BANCA CENTRALE
DELLA REPUBBLICA DI SAN MARINO

# REGULATIONS FOR FINANCING OPERATIONS (FINANCIAL COMPANIES)

## YEAR 2011/NUMBER 03

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# CONTENTS

## ANNEXES

# PART I
# INTRODUCTION

## Title I
## Introduction

### Article I.I.1 Legislative basis

1. These Regulations are part of the implementing regulations for Law No. 165 of 17 November 2005 (LISF), as provided under its Article 39.

2. The regulatory powers of the Central Bank of the Republic of San Marino over lending, over parties authorized to conduct such activity, and over their corporate officers and shareholders, whether direct or indirect, actual or potential, also have a legislative basis in Law No. 96 of 29 June 2005, particularly its Articles 33 and 34.

### Article I.I.2 Definitions

1. For the purposes of these Regulations, the terms employed shall be understood as having the following meanings:

1. **"Managing Director":** member of the Board of Directors, howsoever appointed, vested with the delegated powers under Article 49, fourth paragraph, of the Corporations Act;
2. **"Advertising":** message, howsoever circulated, and intended to promote sales of products and delivery of services;
3. **"Lending":** disbursement of loans in any form, including financial leasing, factoring, consumer credit, and the issue of guarantees and commitments;
4. **"Internal audit function":** Third-tier supervisory activity conducted on an ongoing basis, periodically or in exceptional cases, by miscellaneous organizational structures independent from those engaged in production, including through on-site inspections designed to identify anomalies, violations of procedures and regulations in addition to assessing the completeness, functionality, and adequacy of the system of internal controls and to drawing the attention of the Board of Directors and the head of the executive structure to possible improvements that can be made in risk management policies, measure instruments and procedures.
5. **"Fiduciary activities":** activities described under letter C of Annex 1 to Law no. 165 of 17 November 2005;
6. **"Securities activities":** activities described under letter D of Annex 1 to Law no. 165 of 17 November 2005;
7. **"Firm":** set of assets organized to run a business;

8. **"Central Bank":** the Central Bank of the Republic of San Marino;
9. **"Head of the executive structure":** General Manager or, in his absence, director delegated to perform the General Manager's functions;
10. **"Parent Company":** financial company or holding company meeting the requirements set forth in Article 54 of the LISF and placed inside the group architecture in such a way as to ensure that the sum of the its own balance-sheet assets and of the firms and entities which it controls meets the requirements for the existence of a financial group;
11. **"Foreign parent company":** foreign financial company or other financial enterprise which, pursuant to the rules and regulations currently in force in its own host country, is the leader of a group consisting inter alia of Sammarinese financial companies;
12. **"Customer":** any person - whether an individual or legal entity - which has a contractual relationship or that intends to enter into relationships with the financial company in connection with products and/or services it offers;
13. **"Members":** firms or entities, apart from the parent company, that belong to the group;
14. **"Derivatives":** financial contracts whose value depends on the value of one or more underlying indices or activities;
15. **"Long-term contracts":** contracts whose direct legal effects are extended over time, with or without fixed maturities;
16. **"Risk controls":** second-tier controls intended to facilitate efforts to define risk measurement methodologies, verify compliance with the limits assigned to the various operational structures, manage the compatibility of the operations of the various line units with the risk/return goals assigned to them;
17. **"Compliance controls":** second-tier controls intended to verify the compatibility of activities with each applicable provision, including with respect to laws, the charter, supervisory regulations, and internal regulations, including with reference to the prosecution of the financial crime of money laundering, usury, terrorist financing, and other financial offences;
18. **"First tier or line controls":** verification procedures carried out by a person implementing a particular activity, whether by a person who is responsible for supervision, generally in the context of the same organizational structure; these are carried out by the same line organizational structures or are incorporated into automated procedures, or executed in the context of back-office activities;
19. **"Second-tier controls":** controls entrusted to organizational structures other than operational structures;
20. **"Accounting control":** function described by Article 68 of the Corporations Act and governed by Article 34 of the LISF;
21. **"Qualified counterparts":** persons belonging to one of the following categories:
    1 authorized parties;
    2 foreign parties which, under rules and regulations currently in force in their own parent country, engage in activities performed by the parties referred to in item 1;
    3 issuers of financial instruments listed on regulated markets;

4 firms meeting at least two of the following requirements:

I) total balance-sheet assets exceeding Euros 5 million;

II) annual billings exceeding Euros 10 million;

III) net worth exceeding Euros 500,000;

5 States, central banks, international and supranational institutions.

22. **"Non performing loans (NPL)":** all bad loans, problem loans, restructured loans, past due and/or overdue loans, and unsecured loans to country at risk, as defined below;

23. **"Problem loans":** the entire exposure of cash loans and off-balance-sheet loans to parties in temporary situations of objective difficulty, where such difficulty is expected to be resolved in a reasonable period of time. This is irrespective of any real or personal guarantees provided to cover the exposures. The entire exposure includes interest recorded and other items on hold whose definitive allocation in certain, even if they are momentarily allocated to temporary accounts. The following are also recorded, unless the conditions are met for their classification under bad loans:

- exposures to issuers that have not accurately honoured their payment obligations (principal or interest) relating to debit instruments;
- the value of residual debt (exposed among fixed asset ) for active financial leasing increased by the unpaid instalments for past due rents and moratory interest related to the relationship;
- loans to individuals, including those fully backed by mortgages, where enforcement actions have been initiated for recovering loans;
- exposures not classified as bad loans (see infra), which include with the following past due and unpaid, even if only partially:

a) 3 semiannual instalments or 5 quarterly instalments or 7 monthly instalments for financings with original term not exceeding 36 months;

b) 2 semiannual instalments or 3 quarterly instalments or 5 monthly instalments for financings with original term equal to or less than 36 months;

c) 1 annual instalment past due by at least 6 months.

24. **"Bad loans":** the entire exposure of cash loans and off-balance sheet loans towards insolvent parties, even if the insolvency has not been ascertained in court, or who are in substantially comparable situations, regardless of the expected losses and any restructuring of such loans. The existence of any guarantees (collateral or personal) to protect the exposure is disregarded. Exposures to public entities in financial distress are included, as well as those resulting from lease agreements terminated due to breach by the lessee, until the new financial leasing of such assets to another lessee or the sale of such assets to third parties, with the subsequent recovery of the credit within the limits of the sum collected from the sale or calculated in a new lease agreement, regardless of the repurchase of the full possession of the asset and without prejudice to any termination of any claim by means of a settlement agreement, which would provide for the *datio in solutum*, by the former lessee in favour of the former lessor, of the economic counter value, determined by an expert, of its right to the repayment of any capital gains

resulting from the sale or leaseback of the asset, with full and mutual settlement effect. The entire exposure includes the interest recognised and any costs incurred for the collection activities;

25. **"Unsecured loans to country at risk":** the entire exposure of unsecured cash loans and off-balance-sheet loans to parties belonging to countries in Zone B;

25 bis. **"Restructured loans":** cash and "off balance sheet" exposures for which a financial company, due to the worsening of the economic-financial conditions of the borrower, accepts to modify the original contractual conditions (such as a rescheduling of the terms, reduction of the debt and/or of interest etc.) thus generating a loss. Any exposures to enterprises for which the cessation of business activities has been decided (such as, voluntary liquidation or similar situations) are excluded. Any exposures the anomaly of which is ascribable only to profiles related to the country risk are also excluded from the report.

The requirements related to the "worsening of the economic-financial conditions of the borrower" and to the existence of a "loss" are deemed to be satisfied if the restructuring is related to positions which have already been classified as loans "on watch list" or as expired and/or overdue loans. Restructured loans must be recognised as such up until the closure of the relations subject matter of the restructuring. The financial company may waive such rule if, after the lapse of at least two years from the date of execution of the restructuring agreement, it certifies by means of a grounded resolution of the competent corporate bodies, that the full solvency of the borrower has been restored and that there are no outstanding debts on any of the facilities.

Notwithstanding the general criteria for the classification of the loans as non performing or on watch list, the financial company is required, upon occurrence of the first default of the borrower, to classify the entire exposure amongst non performing loans or loans on watch list, depending on the degree of the anomaly of the borrower.

Any restructuring of outstanding loans to persons classified as non performing is assumed to be realised for settlement purposes and thus do not fall into the definition of restructured loans but are considered as non performing. The same principle is applied to the restructuring of loans classified as on watch list, if the renegotiation of the contractual conditions actually represents a repayment plan for the loans (settlement purposes). In this last instance, the financial company is also required to verify the existence of the conditions for the classification of the position towards the client amongst those non performing.

In case of total restructuring of loans on watch list, carried out other than for settlement purposes, the entire exposure to the borrower must be classified as restructured. Conversely, in case of partial restructuring of exposures on watch list, the entire position continues to be classified in the original category. If the restructuring (total or partial) is made on loans classified as "performing" or expired/overdue, the entire exposure to the borrower must be classified as restructured;

26. **"Past due and/or overdue loans":** the entire exposure to customers holding individual cash and off-balance-sheet loans, other than bad loans and problem loans, which are past due or overdue on an ongoing basis for over 90 days, if said loans represent over 20% of the total exposure, understood as

sum of the cash and offbalance loans, debt securities subscribed by the financial company, as well as credit positions on derivatives. The following formula is applied to past due loans:

(debts past due by over 90 days – moratory interest) / total exposure.

Specifically, in order to record exposures paid back in instalments as "past due", the unpaid instalment with the greatest delay must be considered.

The following formula is applied to overdue loans:

Sum [(used-moratory interest)-(operating credit line), if >0] / total exposure.

However, past due and overdue positions may not be offset by any margins available on other credit lines granted to the same debtor.

In the event of overdue loans occurring after the amount of the credit line is extended, the calculation of the days the loan is overdue starts from the date on which the extension of the credit line was formally agreed.

If the ratio set forth above exceeds 20 percent of the total exposure, the entire exposure shall be classified as past due and/or overdue loan;

27. **"Sanctions Decree":** Decree 76 of 30 May 2006 as amended;
28. **"Identity document":** document, containing the photograph and particulars of an individual and issued by a domestic or foreign public authority;
29. **"Financial year":** calendar year;
30. **"Corporate officers":** individuals serving as directors, statutory auditors or general managers;
31. **"Indirect exposure":** exposures undertaken by financial companies through subsidiary financial enterprises;
32. **"Medium-term and long-term financings":** loans with a residual life not exceeding 18 months;
33. **"Short-term financings":** loans with a residual life not exceeding 18 months;
34. **"Particulars":**
    a) full name, place and date or birth, home address, and nationality of an individual;
    b) name, including legal form, address and registered and administrative offices, ID code assigned by the legal system of the country where the entity is located, for parties other than individuals;
35. **"Major exposures":** a financial enterprise's risk positions vis-à-vis a counterpart or group of connected counterparts when the overall exposure (cash credit and signature loans; direct and indirect) exceeds 10 percent of the total regulatory capital;
36. **"Financial group":** group or conglomerate, within the meaning of Articles 53 and 60 of the LISF, which cannot be classified as a bank group under Reg. 2007-07 as amended, whose capital assets are represented – in an amount not less than 50 percent – by balance-sheet assets of financial enterprises;
37. **"Group of connected clients or connected counterparts":** two or more persons constituting a unified set from the risk standpoint inasmuch as:
    1 one of them has the power to control the other or others ("legal" connection);
    2 there are between the persons in question links of such a nature that, in all probability, if one of the persons were to find themselves in financial difficulty, the other party—or all of

the other parties - would likewise find it difficult to pay back their debts ("economic" connection). As an example of this interconnection, the financial enterprise may take account of the following factors:

I) shared ownership;

II) shared directors or executives;

III) guarantee relationships;

IV) direct interdependence from the production and/or business standpoints which cannot be replaced in the short term;

V) parent companies in common;

38. **"IAS":** International Accounting Principles adopted by the IASB, headquartered in London;
39. **"Financial enterprises":** Sammarinese or foreign parties which, on an entrepreneurial basis, engage in activities included in the list referred to in Annex 1 of the LISF, or comparable activities, and are subject to Supervision;
40. **"Non-financial enterprises":** Sammarinese or foreign enterprise not meeting the definition of financial enterprises;
41. **"Instrumental enterprise":** a firm that engages in one or more non-financial enterprises that are instrumental in the fulfilment of the activities performed by the originator financial enterprise and solely on behalf of the originator financial enterprise;
42. **"Independent intermediary":** authorized person, whether as a financial promoting party, or as an insurance or reinsurance intermediary under the LISF, and operating in the Republic of San Marino on behalf of foreign financial enterprises authorized to provide services without permanent branches, provided that this is done on an independent basis; the intermediary shall instead be characterized as a branch in cases where the following criteria are met with no exceptions;
    1 it operates on an exclusive basis for one single lead financial enterprise;
    2 it has authority to negotiate transactions with third parties;
    3 it has the power to obligate the lead financial enterprise;
    4 it operates on an ongoing basis;
43. **"Invitation to enter into contracts":** proposal from the financial enterprise that is capable of unconditional acceptance inasmuch as it contains all the terms and conditions of the contract, as an expression of an unequivocal will, which reflects a decision and not a mere preparedness or inclination;
44. **"ius variandi":** the financial enterprise's right to unilaterally modify the clauses of a contract;
45. **"Corporations Act":** Law 47 of 23 February 2006 as amended;
46. **"LISF":** Law 165 of 17 November 2005 as amended;
47. **"Active financial leasing":** leasing contracts in which the financial enterprise is the lessor;
48. **"Passive financial leasing":** leasing contracts in which the financial enterprise is the lessee;
49. **"Gross mediation margin":** gross intermediate income determined as the algebraic sum of the following items of the profit and loss account in the financial statement format:

GMM= "revenues from sales and services" + "financial revenues" - "securities trading costs" - "financial costs" – "amortisation of tangible fixed assets leased";

50. **"Off-site offering":** offering made at a location different from the financial enterprise's HQ or branches;
51. **"Vendor":** individuals or legal persons to whom the financial enterprise outsources corporate functions or physical activities integrated into typical lending production processes;
52. **"Related party":**
    1 person holding an equity interest in the capital of the financial enterprise and who exercises rights inherent therein, in addition to a person who exercises control of the financial enterprise in some fashion, including on a joint basis;
    2 persons who are in a position to appoint, including on a basis of agreements, one or more members of the Board of Directors or supervisory boards of the financial enterprise or parent company;
    3 corporate officers of the financial enterprise or of the parent company;
53. **"Equity stakeholders":** parties that, directly or indirectly, that is to say as parties in control of legal persons, hold, for their own account, significant holdings in the share capital;
54. **"Controlling interest":** a stake conferring control within the meaning of Article 2 of the LISF;
55. **"Substantial interest":** a stake, conferring voting rights, that exceeds 5 percent of the corporate capital;
56. **"Senior management staff":** executives, officials, or employees placed in charge of key organizational units and entrusted with significant powers of decision-making and representation;
57. **"Provision of services without permanent establishment":** exercise of reserved activities by a foreign financial enterprise in San Marino, or by a Sammarinese financial enterprise abroad, through a temporary organization, or through the use of distance communication technologies, or through intermediaries or independent agents;
58. **"Collection of savings":** collection of money from the public with the obligation to give it back;
59. **"Branch of business":** branches or, in general, any cohesive set of operational activities, that are the focus of contractual relationships and employer-employee relationships within the context of a specific organizational structure;
60. **"Relationships having potential financial impact":** employer-employee relationships or ongoing or periodic relationships of a professional nature, or else other relationships "intuitu personae", that are capable of influencing a person's independence as a corporate officer of the financial enterprise ;
61. **"Legal relationships identifiable as a block":** loans, debts, and contracts that present common distinguishing features that may be found in the technical form, in the recipient economic sectors, in the nature of the counterpart, in the geographic area, or in any other shared feature that makes it possible to precisely identify a homogeneous set of legal relationships;
62. **"Substantial crimes":** all crimes against property and against the public economy, with the exception of misdemeanours and special crimes specified by the LISF and the current laws in force on the

prevention and combating money laundering and terrorist financing, as well as on the matter of cross-border money transfers and equivalent instruments;

63. **"General Internal Regulations" or "G.I.R.":** document approved and updated by decision of the Board of Directors, containing:
    a) a description of the organizational structure of the financial company;
    b) the governance of the internal audit function and a description of the system of internal controls;
    c) the internal procedures for identification, recording and reporting for anti-money laundering purposes;
    d) the entire process regarding loans (1-review of loan application, 2-disbursement of credit, 3-monitoring of exposures, 4-interventions in the event of anomalies, and 5-auditing of credit lines);
    e) investment in financial instruments on own behalf;
64. **"Branch managers":** two main representatives of the first branch of a foreign financial enterprise on Sammarinese territory;
65. **"Auditors":** persons entrusted with the auditing of accounts on behalf of an audit firm;
66. **"Operational risks":** risks of losses resulting from inadequate internal procedures, human errors, defects in operating systems or else from events of external origin. This includes legal risk and reputational risk;
67. **"Strategic/managerial risks":** quantifiable risks whose behaviour guides corporate strategies; these include inter alia rate risks, market risks, liquidity risks, and credit risks;
68. **"Supervisory reports":** periodic and non-periodic collection of information prepared in compliance with the corporate accounting data and/or data in the information-management supports that, within the scope of the information supervision powers referred to in Art. 41, paragraph 1 of LISF, are transmitted to the Supervision Department.
69. **"SICAV":** open-ended investment company;
70. **"Lending system":** set of banks and financial companies operating on Sammarinese territory;
71. **"System of internal controls":** set of rules, procedures, and organizational structures designed to ensure compliance with corporate strategies and safeguard efficiency and effectiveness in corporate procedures, preserve the value of assets and ensure protection from losses, while ensuring the reliability and integrity of accounting and management systems and the conformity of the financial company's operations with the law, its charter, supervision regulations, and the financial company's own internal procedures;
72. **"Audit firm":** Sammarinese firm enrolled in the Register pursuant to Article 7 of Law 146 of 27 October 2004, or authorized foreign company under Article 33, paragraph 3, of the LISF;
73. **"Financial companies":** companies authorized to carry out, under the form of a business, the activities under letter B of Annex 1 to the LISF;
74. **"Financial companies with limited operational powers":** financial companies to which the following restrictions apply:
    a) total risk-weighted assets for supervision purposes may not exceed Euros 50 million;

b) the collection of bonds from the public is subject to the same quantitative limits and the same authorization procedures set out for non-financial issuers;

c) the only reserved activity they may carry out is lending, thereby excluding the reserved activities under letters L and D6 of Annex 1 to the LISF;

d) lending, pursuant to letter B of Annex 1 to the LISF, can be exercised with the exception of the business branch concerning the "issue of unsecured collateral and commitments";

e) operations outside of San Marino, both through opening branches and providing services without permanent establishment, is prohibited pursuant to Article 74, paragraph 2 of the LISF;

75. **"Company in default":** Companies subject to bankruptcy protection or to extraordinary proceedings or foreign procedures equivalent to those regulated respectively by:
    1 Law 17 of 15 November 1917, and Article 115 of the Corporations Act;
    2 Part II, Title II, Chapters I and II of the LISF;
76. **"Pre-existing company":** company authorized under Article 156, paragraph 1 of the LISF, other than banks;
77. **"Persons connected to a related party":**
    1 firms controlled by a related party;
    2 firms at which related parties perform management, senior management or supervisory functions, excluding companies in which the financial company holds an interest where corporate officers coincide in the interest of and by designation of the financial enterprise ;
78. **"Controlling persons":** individuals or, in the absence thereof, persons of other legal nature who, ultimately, including in conjunction with other persons, exercise control over legal entities, including through direct or indirect subsidiaries, interposed fiduciary companies or another interposed party, under the LISF;
79. **"Promoting parties":** individuals or legal entities intending to acquire for themselves corporate capital of a financial company that is in the process of being established;
80. **"Applicants":** individuals or legal entities filing an application with the Central Bank intended to secure authorization to acquire substantial interests in the capital of previously established financial company on their own behalf;
81. **"BCSM Statutes":** Law 96 of 29 June 2005 as amended;
82. **"Branch":** branch of a financial enterprise primarily concerned with handling direct transactions with the public;
83. **"Distance communication technologies":** techniques for making contact with customers in ways that do not involve advertising, and that do not entail the simultaneous physical presence of the customer and the financial enterprise or representative of the financial enterprise;
84. **"Beneficial owners":** individuals falling within the definition pursuant to Article 1, paragraph 1, letter r) of Law no. 92 of 17 June 2008 as amended;
85. **"Representative office":** structure which the financial enterprise uses for the sole purpose of engaging in promotional or market research activities;

86. **"Generalized unilateral changes":** changes applied in a generalized way to all long-term contracts of the same kind or to one homogeneous category of transactions or services.

