show an increase in time both in terms of number of assessment and relevant amounts. The average amount of the assessment (total amount of the Rolls processed/total number of Rolls processed) is equal to Euro 291 for 2009, Euro 307 for 2010 and Euro 305 for 2011, respectively. As a matter of facts, the amount of the single tax bills varies considerably according to whether the entry in the Roll is related to natural persons (amount equal to Euro 20 for the TV taxes for families), to principals of sole proprietorships (amount of around Euro 100, which includes the TV taxes for families and license fees) or to companies (amount of around Euro 980, which includes license fees and the tax on corporate actions).

Table 27 shows that the amount of the discharges of 2011 is considerably higher than that of the previous year: this is mainly due to an incorrect entry in the Roll settled by means of discharge and subsequent new entry in the Roll.

At the end of each one of the years being examined, the amount of the CAUTA still to be managed remains consistently below 10% of the total amount of the Roll and below 7% of the aggregate number of assessments issued.

As at 31 December 2011, the total number of the entries in the Roll of the single tax bills (from 2005 to 2011) net of discharges, was equal to 117,296 assessments for an amount of Euro 31.7 million; 3,858 assessments had still to be paid (3.3% of the total of assessments issued) for an amount of Euro 1.6 million (4.9% of the total amount).

With the Delegated Decree no. 1 dated 20 January 2012, the legislator modified the tax on corporate actions. For the year 2012, the CAUTA Roll, which implemented this regulation, was

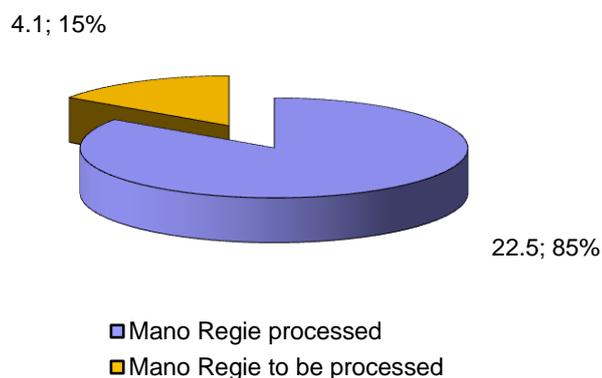
comprised of 18,653 assessments for an amount of Euro 4.7 million. 15,959 assessments were paid within the regular deadline (85.6% of the total) for an amount of Euro 3.8 million (80.2% of the amount entered in the Roll).

2.9.2 "Mano Regie"

In 2011, the Bank took charge of 16 new files related to "Mano Regie" procedures, for an amount of approximately Euro 800. In the same year, 76 files were collected for an amount of approximately Euro 16 thousand.

As at 31 December 2011, 6,408 files had been taken in charge from 1 November 2004, start date of the activities of the Overdue Tax Collection Department, for an amount equal to Euro 26.6 million, and 446 files were still pending, for an amount of Euro 4.1 million.

Figure no. 30 - Breakdown of "Mano Regie" procedures from 01/11/2004 (start of the activities) to 31/12/2011



Source: Central Bank.

Notes: Values expressed in millions of Euros; percentage on the total.

2.9.3 Auctions of Moveable Assets

Following the seizure, the law grants to the debtor the right to release, within ten days following the signing of the report on seizure, the seized assets by means of the payment of the full amount of the debt plus the enforcement costs incurred by the Central Bank. Once this term has lapsed without any effects, the Bank shall sell the seized assets. Each auction is comprised by three different sale attempts: the first one envisages the sale at a base price determined by the appraisal of the assets carried out within the context of the seizure, the second provides a

deduction of 30% from the initial sale price, and the third one provides a deduction of 70% from the base value of the first auction. Anyone interested may file his/her bids in a closed envelopes up until the day prior to the auction; during the auction, on the contrary, only new bids may be made by means of raises. The price offered may not be lower than the base price of the auction, under penalty of invalidity of the bid.

The Bank uses an external custodian that makes a warehouse available for the custody of the seized assets.

