

**THE DIRECTOR GENERAL
OF THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO**

IN VIEW of Law no. 165 of 17 November 2005, and in particular article 39 which gives the Central Bank the power to issue regulations and circulars in the respective fields of competence and article 100 governing the guarantee schemes for the protection of depositors;

IN VIEW of article 33 of the Statutes of the Central Bank of the Republic of San Marino approved by Law no. 96 of 29 June 2005 that assigns to the Central Bank the functions for the supervision and protection of investors, and of article 30, paragraph 3, based on which the Central Bank's acts on supervision, passed by the Supervision Committee, are issued by the Director General;

IN VIEW of the Delegated Decree no. 111 of 22 July 2011 (Measures to guarantee the stability of the banking system in the Republic of San Marino) as amended by article 56 of Law no. 189 of 22 December 2015;

IN VIEW of the Central Bank Regulation no. 2016-01 on the Guarantee Fund for Depositors and in particular article IV.I.1 based on which the determination of the risk profile and of the contribution base for the purpose of calculating the contribution shares payable by each participant is defined by a specific Circular;

IN VIEW of the Supervision Committee and the Governing Council resolutions, with which approval was granted to the text of Circular no. 2017-01 known as “Circular on the method of determining contributions to the Guarantee Fund for Depositors”;

ISSUES

the enclosed Circular no. 2017-01, which enters into force on 1st March 2017.

San Marino, 9 February 2017

Signed: THE DIRECTOR GENERAL
Mr Lorenzo Savorelli

**Circular on the method of determining
contributions to the Guarantee Fund for
Depositors
year 2017 / number 01**

TABLE OF CONTENTS

1. DEFINITIONS	3
2. PREMISE	3
3. DETERMINATION OF THE CONTRIBUTION.....	4
<i>3.1 Contribution Rate.....</i>	4
<i>3.2. Covered Deposits.....</i>	4
<i>3.3 Adjustment Factor for the Aggregate Risk Profile.....</i>	5
<i>3.4 Correction Coefficient.....</i>	5
4. DETERMINATION OF THE ANNUAL CONTRIBUTION FLOW.....	5
5. MANAGEMENT INDICATORS AND DETERMINATION OF THE AGGREGATE RISK PROFILE	6
<i>5.1. Solvency.....</i>	7
<i>5.2. Financial Leverage</i>	7
<i>5.3 Quality of Credit Assets.....</i>	7
<i>5.4 Liquidity</i>	7
<i>5.5 Profitability.....</i>	8
6. ENTRY INTO FORCE	8
ANNEX: CONTRIBUTION BASE REPORTING FORM	9

1. DEFINITIONS

1. For the purposes of this Circular, the expressions used herein shall have the following meaning:
- a) “**contribution**”: the amount of the stock of ordinary contribution to the Guarantee Fund for Depositors to be borne by each participant;
 - b) “**annual contribution flow**”: the amount of the flow of ordinary contribution annually required from each participant, also for the gradual realisation of the target level within the initial period, determined as the difference (only if positive) between the contribution determined for the reference year and that for the previous year;
 - c) “**fund**”: the Guarantee Fund for Depositors established in the Republic of San Marino;
 - d) “**target level**”: the amount of financial means available to the Guarantee Fund for Depositors equal to at least 0.8% of the aggregate of covered deposits as resulting from the most recent annual measurement, or to the lower level possibly established pursuant to article III.II.1, paragraph 9 of CBSM Regulation no. 2016-01, which must be reached by the Fund not later than on 3 July 2024;
 - e) “**Management Body**”: the internal body of the Central Bank that, in its capacity as designated authority, manages the Guarantee Fund for Depositors, pursuant to articles II.II.3 and II.II.4 of the CBSM Regulation no. 2016-01;
 - f) “**initial period**”: period starting from the first year of payment by the participants to the Guarantee Fund for Depositors (2017) and ending in the last year of payment contemplated for reaching the target level (2024);
 - g) “**participants**”: the banks of San Marino and the branches of EU and Non-EU banks that participate to the Guarantee Fund for Depositors pursuant to article II.I.2 of the CBSM Regulation no. 2016-01.
2. Except where specified otherwise, for the purposes of this Circular the definitions contained in Law no. 165 of 17 November 2005, and those of CBSM Regulation 2007-07 and CBSM Regulation no. 2016-01, shall apply.
3. In the following articles of this Circular, the words that correspond to the definitions referred to in paragraph 1 are in BOLD CHARACTERS.