2. [Tr.: text indicates that terms of art in the Italian source are printed upper case.]

3. For all terms not covered by the definitions in paragraph 1 above, the reader is invited to consult the definitions and notions contained in the articles of the LISF.

## Title II
## Objectives and structure of the Regulations

**Article I.II.1 Purpose**

1. The primary purpose of these Regulations is to combine as a single comprehensive set of regulations governing the conduct of LENDING by FINANCIAL COMPANIES in the Republic of San Marino (RSM).

2. As part of the reorganization process, the governing provisions have been supplemented, amended and updated, while conforming to the particular features of the Sammarinese legal system and the pre-existing LENDING SYSTEM.

**Article I.II.2 Completeness**

1. For some of its parts, the Regulations refer to rules established later by the CENTRAL BANK, inasmuch as the matters to be governed suggest the need to adopt separate provisions because of their scope and complexity.

**Article I.II.3 Preparation**

1. In compliance with the terms of Article 38 Para. 5 of the LISF and the associated implementing Regulations No. 2006-02, these Regulations have undergone prior public consultation.

**Article I.II.4 Structure**

1. The Regulations are divided into 11 Parts, each of which is divided into Titles. Each Title is divided into Articles, which are sometimes grouped into Chapters.

2. An Article, which represents the basic unit, is numbered with a compound number formed of three sub-numbering units, separated by a period: the first number indicates the Part, the second indicates the Title, and the third indicates the Article.

# PART II
# ACTIVITIES OF FINANCIAL COMPANIES

## Title I
## Introduction

**Article II.I.1 Legislative basis**

1. The provisions of this Part have their legislative basis in Article 4 of the LISF.

**Article II.I.2 Administrative sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 4 and 18.

## Title II
## Activities of Financial Companies

**Article II.II.1 Entities for which lending is reserved**

1. FINANCIAL COMPANIES are authorized to carry out, under the form of a business, LENDING as identified under letter B of Annex 1 to the LISF;

2. Banks carry out LENDING as an activity naturally included in the banking activity indicated under letter A in Annex 1 to the LISF.

**Article II.II.2 Abuse**

1. The conduct of LENDING by enterprises other than FINANCIAL COMPANIES shall be punished under the terms of Article 134 of the LISF.

**Article II.II.3 Reserved activities**

1. In addition to LENDING, FINANCIAL COMPANIES may carry out, among reserved activities, the acquisition of equity interests, marked by letter L in Annex 1 to the LISF.

2. FINANCIAL COMPANIES may carry out, among reserved activities, those market by letter D6 in Annex 1, provided that:

a) placement regards own bonds issued or are carried out, under Article 4, paragraph 4 of the LISF, as an accessory service to the exercise of the activities under letter L;

b) authorization from the CENTRAL BANK has been validated by permission from the Congress of State pursuant to Article 12 of the LISF.

3. All other reserved activities, with the exception of the three activities set forth above, cannot be carried out by FINANCIAL COMPANIES, under Article 4 of the LISF.

**Article II.II.4 Other permissible activities**

1. FINANCIAL COMPANIES may conduct the following Permissible Activities:

a) Real estate management activities relating to the real estate acquired for the FINANCIAL COMPANIES functional use, within the meaning of Article VII.VII.1 and for the recovery of claims under the meaning of Article VII. VII. 2;
b) Preparation and management of information technology services for the enterprise's own use or the use of subsidiaries or parent companies;
c) Studies, research, analysis, in the fields of economics and finance;
d) Preparation, transmission, communication of economic and financial data and information;
e) Advisory services for businesses in regard to financial structure, industrial strategy and related issues, in addition to consulting and services pertaining to mergers and acquisitions;
f) Advisory services in regard to investments in financial instruments placed under Article II.II.3, paragraph 2, above;
g) leasing of safety deposit boxes and sealed safekeeping accounts;
h) the professional exercise of the position of trustee, also in San Marino where authorized by the CENTRAL BANK under Executive Decree no.49/2010 as amended.

**Article II.II.5 Activities permissible subject to authorization**

1. The conduct of additional activities above and above those specified in Article II.II.4, except for those governed by special laws, may be authorized by the CENTRAL BANK at the request of the interested FINANCIAL COMPANIES, who must give evidence of the "connected," "instrumental," or "auxiliary" function of these activities in relation to LENDING.

2. Authorization must be granted provided it does not conflict with the sound and prudent management of the FINANCIAL COMPANIES.

3. Authorization shall be deemed granted if the CENTRAL BANK has not declared its rejection thereof within sixty days after receiving the application.

4. The elapsing of the above-mentioned period of time may be suspended in the event that additional information and documentation are requested.

**Article II.II.6 Instruments for Collection of Savings**

1. FINANCIAL COMPANIES, also for the purpose of procuring funding required to carry out their core business, may collect savings from the public only through the issue of bonds, in compliance with the general rules set forth in the CORPORATIONS ACT and the special rules contained in Title IV, Part II, of Regulation no. 2007-07, without prejudice to the provisions of Article I.I.2 for FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS.

# PART III
# AUTHORIZATION TO CONDUCT LENDING

## Title I
## Introduction

### Article III.I.1 Legislative basis

1. The provisions under this Part have their legislative basis in Articles 6, 7, 8, 9, 10, 13, 14 and 75 of the LISF.

### Article III.I.2 Administrative penalties

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 4, and 18.

## Title II
## Authorization to form a company

### Article III.II.1 Applicants

1. An application for authorization to conduct LENDING must be presented by the PROMOTING PARTIES of the economic initiative.

### Article III.II.2 Form of application

1. The application under the preceding Article must be in writing and bear the signature of all PROMOTING PARTIES, irrespective of the share of corporate capital they intend to acquire via direct subscription or through fiduciary companies or another person acting as an agent on their behalf.

### Article III.II.3 Content of application

1. The application must contain all useful information for purposes of presenting the project, and must be accompanied by the following documents:

a) draft of the instrument of incorporation, including the charter;
b) an accounting receipt issued at the time of the establishment of the escrow deposit by a Sammarinese bank signed by the HEAD OF THE EXECUTIVE STRUCTURE;
c) a true copy of an IDENTIFICATION DOCUMENT that is currently valid:
   - of all PROMOTING PARTIES who are individuals;
   - of the CORPORATE OFFICERS of all PROMOTING PARTIES which are legal entities;
   - of the initial CORPORATE OFFICERS;

d) originals of the certifications required for purposes of verification of the requirements under Articles 17 and 18 of the LISF relating to all PROMOTING PARTIES;
e) originals of the certifications required for purposes of verification of the requirements of good repute, professional qualifications and independence for the initial CORPORATE OFFICERS;
f) program of activities in Italian or in English.

2. The certifications indicated under letters d) and e) must furthermore have been issued not more than 6 months prior to the date on which the application is submitted.

**Article III.II.4 Declaration of controlling parties**

1. In the event that the PROMOTING PARTY is not a individual, the legal representative of the PROMOTING PARTY must provide, if applicable separately from the application under Article III.II.1, a written declaration authenticated by a Sammarinese notary or signed directly before an official of the CENTRAL BANK, indicating all Identifying Particulars for the CONTROLLING PARTIES, where existing, or, indicating the inexistence of such parties.

2. The following must be annexed to the declaration under the previous paragraph for each individual indicated therein, either as CONTROLLING PARTIES or directors of any CONTROLLING PARTIES which are not individuals:

a) A copy of the IDENTIFICATION DOCUMENT that is currently valid;
b) The certifications under Article III.II.3, paragraph 1, letter d).

**Article III.II.5 Beneficial Owners**

1. Taking into account the provisions of Article 17, paragraph 5 of the CORPORATIONS ACT for other purposes, in the cases pursuant to the previous paragraph where, under the current anti-money laundering provisions in force, there are additional BENEFICIAL OWNERS other than the CONTROLLING PARTIES, as defined by these Regulations, the PROMOTING PARTY must also indicate these BENEFICIAL OWNERS in the above declaration, attaching, for each one, a copy of an IDENTIFICATION DOCUMENT that is currently valid and the originals of the certifications required for the purposes of verification of the requirements under Article 18 of the LISF.

**Article III.II.6 Methods for submission of application**

1. The methods for submitting the application indicated under Article III.II.1 and the supplemental declaration, if any, under Article III.II.4 shall be:

a) Mailing by registered mail with return receipt;
b) Hand delivery. In this case, the CENTRAL BANK shall issue an attestation bearing the filing date.

2. The application shall be addressed to the Supervision Department of the CENTRAL BANK of the Republic of San Marino.

**Article III.II.7 Time limit for decision**

1. The CENTRAL BANK shall give written notice, sent to the address indicated in the application, of its acceptance or denial of authorization within 60 days from the date of receipt of the application.

**Article III.II.8 Suspension of time limit**

1. The time limit under the preceding Article may be suspended by the CENTRAL BANK in the following cases:
   a) Any of the PROMOTING PARTIES, or their CONTROLLING PARTIES, reside or have their own registered offices or principal place of business in a foreign country;
   b) The documents and certifications indicated under letters c), d), and e) of Article III.II.3 or the declaration indicated under Article III.II.4 or its annexes are not written in the Italian or English language.

2. The PROMOTING PARTIES shall be notified in writing, sent to the address indicated in the application, regarding the suspension and reinstitution of the time limits.

3. The suspension of the time limit shall in no case extend the times for issuing a decision beyond the maximum limit of twelve months from the date of receipt of the application.

**Article III.II.9 Interruption of time limit**

1. In cases where the CENTRAL BANK requests information and/or documents from the PROMOTING PARTIES to supplement the application, the time limit indicated under Article III.II.7 shall be interrupted within the meaning of Article 7 Para. 3 of the LISF.

2. The interruption must be expressly indicated in the written communication requesting supplementation of the application; absent such an indication, the request shall not produce the effect of interrupting the time limits for issuing a decision.

3. In the event of the interruption of the term, if within ninety days the CENTRAL BANK should not receive the information and/or supplementary documentation referred to in the previous paragraph 1, the application is understood, for all intents and purposes, as lapsed.

**Article III.II.10 Efficacy of the authorization decision**

1. The authorization decision issued by the CENTRAL BANK is immediately effective, as both LENDING, and the acquisition of equity interests, respectively market by the letters B and L in Annex 1 of the LISF, are excluded from the list set forth in Article 12, paragraph 1 of the LISF.

## Title III

## Minimum requirements

**Article III.III.1 Criteria for drafting the instrument of incorporation**

1. Pursuant to Article 13 letter a) of the LISF, the draft of the instrument of incorporation of the company to be formed shall indicate:

a) the PARTICULARS of the shareholders;
b) the total nominal value of the share for which each of the shareholders has subscribed, including in terms of percentage of the total corporate capital;
c) the PARTICULARS for members of the managing and supervisory bodies;
d) the AUDIT FIRM engaged to AUDIT the accounts and certify the financial statements.

2. The charter, as an integral part of the instrument of incorporation, must comply with the following criteria:

a) the corporate name must be such as to not generate any risks of confusion:
   - with other companies already operating in the LENDING SYSTEM;
   - with activities not falling within the corporate purpose;
   - with the geographical limits set for the exercise of the activities;
b) The shares representing the corporate capital may only be registered shares, and must have a face value per share equal to one Euro or multiples thereof;
c) The registered office and principal place of business must be precisely identified with reference to the primary municipality ("Castello") and sub-locality ("Località") where it is situated;
d) The company must be managed by a Board of Directors comprising at least three directors, one of whom shall serve as President and shall be empowered as the legal representative of the company;
e) Oversight over the operations of the company and its boards shall be entrusted to a Board of Auditors comprising three or five auditors, one of whom shall serve as President, with no alternate auditors;
f) The duties of the Board of Auditors must expressly include the duty of overseeing compliance with the Regulations of the CENTRAL BANK of the Republic of San Marino;
g) The duty of AUDITING accounts and certifying the annual financial statements must be entrusted to an AUDIT FIRM;
h) The methods of appointment and dismissal of members of any management bodies with more limited powers (Executive Committees) and directors performing delegated functions, the matters which may be delegated, the determination of their powers and scope of representation, shall be dealt with in appropriate regulations in the Charter;
i) Provision must be made for the corporate body (Meeting of Shareholders or Board of Directors) that is to be responsible for appointing the HEAD OF THE EXECUTIVE STRUCTURE;
j) The minimum amount of the allocation of profits to ordinary reserves shall not be less than the minimum established by the applicable laws and regulations for prudential supervision in matters pertaining to capital adequacy;

k) Amounts set aside for the ordinary reserve shall be usable only to cover losses and for future increases in corporate capital;
l) In the event of changes in the charter, the President must have the duty of presenting to the Shareholders' Meeting the authorization issued by the CENTRAL BANK, in conformity with the laws and regulations for prudential supervision in matters of changes in the charter;
m) In the event that CORPORATE OFFICERS cease to meet the requirements of good repute or independence, then they shall be required to notify the Board of Directors and the Board of Auditors immediately;
n) In cases of conflict of interest by members of the Board of Directors or members of the Board of Auditors, notwithstanding the provisions of Article 54 of the CORPORATIONS ACT, provision shall be made for this matter to be discussed and deliberated upon in the absence of the member concerned;
o) In the event of clauses pertaining to the acceptance of new shareholders referred to the board for decision, the Charter shall prescribe the objective criteria pursuant to which the application should be assessed;
p) Provision shall be made for the requirement to transmit to the CENTRAL BANK a true and complete copy of the minutes of each Meeting of Shareholders;
q) For all matters not covered in the charter, reference must be made to the LISF and the implementing Regulations issued by the CENTRAL BANK, as well as the CORPORATIONS ACT by way of supplement.

3. Aspects not covered by the specific provisions under the preceding letters may be decided at will, subject to compliance with the applicable laws.

**Article III.III.2 Legal form**

1. Pursuant to Article 13 letter b) of the LISF, FINANCIAL COMPANIES must take the form of a stock corporation.

**Article III.III.3 Registered office**

1. Pursuant to Article 13 letter c) of the LISF, FINANCIAL COMPANIES must have their registered office and, if not identical, their principal place of business, within the territory of the Republic.

**Article III.III.4 Corporate capital**

1. Pursuant to Article 13 letter d) of the LISF, FINANCIAL COMPANIES must have a corporate capital, fully subscribed and paid in, of not less than Euros 2 million. For FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, the threshold is decreased to Euro 1 million.

2. Contributions to the initial share capital other than contributions in cash are not allowed. On the contrary, contributions in kind are allowed for the subsequent increases or reconstructions of the share capital, in compliance with the provisions of the CORPORATIONS ACT, and subject to the prior verification, by the

CENTRAL BANK, of the instrumentality of the assets to be contributed compared to the economic activity resulting from the corporate purpose of the receiving company.

**Article III.III.5 Escrow deposit**

1. The PROMOTING PARTIES must pay the escrow deposit within the meaning of Article 13 letter e) of the LISF into an appropriate account at a Sammarinese bank which is not a PROMOTING PARTY.

2. The amount of the escrow deposit shall not be less than the larger of the two amounts indicated below:

a) one-half the corporate capital of the FINANCIAL COMPANY to be formed, as reported in the draft of the instrument of incorporation appended to the application for authorization;

b) at least equal to the minimum amount of corporate capital for FINANCIAL COMPANIES as established in the preceding Article.

3. The escrow deposit shall be released by the CENTRAL BANK in favour of the newly formed FINANCIAL COMPANY within fifteen days after receipt of the instrument of incorporation under the terms of Article 14 of the LISF, subject to notification by the newly established FINANCIAL COMPANY of the identifying details for a relationship established in its own name on the books of a Sammarinese bank, into which, via a bank transfer and by way of a paying in of corporate capital, is to be credited with the amounts previously deposited by the PROMOTING PARTIES.

4. In accordance with the procedures indicated above, the CENTRAL BANK shall provide appropriate written notification that the escrow account has been released and that the funds have been transferred to the depositary bank.

**Article III.III.6 Requirements for promoters**

1. Pursuant to Article 13, letters f) and g) of the LISF, the PROMOTING PARTIES and their CONTROLLING PARTIES must meet the requirements under Part V, Title II of these Regulations.

2. In the case of corporate PROMOTING PARTIES, proof shall be provided that requirements as to good repute (Chapter I) have been met in regards to their CONTROLLING PARTIES under the previous paragraph, their directors or persons in substantially equivalent positions, as well as the BENEFICIAL OWNERS under Article III.II.5 above.

3. In the case of corporate CONTROLLING PARTIES, proof shall be provided that requirements as to good repute (Chapter I) have been met in regards to their directors or persons in substantially equivalent positions.

**Article III.III.7 Requirements for Corporate Officers**

1. Pursuant to Article 13 letters g) and h) of the LISF, anyone indicated in the authorization application as a CORPORATE OFFICER of the FINANCIAL COMPANIES to be formed must meet the requirements of good repute, professional qualifications and independence specified in Part IV, Title II of these Regulations.

**Article III.III.8 Program of activities**

1. The program of activities specified under letter i) of Article 13 of the LISF must be in writing in the Italian or English language, signed by all PROMOTING PARTIES, and must provide clear and detailed information regarding the following minimum points for the first three fiscal years of the company:

a) Intended investments in order to start up operations, with particular regard to any intangible fixed assets, and to the acquisition of the registered office and principal place of business and any other permanent establishments, the associated equipment and furnishings, and electronic apparatus and security equipment;
b) A time schedule for the aforesaid investments;
c) The products and services it intends to offer, specifying their times of activation, type of customers and the markets to which they will primarily be addressed, as well as distribution channels;
d) An organization chart and function flow chart of the FINANCIAL COMPANY, with associated structure of management powers;
e) The SYSTEM OF INTERNAL CONTROLS, identifying, in particular, those who will perform the functions of internal auditing, compliance officer and risk manager;
f) Any functions that will be outsourced, and identification of those to whom they will be outsourced;
g) Architecture of the information and accounting systems, principal IT procedures intended for use, and software vendors;
h) Professional qualifications of SENIOR MANAGEMENT STAFF;
i) Data and document storage procedures, both on paper and electronic, and protection systems to be adopted to ensure their preservation and confidentiality;
j) Projected financial statements.

## Title IV
## Interim obligations

**Article III.IV.1 Forming companies**

1. PROMOTING PARTIES, having received the authorization decision under Article III.II.7, shall form the FINANCIAL COMPANY in compliance with the provisions of the CORPORATIONS ACT and in conformity with the indications of the CENTRAL BANK for the purposes of said authorization.

**Article III.IV.2 Transmission of the instrument of incorporation**

1. Pursuant to and in accordance with Article 14 of the LISF, within 5 days from the execution of stipulation of the instrument of incorporation (registration, filing, etc.), the legal representative of the newly-established FINANCIAL COMPANY shall send a true copy thereof to the CENTRAL BANK, with the methods prescribed under Article III.II.6, attaching the certificate of registration and good standing as proof of his/her position.

**Article III.IV.3 Permission from the Congress of State**

1. In the cases where authorization includes the activities under letter D6 of Annex 1 to the LISF, the incorporation of the company pursuant to Article III.IV.1 above, is subject to the issue of permission from the Congress of State, pursuant to and in accordance with Article 12 of the LISF.

2. In the above cases, the procedure includes the following steps:

a) At the time of notification of acceptance of the application indicated under Article III.II.7, the CENTRAL BANK shall send a copy of the decision, with an attached copy of the application, to the Congress of State by way of the Credit and Savings Committee;
b) The Congress of State shall have the final decision on whether to grant or refuse its permission;
c) Within ten days after receiving the resolution of the Congress of State, the CENTRAL BANK shall arrange for a copy thereof to be sent to the applicants, indicating how they are to proceed next in order to obtain approval to begin operations.

## Title V
## Approval to begin operations

**Article III.V.1 Introduction**

1. The FINANCIAL COMPANY may begin its own activities only after receiving from the CENTRAL BANK the required approval as indicated under Article 9 of the LISF.