In the attempt to realise the maximum value from the sale, in the interest of both the debtor and the creditor office, as from 2006 the Bank has always arranged at least two auctions of moveable assets a year, also for the purpose of avoiding the depreciation of the assets caused by their obsolescence

The Bank notifies the interested parties about the sale of the assets by means of the publication of the auction notice, with the forwarding to all resident persons of a leaflet containing the list of the assets for sale and the procedures for participating, and also by means of an advertisement on magazines of the area. The internet site of the Central Bank is also updated with the list of assets, the relevant pictures and the procedure to participate.

Whether or not the auction will be successful may not be forecast: a lot will depend on the type of assets being sold and on the interest of potential buyers. The buyers at the auction are generally individuals and companies of San Marino or of the region.

In 2011, four auctions of moveable assets were held.

At the auction no. 1/2011, 28 lots were offered for sale for an aggregate value of approximately Euro 89 thousand with a realised amount of Euro 45 thousand.

The unsold assets were included in auction 2/2011, in which 481 lots were offered, for an aggregate value of Euro 432 thousand. The three phases of the auction have been completed on 11 June 2011, with a total amount collected equal to Euro 217 thousand approximately.

At auction no. 3/2011, 184 lots were offered for sale, with an aggregate value of approximately Euro 101 thousand, The three phases of the auction were completed on 26 October 2011, with a total amount collected equal to Euro 41 thousand.

At the auction no. 4/2011, 223 lots were offered for sale, for an aggregate value of approximately Euro 217 thousand; the three phases were completed on 17 December 2011 with a total amount collected equal to Euro 58 thousand.

Table no. 28 - Comparison of auction data (2009-2011)

	1st AUCTION 2009	2nd AUCTION 2009	1st AUCTION 2010	2nd AUCTION 2010	1st AUCTION 2011	2nd AUCTION 2011	3rd AUCTION 2011	4th AUCTION 2011
Value of the assets offered for sale	432,325.94	471,791.00	200,995.00	415,326.52	88,650.00	432,000.90	101,320.00	217,221.82
Total collected	179,337.52	314,846.51	84,150.00	147,558.85	44,770.00	217,132.21	41,000.00	58,152.36
% Total collected	41.5%	66.7%	41.9%	35.5%	50.5%	50.3%	40.5%	26.8%

Source: Central Bank.

2.9.4 Civil Actions

The Overdue Tax Collection Department appeared before the Single Court to defend the Most Exc. Chamber, the Entities and *Aziende Autonome*, within the context of the legal actions initiated as a consequence of the collection activities. Specifically:

- An appeal against denial of insolvency, for which the decision is still pending.
- An administrative appeal, still pending judgement.

2.10 CASH AND FINANCIAL PORTFOLIO MANAGEMENT

The main source of funding for the Central Bank of the Republic of San Marino is represented by the financial resources of the Public Administration; in fact, the current accounts of the State, of the *Aziende Autonome* and Public Entities are all open with the Central Bank.

Total funding from customers totalled Euro 253 million, down by 30.9% compared with the previous year.

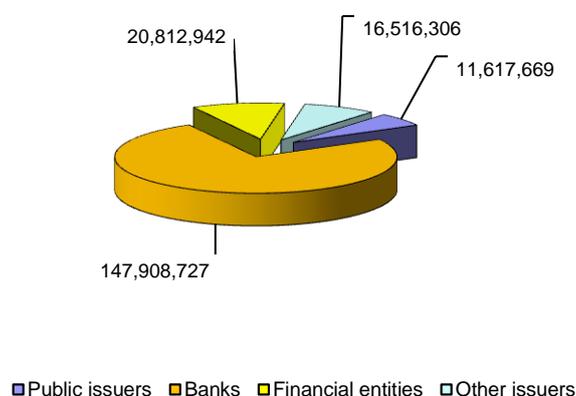
Funding from banks declined by 24.7%, totalling a volume of Euro 112.5 million.

The aggregate of the capital reserves of the Central Bank amounted to Euro 75.5 million as at the end of 2011.