2. PREMISE

1. This Circular implements the CBSM Regulation no. 2016-01 and applies the provisions of article IV.I.1 of such Regulation, defining the procedures to determine the risk profile and contribution base, for the purpose of calculating the CONTRIBUTION shares to the FUND to be paid by each PARTICIPANT.
2. The CBSM Regulation no. 2016-01, in turn, implements article 100 of Law no. 165 of 17 November 2005, Delegated Decree no. 111 of 22 July 2011, as amended by article 56 of Law no. 189 of 22 December 2015 and

adopts, at the same time, the provisions on this issue referred to in the Directive no. 2014/49/EU of 16 April 2014.

3. This Circular, in compliance with the provisions of article no. 38, paragraph 5 of Law no. 165 of 17 November 2005, of the implementing CBSM Regulation no. 2006-02 and of article IV.I.1 of the CBSM Regulation no. 2016-01, was subjected to public consultation.

3. DETERMINATION OF THE CONTRIBUTION

1. The CONTRIBUTION to the FUND by the individual PARTICIPANTS is determined using the following formula:

$$C_{i,T} = \alpha_T * DC_{i,31.12.T-1} * \gamma_{i,31.12.T-1} * \mu_T$$

where:

$C_{i,T}$ = CONTRIBUTION referred to year "T" to be paid by PARTICIPANT "i";

α_T = contribution rate referred to year "T";

$DC_{i,31.12.T-1}$ = covered deposits of PARTICIPANT "i" referred to 31.12 of year "T-1";

$\gamma_{i,31.12.T-1}$ = adjustment factor for the aggregate risk profile of PARTICIPANT "i" referred to 31.12 of year "T-1";

μ_T = correction coefficient related to year "T".

2. The MANAGEMENT BODY transmits to the PARTICIPANTS the notice referred to in article III.II.4, paragraph 4 of the CBSM Regulation no. 2016-01 by 31 May of each year.

3.1 Contribution Rate

1. The contribution rate (α_T) is set by the MANAGEMENT BODY and may be changed annually by such BODY, who shall inform the PARTICIPANTS by 30 April of each year by means of a specific notice.

2. Specifically, during the INITIAL PERIOD, such determination is performed by taking into account the TARGET LEVEL and number of years to the end of such INITIAL PERIOD, gradually increasing the amounts in time and taking into consideration the financial means already available to the FUND.

3.2 Covered Deposits

1. The covered deposits of each PARTICIPANT ($DC_{i,31.12.T-1}$), expressed in Euro and referred to 31 December of year "T-1" compared to year "T" of determination of the CONTRIBUTION, are reported by each PARTICIPANT in compliance with the provisions of the CBSM Regulation no. 2016-01, specifically with regard to articles III.I.2, III.I.3 and III.I.4, using the contribution base reporting form attached to this Circular.

2. The reporting form referred to in the previous paragraph may be changed, subject to prior notice to the PARTICIPANTS, by publishing the updated version in the reserved area of the internet website of the Central Bank, where detailed instructions are also available for the compilation of such form.

3.3 Adjustment Factor for the Aggregate Risk Profile

1. The adjustment factor for the aggregate risk profile ($\gamma_{i,31.12.T-1}$) of each PARTICIPANT is determined on the basis of the individual risk management indicators of such PARTICIPANT, referred to 31 December of the year “T-1”, compared to year “T” of the determination of the CONTRIBUTION.

2. The application of this adjustment factor to the covered deposits of each PARTICIPANT makes it possible to take also into account, in determining the CONTRIBUTIONS to the FUND, the risk profile of the PARTICIPANT as well as the amount of the relevant covered deposits.

3. The adjustment factor must have a value included in the range from 0.50 to 1.50, and is determined based on the calculation methods defined under paragraph 5 below.

3.4 Correction Coefficient

1. The correction coefficient (μ_T) related to year “T” is determined as the ratio between the aggregate amount of the CONTRIBUTIONS referred to the same year “T” of all PARTICIPANTS not adjusted for the risk adjustment factor ($\gamma_{i,31.12.T-1}$), that is to say, determined by applying to the covered deposits ($DC_{i,31.12.T-1}$) only the contribution rate (α_T) and the aggregate amount of such CONTRIBUTIONS adjusted by such risk factor.

2. This coefficient ensures that the application of the risk profile adjustment factor to the covered deposits of each PARTICIPANT would entail only an internal redistribution of the CONTRIBUTIONS amongst such PARTICIPANTS, thus leaving the aggregate amount of CONTRIBUTION unchanged.

4. DETERMINATION OF THE ANNUAL CONTRIBUTION FLOW

1. The ANNUAL CONTRIBUTION FLOW to the FUND by the individual PARTICIPANTS is determined by applying the following formula:

$$FC_{i,T} = C_{i,T} - C_{i,T-1}$$

where:

$FC_{i,T}$ = ANNUAL CONTRIBUTION FLOW referred to year “T” to be paid by PARTICIPANT “i”;

$C_{i,T}$ = CONTRIBUTION referred to year “T” to be paid by PARTICIPANT “i”;

$C_{i,T-1}$ = CONTRIBUTION referred to year “T-1” to be paid by PARTICIPANT “i”.