**Article III.V.2 Terms of the application**

1. The application for approval to begin operations must be presented by the FINANCIAL COMPANY within 12 months of enrolment in the Register of Corporations.

**Article III.V.3 Form of the application**

1. The application under the preceding Article must bear the signature of the President of the Board of Directors and the President of the Board of Auditors.

**Article III.V.4 Content of the application**

1. The application must contain all useful information for purposes of acceptance, and must be accompanied by the following documents:

a) True copy of the instrument of incorporation, including the charter, where amended as compared to that under Article III.IV.2;
b) The original of the certificate of registration and good standing ("*certificato di vigenza*");
c) A copy of an attestation of license, with an attached declaration for purposes of Article III.V.9 letter e);
d) The original of a signed attestation from the members of the Board of Auditors that the corporate capital has been fully paid in, with an attached copy of the formal accounting receipts issued by the depository bank;
e) A copy of the documents issued by the Labour Office regarding the hiring of the personnel needed for the phase of starting up activities;
f) Copies of any contracts involving partnership on a coordinated and ongoing basis, under Law no. 131 of 29 September 2005 as amended;
g) Curricula vitae of the human resources under letters e) and f), signed by the parties concerned;
h) A copy of the agreement regarding employment commitments, entered into with the Secretary of State for Labour;
i) A copy of any outsourcing contracts, complete with the minimum service levels and the controls for monitoring the VENDOR'S activities;
j) A copy of the contract with the AUDIT FIRM engaged to AUDIT the accounts and certify the financial statements;
k) A copy of the contract for acquisition of the registered office and principal place of business that was sent for purposes of obtaining the business license;
l) A copy of the license for purchase or use of the software and for information technology support.

2. Copies of the above-indicated contracts must include registration details.

**Article III.V.5 Changes and additions to the program of activities**

1. Any changes or additions to the program of activities indicated under Article III.III.8 must be reported in the approval application, which must furthermore contain a report on the status of implementation of the program with reference to the date on which the application is presented.

**Article III.V.6 Methods for submission of the application**

1. The methods for submitting the authorization application shall be:
a) Mailing by registered mail with return receipt;
b) Hand delivery. In this case, the CENTRAL BANK shall issue an attestation bearing the filing date.

2. The application shall be addressed to the Supervision Department of the CENTRAL BANK of the Republic of San Marino.

**Article III.V.7 Time limit for decision**

1. Within sixty days from the date of receipt of the application, or the subsequent date of completion of the application if the application is defective or incomplete, the CENTRAL BANK shall notify the requesting FINANCIAL COMPANY in writing as to whether approval has been granted or denied.

2. As a consequence of the granting of the approval, including for purposes of implementing the rules set forth in Part VII, the CENTRAL BANK shall forward to the FINANCIAL COMPANY the necessary information on its effective ownership structures, drawn from the application under Article III.II.1 as well as any supplementary declarations under Article III.II.4.

**Article III.V.8 Resubmission of application**

1. In the event that an application is denied, the FINANCIAL COMPANY may resubmit an application for approval, documenting the elimination of the reasons impeding approval.

2. In the event of a further denial, the CENTRAL BANK shall commence investigative proceedings intended to verify, for purposes of a possible revocation of authorization, the existence of any of the conditions indicated under Article 10 of the LISF.

**Article III.V.9 Minimum requirements**

1. The minimum requirements for obtaining approval shall be as follows:

a) to have, in stable form, human resources in sufficient number and with suitable professional qualifications to ensure sound and prudent management during the start-up phase of the LENDING ACTIVITIES;
b) To have, in stable and exclusive form, meaning not shared with other parties other than subsidiary FINANCIAL ENTERPRISES, even if gratuitous bailees or sub-lessees, a principal place of business suitable for the conduct of LENDING, with particular regard to accesses, installations and systems for protection against the risks of fire and theft;
c) To have suitable structures and strong facilities for keeping custody of valuables, documents with confidential content, and, where such a service is offered, safety deposit boxes;
d) To have adequate technological resources to process and store data, with particular regard to disaster recovery plans;
e) To have obtained a license without making use of the simplified procedure under Article 59 of Law No. 165 of 18 December 2003, or, in the contrary case, to have already met the requirements for the display of a license.

2. For purposes of verifying the requirements under letter e), the applicant FINANCIAL COMPANY must attach to the license attestation an appropriate declaration issued for this purpose by the competent government office.

**Article III.V.10 Inspections**

1. The CENTRAL BANK may also verify the existence of the requirements under the preceding Article by accessing the applicant FINANCIAL COMPANY.

**Article III.V.11 Notification that the enterprise has commenced operations**

1. A FINANCIAL COMPANY which, having obtained the authorization pursuant to Article III.V.1, has commenced operations, shall be required to provide the CENTRAL BANK with immediate written notification of this development.

# Title VI

# Activities of foreign entities

## Chapter I

## Branches of foreign financial companies

**Article III.VI.1 Requirements for authorization**

1. Issuance of authorization is subject to verification of the following conditions:

a) The existence in the foreign FINANCIAL COMPANY'S parent country of appropriate regulations with respect to supervision, including supervision on a consolidated basis, including activities conducted abroad;
b) The existence of agreements for the exchange of information with the Supervisory Authorities of the parent country of the applicant foreign FINANCIAL COMPANY;
c) Authorization and actual conduct, within the parent country, of the activities that the BRANCHES intend to conduct in the Republic of San Marino;
d) Compliance with conditions of reciprocity in the parent country;
e) Prior consent from the Supervisory Authority of the parent country for opening the BRANCH in San Marino and conducting the activities previously selected by the FINANCIAL COMPANY overseen by that Authority;
f) The existence of a capital endowment of not less than the minimum corporate capital established for Sammarinese FINANCIAL COMPANIES;
g) The presentation of a three-year program for the activities of the BRANCH;
h) Possession of the requirements of professional qualifications, good repute and independence on the part of the BRANCH OFFICERS.
i) possession of the authorization to carry out LENDING, even through the BRANCHES or through the PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT, granted in one or more of the

Equivalent Countries for the purpose of combating financial crime (money laundering, usury, terrorist financing, etc.) according to the list drawn up and updated by resolution of the Congress of State.

**Article III.VI.2 Application for authorization**

1. The application must contain all information considered useful for purposes of presenting the project, and must include the following documents as attachments:

a) A program of activities containing the information indicated in the following Article;
b) A copy of the charter and the instrument of incorporation of the parent company;
c) A copy of the single-entity financial statements and, where available, consolidated financial statements, for the past three financial years, accompanied by a note summarizing the organization into BRANCHES and FINANCIAL ENTERPRISES, as well as the operations, of the parent company or group to which the enterprise belongs;
d) Certificates pursuant to Article III.II.3 under letters d) and e) and a copy of the decisions by the management body that verified their validity, pursuant to Part IV of these Regulations;
e) A declaration by the Supervisory Authority of the parent country indicating its consent to the opening of the BRANCH in San Marino and to the FINANCIAL COMPANY's conducting its chosen activities, as well as an attestation that these activities are indeed also conducted by the parent company;
f) An attestation from the Supervisory Authority of the parent country regarding the soundness of assets and the adequacy of the organizational, management and accounting structures of the parent company or FINANCIAL GROUP to which it belongs;
g) A copy of the formal accounting receipt issued by the CENTRAL BANK of the Republic of San Marino or a Sammarinese bank in favour of the BRANCH at the time when the capital endowment was paid in.

2. The originals or true copies of the documentation listed above under letters b) c) d) e) and f), unless indicated otherwise, must be produced and the certifications indicated under letter d) must have been issued not more than 6 months prior to the date on which the application is submitted.

**Article III.VI.3 Program of activities**

1. The program of activities must be in writing in Italian or English, and must provide clear and detailed information regarding the following minimum points for the first three years of activity:

a) Intended investments in order to start up operations, with particular regard to the acquisition of the registered office and principal place of business, the associated equipment and furnishings, and electronic apparatus;
b) A time schedule for the aforesaid investments;
c) Any additional financial resources, above and beyond the capital endowment that the BRANCH may have available for conducting its activities in San Marino;
d) The size of operations that the BRANCH proposes to achieve;
e) The expected economic results (profit and loss) for the three-year period;

f) The products and services it intends to offer, specifying their times of activation, type of customers and the markets to which they will primarily be addressed, as well as distribution channels;
g) An organization chart and function flow chart of the BRANCH;
h) The SYSTEM OF INTERNAL CONTROLS, identifying, in particular, those who will perform the functions of internal auditing, compliance officer and risk manager;
i) Any functions that will be outsourced, and identification of those to whom they will be outsourced;
j) Architecture of the information and accounting systems, principal IT procedures intended for use, and software vendors;
k) Professional qualifications of SENIOR MANAGEMENT STAFF;
l) Data and document storage procedures, both on paper and electronic, and protection systems to be adopted to ensure their preservation and confidentiality.

**Article III.VI.4 Requirements for Branch Officers**

1. BRANCH OFFICERS must meet the following requirements in a form equal or substantially equivalent to the requirements under Part IV of these Regulations for Sammarinese FINANCIAL COMPANIES:

a) The requirements of good repute established for CORPORATE OFFICERS;
b) The requirements of professional qualifications established for HEAD OF EXECUTIVE STRUCTURE;
c) The requirements for independence established for General Manager.

**Article III.VI.5 Authorization procedure**

1. The foreign FINANCIAL COMPANY must present the application for authorization to open the BRANCH to the Supervision Department of the CENTRAL BANK of the Republic of San Marino by the methods indicated in Article III.II.6, or by courier.

2. Within the time periods indicated under Article III.II.7, the CENTRAL BANK shall notify the foreign FINANCIAL COMPANY in writing of whether authorization has been granted or denied.

3. The period of time indicated above may be:

a) Suspended if an examination of the information reveals issues that make it necessary to investigate further or to request further information from the Supervisory Authority of the parent country;
b) interrupted, in the event that the documentation submitted proves incomplete or inadequate.

4. Cases of suspension or interruption of the period of time shall be governed by the provisions set forth in Articles III.II.8 and III.II.9.

5. Within ten days of receiving a copy of the agreement with the Secretary of State for Labour with respect to employment obligations, unless inconsistent with the program of activities presented for purposes of obtaining

the authorization, the CENTRAL BANK shall submit a copy of the authorization decision to the Congress of State, by way of the Committee for Credit and Savings.

6. The permission resolution issued by the Congress of State pursuant to Article 75 Para. 2 of the LISF shall give effect to the authorization decision issued by the CENTRAL BANK.

7. No approval from the CENTRAL BANK as indicated under Article 9 of the LISF is required in order to start operations.

8. The BRANCH of the Foreign FINANCIAL COMPANY which, having obtained the permission from the Congress of State referred to in item 6 above, has commenced dealings, shall be required to provide the CENTRAL BANK with prompt written notification thereof.

**Article III.VI.6 Applicable provisions**

1. The provisions in this Regulation that shall be applicable to BRANCHES of foreign FINANCIAL COMPANIES in San Marino, shall be those contained:

a) under Part II, with reference to the activity conducted by the BRANCH;
b) under Part IV, with reference to the BRANCH OFFICERS;
c) under Part VII, with reference to regulations for prudential supervision, with the sole exception of those provisions pertaining to changes in the charter;
d) under Part VIII, with reference to regulations for off-site supervision and on-site supervision;
e) under Part IX, Title IV, referring to the parent company in cases where provision therefore has been made therein with reference to the FOREIGN PARENT COMPANY;
f) under Part X, with reference to relationships attributable to the BRANCH.

2. The opening of further BRANCHES after the first one shall be subject to the same provisions of Part VII, Title X of this Regulation as apply to the opening of new offices in the territory by Sammarinese FINANCIAL COMPANIES.

3. BRANCHES of foreign FINANCIAL COMPANIES are required to send the following to the CENTRAL BANK, within sixty days of their approval by the competent corporate bodies:

- the annual financial statements of their parent company;
- any consolidated financial statements of the group they are part of;
- any changes to the parent company's charter;

prepared as required by the legislation of the foreign country and, if not drawn up in Italian or English, shall be translated into Italian in a certified translation.

4. The BRANCHES must furthermore submit to the CENTRAL BANK, by 30 June of each year, the year-end Balance Sheet pertaining to their own activities and prepared, by 31 May, in conformity with the provisions applicable to Sammarinese FINANCIAL COMPANIES.

## Chapter II

## Provision of Services without Permanent Establishment

### Article III.VI.7 Applicability

1. PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT exists in any case where LENDING is conducted within the territory of San Marino without established BRANCHES, through a temporary organization, or also through the actual presence in Sammarinese territory of persons engaged by the service provider, even if only occasionally, or through the use of DISTANCE COMMUNICATION TECHNOLOGIES, within the limits of the provisions specified hereunder, or through an INDEPENDENT INTERMEDIARY.

2. Services provided by mail or other means of communication (telephone, fax, computer networks, etc) shall be covered by the rules governing PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT, provided that both of the following conditions are met:

a) The service is provided as part of a commercial initiative by the service provider on Sammarinese territory, and is not merely limited to promotion but includes an INVITATION TO ENTER INTO CONTRACTS;
b) The offering of services precedes the physical presence of the service provider for the execution of the legal instruments, or else the contract for the provision of service can be entered into at a distance, i.e., without the simultaneous presence of the service provider and the addressee.

3. PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT also includes INVITATIONS TO ENTER INTO CONTRACTS which foreign FINANCIAL COMPANIES execute in any event in Sammarinese territory through Sammarinese commercial operators or other authorized parties which, due to their category, do not fall within the definition of INDEPENDENT INTERMEDIARIES;

4. The rules governing PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT shall not apply to miscellaneous services provided without the presence of the service provider on Sammarinese territory for which the conditions indicated under letters a) and b) above are not met, and these services may therefore be provided freely.

5. The rules governing PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT also shall not apply to services provided over the Internet, which may therefore be provided freely, provided that this is done pursuant to contracts entered into in San Marino through BRANCHES or INDEPENDENT INTERMEDIARIES.

6. The rules governing PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT shall not apply to services provided through non-independent intermediaries, as defined under Article I.I.2, which are, however covered by the terms of the preceding Title.

**Article III.VI.8 Requirements for authorization**

1. Issuance of authorization is subject to verification of the following conditions:

a) the existence in the foreign FINANCIAL COMPANY'S parent country of appropriate regulations with respect to supervision, including supervision on a consolidated basis, including activities conducted abroad;
b) the existence of specific agreements for the exchange of information with the relevant Authorities of the country of origin;
c) authorization and actual performance, within the parent country, of the services that the enterprise intends to provide in the Republic of San Marino;
d) compliance with conditions of reciprocity in the parent country;
e) prior consent from the Supervisory Authority of the parent country for the application to provide services without a permanent establishment in San Marino by the FINANCIAL COMPANY overseen by that Authority;
f) compliance of the methods of providing service with the regulations applicable to Sammarinese FINANCIAL COMPANIES for the provision of the same or equivalent services;
g) compatibility of the applied-for authorization with the structure and economic requirements of the domestic market;
h) possession of the authorization to carry out LENDING, even through the BRANCHES or through the PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT, in one or more of the Equivalent Countries for the purpose of combating financial crime (money laundering, usury, terrorist financing, etc.) drawn up and updated by resolution of the Congress of State.

**Article III.VI.9 Application for authorization**

1. The application must enclose the attestation from the Supervisory Authority of the parent country regarding capital adequacy, appropriateness of organizational, administrative, and accounting structures of the foreign FINANCIAL COMPANY and any FINANCIAL GROUP to which the entity belongs, and must also contain all information considered useful for purposes of accepting the application, with particular regard to the following:

a) The description of the services and products to be provided;
b) The methods by which the service is to be performed.

**Article III.VI.10 Authorization procedure**

1. In regard to the authorization procedure, referral is made to the provisions under Article III.VI.5 with reference to the application by a foreign FINANCIAL COMPANY to open a BRANCH, with the exception of paragraphs 5 and 6, when the authorization application exclusively regards the carrying out of reserved activities

under letters B and L of Annex 1 to the LISF, as the permission from the Congress of State is not required for these activities for the authorization decision to be effective in the case such activities are carried out through the PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT.

**Article III.VI.11 Applicable provisions**

1. The provisions applicable to foreign FINANCIAL COMPANIES operating in San Marino under the rules for the PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT, compliance with which will be verified by the CENTRAL BANK, are all the provisions included in Part X, with reference to relations with customers.

## Chapter III
## Representative offices

**Article III.VI.12 Prohibition on conducting reserved activities**

1. LENDING and any other reserved activity indicated in Annex 1 to the LISF and any form of intermediation in the offer of products and services covered by said activities are not to be conducted at Representative Offices.

**Article III.VI.13 Requirements**

1. Foreign FINANCIAL COMPANIES may open a REPRESENTATIVE OFFICE in the Republic of San Marino, subject to the following conditions:

a) the Supervisory Authority of the parent country must have issued an appropriate authorization to the foreign FINANCIAL COMPANY;
b) the parent country guarantees respect for reciprocity requirements;
c) there must be appropriate understandings regarding the exchange of information between the Sammarinese Supervisory Authority and the foreign Supervisory Authority, including for purposes of verifying actual compliance with the prohibition under the preceding Article.

**Article III.VI.14 Procedure**

1. Foreign FINANCIAL COMPANIES that intend to open a REPRESENTATIVE OFFICE in the Republic of San Marino must submit a communication to the Supervision Department of the CENTRAL BANK of the Republic of San Marino, by the methods indicated in Article III.II.6 or by courier, at least sixty days prior to opening.

2. The communication must show:

a) the business address;
b) the planned opening date;
c) the IDENTIFYING PARTICULARS of the managers of the office;
d) the activity to be conducted.

3. The following must be appended to the communication:

a) a copy of the attestation from the competent authorities of the parent country, showing that the reporting FINANCIAL COMPANY has complied with any formalities required under the governing regulations of the parent country;
b) curricula vitae of the managers of the REPRESENTATIVE OFFICE, signed by said managers.

4. The REPRESENTATIVE OFFICE may begin operations sixty days after receipt of the communication by the CENTRAL BANK and must promptly notify the CENTRAL BANK in writing of any changes in the information under paragraph 2.

5. The CENTRAL BANK may conduct inspections of the REPRESENTATIVE OFFICE, in particular for the purpose of verifying that the office complies with the prohibition under Article III.VI.12.

## Title VII

## Changes, waivers, and revocations of authorization

### Article III.VII.1 Application for changes

1. FINANCIAL COMPANIES under Article 8 of the LISF may apply to the CENTRAL BANK to change the scope of their own authorization in order to add or remove a reserved activity or branch thereof.

2. The application shall be submitted in accordance with the procedures specified in Article III.II.6, shall clearly illustrate the rationale for the application and the results anticipated therefrom, and shall enclose a true copy of the pertinent decision of the Board of Directors, or, in cases where this leads to a change in the corporate purposes envisaged in the charter, of the decision of the Meeting of Shareholders.

3. Within sixty days of receiving the application or within any longer period of time that may be specified by the regulations in connection with the reserved activities whose inclusion (within the scope of the authorization) is requested, the CENTRAL BANK shall provide the FINANCIAL COMPANY with written notification that the application for authorization has been accepted or denied, in accordance with the provisions of Part II, Title II, above.

4. The period of time indicated above may be:
a) suspended, in the event that a review of the information indicates issues which necessitate further clarifications, or in the case of BRANCHES of foreign financial enterprises, points to the need to request additional information from the Supervisory Authority of the parent country;
b) interrupted, in the event that the documentation submitted proves incomplete or inadequate.

5. Cases of suspension or interruption of the period of time shall be governed by the provisions set forth in Articles III.II.8 and III.II.9.

**Article III.VII.2 Waiver of authorization**

1. Authorization may be waived by the interested party.

2. In such cases the party that has waived the authorization shall immediately notify the CENTRAL BANK in accordance with the methods set forth in Article III.II.6, indicating the reasons for its decision as well as a plan for winding down any activities that are currently being performed.

3. Waivers shall take effect from the date on which the authorization is deleted from the Register of Interested Parties referred to in Article 11 of the LISF. Said deletion shall be ordered by the CENTRAL BANK in accordance with an appropriate decision, written notice of which shall be delivered to the interested party.