The funding is invested in a portfolio of bonds and in cash deposits with primary international banking institutions, or is used in transactions for the financing of the banking system of San Marino.

The composition of the bond portfolio is shown in the chart below.

Figure no. 31 - Composition of the bond portfolio



Source: Central Bank.
Notes: Values expressed in Euro.

In 2011, the financial crisis affected also the Italian sovereign debt, which, especially in the second half of the year, has suffered the strong negative sentiment of the markets, which led to significant declines in the prices of the sovereign, bank and corporate bonds.

The perception of the worsening of the financial conditions of many European countries and their banking and financial institutions led to large and repeated downward reviews of the rating by the agencies; this trend continued also in the first part of 2012.

The securities portfolio of the Central Bank clearly suffered the high volatility registered on the prices of bonds during 2011, although mitigated by the high level of average rating and by the short average life of the investments.

The securities portfolio at the end of 2011 amounted to Euro 197 million, down by 22.4% compared with the end of 2010.

The volumes of the securities traded was just below Euro 1 billion, down compared with the Euro 1.2 billion totalled in 2010, and the portfolio turnover rate totalled 3.6 (the value of the previous year was equal to 5).

The amounts due from banks, on demand as well as those registered under the item "other receivables", declined from Euro 311.2 million to Euro 218 million, with an overall drop of 29.9%, thanks to the repayment of some loans disbursed in support of the banking system.

Amounts due from clients dropped to Euro 12.1 million, down by 16.3% from 2010.

3 INTERNAL RESOURCES

3.1 HUMAN RESOURCES AND CORPORATE STAFF

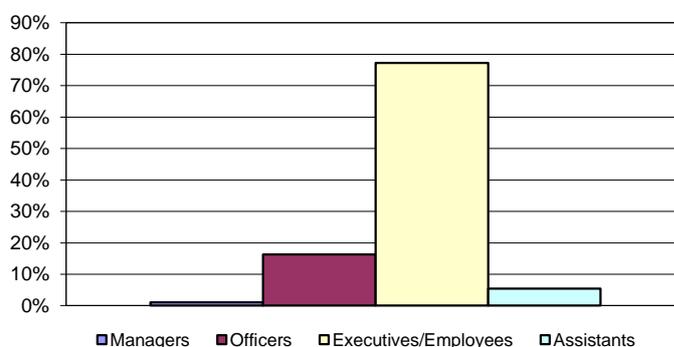
In 2011, the number of employees of the Central Bank declined compared with the previous year, although the activities and the workload assigned to the Bank, due to its many functions (statutory, institutional and other), to the cooperation with the Public Administration and the Single Court of San Marino, and to the different strategic projects for corporate management, are all continuously increasing.

In May 2011, Mr Antonio Gumina started working for the Central Bank as a member of the Supervision Committee and Head of the Supervision Department.

As at the end of 2011, the employees of the Central Bank were 92 (including the CEO and the staff of the Financial Intelligence Agency) divided into the contractual categories specified in figure no. 32; taking into account secondments, leaves, maternity leaves, hires and terminations of employment occurred during the year, part time employment and long-time absences, the average number of employees actually present in 2011 was of approximately 84 resources.

In 2011, the Central Bank hired 6 new resources, 4 of whom on temporary basis, whereas 7 employees terminated their employment; of the 6 new resources, 1 is employed on a temporary basis with the Financial Intelligence Agency, 2 were included in the staff of the Supervision Department, whereas the remaining 3 (all with a fixed maturity contract) were included in the staff of other Organisational Units of the Bank.

Figure no. 32-Breakdown of employees by contractual categories as at 31/12/2011



Source: Central Bank.

In September 2011, the process for the reorganisation of the company – which was started the previous year - was completed; this process entailed changes in the organisational chart as well as in the responsibilities chart and in the staff of the Central Bank.