2. If the ANNUAL CONTRIBUTION FLOW to the FUND is negative, the annual CONTRIBUTION is not required. However, the FUND is not required to return the financial means to the PARTICIPANTS in such circumstances.

5. MANAGEMENT INDICATORS AND DETERMINATION OF THE AGGREGATE RISK PROFILE

1. The adjustment factor for the aggregate risk profile ($\gamma_{i,31.12.T-1}$) of each PARTICIPANT is determined on the basis of the following risk management indicators, referred to 31 December of the year “T-1”, compared to year “T” of the determination of the CONTRIBUTION as resulting from the statistical supervisory reports:

- a) Solvency;
- b) Financial leverage;
- c) Quality of credit assets;
- d) Liquidity;
- e) Profitability.

2. The aggregate adjustment factor is calculated by weighting, using the percentages specified below, the individual risk management indicators of each PARTICIPANT, as resulting following the normalization process described in paragraph 3 below:

- a) Solvency = 25%;
- b) Financial leverage = 10%;
- c) Quality of credit assets = 25%;
- d) Liquidity = 25%;
- e) Profitability = 15%.

3. For the purposes of the weighting referred to in paragraph 2 above, the individual risk management indicators are subject to a normalization process. Specifically, each indicator for each PARTICIPANT is re-calculated in the variation range referred to in sub-paragraph 3.3, paragraph 3 above, taking into account the size of the actual range of variation between PARTICIPANTS of each individual indicator and the position related to the actual indicator of each PARTICIPANT compared to those of the other PARTICIPANTS.

As regards each indicator, the PARTICIPANT with the best indicator will therefore be repositioned at the lower limit of the variation range referred to in sub-paragraph 3.3, paragraph 3 above, the participant with the worst indicator will be repositioned at the higher limit of such variation range and all remaining PARTICIPANTS, maintaining the respective positions, will be positioned within these two limits of the range.

4. The aggregate adjustment factor ($\gamma_{i,31.12.T-1}$) of each PARTICIPANT is thus determined based on the following formula:

$$\gamma_{i,31.12.T-1} = \sum_{j=1}^5 W_j * IRn_{i,j}$$

where:

$\gamma_{i,31.12.T-1}$ = aggregate adjustment factor related to PARTICIPANT “i”;

W_j = weighting assigned to the individual normalized risk management indicator “j”;

$IRn_{i,j}$ = individual normalized risk management indicator “j” related to PARTICIPANT “i”.

5.1. Solvency

1. The solvency management indicator is represented by the solvency ratio referred to in article VII.III.2 of the CBSM Regulation no. 2007-07 and is therefore calculated according to the following formula:

$$\text{Solvency ratio} = \frac{PV}{RWA}$$

where:

PV = regulatory capital;

RWA = total risk-weighted assets.

5.2. Financial Leverage

1. The management indicator of the financial leverage is determined by applying the following formula:

$$\text{Financial leverage} = \frac{PN}{TA}$$

where:

PN = net equity as resulting from the financial statements;

TA = total assets as resulting from the financial statements.

5.3 Quality of Credit Assets

1. The management indicator of the quality of credit assets is determined by applying the following formula:

$$\text{Quality of credit assets} = \frac{NPL(n)}{TL(n)}$$

where:

NPL(n) = total *non-performing loans* (net amount);

TL(n) = total loans (net amount).

5.4 Liquidity

1. The liquidity management indicator is calculated by applying the following formula:

$$Liquidity = \frac{LD_{7g}}{R_{7g}}$$

where:

LD_{7g} = liquidity available within 7 days;

R_{7g} = collection of savings payable within 7 days.

5.5 Profitability

1. The profitability management indicator is calculated by determining the *return on asset* indicator according to the following formula:

$$ROA = \frac{U}{TA}$$

where:

ROA = *return on asset*;

U = net profit (or loss) as resulting from the financial statements;

TA = total assets as resulting from the financial statements.

6. ENTRY INTO FORCE

1. This Circular shall enter into force on 1st March 2017.

2. PARTICIPANTS are therefore required, pursuant to the provisions of article IV.II.1 of the CBSM Regulation no. 2016-01, to transmit to the Supervision Department of the Central Bank the first report on the contribution base by 31 March 2017, with reference date 31 December 2016.

ANNEX: CONTRIBUTION BASE REPORTING FORM

Bank:	
Reference date:	

A. Covered deposits

Item	Description	Depositors				Total amount
		Natural persons		Non-natural persons		
		Number	Amount	Number	Amount	
3002A010000	Customers' deposits and financial instrument issued					-
3002A010A00	- of which Eligible deposits					-
3002A010A05	- of which Covered deposits (<=100.000 euro)					-