**Article III.VII.3 Revocation of authorization**

1. Under Article 10 of the LISF, the CENTRAL BANK may revoke authorization to engage in LENDING in cases in which the authorized party:

a) no longer meets the requirements referred to in:
   1) Part III, Title III and/or in Article III.V.9, in the case of Sammarinese FINANCIAL COMPANIES;
   2) Article III.VI.1, in the cases of the Sammarinese BRANCHES of foreign FINANCIAL COMPANIES;
   3) Articles III.VI.8 or III.VI.13, in the case of foreign FINANCIAL COMPANIES lacking a permanent establishment or using representative offices;
b) has failed to engage in any of the activities contained in the authorization/approval for over 12 months;
c) has ceased, for more than six months, to engage in all activities for which it obtained the authorization;
d) obtained its authorization/approval by making misrepresentations or submitting false documents, or by having recourse to any other irregularities;
e) has an instrument of incorporation that is not in conformity with the version submitted for purposes of obtaining the authorization.

2. Pursuant to letter c) of the previous paragraph, no contracts were outstanding during the period indicated therein, entered into under the exercise of reserved activity.

# PART IV
# CORPORATE OFFICERS

## Title I
## Introduction

### Article IV.I.1 Legislative basis

1. The provisions of this Part have their legislative basis in Articles 15 and 46 of the LISF.

### Article IV.I.2 Administrative penalties

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 6, and 18.

## Title II
## Requirements

### Chapter I
### Requirements of good repute

### Article IV.II.1 Requirements

1. The CORPORATE OFFICERS of FINANCIAL COMPANIES must meet the following requirements of good repute, without prejudice to the provisions of Article IV.IV.4 and without prejudice to their meeting the suitability requirements under Article 1, paragraph 1, point 9, of the CORPORATIONS ACT:

a) not having been definitively convicted, without prejudice to the effects of rehabilitation, and imprisoned for SUBSTANTIAL CRIMES;
b) not having been definitively convicted, without prejudice to the effects of rehabilitation, of misdeeds included under crimes against public order, against the public or private trust or against the public administration, for which a non-suspended sentence of imprisonment was ordered for a time period of no less than one year;
c) not having been definitively convicted, without prejudice to the effects of rehabilitation, of other types of misdeeds, for which a non-suspended sentence of imprisonment was ordered for a time period of no less than two years;
d) not having held positions as CORPORATE OFFICERS in the last five years, in FINANCIAL ENTERPRISES subject to extraordinary measures under Part II, Title II, Chapters I and II of the LISF;

2. The requirements of good repute pursuant to the previous paragraph must also be met with regard to the absence of equivalent definitive convictions (letters a, b and c) or to the absence of situations of impediment (letter d) applied in jurisdictions other than that of San Marino.

3. The requirement under paragraph 1, letter d) shall be understood as not being met when the position of CORPORATE OFFICER was covered for at least 18 months in the last 24 months prior to the adoption of the measure and the CORPORATE OFFICER has been subject to administrative penalties in relation to the same conditions as the measure.

**Article IV.II.2 Methods of certification**

1. Possession of the requirements indicated under the preceding Article shall be proved by:

a) producing the general certificate of a clear criminal record, the certificate of absence of pending charges, and the civil certificate or certificate of no history of bankruptcy, issued by the competent public offices in the place of the person's address of record for the longest period in the last five years, in compliance with the criteria of "substantial equivalence" under Article 1, paragraph 2 of the CORPORATIONS ACT;
b) producing, relating to all remaining jurisdictions, a personal certification rendered by the interested party vis-à-vis a Sammarinese notary public, using the form annexed to these Regulations as Annex A.

2. The certificates under the first paragraph shall be accompanied by an IDENTITY DOCUMENT that is currently valid, also in order to verify that the issuing public authority has territorial jurisdiction.

3. The certificates under the first paragraph, letter a), may also be presented as a single cumulative document.

4. The possible absence of one or more certifications that are "substantially equivalent" in the foreign legal system where one's residence is based, for the purposes referred to in the previous paragraph 1, letter a), shall be:
- certified by a "legal opinion" compliant with the requirements referred to in Article IV.III.1;
- supplied by means of an appropriate authenticated self-certification, with the content requested by the CENTRAL BANK.

## Chapter II
## Requirements of professional qualifications

**Article IV.II.3 Board of Directors**

1. The members of the Board of Directors of a FINANCIAL COMPANY must have an overall experience of not less than three years in one of the following activities:

a) administration, management or control with enterprises, provided that they do not meet the definition of COMPANIES IN DEFAULT;

b) professional activities or teaching at university disciplines related to the credit, financial, fiduciary, security or insurance sector or, in any case, sectors which are functional to the activities of a FINANCIAL COMPANY;
c) administrative or managerial duties performed for public authorities or public administrations with relevance to the credit, finance, securities or insurance sector, or for public authorities or public administrations with no relevance to the aforementioned sectors provided they involve the management of economic and financial resources.

2. For the purposes of letter a) above, insolvency procedures or extraordinary proceedings or any equivalent foreign procedures must be taken into account only if initiated during the period in which the person had been holding, for at least one year, an office in the administration, management or control of the company or in the year following the termination of such office.

3. The Chairman of the Board of Directors must be selected from amongst the persons specified in subparagraph 1 above, with an aggregate experience of at least five years.

4. The professional requirements for the Chief Executive Offices are those referred to in the following article.

**Article IV.II.4 Head of the Executive Structure**

1. The HEAD OF THE EXECUTIVE STRUCTURE must posses specific expertise and experience, achieved during a period of no less than five years of professional activity within SENIOR MANAGEMENT STAFF of FINANCIAL ENTERPRISES, provided they do not meet the definition of COMPANY IN DEFAULT, except as otherwise provided for in article IV.II.3 sub. 2.

**Article IV.II.5 Board of Auditors**

1. Without prejudice to the provisions of Article 61(4) of the CORPORATIONS ACT, members of the Board of Auditors must meet the following requirements:

a) at least one of the auditors must be a registered under Section A of the professional register of chartered accountants and auditors (*Dottori Commercialisti e degli Esperti Contabili*) of the Republic of San Marino;
b) at least one of the auditors must be a member of the professional registers of attorneys and notaries of the Republic of San Marino;
c) the remaining auditors may be chosen from among persons belonging to one of the following categories:
    1) persons meeting the requirements set forth in Article IV.II.3;
    2) persons enrolled in the register of auditors referred to under Law 146 of 27 October 2004;
    3) foreign persons duly authorized in their country of residence to engage in the self-employed professions mentioned in this article.

2. Except in the cases where the controlling shareholder is a foreign party, the President of the Board of Auditors shall be one of the auditors pursuant to letters a) and b) of the above paragraph. In any event, in assigning the presidency of the supervisory body, an efficient and prompt execution of the prerogatives and functions reserved to the President must be ensured.

**Article IV.II.6 Methods of certification**

1. Possession of the required professional qualifications under the preceding Articles must be certified by presenting the following documents:

a) curriculum vitae, dated, signed and filled out with the management, senior management and supervisory positions held as at the date of compilation and in at least the five years preceding, even if these are positions which are not meaningful under Article IV.II.3, paragraph 1, letter a), as held in COMPANIES IN DEFAULT;

b) a personal certification rendered by the interested party vis-à-vis a Sammarinese notary public, using the template attached to these Regulations under letter B or, solely for statutory auditors and without prejudice to the situation referred to in the first paragraph of letter c) of Article IV.II.5, a certificate of professional membership or license.

## Chapter III
## Requirements of independence

**Article IV.II.7 Members of the Board of Directors**

1. Members of the FINANCIAL COMPANY'S Board of Directors shall not:

a) be a member of the Board of Auditors or other AUDITOR of companies in which the FINANCIAL COMPANY directly or indirectly holds an interest, or which directly or indirectly hold an interest in the company's own corporate capital;

b) be the spouse, close relative or relation up to and including the fourth degree of anyone fitting any of the descriptions under Items a) above;

c) have outstanding credit lines or, in any event, be principal debtors, for cash and/or unsecured loans, of the FINANCIAL COMPANY or of subsidiaries or parent companies in a total amount exceeding the lower of either 20% of the FINANCIAL COMPANY's Regulatory Capital or Euros one million;

d) be an employee of the Public Administration, or of Public Entities or Enterprises [*Aziende Autonome*].

**Article IV.II.8 Board of Auditors**

1. The members of a FINANCIAL COMPANY'S Board of Auditors, without prejudice to the provisions of Article 60 of the CORPORATIONS ACT, may not:

a) hold the office of a director in companies in which the FINANCIAL COMPANY directly or indirectly holds an interest, or in EQUITY STAKEHOLDERS of the FINANCIAL COMPANY;

b) directly or indirectly hold SUBSTANTIAL INTERESTS in the FINANCIAL COMPANY or in the companies indicated under letter a);
c) be tied in any way to the FINANCIAL COMPANY or the companies under letter a) by an ECONOMIC RELATIONSHIP;
d) be the spouse, close relative or relation up to and including the fourth degree of anyone fitting any of the descriptions under letters a), b), and c) above;
e) have outstanding credit lines or, in any event, be principal debtors, for cash and/or unsecured loans, of the FINANCIAL COMPANY or of subsidiaries or parent companies in a total amount exceeding the lower of either 20% of the FINANCIAL COMPANY's Regulatory Capital or Euros one million;
f) be an employee of the Public Administration, or of Public Entities or Enterprises [*Aziende Autonome*].

**Article IV.II.9 General Manager**

1. The General Manager of a FINANCIAL COMPANY shall not have outstanding credit lines or, in any event, be a principal debtor, for cash and/or unsecured loans, of the FINANCIAL COMPANY or of subsidiaries or parent companies in a total amount exceeding the lower of 20% of the FINANCIAL COMPANY'S Regulatory Capital and Euros one million;

2. In the event that members of the FINANCIAL COMPANY'S staff are promoted to General Manager, they must meet the requirements set forth in the previous paragraph within ninety days from appointment.

**Article IV.II.10 Method of certification**

1. Possession of the requirements of independence as indicated in the preceding Articles must be certified by the individuals themselves by an authentic declaration rendered before a Sammarinese notary public by the party concerned, using the forms appended to these Regulations as Items C1, C2, and C3.

## Title III
## Substantive and procedural issues

**Article IV.III.1 Requirements for validity of certificates**

1. The certificates as indicated in the preceding Title must meet the following requirements:
a) be an original or a true copy certified by a Sammarinese notary public;
b) be dated no earlier than 6 months before the date of submission;
c) be written in Italian, or if written in a foreign language, include as an attachment a certified translation into the Italian language.

**Article IV.III.2 Presentation to the Board of Directors**

1. The documentation required for purposes of verifying compliance with the requirements of good repute, professional qualifications and independence, as well as the continuation of the requirements of good repute and independence, of CORPORATE OFFICERS, shall be presented by the individuals concerned to the FINANCIAL COMPANY'S Board of Directors within ten days after their acceptance of the appointment, even in the event of renewal of office.

2. The verification of continuation of the requirements of good repute and independence of the General Manager must be carried out by the FINANCIAL COMPANY'S Board of Directors concurrent with the same verification procedures envisaged for its members on renewal of the term of the management body.

3. At the time of acceptance of the appointment, the CORPORATE OFFICERS, if s/he resides abroad, is required to notify the Board of Directors that his/her address for service is in San Marino, also pursuant to Article 23, paragraph 5 of the SANCTIONS DECREE, if s/he does not intend to have his/her address for service at the registered office of the FINANCIAL COMPANY itself; the same notification requirement applies also in cases where the residence of the CORPORATE OFFICERS was transferred abroad during his/her appointment.

**Article IV.III.3 Verification by Board of Directors**

1. At its first working meeting, with the interested parties absent, the Board of Directors shall examine the produced documentation with particular regard to:

a) the objectivity of the information presented in the curriculum vitae
b) the validity of the documents under the terms of Article IV.III.1.

**Article IV.III.4 Decision of the Board of Directors**

1. After completing the verification activities as indicated in the preceding Article, the Board of Directors, with interested parties absent, shall make a separate decision on each of the nominated CORPORATE OFFICERS, fully recording the activities performed for verification, the certifications examined and expressing their own evaluation of the probative completeness of the documentation.

2. For individuals whose documentation is found to be deficient, the Board shall decide whether or not to postpone a decision for a later meeting, recording in the decision the additions to be made, in conformity with the terms for declaration of expiration under Article 15 Item 2 of the LISF.

**Article IV.III.5 Communication to the Central Bank**

1. A certified copy of the final resolutions taken by the Board of Directors for each of the CORPORATE OFFICERS, together with the up-to-date certificate of good standing, a copy of the CVs, and any notice referred to in the previous article IV.III.2 paragraph 3, must be sent to the CENTRAL BANK within thirty days from the

date of registration of the appointments in the Register of Companies, in the manner provided for in Article III.II.6.

2. In those cases where only the Director general is appointed, the deadline for the transmission to the CENTRAL BANK, referred to in the preceding paragraph, is calculated as from the date when the final resolution of the Board of Directors was passed.

**Article IV.III.6 Central Bank verifications**

1. When the verifications referred to in the preceding article reveal failures to meet requirements or procedural defects, the CENTRAL BANK may require the Board of Directors to take the actions specified in the following Title.

**Article IV.III.7 Recording of Corporate Officers of financial companies in the Register of Companies**

1. The provisions referred to above shall not supersede the obligations to file certifications under the CORPORATIONS ACT with the Office of the Clerk of the Court for the purpose of having the Corporate Officers recorded in the Register of Companies.

# Title IV
# Removal from office and suspension

## Chapter I
## Removal from office

**Article IV.IV.1 Reasons for removal**

1. Without prejudice to the provisions of the CORPORATIONS ACT regarding removal from office of directors and members of the Board of Auditors, failure to meet one or more requirements of good repute or independence under this Part shall result in the FINANCIAL COMPANY's OFFICER's being removed from the position or from office pursuant to Article 15 Para. 2 of the LISF.

**Article IV.IV.2 Ordinary procedure**

1. A copy of the decision of the Board of Directors declaring removal from office must be sent to the CENTRAL BANK by the methods indicated under Article III.II.6 within ten days after the meeting date. The decision must include sufficiently detailed information about the reasons that resulted in the removal of the CORPORATE OFFICER from office. Furthermore, in cases where the HEAD OF THE EXECUTIVE STRUCTURE is being removed from office, details must be provided specifying the person who will perform those functions on an acting basis.

2. In the case of the removal of a director, member of the Board of Auditors, or General Manager, the Board of Directors must provide immediately for the Shareholders' Meeting to be called for the subsequent appointment of a replacement.

3. The procedure described in the preceding Title shall apply for individuals appointed as replacements by the Shareholders' Meeting or the Board of Directors.

**Article IV.IV.3 Extraordinary procedure**

1. In the event of failure to act on the part of the Board of Directors, without prejudice to the powers assigned to the Board of Auditors under Article 63 of the CORPORATIONS ACT, if the CENTRAL BANK learns of the occurrence of a reason for removing a CORPORATE OFFICER from office, it may declare that removal by its own order stating reasons, to be communicated in writing within ten days after the issue of the order to both the FINANCIAL COMPANY and the officer concerned and, concurrently, call the meetings of the corporate decision-making bodies, under Art. 46 of the LISF.

## Chapter II
## Suspension

**Article IV.IV.4 Possible reasons for suspension**

1. Without prejudice to the provisions of the CORPORATIONS ACT regarding suspension of directors and members of the Board of Auditors, and the suitability requirements, the following shall be possible cause for suspension from the position of director, member of the Board of Auditors, or General Manager of the FINANCIAL COMPANY:

a) a non-final conviction with a custodial sentence in line with the provisions under Article IV.II.1, due to the duration and type of crime;
b) imposition of a precautionary measure against the individual's person.

**Article IV.IV.5 Ordinary Procedure**

1. In the cases referred to in the preceding article, the Board of Directors — within 30 days of the time when it learns of the existence of a possible reason for suspension involving a CORPORATE OFFICER—shall deliberate on the matter, assessing the appropriateness of suspending that CORPORATE OFFICER from the performance of executive, directorial, or supervisory functions and explaining the resulting decision.

2. Within 10 days of the date of the meeting, a copy of the decision referred to in the preceding paragraph shall be forwarded to the CENTRAL BANK in accordance with the methods referred to in Article III.II.6.

3. In the event that the Board of Directors makes a suspension decision, for a period which may not exceed 90 days, then before the period in question has elapsed, the Meeting of Shareholders shall decide whether to remove the CORPORATE OFFICER from office or reinstate the CORPORATE OFFICER who has been suspended from the exercise of his or her assigned functions.

**Article IV.IV.6 Extraordinary Procedure**

1. In the event of failure to act on the part of the Board of Directors, without prejudice to the powers assigned to the Board of Auditors under Article 63 of the CORPORATIONS ACT, if the CENTRAL BANK learns of the occurrence of a reason for suspending a CORPORATE OFFICER from office, it may declare that suspension by its own order stating reasons, to be communicated in writing within ten days after the issue of the order to both the FINANCIAL COMPANY and the officer concerned and, concurrently, call the meetings of the corporate decision-making bodies, under Art. 46 of the LISF.

**Article IV.IV.7 Special procedure**

1. In the cases where the causes for suspension under Article IV.IV.4 do not apply, but, however, prejudicial elements have arisen, objectively documented during the investigation under the combined provisions of Articles 42 and 104 of the LISF, against a CORPORATE OFFICER such as to give rise, in the CENTRAL BANK'S opinion, to a well-founded danger of serious prejudice to the reputation and/or the stability of the FINANCIAL COMPANY, the CENTRAL BANK, under Article 46, paragraph 1, letter b) of the LISF, may order that the Board of Directors' meeting be immediately called, placing the suspension of the CORPORATE OFFICER on the agenda. Once 30 days have passed from the order of call, in the event that the Board of Directors fails to suspend said Officer, the suspension is declared by the CENTRAL BANK by its own order stating reasons, as a precautionary measure under Article 44 of the LISF.

2. The special temporary suspension under this paragraph may be ordered for a period not exceeding 6 months.

# PART V
# OWNERSHIP STRUCTURES

## Title I
## Introduction

**Article V.I.1 Legislative basis**

1. The provisions under this Part have their legislative basis in Articles 16 through 23 of the LISF.

**Article V.I.2 Administrative Sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 5, and 18.

## Title II
## Requirements

### Chapter I
### Good repute

**Article V.II.1 Requirements**

1. Within the meaning of Article 18 of the LISF, APPLICANTS and their CONTROLLING PARTIES must meet the same requirements of good repute set forth in Article IV.II.1 for purposes of holding SUBSTANTIAL INTERESTS in the corporate capital of the FINANCIAL COMPANY.

2. In the case of corporate APPLICANTS, proof shall be provided that requirements as to good repute have been met in regards to their CONTROLLING PARTIES under the first paragraph, their directors or persons in substantially equivalent positions, as well as the BENEFICIAL OWNERS under Article III.II.5 above.

3. In the case of corporate CONTROLLING PARTIES, proof shall be provided that requirements as to good repute have been met in regards to their directors or persons in substantially equivalent positions.

4. In case the APPLICANTS intend to hold SUBSTANTIAL INTERESTS through an intermediary fiduciary company, proof shall be provided that requirements as to good repute have been met, without prejudice to that set forth in Article V.II.5, also in regards to the directors or persons in substantially equivalent positions in the fiduciary company.

**Article V.II.2 Methods of certification**

1. Possession of the requirements indicated under the preceding Article shall be proved by:

a) producing the general certificate of a clear criminal record, the certificate of absence of pending charges, and the civil certificate or certificate of no history of bankruptcy, issued by the competent public offices in the place of the person's address of record for the longest period in the last five years, in compliance with the criteria of "substantial equivalence" under Article 1, paragraph 2 of the CORPORATIONS ACT;

b) producing, relating to all remaining jurisdictions, a personal certification rendered by the interested party vis-à-vis a Sammarinese notary public, using the form annexed to these Regulations as Annex A.

2. The certificates under the first paragraph shall be accompanied by an IDENTITY DOCUMENT that is currently valid, also in order to verify that the issuing public authority has territorial jurisdiction:

3. The certificates under the first paragraph, letter a), may also be presented as a single cumulative document.

4. The possible absence of one or more certifications that are "substantially equivalent" in the foreign legal system where one's residence is based, for the purposes referred to in the previous paragraph 1, letter a), shall be:
- certified by a "legal opinion" compliant with the requirements referred to in Article IV.III.1;
- supplied by means of an appropriate authenticated self-certification, with the content requested by the CENTRAL BANK

**Article V.II.3 Foreign certificates**

1. In the event of certificates under the previous article, paragraph 1, letter a), issued outside of San Marino, the CENTRAL BANK, has the sole right, for the supervisory purposes under these Regulations, not to recognise certifications produced as useful or sufficient when the attached translations under the following article do not fully meet the above criteria for verification.