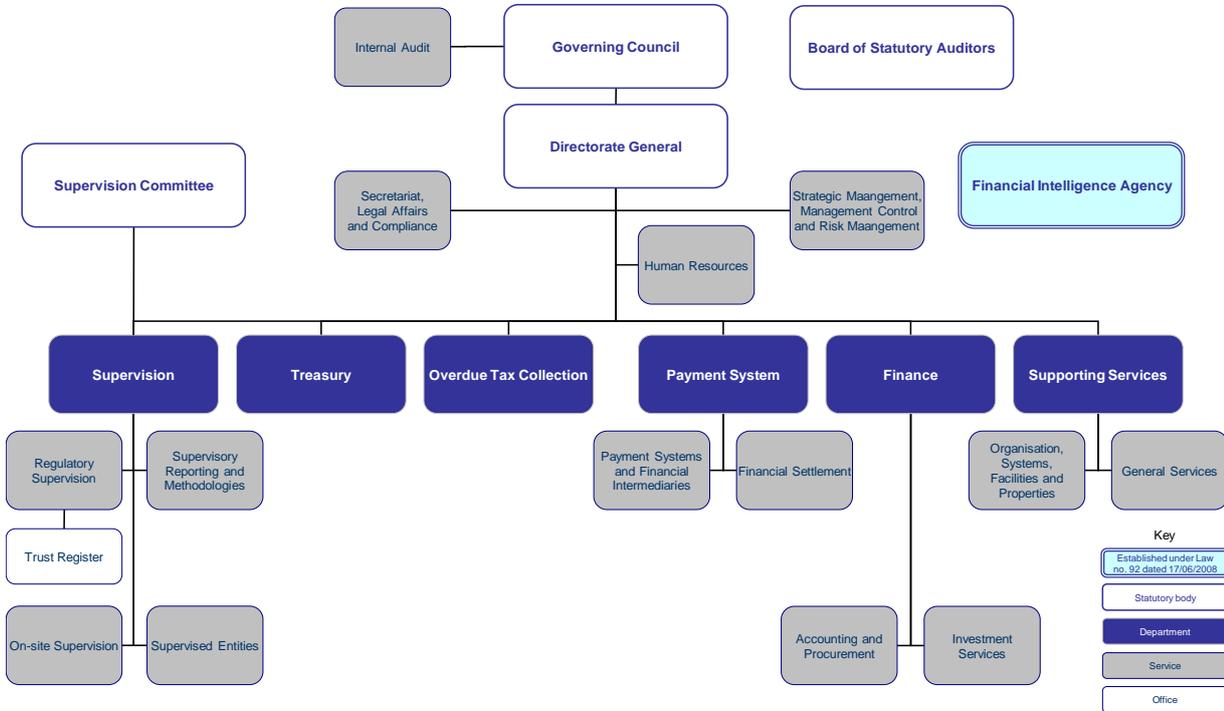
The evolution of the resources and of the functions of the Central Bank in the last few years were taken into account, the structures of other central banks were analysed and the principles of consistency and standardisation were considered; this assessment led to the creation and allocation of new basic corporate functions (some of which have not been activated yet due to the lack of resources) and to additional changes aimed at reducing the depth of the organisational chart, exploiting synergies and managing operational risks.

The result expected was to render the structure as functional and organic as possible with regard to the performance of its functions, with the purpose of obtaining also a reduction of costs. As a matter of fact, one of the results achieved by the reorganisation has been the reduction of the overtime work performed by the employees and to reduce the backlog of unspent holiday leaves.

In 2011, approximately 890 hours of training were conducted (10.60 man-hours). slightly up from the 710 hours of 2010. As regards to the training activities, a significant role will be played by the *Fondazione Bancaria Centrale*, whose courses may be attended by the employees of the Bank.

The organisational chart of the Central Bank as at 31 December 2011, following the corporate reorganisation process, is presented below (figure no. 33).

Figure no. 33 - Organisational chart of the Central Bank as at 31/12/2011



3.2 INFRASTRUCTURES

During the year, the activities continued for the consolidation of the technological infrastructure and for the development of the IT systems in support of corporate operations, particularly with reference to the banking activities, to the overdue tax collection functions and to analytical accounting.

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