**Article V.II.4 Requirements for validity of certificates**

1. The certificates as indicated in Article V.II.2, paragraph 1, letter, a) must meet the following requirements:

a) Be an original or a true copy certified by a Sammarinese notary public;

b) Be dated no earlier than 6 months before the date of submission;

c) Be written in Italian, or if written in a foreign language, include as an attachment a certified translation into the Italian language.

**Article V.II.5 Exempt parties**

1. The following APPLICANTS are exempt from the responsibility of certifying that they meet the requirements of good repute:

a) Authorized entities indicated under Article 1 of the LISF;

b) The Sammarinese Public Administration;

c) The entities referred to in Article V.II.6 Paragraph 3.

2. The exemption under the previous paragraph also applies to the CONTROLLING PARTIES and any additional BENEFICIAL OWNERS of the parties listed herein.

## Chapter II

## Sound and prudent management

### Article V.II.6 Requirements

1. For purposes of the APPLICANTS' (and, if not identical with the Applicants, their CONTROLLING PARTIES) meeting the requirements for capability of ensuring sound and prudent management of the authorized entity, the CENTRAL BANK shall evaluate the following conditions:

a) Scope of past business experience, especially if acquired in reserved activities;
b) Financial soundness and ability to contribute further resources, both to develop the authorized entity and to make up any losses;
c) Absence of any information giving rise to a presumption that the authorized entity may be subject to the financing needs of the controlling persons or entities;
d) Absence of ties of any nature, including through family or by association, that could compromise the level of independence from EQUITY STAKEHOLDERS;
e) Transparency of the source of the invested capital;
f) Protection from risks of contagion from activities performed by other entities within the same corporate group;
g) Autonomy within the corporate group, such as to ensure attentive and full compliance with instructions from the CENTRAL BANK;
h) Residence within the territory of San Marino or in foreign countries whose supervisory institutions are evaluated favourably by the international community;
i) Suitability, with reference to corporations (in terms of registered office, legal form, corporate purpose, and ownership structure), to ensure that the CENTRAL BANK will constantly be aware of and be able to verify the effective ownership structures of the FINANCIAL COMPANY and, as a result, the effective exercise of the supervision function on the existence and continuation of said structures meeting the prescribed requirements of good repute and capability of ensuring sound and prudent management.

2. For the purpose of the ability to provide sound and prudent management, in the event of taking control of the FINANCIAL COMPANY, the APPLICANTS and their CONTROLLING PARTIES must also meet reputational requirements, which are considered met if in the past five years said parties:

a) Have not undergone several disciplinary and/or penalty proceedings imposed by public authorities and/or supervisory and regulatory entities in the financial sector, including foreign authorities or bodies;
b) Have not been subject to investigative procedures with a view to the adoption of the proceedings referred to above, and still in progress;

c) Have not been subject to negative references documented by the public authorities, including foreign authorities;
d) Have not been subject to bankruptcy protection proceedings, extraordinary proceedings, or foreign procedures equivalent to those being regulated in each case by the following Laws respectively:
   1) Law 17 of 15 November 1917, and Article 115 of the CORPORATIONS ACT;
   2) Part II, Title II, Chapters I and II of the LISF;

   Or have been controlling shareholders or CORPORATE OFFICERS.

3. In those cases where one or more of the APPLICANTS is a foreign FINANCIAL ENTERPRISE, the CENTRAL BANK shall evaluate the following conditions in addition to those listed above:

a) That there is adequate regulation in the parent country from the viewpoint of supervisory review, including on a consolidated basis;
b) That arrangements exist for the exchange of information pursuant to Article 103 of the LISF with the supervisory authorities of the parent country;
c) That the latter supervisory authorities have stated their prior consent for a FINANCIAL COMPANY to be established within the Republic of San Marino under the control of the foreign FINANCIAL ENTERPRISE;
d) That the supervisory authorities of the parent country have furnished an attestation to the financial soundness and the adequacy of the organizational, management and accounting structures of the parent company or applicable corporate group (a so-called "letter of good standing");
e) That the foreign FINANCIAL ENTERPRISE possesses the authorization to operate, even through BRANCHES or through the PROVISION OF SERVICES WITHOUT PERMANENT ESTABLISHMENT, in one or more of the Equivalent Countries for the purpose of combating financial crime (money laundering, usury, terrorist financing, etc.) drawn up and updated by resolution of the Congress of State.

4. Where the APPLICANT is also an authorised person, the exemption regime provided for by article V.II.5 applies also as regards to the documentation envisaged for the purpose of proving one's aptitude to ensure sound and prudent management, if such documentation has already been filed with the CENTRAL BANK for other supervisory purposes

**Article V.II.7 Informational note**

1. For purposes of the evaluations indicated under the preceding Article, the APPLICANT, and any CONTROLLING PARTIES, must submit, also jointly, an information note clearly stating:

a) Its own economic and financial condition, and that of any other subsidies thereof;
b) The economic relationships, particularly with regard to those involving debt, existing between the APPLICANT/CONTROLLING PARTIES, its controlled companies, on the one hand, and, on the other, the FINANCIAL COMPANY and the other EQUITY STAKEHOLDERS of the financial company;
c) The sources of financing to be used to purchase the equity interest or in any event the source of capital to be invested.

**Article V.II.8 Attached documentation**

1. In addition to the informational note indicated under Article V.II.7, the following documents must be sent to the CENTRAL BANK:

a) For individuals:
   1) Curriculum vitae;
   2) Certificate of civil capacity [*certificato di capacità civile*];
   3) income tax return for the last 3 years;

b) For legal entities:
   1) The financial statements for the three past fiscal years, and if any, the consolidated financial statements, including the accompanying reports;
   2) Certification from the AUDIT FIRM, if any;
   3) the curricula vitae of persons who are directors or persons in substantially equivalent positions;
   4) Letters of good standing or other equivalent attestations from the Supervisory Authorities of the parent country (for foreign FINANCIAL ENTERPRISES subject to supervision).

2. The certificates and/or documents referred to in the previous paragraph, if issued abroad, are subject to the same principle of "substantial equivalence" referred to in Article V.II.2 and V.II.3.

## Title III
## Authorization to acquire substantial interests

**Article V.III.1 Applicability**

1. A request for authorization must be submitted to the CENTRAL BANK by individuals or legal entities who intend:

a) To acquire, in any form, EQUITY INTERESTS in a FINANCIAL COMPANY'S capital which, including any shares already held, will cause the holding to exceed the thresholds of 5 percent, 25 percent, 50 percent and 66 percent of the capital;
b) To acquire control of the FINANCIAL COMPANY, irrespective of the size of the equity interest;
c) To subscribe for or exercise options deriving from convertible bonds or other securities, for the acquisition of voting shares in the FINANCIAL COMPANY'S capital, if the equity interest to be acquired exceeds the relevant thresholds under Item a);

2. In calculating the equity interest assumed, the following must be included in the numerator:

a) Voting shares already owned, and those to be acquired;
b) Shares in any other form for which the party holds voting rights in any event.

3. The denominator shall include all voting shares representing the FINANCIAL COMPANY'S capital.

**Article V.III.2 Parties for whom compliance is required**

1. For transactions involving a separation between ownership of the shares and the exercise of voting rights, authorization must be requested by both the party owning the shares and the party holding the voting rights from those shares.

2. The application for authorization must also be submitted by management companies with regard to the voting rights they hold on behalf of the managed funds, as well as fiduciary companies holding shares on behalf of third parties. If the fiduciary company is one of the exempt parties under Article V.II.5, the verification of the requirements under Articles V.II.1 and V.II.6 shall be carried out only with reference to the mandators and, if corporations, their CONTROLLING PARTIES and any additional BENEFICIAL OWNERS. In the case of fiduciary companies which are not exempt parties under Article V.II.5, the verification of the requirements under Article V.II.1 will be extended also to their directors or persons in substantially equivalent positions.

3. The application for authorization must be submitted both in cases a mandator holds SUBSTANTIAL EQUITY INTERESTS exceeding the thresholds referred to in the preceding article, totalling all interests directly and indirectly held, and in cases in which the total number of shares made out to the fiduciary company exceeds the thresholds indicated in the preceding Article, even if they refer to several mandators which, individually, do not exceed the thresholds.

4. Without prejudice to the provisions of the above subparagraphs, for transactions entailing a modification in the chain of ownership, a prior application for authorization must be presented only if these modifications cause the relevant thresholds to be exceeded by the parties holding the shares directly and/or for those parties who are mandators and/or CONTROLLING PARTIES, i.e. for those parties positioned respectively at the beginning and the end of the chain.

**Article V.III.3 Application for authorization**

1. The application for authorization must be presented to the CENTRAL BANK by the methods indicated in Article III.II.6, and must contain the following information and documents:

a) A full indication of the purposes of the transaction;
b) The IDENTIFYING PARTICULARS for the APPLICANTS and the other parties to the transaction;
c) An indication of the FINANCIAL COMPANY that is the object of the transaction, specifying the number and categories of any shares already held and the shares to be acquired;
d) The certificates under Article V.II.2;
e) The documents required under Articles V.II.7 and V.II.8.

2. In the case of transactions that result in taking control of the FINANCIAL COMPANY, the CENTRAL BANK must also be sent a detailed business plan relating to the management of the FINANCIAL COMPANY or the FINANCIAL GROUP to be created.

**Article V.III.4 Declaration of controlling parties**

1. In the event that the APPLICANT is not a individual, the legal representative of the APPLICANT must provide, if applicable separately from the application under Article V.III.3, a written declaration authenticated by a Sammarinese notary or signed directly before an official of the CENTRAL BANK, indicating all IDENTIFYING PARTICULARS for the CONTROLLING PARTIES, where existing, or, indicating the inexistence of such parties.

2. The documents indicated under Article V.III.3, letters d) and e), referring to the indicated CONTROLLING PARTIES, must be appended to the declaration indicated in the preceding paragraph.

3. As a result of the carrying-out of this initiative, reported to the CENTRAL BANK in accordance with Article V.IV.1, the CENTRAL BANK shall forward to the FINANCIAL COMPANY a copy of the declaration referred to in paragraph 1, including for purposes of implementing the provisions under Part VII.

**Article V.III.5 Time limits for the decision**

1. The CENTRAL BANK may prohibit the transaction within ninety days after receipt of the request for authorization, after which time the application shall be deemed accepted according to the procedure of silence indicating consent, as provided under Article 17, Para. 2 of the LISF, without prejudice to the APPLICANT'S right to request that the authorization measure be expressed.

2. In cases where the CENTRAL BANK, within the term referred to in the previous paragraph, informs the applicant, pursuant to and under the provisions referred to in Article 17, paragraph 2 of LISF, of the need to integrate the application for authorisation with further information and/or documentation other than those already supplied, deeming it as lacking or insufficiently clear, the application is to be understood, for all intents and purposes, as lapsed, if what is requested should not be received by the CENTRAL BANK within ninety days of receipt of the relevant notification.

**Article V.III.6 Evaluation criteria**

1. The CENTRAL BANK may prohibit the transaction only if one or more of the following reasons exist:

a) the APPLICANT does not meet the requirements of good repute under Article V.II.1, or its CONTROLLING PARTIES or directors of the intermediary fiduciary company do not meet said requirements;
b) The APPLICANT and/or its CONTROLLING PARTIES are not capable of ensuring sound and prudent management of the FINANCIAL COMPANY, within the meaning of Article V.II.6, or permitting the exercise of oversight, also in relation to the compatibility of any intermediary mandators with the condition set forth in letter i) of the above-mentioned article;
c) The proposed transaction is in conflict with the achievement of the aims of oversight, and/or is not consistent with the structure and economic needs of the domestic market.

# Title IV

# Reporting requirements

**Article V.IV.1 Ownership structures**

1. The shareholders of FINANCIAL COMPANIES, whether acting for themselves or for any CONTROLLING PARTIES, must notify the CENTRAL BANK of the following, within ten days after completion of the transaction, enclosing a copy of the contract:

a) the carrying out of initiatives subject to authorization under Article V.III.1;
b) reductions below the thresholds indicated in Article V.III.1, and full withdrawal from the ownership structure.

2. With reference to the assumption referred to in letter a):
- the CENTRAL BANK must be promptly notified also of the failure to finalise the initiatives subject to authorisation based on Article V.III.1;
- the shareholder is required to notify to the CENTRAL BANK his/her address for service on the territory of San Marino for the purposes referred to in Article 23, paragraph 5, of the SANCTIONS DECREE for those parties subject to the sanctioning power of the CENTRAL BANK who are non-residents in San Marino and who do not intend to have an address for service, for the afore-mentioned purposes, at the registered office of the subsidiary or controlled FINANCIAL COMPANY. The same notification requirement applies also in cases where the residence was transferred abroad by the parties themselves.

3. With reference to the cases under letter b), the denominator shall include voting shares representing the capital of the FINANCIAL COMPANY.

4. With reference to the case under letter b) above, the CENTRAL BANK shall also be sent prior notification concerning the date of execution of the transfer of the equity interest, at least 15 days in advance.

5. This notice, intended to permit verification of compliance with the authorization obligations indicated under Article V.III.1, must include a description of the equity interest to be disposed of, and the identification of the party intending to acquire it.

**Article V.IV.2 Notification of voting agreements**

1. The voting agreements and other quasi-corporate agreements howsoever focusing on voting shares, shall also be copied to the CENTRAL BANK, within the meaning and on the terms specified in Article 19 of the LISF.

# Title V

# Powers of intervention

**Article V.V.1 Revocation of authorization**

1. The authorization indicated under Article V.III.5 may be revoked by the CENTRAL BANK, under the terms of Article 17 Para. 3 of the LISF, in the event that a non-compliance with the established requirements arises.

2. In such cases the CENTRAL BANK shall notify the APPLICANTS in writing, with a copy to the FINANCIAL COMPANY and the Office of the Clerk of the Court.

**Article V.V.2 Nullification of resolutions of the Shareholders' Meeting**

1. The CENTRAL BANK shall examine the minutes of the Shareholders' Meetings of FINANCIAL COMPANIES, as submitted under Article VIII.II.2, and shall note any cases of the exercise of voting rights in violation of the obligations to provide notice or obtain authorization above, pursuant to Article 21 of the LISF.

2. In these cases, under the terms of the third paragraph of the aforesaid Article of the law, the CENTRAL BANK may request nullification of the resolutions adopted, pursuant to Article 45 of the CORPORATIONS ACT.

**Article V.V.3 Order to dispose of equity interests**

1. Pursuant to article 22 of the LISF, the CENTRAL BANK, in case of:

a) absence of authorization pursuant to Article V.III.6;
b) authorization revoked pursuant to Article V.V.1;
c) failure to meet honourability requirements;

may order the disposal of the ownership interests held in violation of statutory and supervisory obligations, and give the shareholder a term of no more than one hundred and eighty days to carry out the transaction; this term is suspended as from the date of presentation, by the potential buyer, of the application for the authorisation referred to in Title III above, provided such application is complete under articles V.III.3 and V.III.4.

**Article V.V.4 Verification of continuation of the requirements**

1 For the purposes of the verification referred to in article V.V.1 above, the SHAREHOLDERs of the FINANCIAL COMPANIES must, every three years, retransmit to the CENTRAL BANK the certificates referred to in the following articles:

- V.II.2 sub. 1 and 2;
- V.II.7, sub. 1 letters a) and b);
- V.II.8, sub. 1.

2. Without prejudice to the provisions of the paragraph above, EQUITY STAKEHOLDERS are also required to notify the CENTRAL BANK without delay of any event which may imperil the continuation of the requirements under Articles V.II.1 and V.II.6.

3. Also for the purposes of monitoring the above fulfilments, under Article 23 of the LISF, FINANCIAL COMPANIES shall be required to notify the CENTRAL BANK, annually, of the list of shareholders with voting rights based on the Book of Shareholders at the date mentioned, within 60 days of the approval of the financial statements. The notification of the ownership structure shall indicate, with reference to each shareholder, the number of shares held, their total nominal value and the percentage of the corporate capital which the aforesaid shares represent, using the specific form available in the reserved area of the CENTRAL BANK'S internet site.

# PART VI
# FINANCIAL STATEMENTS

## Title I
## Introduction

### Article VI.I.1 Legislative basis

1. The provisions of this Part have their legislative basis in Articles 29, 30, 31, 32, 33, and 34 of the LISF.

### Article VI.I.2 Administrative sanctions

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 8, and 18.

## Title II
## General provisions

### Article VI.II.1 General obligations

1. FINANCIAL COMPANIES must prepare their own financial statements in full compliance with the time periods and general principles stated in the LISF.

### Article VI.II.2 Composition of the financial statements

1. The financial statements of the FINANCIAL COMPANY must comprise the following documents:
   a) The balance sheet: this reflects the qualitative and quantitative composition of the company's assets and liabilities as of the reporting date;
   b) The income statement: this demonstrates the economic profit or loss produced in the period as a result of management, by comparing the positive and negative components that resulted in that profit or loss;
   c) Explanatory notes: these supplement the information provided in the summary tables of the balance sheet and income statement, indicating the adopted criteria for valuation and preparation and an analytical description of certain items in the financial statements;

The financial statements must also be accompanied by a report of the directors, which shall describe and evaluate the performance of business in the various sectors where the FINANCIAL COMPANY operated, and the company's position as a whole, through a historical and forward analysis of investments, costs and prices.

**Article VI.II.3 Auditing obligations for Sammarinese financial companies and branches of foreign financial companies**

1. Pursuant to Article 33 of the LISF, Sammarinese FINANCIAL COMPANY must:

a) Engage an AUDIT FIRM to perform the AUDITING FUNCTION;

b) Submit their own annual financial statements for certification by the AUDIT FIRM engaged to perform the AUDITING.

2. BRANCHES of foreign FINANCIAL COMPANIES must submit for certification by an AUDIT FIRM their balance sheet and income statement to be forwarded to the CENTRAL BANK under the terms of Article III.VI.6, and engage the same AUDIT FIRM to perform the AUDITING function, limited to the operations of the BRANCH.

**Article VI.II.4 Certification of auditing firms and auditors**

1. With reference to the AUDIT FIRMS mentioned in the preceding article, Sammarinese FINANCIAL COMPANIES and BRANCHES of foreign FINANCIAL COMPANIES shall be required to send to the CENTRAL BANK the certificate of enrolment in the pertinent register of auditors within 30 days of the date on which the appointment in question is formalized and/or renewed.

2. Without prejudice to the provisions of paragraph 2 of the following article, the AUDITORS must meet the requirements of independence set forth in Article IV.II.8 and personally certify that they do so using the template attached to these Regulations under letter C2; the personal certifications filed by AUDITORS shall be forwarded to the CENTRAL BANK together with the certification referred to in the preceding paragraph.

**Article VI.II.5 Completeness**

1. With reference to the content of the explanatory notes, the templates for the balance sheet and income statement, and the valuation and preparation criteria of corporate and consolidated financial statements, reference is made to the Regulation no. 2016-02, which should be regarded as a special rule, and thus prevailing, compared to the general provisions referred to in this Part.

2. Pursuant to an appropriate decision, the CENTRAL BANK may further regulate the issues referred to in Article 33, Paragraph 2 of the LISF.

# PART VII
# PRUDENTIAL SUPERVISION

## Title I
## Introduction

### Article VII.I.1 Legislative basis

1. The provisions contained in the following articles of this Part have their legislative basis in Articles 45, 47, 48, 49, 52, and 74 of the LISF Law.

### Article VII.I.2 Administrative sanctions

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 7, 8, 15 and 18.

## Title II
## Total Regulatory Capital (*Patrimonio di Vigilanza*)

### Article VII.II.1 Structure of total regulatory capital

1. Total regulatory capital is calculated as the algebraic sum of a series of positive and negative components whose eligibility for inclusion in the basis of computation, whether restricted or unrestricted as the case may be, is determined in relation to the asset quality that each component is deemed to have.

2. The positive components that contribute to the quantification of the capital must be available for use without restrictions or delays to cover corporate losses or risks at the time those risks or losses materialize.

3. Total regulatory capital shall be obtained by adding up Tier 1 capital (*patrimonio di base*) and tier 2 capital (*patrimonio supplementare*) and subtracting any deductions.

### Article VII.II.2 Tier 1 capital

1. Paid up capital, reserves, and the fund for general financial risks constitute the components of Tier 1 capital.

2. The total amount of these items—after deduction of own stocks or shares, goodwill, intangible fixed assets (*immobilizzazioni immateriali*) as well as losses recorded in previous fiscal years and in the current fiscal year—constitutes Tier 1 capital.

3. The CENTRAL BANK may require individual FINANCIAL COMPANIES to deduct additional items.

4. Tier 1 capital is eligible for inclusion in the total regulatory capital without restriction.

**Article VII.II.3 Tier 2 capital**

1. Tier 2 capital is composed of the following items:

a) Revaluation reserves;
b) Hybrid debt/equity ("patrimonialization") instruments;
c) Subordinated liabilities;
d) Risk funds in respect of purely prudential credits (serving no corrective function);
e) Net capital gains on equity interests.

2. The total amount of these components, after deduction of net capital losses on long-term investment securities (*titoli immobilizzati*) and net capital losses on equity interests in NON-FINANCIAL ENTERPRISES constitutes "Tier 2 capital."

3. With reference to the deduction of the net capital losses on securities referred to in paragraph 2, the capital gains and losses implied in the investment portfolio are off-set taking into account any possible hedging agreement on the securities held for investment. In case of positive overall balance resulting from the off-setting, no deduction is required from the regulatory capital. In case of negative overall balance, this will have to be off-set with the implied capital gains in the trading portfolio. 50% of any negative residual amount (net capital loss) must be deducted from the calculation of the regulatory capital. For the purposes of this paragraph, implied capital gains and capital losses are not calculated when they are related to Government securities of San Marino included in the investment portfolio.

4. With reference to deductions of net capital losses in respect of the equity interests referred to in Paragraph 2, the capital gains and losses implicit in the equity interests held in NON-FINANCIAL ENTERPRISES listed on a regulated stock market shall be netted out. If the overall balance is minus, a 50 percent share thereof must be deducted from Tier 2 capital.

**Article VII.II.4 Deductions**

1. From the sum of "tier 1 capital" and "tier 2 capital", the following must be deducted:

a) any holding of over 10% of the corporate capital of the controlled company held directly or indirectly in financial enterprises, as well as the hybrid debt/equity instruments and subordinated liabilities issued by these financial enterprises, whatever the allocation portfolio;

b) any share of less than 10% of the capital of the controlled company held directly or indirectly in financial enterprises, as well as the hybrid debt/equity instruments and subordinated liabilities – other than those included in letter a) above – issue by financial enterprises, even if not related, whatever the allocation portfolio.

2. The deduction referred to in letter a) of the previous paragraph is equal to the overall amount, while the deduction referred to in letter b) – except in the case of "cross-investment" where the deduction is equally integral up to the corresponding amount – is equal to the part of the overall amount exceeding 10% of the value of tier 1 capital and tier 2 capital of the investing financial companies, gross of the deduction referred to in this article; the investments referred to in letter b) of the previous paragraph, not deducted because they do not exceed the capital threshold, fall within the scope of application of Article VII.III.4 below, paragraph 1, letter f).

3. In cases in which the acquisition of equity interests leads to a financial investment and generates no risk of double counting of capital for prudential supervision purposes, the CENTRAL BANK may grant a waiver from the deduction obligations referred to in the preceding paragraphs.

4. From the sum of "tier 1 capital" and "tier 2 capital," in addition to the items reported in the first two subparagraphs of this article, the assets generated through the acquisition of DIRECT or indirect EXPOSURE towards the SHAREHOLDERS of the FINANCIAL COMPANY and/or towards parties thereto connected from the legal and/or financial standpoints within the meaning of Article I.I.2, must be deducted:
- except for FINANCIAL ENTERPRISE which are subsidiaries of the FINANCIAL COMPANY
- including legal entities or interposed shareholders of the FINANCIAL COMPANY
- net of any liabilities towards such entities
- within the limits of the contributions attributable to said parties
- using the same weights as those adopted for the purpose of computing the solvency ratio."

5. Pursuant to a substantiated request from the FINANCIAL COMPANY, the CENTRAL BANK may authorize the no deduction of the assets, referred to in preceding paragraph, which it deems that for their nature, amount and periods, they are not a substantial "watering" of the capital, pursuant to Article 30 (9) of the CORPORATIONS ACT.

**Article VII.II.5 Limits and restrictions**

1. In calculating "total regulatory capital," the following limits and restrictions must be observed:
   a) Total "Tier 2 capital" may not exceed 100 percent of "Tier 1 capital";
   b) "Subordinated liabilities" may not exceed 50 percent of "Tier 1 capital";
   c) The positive algebraic balance of capital gains and losses implicit in equity interests in NON-FINANCIAL ENTERPRISES listed on a regulated stock market is included in an amount equivalent to a share equal to 35 percent and may account for no more than 30 percent of Tier 1 capital.

**Article VII.II.6 Minimum amount of total regulatory capital**

1. Total regulatory capital may not be less than the higher of:
   a) The initial minimum capital required to issue the authorization to engage in LENDING;
   b) The total minimum capital coverage under the following Articles VII.III.9 and VII.III.10.

2. The instruments for collection of savings under Articles VII.II.7 and VII.II.8 below may be issued in compliance with the total limit set by Article II.IV.2 of Regulation no. 2007-07 as amended.

**Article VII.II.7 Hybrid debt/equity instruments**

1. Subject to the consent of the CENTRAL BANK, and in respect of amounts actually received by the issuing FINANCIAL COMPANY, the components of Tier 2 capital may include instruments that combine characteristics typical of equity with other characteristics typical of debt, defined as hybrid debt/equity instruments (*strumenti ibridi di patrimonializzazione*), as they are redeemable at the request of the issuer subject to the prior consent of the CENTRAL BANK.

2. In order to be eligible for inclusion as a component of capital, the contracts pertaining to the instruments referred to in the first paragraph must make provision for the following characteristics:

a) In the case of balance sheet losses that result in an impairment of paid-up capital and reserves, causing them to fall below the minimum capital level specified for the authorization to engage in the activity, the above-mentioned liabilities and matured interest may be used to meet the losses, to enable the issuing institution to remain operational;
b) In the case of negative management performance, the right to remuneration may be suspended to the extent necessary to prevent or minimize the incurrence of losses;
c) In the event that the issuing institution is liquidated, the debt shall be paid back only after all other credits, not equally subordinated, have been paid back.

3. Those hybrid debt/equity instruments shall have a maturity equal to or greater than 10 years. The contract must explicitly contain a clause that makes repayment of the loan contingent upon the consent of the CENTRAL BANK.

**Article VII.II.8 Subordinated liabilities**

1. Subordinated liabilities issued by FINANCIAL COMPANIES can be components of Tier 2 capital, within the limit set in Article VII.II.5 and subject to the consent of the CENTRAL BANK, in respect of the amount actually received by the FINANCIAL COMPANIES issuing the liabilities, on condition that the contracts that make provision for the issuance of the aforesaid subordinated liabilities also state the following:

a) in the event that the issuing entity is liquidated, the debt should be repaid only after all the other creditors not equally subordinated have been given satisfaction;
b) the length of the relationship should be equal to or greater than 5 years, i.e., whenever the maturity is indeterminate, an advance notice period of at least 5 years should be provided for repayment;
c) the liabilities should be retired early only at the initiative of the issuer, subject to provision of the consent of the CENTRAL BANK.

2. Clauses prescribing the automatic revision of the rate of remuneration ("step up" clauses) should not be exercised prior to the fifth year of the life of the loan, and the amount of the step-up should be less than 100 basis points. With respect to loans that have step-up levels in the vicinity of this maximum amount, the CENTRAL BANK reserves the right to allow their eligibility for inclusion in tier 2 capital to be limited to just one share or instalment (quota) of the loan in question.

3. During the 5 years prior to maturity, the amount of subordinated loans eligible for inclusion in Tier 2 capital shall incur a reduction factor, or depreciation, of 20 percent per annum to take account of the declining value of these instruments in terms of their capital soundness. The reduction must be calculated on the basis of the original amount of the loan, excluding any buybacks or conversions.

4. In the event of the conversion or buyback of shares in a subordinated loan, the loan must be reduced by the converted or repurchased share or the depreciation allowances that have already matured, whichever is the larger.

**Article VII.II.9 Guarantees issued upon the issuance of hybrid debt/equity instruments or subordinated liabilities, and the consequent "on-lending" operations**

1. The requirements for the eligibility of hybrid debt/equity instruments and subordinated debts, as indicated in this Title, shall be met in all contracts connected with operations involving the granting of guarantees upon the issuance of these kinds of subordinated liabilities and instruments.

2. The granting of guarantees upon the issuance of hybrid debt/equity instruments or subordinated liabilities consists of two separate, but coordinated, acts:

a) first, the FINANCIAL COMPANY assumes the position of guarantor of a subordinated debt issued by one of its subsidiaries (or by another party);
b) second, the FINANCIAL COMPANY itself issues a hybrid debt-equity instrument or subordinated liability (having the same content as the first) which is then subscribed for by the party issuing the other liability. The funds raised through the first issue are thus made available to the final borrower ("on-lending" operation).

3. The issuance of the guarantee should not obligate the FINANCIAL COMPANY to repay the loan in advance of the terms set forth in the "on-lending" contract.

4. The contract governing the first issue should also make provision for the following requirements:

a) the guarantee furnished by the FINANCIAL COMPANY should also have a subordinated character;
b) the performance by the guarantor extinguishes the obligations of the principal debtor (first issuer).

5. The "on-lending" contract in its turn contains a clause pursuant to which any amounts paid by the FINANCIAL COMPANY in connection with the furnished guarantee shall serve to reduce any amounts owed and payable to the underwriter of the subordinated debt issued by the FINANCIAL COMPANY.

**Article VII.II.10 Request for approval from the Central Bank**

1. A request for approval for inserting hybrid debt/equity instruments and subordinated liabilities into the calculations for tier 2 capital must be accompanied by all the necessary information needed to enable the CENTRAL BANK to carry out an assessment of the true scope of the commitments undertaken by the FINANCIAL COMPANY in this connection.

2. It is also necessary to produce all the contracts and disclose all those agreements pertaining to transactions howsoever connected with the operation that is undergoing examination.

3. In order to reduce the times necessary to verify requests to have hybrid debt/equity instruments or subordinated liabilities deemed eligible for inclusion in the capital computation base, the FINANCIAL COMPANY may submit draft contracts for review by the CENTRAL BANK; the final contract shall be sent on once the CENTRAL BANK has approved the authorized operation.

4. Even in cases of compliance with the contractual arrangements specified in the foregoing articles VII.II.7 and VII.II.8, the CENTRAL BANK may disqualify or limit the eligibility (for inclusion in the calculations for Tier 2 capital) of hybrid debt/equity instruments and subordinated liabilities, pursuant to assessments based on contractual regulations or on the basis of the inadequate capacity of the issuer or on the basis of the excessively burdensome nature of the contractually specified operation.

5. Within 60 days of the date of receipt of the request for approval, the CENTRAL BANK shall issue its decision on the matter.

**Article VII.II.11 Repurchase by the issuer financial company of shares in hybrid debt/equity instruments or subordinated liabilities**

1. The FINANCIAL COMPANY may freely acquire shares in hybrid debt/equity instruments or subordinated liabilities issued by itself, for an amount not exceeding 10 percent of the value of each issue, calculated on the basis of the original value of the loan.

2. The shares in these loans, even if temporarily present in the portfolio, are not eligible for inclusion in the calculations for Tier 2 capital; repurchased hybrid debt/equity instruments and subordinated liabilities shall be deducted from total regulatory capital at balance sheet value.

3. Repurchases exceeding the above-mentioned amount or at all events intended to cancel certificates shall require the prior permission of the CENTRAL BANK: this latter situation shall be deemed to have arisen in the wake of a formal early repayment of a share of the debt.

4. In the event that the repurchase is requested pursuant to an "illegality clause"—i.e., if the creditor or issuer is given the option to request early repayment of the subordinated loan/debt in the event that laws or regulations prohibit the possession of assets or liabilities in that form, or make it impossible to trust the obligations undertaken pursuant to the issue contract (indenture), it shall not be necessary to seek the prior permission of the CENTRAL BANK.

5. In cases involving the repurchase of shares of the subordinated loan, the deduction from the total regulatory capital shall be applied in such a way to reflect the difference—if positive—between the value of the repurchased securities and the depreciation allowances that have already accrued.

6. Advances on hybrid debt/equity instruments or on subordinated loans in addition to financing operations made by the FINANCIAL COMPANY for the purpose of buying back such liabilities, shall be treated as equivalent to the repurchase thereof.

7. A repurchase shall be deemed to exist whenever, from the standpoint of the contract or the actual characteristics of the transaction, the issuance times for the FINANCIAL COMPANY'S liabilities along with the subsequent MOBILIZATION OF SAVINGS and disbursement of financing resources in favour of the party subscribing for the instruments in question represent, for a particular amount or particular maturities, a coordinated act.

8. These rules shall also apply to situations involving the purchase by way of guarantee for securities issued in respect of one's own subordinated loans, in the event that the transactions executed—based on a totality of factors (contractual terms, repetitiveness, overall size)—constitute a repurchase of one's own loans.

**Article VII.II.12 Waivers**

1. The CENTRAL BANK may grant FINANCIAL COMPANIES a temporary waiver from observance of the provisions in regard to total regulatory capital.

**Article VII.II.13 Adjusted regulatory capital**

1. Pending the regulation referred to in article IX.III.1, the compliance with the limits set on risk concentration and on the relations with related parties and persons linked thereto, referred to in Titles IV and V of this Part, is assessed by the CENTRAL BANK with reference to the "adjusted regulatory capital" equal to the sum of the regulatory capital of the parent FINANCIAL ENTERPRISE and that of the subsidiary FINANCIAL ENTERPRISES, because they are authorised to exercise banking and lending activities.

2. For the purposes of article VII.II.4 sub 4 above, the subsidiary FINANCIAL ENTERPRISE does not deduct from its regulatory capital the EXPOSURES, direct and INDIRECT, that have already been deducted, for the same purposes, from the regulatory capital of the parent FINANCIAL ENTERPRISE.

## Title III

## Capital adequacy and solvency ratio

**Article VII.III.1 Required reserves**

1. FINANCIAL COMPANIES shall be required to set aside at least 20 percent of their net earnings recorded at the end of each fiscal year, in an ordinary reserve fund.

**Article VII.III.2 Structure of the solvency ratio**

1. The solvency ratio is the ratio of total regulatory capital and total risk assets, including the portfolio of securities other than long-term investment securities, weighted on the basis of the risk of loss due to debtor default.

2. Risk-weighted assets shall not include those assets deducted from total regulatory capital.

**Article VII.III.3 Weighting criteria**

1. The definition of the weights to be applied to the various categories of assets shall be based on three main parameters, which jointly determine the coefficient for weighting credit risk:

a) debtor counterparts;
b) country risk;
c) guarantees received.

**Article VII.III.4 Debtor counterparts**

1. The weighting system presumptively assesses the risk of debtor default and is based on the following multiplication factors:

a) 0% for risk assets on central governments, central banks, multilateral development banks, EU, general government, and the broadly defined public sector of the Republic of San Marino;
b) 20% for risk assets on the public sector entities of foreign countries (central and local government), banks, FINANCIAL COMPANIES and other FINANCIAL ENTERPRISES, NON FINANCIAL ENTERPRISES listed on regulated markets or held as CONTROLLING INTEREST by entities and/or companies listed on regulated markets;
c) 50% for fully mortgage-backed claims towards natural persons on "residential real estate" whether leased or used - or intended to be used - directly by the borrower;

d) 50% for loans deriving from financial leasing contracts on residential "real estate" properties or on properties which are intended to be used directly by the lessee as residence or registered office for its business;
e) 50% for loans deriving from financial leasing contracts focusing on assets other than those under letter d), whose residual debt in terms of principal is less than half of the original contract value;
f) 100% for other risk assets on the private sector and in respect of equity interests not deducted from total regulatory capital;
g) 150% for equity interests in NON FINANCIAL ENTERPRISES unlisted on regulated markets, posting balance sheet losses for the three most recent fiscal years;
h) 150% for BAD LOANS except for those referred to in letters d) and e) above for which the multiplying factor passes from 50% to 100%.

2. The reduced weight referred to in letters a) and b) may be applied having due regard for the provisions of the following article and, regarding FINANCIAL ENTERPRISES, solely for those subject to prudential regulations equivalent to those contained in the present Part of the Regulations; for FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, the multiplication factor under this paragraph is equal to 40%.

**Article VII.III.5 Country Risk**

1. In order to take account of the country risk profile in evaluating risk assets vis-à-vis central governments, central banks, public sector entities, banks, other FINANCIAL ENTERPRISES, NON FINANCIAL ENTERPRISES listed on regulated markets or held as CONTROLLING INTEREST by entities and/or companies listed on regulated markets, it is necessary to distinguish between zone "A" and zone "B". The zone "A" comprises the Republic of San Marino, countries members of the European Union, all countries which are full members of OECD, countries which have entered into general arrangements to borrow (NAB) with the International Monetary Fund and countries identified with the acronym BRICS (Brazil, Russia, India, China, South Africa); countries which have restructured their foreign debt in the past 5 years are, in any case, excluded from zone "A". The zone "B" comprises all other countries not included in zone "A".

2. Risk assets on entities or subjects (specifically: central governments, central banks, public sector entities, banks, other FINANCIAL ENTERPRISES, NON FINANCIAL ENTERPRISES listed on regulated markets or held as CONTROLLING INTEREST by entities and/or companies listed on regulated markets) of countries included in zone "A" have a weight of 0 percent or 20 percent as indicated in Article VII.III.4.

3. Risk assets on entities or subject (specifically: central governments, central banks, public sector entities, banks, other FINANCIAL ENTERPRISES NON FINANCIAL ENTERPRISES listed on regulated markets or held as CONTROLLING INTEREST by entities and/or companies listed on regulated markets) of countries included within zone "B" have a weight of 100 percent. The following cases are exceptions:

a) risk assets on central governments and central banks denominated in the currency of the debtor country and financed with funds in the same currency are zero weighted;
b) risk assets with a residual maturity of up to one year, vis-à-vis zone "B" banks or explicitly guaranteed by such entities, are weighted at 20 percent.

**Article VII.III.6 Guarantees received**

1. In order to assign weights in respect of debtor counterparts, pursuant to Article VII.III.4, FINANCIAL COMPANIES must take account of real and personal guarantees received.

2. Guarantees received must be explicit and must not be subject to conditions.

3. Among real guarantees, apart from the mortgage referred to in Article VII.III.4, only the following may be weighted:

a) instruments (other than equity securities, subordinated loans, or hybrid debt/equity instruments) issued by the reporting FINANCIAL COMPANY and deposited thereat;
b) instruments issued by governments or central banks in zone "A";
c) instruments (other than equity securities, subordinated loans, or hybrid debt/equity instruments) issued by multilateral development banks;
d) instruments issued by public sector entities in zone "A";
e) cash deposits at zone "A" banks;
f) instruments (other than equity securities, innovative capital instruments, subordinated loans, or hybrid debt/equity instruments) issued by banks, other FINANCIAL ENTERPRISES, or NON FINANCIAL ENTERPRISES listed on regulated markets or held as CONTROLLING INTEREST by entities and/or companies listed on regulated markets under Article VII.III.4, in zone "A".

4. FINANCIAL COMPANIES shall apply, wholly or proportionally, to the risk assets secured by the above-mentioned instruments a weight of 0 percent for the guarantees referred to in items a), and b), and 20 percent for the other kinds of guarantees.

5. Any remaining share shall be weighted on the basis of the type of debtor involved.

**Article VII.III.7 Personal guarantees**

1. Risk assets backed in whole or in part by personal guarantees shall be given, whether wholly or proportionally, the weight specified for the guarantor entity if more favourable than the weight for the principal debtor.

2. In the interests of lowering the weight, account shall be taken of personal guarantees only if the guarantor makes a legally binding undertaking to satisfy the obligations pertaining to specific debts associated with a particular party.

**Article VII.III.8 Off-balance-sheet operations**

1. The credit risk weighting for off-balance-sheet operations shall be applied by means of a two-step process; first, the "off-balance sheet" assets are converted into credit equivalents based on the probability that a credit exposure will arise, through the use of credit conversion factors; second, the credit equivalent is weighted on the basis of the type of counterpart involved.

2. The credit conversion factors for calculating the credit equivalent are as follows:

a) 100 percent for guarantees and commitments involving "full risk";
b) 50 percent for guarantees and commitments involving "intermediate risk";
c) 20 percent for guarantees and commitments involving "intermediate-to-low risk";
d) 0 percent for guarantees and commitments involving "low risk".

3. The definitions indicated in the above paragraph shall include the following:

a) "Low risk" guarantees and commitments shall include unutilized credit lines (financing commitments involving uncertain utilization, commitments to provide guarantees) which may be revoked at any time without prior notice requirements;
b) "Intermediate-to-low risk" guarantees and commitments shall include irrevocable or confirmed "documentary" credits in which the actual shipment of the goods serves as guarantee and other self-liquidating transactions linked to trade transactions;
c) "Intermediate risk" guarantees and commitments shall include:
    I) Irrevocable or confirmed "documentary" credit lines, except for those in which the actual shipment of the goods serves as guarantee and except for other self-liquidating transactions;
    II) Bonds posted that do not take the form of substitutes for credit;
    III) Guarantees of execution and indemnification (including bid bonds and performance bonds, as well as bonds for customs and fiscal operations) and other guarantees;
    IV) Irrevocable "stand-by" letters of credit that do not take the form of substitutes for credit;
    V) Facilities in support of security issues (note issuance facilities (NIFs) and revolving underwriting facilities (RUFs));
    VI) Unutilized credit lines (financing commitments involving uncertain utilization, commitments to provide guarantees or credit lines opened for acceptance) except for the items mentioned in item a);
    VII) "Put options" issued in connection with securities and other financial instruments apart from foreign currencies;
    VIII) Guarantees serving as substitutes for credit that are fully backed by mortgages on "residential real estate", when the collateral in question can be directly enforced by the guarantor;
d) "Full risk" guarantees and commitments shall be deemed to include all guarantees issued and commitments undertaken that do not fit into any of the foregoing categories.

4. The calculations for this category of risk-weighted assets must exclude the following items in "commitments and risks":

a) securities to be delivered in respect of operations to be settled;
b) securities receivable in respect of operations to be settled belonging to the portfolio of securities other than long-term investment securities (*portafoglio non immobilizzato*);
c) commitments to sell securities and other instruments;
d) commitments deriving from membership in underwriting consortia for the placement of securities;
e) risks associated with unmatured tax instalment payments connected with the management of tax enforcement and collection offices;
f) DERIVATIVES.

**Article VII.III.9 Minimum capital coverage of risk of debtor default**

1. The minimum capital coverage required for risk of debtor default equals 8 percent of total risk-weighted assets in compliance with the preceding articles of this Title.

2. Compliance with these minimum amounts does not obviate the need for the pertinent decision-making bodies to keep capital adequacy under constant supervision appropriate to the nature of the operations performed.

3. When particular business situations arise, the CENTRAL BANK may mandate compliance with capital requirements that are more restrictive than those established on a general basis.

**Article VII.III.10 Minimum capital coverage of operational risks**

1. A further purpose of total regulatory capital is to ensure adequate cover of OPERATIONAL RISKS. To this end, the minimum capital coverage required equals 15% of the average GROSS INCOME of the last 3 YEARS

2. During the first three years of operations (the "start up" phase), compliance with the capital requirement set forth in the first paragraph shall be verified based on projected financial statements.

## Title IV
## Risk concentration

**Article VII.IV.1 Major exposure**

1. A FINANCIAL COMPANY'S exposure to a customer or group of connected customers is considered a major credit exposure when the risk position, considering cash and signature exposure, direct and INDIRECT EXPOSURE, exceeds 10 percent of the total regulatory capital.

2. To achieve a correct assessment of the risk connected with the incurrence of an exposure to a particular counterpart, or to properly evaluate guarantees, it is necessary to calculate the pertinent exposure for each customer or GROUP OF CONNECTED CUSTOMERS, using the same weights employed when calculating the solvency ratio.

3. The overall exposure, referred to in the first paragraph, includes risk-weighted assets accruing to the FINANCIAL COMPANY as a result of the management of its own financial portfolio.

**Article VII.IV.2 Restrictions on major exposures**

1. The FINANCIAL COMPANY may not incur MAJOR EXPOSURES:

a) To a particular counterpart, or group of related counterparts, in a total amount exceeding 25 percent of total regulatory capital (individual limit);
b) In a total amount exceeding the limit of eight times the total regulatory capital (maximum limit).

**Article VII.IV.3 Major exposures to equity stakeholders in the capital and related parties**

1. For purposes of applying the limits set forth in the preceding article, the risk positions governed by the provisions of Article VII.II.4, Paragraph 4 shall be computed net of the share deducted from total regulatory capital.

**Article VII.IV.4 Derogations**

1. With reference to individual FINANCIAL COMPANIES, the CENTRAL BANK may set individual or global exposure limits that are more stringent than the general limits, based on the CENTRAL BANK'S own technical and operational assessments, having particular regard to the adequacy of the FINANCIAL COMPANY'S organizational procedures for financing operations.

2. If, owing to factors unrelated to the will of the FINANCIAL COMPANY, a situation arises in which the limits referred to in this Title are exceeded, the FINANCIAL COMPANY shall promptly notify the CENTRAL BANK indicating the actions which the FINANCIAL COMPANY intends to take to restore its position back within the prescribed limits.

3. The limits referred to in Articles VII.IV.2 and VII.IV.3 shall not apply in cases in which the exposures are incurred vis-à-vis entities authorized, including in foreign countries, to engage in the activities referred to in Letters A, B and D of Annex 1 of the LISF, provided that these requirements are:

a) monitored by the FINANCIAL COMPANY, in the manner laid down in Article 2 of the LISF;
b) subject to the rules of prudential supervision in regard to the concentration of credit risks;
c) and provided that these are operational in San Marino or in foreign countries whose supervisory authorities have entered into cooperation agreements with the CENTRAL BANK under the terms of Article 103 of the LISF.

4. The limits referred to under articles VII.IV.2 and VII.IV.3 do not apply where they have already been verified and limited as INDIRECT EXPOSURE of the authorised entity exercising the control over the FINANCIAL COMPANY, provided that the latter must be funded, to a prevailing extent, by the authorised controlling entity

**Article VII.IV.5 Deliberation procedure**

1. The acquisition of a risk position meeting the definition of MAJOR EXPOSURE pursuant to Article VII.IV.1 must be voted on by the Board of Directors.

**Article VII.IV.6 Limits to major risks for groups**

1. If the FINANCIAL COMPANY assumes INDIRECT EXPOSURES, the compliance with the limits of risk concentration referred to in article VII.IV.2 is verified at group level, by comparing the aggregate of risk positions (including those assumed through subsidiary FINANCIAL ENTERPRISES) to the adjusted regulatory capital referred to in art. VII.II.13.

2. In the cases referred to in the preceding subparagraph, the individual MEMBERS, banks or FINANCIAL COMPANIES, are subject only to an individual limit of 40% provided that, at a group level, the aforementioned limits are satisfied. The individual limit is calculated by comparing the risk positions (related to direct exposures only, cash and unsecured) to the individual regulatory capital.

3. The increased limits referred to in article VII.XIII.4 may be applied as the concentration limits provided for in sub. 1 only if all of the members authorised to carry out lending activities are comprised in the category of FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS.

## Title V

## Transactions with related parties and persons connected therewith

**Article VII.V.1 General principles**

1. Miscellaneous transactions entered into by the FINANCIAL COMPANY with RELATED PARTIES and PERSONS CONNECTED therewith shall be managed on market terms.

**Article VII.V.2 Substantial interests**

1. A substantial interest shall be defined as the stake acquired by the FINANCIAL COMPANY vis-à-vis the persons referred to in the preceding article in cases in which the book equity value attributable overall to all the operations entered into, receivable and payable, with one individual RELATED PARTY and/or with PERSONS CONNECTED thereto exceeds 5 percent of the total regulatory capital of the FINANCIAL COMPANY.

2. With reference to credit operations, the equity value shall also take account of INDIRECT EXPOSURES.

**Article VII.V.3 Procedural aspects**

1. Operations resulting in a new substantial interest or increasing the value of an existing interest above 10 percent shall:

a) Be reported to the Board of Directors quarterly, along with evidence of peak values recorded during the period;
b) Also be approved by the Board in the first instance, with the favourable opinion of a majority of statutory auditors and with the interested parties not being present, when the operations in question involve lending or financing.

**Article VII.V.4 Individual and aggregate restrictions**

1. In any event, the FINANCIAL COMPANY may not undertake risk positions (exposures):

a) vis-à-vis a RELATED PARTY and PERSONS CONNECTED therewith, in an amount exceeding 20 percent of the total regulatory capital (individual limit);
b) vis-à-vis all RELATED PARTIES and PERSONS CONNECTED therewith, in an amount exceeding 60 percent of the total regulatory capital (aggregate limit).

2. Risk positions, pursuant to the preceding paragraph, shall be defined as overall exposure calculated in accordance with the provisions of Article VII.IV.1.

3. For purposes of applying the limits referred to in paragraph 1, the risks positions governed by the provisions in Article VII.II.4, paragraph 4, shall be computed net of the share deducted from total regulatory capital.

**Article VII.V.5 Limits to the risk exposures in case of groups**

1. If the FINANCIAL COMPANY assumes INDIRECT EXPOSURES, the compliance with the limits of risk exposures towards related parties and persons CONNECTED TO REGULATED PARTIES referred to in article VII.V.4 is verified at group level , by comparing the aggregate of risk exposures (including those granted by subsidiary FINANCIAL ENTERPRISES) to the adjusted regulatory capital referred to in art. VII.II.13.

2. In the cases referred to in the preceding subparagraph, the individual MEMBERS, banks or FINANCIAL COMPANIES, will be subject to the limits provided for in article VII.V.4 applied to the individual regulatory capital only to the extent of the direct exposures (cash and unsecured).".

3. Pursuant to article VII.XIII.5 sub 2, the preceding subparagraphs shall not apply to FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS and to the groups in which all of the members authorised to carry out lending activities are comprised in the category of FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS.

## Title VI

## Limits on conversion of maturities

**Article VII.VI.1 Limits on medium- and long-term investments**

1. The sum of the FINANCIAL COMPANY'S investments in long-term instruments (movable assets and real estate) and in corporate equity interests, net of those previously deducted under Article VII.II.4, shall not exceed the amount of the total regulatory capital.

2. The above-mentioned limit shall not include equity interests in the exercise of the activity identified by letter L in Annex 1 of the LISF.

**Article VII.VI.2 Limits on financing granted in the medium term and long term**

1. FINANCIAL COMPANIES must constantly maintain the total amount of medium-term and long term financings, excluding the loans that can be classified in the previous Article VII.III.4, paragraph 1, letter s c) and d), within the maximum limit represented by the sum of the following factors:
a) regulatory capital net of the investments referred to in the previous Article;
b) bonds issued with a residual maturity not exceeding 18 months, without attribution to the client of the right to an early repayment;
c) other loans with a pre-determined maturity with a residual life of over 18 months.

## Title VII

## Investments in real estate

**Article VII.VII.1 Real estate that can be acquired**

1. Other than in case of acquisition aimed at protecting their claims, FINANCIAL COMPANIES may acquire real estate assets solely for the purpose of ACTIVE FINANCIAL LEASING or, within the limits set forth in Article VII.VI.1, for their own use in connection with their own operations.

**Article VII.VII.2 Acquisition of real estate for the recovery of claims**

1. FINANCIAL COMPANIES are allowed to exceed the general limit referred to in article VII.VI.1, only in those cases in which the acquisition of the real estate properties is attributable to their efforts to safeguard their own claims. Real estate properties acquired under those circumstances must be always divested, except where used for their own use in connection with their own operations or for ACTIVE FINANCIAL LEASING, not later than :
- 24 months from their acquisition, if vacant or in any case not used;
- 36 months from their acquisition, if for residential use or used as office of the enterprise.

The divestment requirement, even if expired, is suspended until the capital requirement referred to in article VII.VI.1 is satisfied, and without prejudice to the power of intervention of the CENTRAL BANK, pursuant to article 44 of the LISF.

2. The deadline referred to in paragraph 1 above, except as provided for in article 148 of the LISF, shall apply also in the event of termination of active real estate financial leasing contracts, the underlying assets of which must be divested within 24 months from the date of their full availability or, in any case, not later than 36 months from the termination of the contracts.

3. This deadline may be overshot, subject to authorization by the CENTRAL BANK in response to a substantiated request from the FINANCIAL COMPANY.

**Article VII.VII.3 Real estate that undergoes financial leasing**

1. Real estate holdings that are the focus of ACTIVE FINANCIAL LEASING contracts shall not be included in the calculations for the limit mentioned in Article VII.VI.1.

2. The real estate holdings dealt with in PASSIVE FINANCIAL LEASING contracts shall be included in the calculations for the limit only at the time of their redemption and for the value, in terms of principal, of the total rentals paid.

## Title VIII
## Eligible equity interests

**Article VII.VIII.1 Authorization and reporting requirements**

1. A FINANCIAL COMPANY intending to acquire on its own behalf equity interests exceeding 10 percent and/or multiples thereof in the capital of firms, be they Sammarinese or foreign companies, shall be required to apply for authorization from the CENTRAL BANK.

2. The company shall also apply for authorization when it intends to acquire the stake indirectly through a firm that it controls within the meaning of Article 2 of the LISF.

3. No authorization shall be required for the acquisition of equity interests, of whatever amount, in SICAVs. In such cases, the FINANCIAL COMPANY shall notify the CENTRAL BANK of its own equity interest whenever it holds voting shares in an amount exceeding 10 percent of the capital of the SICAV and the charter of the SICAV makes provision for a quantitative limit on the issuance of voting shares.

4. A FINANCIAL COMPANY intending to acquire on its own behalf control of FINANCIAL ENTERPRISES shall notify the CENTRAL BANK suitably in advance of the finalization of the related contractual agreements, having regard to the authorization procedure under Article V.III.1 and the specific procedures envisaged by the supervisory provisions for FINANCIAL ENTERPRISES other than FINANCIAL COMPANIES.

**Article VII.VIII.2 Procedure for authorizing the acquisition of equity interests**

1. An application for authorization to acquire an equity interest - filed with the CENTRAL BANK in the manner laid down in Article III.II.6 - shall contain all the information required to carry out an assessment of the substantive merits of the application, and in particular;

a) forecasts for growth in the business, based on a business plan;
b) the impact of the operation on the balance sheet, financial, and organizational performance of the FINANCIAL COMPANY and its subsidiary;
c) the new value for the solvency ratio.

2. The request for authorization shall enclose the following documents:

a) financial statements sheets for the last three fiscal years for the firm and for any subsidiaries thereof;
b) the borrowing relationships (and how these have changed over the past three years) which the firm and its shareholders have with the applicant FINANCIAL COMPANY;
c) the sources of financing which the parties in question intend to mobilize in order to carry out the purchase and implement the business plan.

3. Authorization shall be granted provided this does not conflict with the sound and prudent management of the FINANCIAL COMPANY, and in particular, provided it does not undermine its balance sheet, financial, and organizational performance. Furthermore, in cases in which the purpose of the transaction is to acquire an interest in foreign FINANCIAL ENTERPRISES, authorization shall require a finding that the host country's legal system is adequate to ensuring the efficient exercise of supervisory functions.

4. The CENTRAL BANK shall give its verdict on the authorization request within 60 days after the date on which the application is received, unless the normal running of the period of time allowed for this purpose is interrupted for some reason.

**Article VII.VIII.3 Limits on equity interests that can be held in non-financial enterprises**

1. With reference to the acquisition of equity interests in NON-FINANCIAL ENTERPRISES, FINANCIAL COMPANIES may not exceed the following limits:

a) 5 percent of total regulatory capital, for each individual interest (individual limit);
b) 25 percent of total regulatory capital, for combined equity interests (aggregate limit).

**Article VII.VIII.4 Equity interests acquired for the purpose of recovering loans**

1. FINANCIAL COMPANIES may exceed the general limit referred to in Article VII.VII.3, only in those cases in which the purchases of interests are attributable to their efforts to safeguard their own claims.

2. They shall, however, divest themselves of these interests within 18 months of date on which they are acquired. The divestment requirement, even if expired, is suspended until the capital requirement referred to in Article VII.VI.1 is satisfied, and without prejudice to the power of intervention of the CENTRAL BANK, pursuant to Article 44 of the LISF.

3. The CENTRAL BANK may give authorization for this deadline to be overshot if the FINANCIAL COMPANY files a suitably well-documented request for that purpose.

**Article VII.VIII.5 Activities for the acquisition of equity interests**

1. The rules set forth in this Title shall not apply to those equity interests acquired in the performance of activities identified by Letter L and in Annex 1 of the LISF.

2. Regarding the equity interests mentioned in the preceding paragraph, FINANCIAL COMPANIES may not exceed the following limits:

a) 15 percent of total regulatory capital, for each individual interest (individual limit)
b) 60 percent of total regulatory capital, for combined equity interests (aggregate limit).

# Title IX
# Organizational adequacy

## Chapter I
## General rules

**Article VII.IX.1 Characteristics of the organization**

1. In the interests of ensuring sound and prudent management, FINANCIAL COMPANY shall have a corporate organization that is characterized by:

a) clear and consistent business strategies;
b) availability, in quantitative and qualitative terms, of adequate human resources in possession— particularly with reference to SENIOR MANAGEMENT STAFF — of professional qualifications, consistent, as regards to educational paths and working experiences, with their assigned duties;

c) correct distribution of roles and responsibilities to avoid duplication, overlapping of effort, omission of tasks, or conflict of interest situations, while ensuring the necessary demarcation between operational and supervisory functions;
d) placement at the HEAD OF THE EXECUTIVE STRUCTURE of a General Manager (Direttore Generale) or MANAGING DIRECTOR (*Amministratore Delegato*);
e) proper performance by the management and supervisory boards, between which there must be open lines of communication at all times;
f) reliability of the IT/accounting system and the suitability of reporting procedures;
g) effective functioning of the SYSTEM OF INTERNAL CONTROLS and their periodic recognition and validation in relation to evolving business operations and the benchmark environment.

**Article VII.IX.2 Minimum organizational framework dedicated to supervisory functions**

1. Pursuant to letter c) of the preceding article, the FINANCIAL COMPANY shall have three distinct structures: one an internal auditing structure, exclusively dedicated to the INTERNAL AUDITING FUNCTION; a compliance officer structure, focusing on COMPLIANCE CONTROLS; and a risk management structure, concentrating on RISK CONTROLS.

2. The three functions - RISK CONTROL, COMPLIANCE CONTROLS, and the INTERNAL AUDIT FUNCTION - should nonetheless be conducted on a basis of demarcation of operational functions [from supervisory functions] and by personnel holding adequate professional qualifications and in sufficient numbers, commensurate with the size and complexity of the FINANCIAL COMPANY.

3. By way of derogation from the provisions of paragraph 1, pursuant to a substantiated request from the FINANCIAL COMPANY, the CENTRAL BANK may authorized the assignment of several control functions to a single structure, bearing in mind the enterprise's size, degree of complexity and operational risk. The authorization will be revoked when the conditions forming the basis of its issue are no longer met.

4. In the cases in the preceding paragraph where the internal audit structure comprises one or both of the other internal control structures, the rules set forth in Article VII.IX.6 shall apply.

**Article VII.IX.3 Free flow of communication in the performance of corporate governance functions**

1. Pursuant to the provisions of letter e) of Article VII.IX.1, the regulations set forth in Article III.III.1, paragraph 2, letter h), shall not have the effect of substantively undermining the authority of the decision-making corporate bodies entrusted under the charter with responsibility for performing administrative functions, and shall preserve the free flow of communication between those corporate bodies.

2. The minutes of meetings or each board or committee - including technical or sector committees - must allow for a clear and sufficiently detailed reconstruction of the internal debate which led up to the final voting stage, and should not simply be confined to the adoption of the decision.

## Chapter II
## Administration and supervision structures

### Article VII.IX.4 Board of Directors

1. The Board of Directors:

a) takes responsibility for strategic business decisions;
b) approves risk management policies, including risk identification procedures and mechanisms;
c) defines the organizational architecture, ensuring that tasks and responsibilities - formally established in the GENERAL INTERNAL REGULATIONS - are clearly and appropriately allocated and that operational functions are kept separate from supervisory functions;
d) decides on a mechanism for coordinating the task of delegating powers of decision-making and representation consistent with established strategic guidelines and risk policies, and ensures that this mechanism is working properly;
e) identifies functions to be outsourced, specifies the criteria for choosing VENDORS, prescribes the methods for monitoring the vendors' activities, and decides on how to assign the pertinent tasks;
f) ensures the development of a comprehensive IT system capable of generating timely information on the company's true performance at any given time;
g) periodically evaluates the efficiency, effectiveness, and functionality of the organizational structures and of the SYSTEM OF INTERNAL CONTROLS, including in light of the company's evolving activities;
h) in a timely fashion, takes the necessary action in the event that the full set of inspections performed on the SYSTEM OF INTERNAL CONTROLS identifies constraints or anomalies.
i) exercises its duties in the form of a committee, meeting with a suitable frequency and regularity, in any event a number of times not less than 10 meetings per calendar year.

### Article VII.IX.5 Head of the Executive Structure

1. THE HEAD OF THE EXECUTIVE STRUCTURE, including by working together with SENIOR MANAGEMENT STAFF, shall:

a) ensure effective management of corporate operations as well as of the risks to which the FINANCIAL COMPANY is exposed, by defining adequate control procedures;
b) identify and assess risk factors;
c) verify the functionality, effectiveness, and efficiency of the SYSTEM OF INTERNAL CONTROLS, making the necessary adjustments in the light of evolving operations;
d) define the responsibilities of the structures engaged in supervisory functions, ensuring that the units in question are led by personnel suitably well-qualified to perform the required activities;

e) specify the channels for announcing to all staff the procedures pertaining to their duties and responsibilities in addition to the flows of information required to ensure that the Board of Directors has full knowledge of corporate data;
f) carry out the decisions of the Board of Directors and implement the board's strategic guidelines and organizational decisions;
g) in conjunction with the Board of Directors, instil a corporate culture that emphasizes the importance of the supervision function at all levels of staff and communicates to the organizational structure the intended objectives and policies.

**Article VII.IX.6 Internal auditing**

1. In the performance of the INTERNAL AUDITING FUNCTION, the internal auditing structure shall:
a) not report, within the chain of command, to any manager of operational units;
b) have staff that are qualitatively and quantitatively well-equipped to perform the necessary tasks;
c) have access to all the FINANCIAL COMPANY'S activities whether performed at HQ or at regional offices and at any VENDORS;
d) analyse corporate processes, assessing their functional adequacy and the reliability of supervisory mechanisms;
e) in particular, verify the reliability of information systems, including IT and accounting systems;
f) verify the various operating units' compliance with the limits specified by the mechanisms for the delegation of authority, while ensuring the full and correct utilization of the available information on the various activities;
g) verify that in the delivery of services, the relevant procedures ensure compliance with current laws and provisions regarding demarcation between administrative and accounting functions, the firewall (*separazione patrimoniale*) for customer assets, and the rules of behaviour referred to in Part X of these Regulations;
h) perform periodic tests on the functioning of operating and internal control procedures;
i) take steps to ascertain the correctness of operating procedures, including with reference to specific irregularities;
j) carry out investigations specifically requested by the Board of Directors, by the HEAD OF THE EXECUTIVE STRUCTURE, or by the Board of Auditors;
k) verify that any anomalies identified in the operation and functioning of the control mechanisms have been removed;
l) monitor:
    1) the proper maintenance of accounting records and the orderly and reliable management of all corporate documents;
    2) the exchange of flows of information between corporate units and between the FINANCIAL COMPANY and other parties involved in the delivery of services;

3) the sufficiency of the technological installations and corporate IT systems, including in the event that such systems are outsourced;
4) the extent to which VENDORS' operations meet the standards prescribed in the out-sourcing agreement.

2. The internal auditing manager shall:

a) be appointed and removed from office pursuant to decisions adopted by the Board of Directors;
b) at regular intervals (at least quarterly), report to the Board of Directors, Board of Statutory Auditors, and the HEAD OF THE EXECUTIVE STRUCTURE on the work performed and results achieved, and to send copy of their periodic reports to the CENTRAL BANK;
c) be able to ensure that his/her own auditing functions can extend to the highest levels of the corporate organization, including the HEAD OF THE EXECUTIVE STRUCTURE, and shall be report on his/her work directly to the Board of Directors.

3. The INTERNAL AUDITING FUNCTION shall be governed by the GENERAL INTERNAL REGULATIONS.

**Article VII.IX.7 Compliance officer**

1. The compliance officer structure shall:

a) Conduct COMPLIANCE CONTROLS on an ongoing basis;
b) Perform the specific obligations entrusted to that structure pursuant to laws and supervisory regulations governing financial crimes.

2. The compliance officer structure, in common with all other corporate entities at the central and regional levels, shall be subject to INTERNAL AUDITING by the internal auditing structure, except in the cases where it is aggregated within the same structure.

3. Except in the case of outsourcing COMPLIANCE CONTROLS, the "assigned manager" set by legal regulations on the prevention and combating of money laundering and terrorist financing coincides with head compliance officer, under the provisions of letter b) of the first paragraph.

**Article VII.IX.8 Risk manager**

1. In performing the RISK CONTROLS, the risk manager shall identify and assess the level of risk underlying the activities performed, by means of the following:

a) activities aimed at providing support for the HEAD OF THE EXECUTIVE STRUCTURE and the Board of Directors, at the design phase of strategies, when evaluating the degree of risk present in activities and potential risks connected with future decisions;

b) management of trends in management performance overall, including monitoring the level of STRATEGIC/MANAGERIAL RISKS and OPERATIONAL RISKS and reporting to the HEAD OF THE EXECUTIVE STRUCTURE any deviations from the limits set by the Board of Directors.

2. The risk manager structure, in common with all other corporate entities at the central and regional levels, shall be subject to INTERNAL AUDITING by the internal auditing structure, except in the cases where it is aggregated within the same structure.

**Article VII.IX.9 Board of Auditors**

1. The statutory auditors of FINANCIAL COMPANIES - holders of the duties, powers, and responsibilities envisaged in Title II, Chapter III, of the CORPORATIONS ACT - shall:

a) perform their own institutional supervisory responsibilities while having due regard for the functions performed by other entities;
b) facilitate efforts to ensure that management operations are conducted in a lawful and procedurally compliant manner, without being confined to strictly procedural issues, in particular while safeguarding the autonomy of the FINANCIAL ENTERPRISE in question;
c) verify the normal overall functioning of each main organizational unit, with the option to derive information from all the units in the corporate structures that perform supervisory functions, specifically including internal auditing;
d) evaluate the degree of effectiveness of the SYSTEM OF INTERNAL CONTROLS, with particular reference to RISK CONTROLS, the functioning of internal auditing, and the IT/accounting system;
e) maintain coordination with AUDITING FIRMS, the internal auditing structure, and other structures engaging in internal supervision functions, with the aim of enhancing the degree of knowledge regarding the procedural compliance of corporate management, including on the basis of the findings of reviews carried out by those operational units;
f) verify that the FINANCIAL COMPANY'S contractual relationships with RELATED PARTIES and PARTIES CONNECTED thereto are managed correctly and, in particularly, are regulated on market terms, including within the meaning of Article VII.V.1;
g) expeditiously notify the CENTRAL BANK of any and all acts or facts which come to the auditors' attention in the performance of their responsibilities, when such acts or facts constitute a material irregularity in management, a violation of the principles of sound and prudent management, or a breach of legal rules, the charter, or supervisory regulations governing LENDING.

**Article VII.IX.10 Audit Firms**

1. EXTERNAL AUDITORS - i.e., the holders of the duties, powers, and responsibilities envisaged in Title II, Chapter IV, of the CORPORATIONS ACT and in Article 34 of the LISF - shall:

a) coordinate with the Board of Auditors, the internal auditing structure and other units engaging in internal supervision functions with the aim of enhancing the degree of knowledge regarding the

procedural compliance of the corporate accounting system, including on the basis of the findings of reviews conducted by those operational units, to the extent useful for purposes of the ACCOUNTING CONTROL function and/or certification of financial statements;

b) expeditiously notify the CENTRAL BANK of any or all acts or facts which may come to the external auditors' attention in the performance of their own duties, when such acts or facts may constitute a serious violation of the rules regarding the proper maintenance of corporate accounts and/or governing the proper recording of management data in the accounting records; or imperil the firm's prospects as a going concern; or result in a judgment with adverse repercussions or a declaration of the impossibility of expressing an opinion on the financial statements for the fiscal year.

## Chapter III
## Risks

**Article VII.IX.11 Credit risk**

1. The entire process regarding loans (review of loan application, disbursement of credit, monitoring of exposures, interventions in the event of anomalies, and auditing of credit lines) shall be governed pursuant to the GENERAL INTERNAL REGULATIONS and periodically audited.

2. Loans should be granted on the basis of a review process that is well-documented, albeit based on automated procedures, and annotated in special records, maintained in accordance with technical procedures that ensure their integrity, and which contain, for each loan granted, the following information:

a) name of beneficiary;
b) amount;
c) technical form of utilization;
d) guarantees;
e) due date;
f) entity proposing the loan;
g) entity deciding on the loan;
h) overall amount of the facilities, whether direct and indirect, already outstanding together with the pertinent names and uses;
i) purpose of the financing.

3. During the review phase, it will be necessary to gather up all the documentation required to make an adequate assessment of the credit rating of the prospective borrower, from the economic, financial, and profitability standpoints, and thereby achieve suitable returns on the risks thus incurred.

4. The documentation in question should make it possible to assess the consistency between the amount of the loan, its technical form, the activity financed and the purpose of the financing; it should also make it possible to identify the characteristics and calibre of the borrower, including in the light of the full set of dealings entered into with the borrower. It follows that, in order to be able to adequately verify and assess a borrower's membership of a GROUP OF CONNECTED CUSTOMERS, as envisaged also in paragraph 8 below, in the case of borrowers who are not individuals, including FINANCIAL ENTERPRISES, it will be necessary for the borrowers to issue a written statement to the FINANCIAL COMPANY containing the IDENTIFYING PARTICULARS of their CONTROLLING PARTIES or, if such parties do not exist, a statement certifying their inexistence, by completing the mandatory form annexed to these Regulations under letter D.

5. Delegations of authority in regard to credit disbursement should be based on a decision adopted by the Board of Directors, having due regard for the regulations set forth in Article III.III.1, paragraph 2, letter h); appropriate controls must be enforced on the exercise of such delegations of authority.

6. GENERAL INTERNAL REGULATIONS must specify procedures and performances related to the loan monitoring phase, entrusted to suitably autonomous structures, in addition to procedures and activation times for the appropriate steps to be adopted in the event that problematic loans are discovered, and a frequency of at least once a year for the review of credit lines, with the only exception of loans with a financial sinking plan which is regularly served.

7. The criteria for evaluating, managing, and classifying NON PERFORMING LOANS, in addition to the units responsible, shall be specified pursuant to a decision adopted by the Board of Directors, indicating the procedures for establishing connections between these criteria and the criteria prescribed for supervisory reporting purposes. The Board of Directors shall be kept abreast - at least quarterly - of the performance of NON PERFORMING LOANS and the pertinent procedures for recovering such loans and, at least semi-annually, shall assess the presumable realizable value of all loans.

8. FINANCIAL COMPANIES must at all times be in possession of a clear and precise recording of their exposure towards each CUSTOMER or GROUP OF CONNECTED CUSTOMERS, also for the purpose of promptly reviewing the credit facilities, if required. To this end, it is necessary to continuously update the information base according to the information from time to time available on the creditworthiness of debtors, which shows, in particular, the identification data of the customers, the legal and economic connections with other customers, the total exposure of the individual CUSTOMER and the GROUP OF CONNECTED CUSTOMERS, the technical forms from which the exposure derives, and updated value of the guarantees.

9. Using the information available, the FINANCIAL COMPANIES shall constantly update the evaluation of existing loans with the consequent reallocation of exposures in the relevant loan category (NON PERFORMING LOANS or performing) in accordance with the provisions of this Regulation. FINANCIAL COMPANIES must adopt all

necessary organisational controls in such a way as to ensure the effective implementation of the above provisions, also through appropriate internal mandates whose application is subject to verification by the administrative body and that are capable of ensuring a timely reclassification and credit assessment as compared to the time when updates on the creditworthiness of clients become available.

10. The timely updating of the expected realisation value of loans must also be reflected in the corporate accounts and in the SUPERVISORY REPORTS to the CENTRAL BANK. Changes in loan trends and the assessments carried out are brought to the attention of the administrative body according to the procedures laid down in the previous paragraph 7.

**Article VII.IX.12 Other strategic-managerial risks**

1. FINANCIAL COMPANIES shall at all times have an accurate perception of their own exposure to interest rate risks, liquidity risks, and market risks, and they shall have suitable instruments for recording, measuring, monitoring, and managing such risks, commensurate with the size and degree of complexity of corporate operations.

2. FINANCIAL COMPANIES must invest in financial instruments in compliance with the limits and criteria set in the GENERAL INTERNAL REGULATION, which must indicate at least the following:

a) classes of permitted assets (equity, bond, monetary);
b) quantitative limits at the portfolio level; minimum and maximum percentage exposure for each class of activity, for each foreign currency, for each industrial sector and/or geographic area;
c) qualitative limits at the level of individual instruments and portfolios: maximum duration and minimum rating;
d) maximum percentage of unlisted securities that may be held;
e) scope for using DERIVATIVES and maximum financial leverage;
f) specification of a benchmark applicable to the entire portfolio.

**Article VII.IX.13 Operational risks**

1. With reference to OPERATIONAL RISKS, FINANCIAL COMPANIES shall inter alia:

a) minimize the risks of fraud, embezzlement and staff disloyalty through the development of suitable operational and supervisory procedures and the adoption of personnel management policies designed to prevent potential conflicts between individual aspirations and the interests of the FINANCIAL COMPANY;
b) assess the legal and reputational risks connected with the performance of non-traditional activities and/or in favour of persons not resident in Sammarinese territory;
c) minimize legal and reputational risks connected with customer relations by:
    1) rigorously enforcing compliance with the rules of transparency and accuracy referred to in Part X of these Regulations;

2) staff development through direct contact with the public so that they are familiar with internal complaint procedures and are able to guide customers in using these services;

d) prevent conflicts of interest through the adoption of distinct and autonomous organizational structures which ensure the necessary demarcation between structures in charge of LENDING and those in charge of other activities in the FINANCIAL COMPANY.

**Article VII.IX.14 Information systems**

1. The information system should be:

a) constantly upgraded to reflect the complexity of the FINANCIAL COMPANY'S operating environment, the variety and type of services to be rendered, as well as to the size and geographical structure of the firm in question;

b) reliable, i.e., able to record management data accurately and with maximum timeliness, as well as to provide a truthful portrayal of the economic, administrative, financial, and risk-related performance of the firm at any given date;

c) integrated, i.e., capable of ensuring the consistency of the information contained in the various archives wherever the FINANCIAL COMPANY uses different sectorial procedures (accounts, lending, reporting to outside agencies, AML, etc.);

d) structured in such a way as to preserve a fire wall between the assets of third parties and the assets of the FINANCIAL COMPANY;

e) protected by adequate safeguards whether at the level of hardware (provision of criteria for access to equipment and documents, methods for the preservation and distribution of storage media, etc.) or software (differentiated levels of user authorization, assignment of passwords, including paired passwords, possible use of cryptographic codes, techniques for the authentication of information transmitted electronically, etc.) to preserve the confidentiality and integrity of information;

f) capable of restoring the status quo ante after an accident, including through the use of back-up and emergency recovery procedures, in addition to the option to go back to the authors of data modifications and inserts and to reconstruct the time series of modified data, albeit with no option to modify the accounting data inherent in corporate fiscal years that have already ended.

**Article VII.IX.15 Foreign branches**

1. FINANCIAL COMPANIES having BRANCHES outside of Sammarinese territory shall:

a) verify the extent to which the operations of each foreign BRANCH are compatible with the company's corporate strategies and objectives;

b) adopt information and accounting procedures that are uniform or that can at all events be readily connected up to the central system, in order to ensure adequate and timely flows of information to the Board of Directors and to the HEAD OF THE EXECUTIVE STRUCTURE;

c) confer decision-making powers that appropriately reflect the potential capacity of BRANCHES and assign authority among the various operational units of each BRANCH in such a way as to ensure the necessary free flow of information in the conduct of the work;
d) ensure that foreign BRANCHES are subject to the controls imposed by internal auditing, staffed with personnel possessing the special professional qualifications required, and by the Board of Auditors and the AUDIT FIRM.

## Chapter IV
## Outsourcing requirements for supervision purposes

**Article VII.IX.16 Restrictions to outsourcing**

1. FINANCIAL COMPANIES may not outsource the exercise of relevant activities and corporate functions related to the lending activities and other reserved activities pursuant to the provisions of the LISF.

2. The outsourcing related to general accounting, human resources, INTERNAL AUDITING and COMPLIANCE CONTROLS sectors is allowed only if all of the following conditions are met:
a) the OUTSOURCER is THE PARENT COMPANY or a MEMBER of the same group, subject to the supervision of CENTRAL BANKS or foreign Supervisory Authorities, provided that cooperation arrangements are in place under article 103 of the LISF;
b) the outsourcing is notified to the CENTRAL BANK by the PARENT COMPANY not less than 30 days prior to the actual beginning of the relation, providing exhaustive information on the human resources and other instruments that such parent company, or the MEMBER designated by the parent company for the centralisation of this function at a group level, intends to use;
c) during the period specified in letter b) above, except in case of suspension of the term to satisfy the request of additional information and documents by the CENTRAL BANK, the latter does not 'notify to the PARENT COMPANY its negative opinion on the outsourcing proposed on grounds of the inadequacy of the organisational structure of the OUTSOURCER to centralise activities or functions at a group level;
d) the further conditions referred to in article VII.IX.18 below are satisfied at a group level.

3. In the sectors identified in subparagraph 2 above, the OUTSOURCER may not coincide with the PARENT COMPANY or member of the same group, but only subject to the prior authorisation of the CENTRAL BANK.

4. The authorisation of the CENTRAL BANK is granted if, in addition to the satisfaction of the conditions referred to in article VII.IX.18 and to the compliance with the procedures outlined in article VII.IX.17 below, the OUTSOURCER satisfies the expected professional, independence and organisational adequacy requirements and provides sufficient guarantees of business continuity.

**Article VII.IX.17 Procedure for authorizing outsourcing**

1. The request for authorization shall contain the following information and documentation attached:

a) draft of the outsourcing contract to be entered into, complete with the minimum contents referred to in letter a) of the following article;

b) copy of the Board of Directors' decision, complete with the minimum contents referred to in letter b) of the following article;

c) reasons for the outsourcing decision;

d) rationale for the choice of VENDOR.

2. Unless the running of the period of time is interrupted, the CENTRAL BANK - within 60 days of the date on which the request to authorize outsourcing is received - shall provide the requesting FINANCIAL COMPANY with written issuance or rejection of the authorization.

**Article VII.IX.18 Outsourcing requirements**

1. In cases in which outsourcing is not forbidden under Article VII.IX.16, it shall be permitted on condition that:

a) the outsourcing assignment is formally established by means of a written contract giving a definition of the purpose of the outsourcing and the limits of the delegation of authority thus conferred, identifying the guidelines that will govern the activity in question, while indicating that the VENDOR - in respect only of the performance of the activity or function outsourced by the FINANCIAL COMPANY - shall be subject to the guidance and supervision exercised by specified structures of the FINANCIAL COMPANY and shall remain subject to supervision, including for inspection purposes, by the internal auditing structure of the FINANCIAL COMPANY itself and the CENTRAL BANK;

b) the Board of Directors has:

1) defined the objectives entrusted to the outsourcing operation, whether in relation to the overall corporate strategy or in regard to the qualitative and quantitative standards expected from the outsourcing process;

2) identified the criteria and procedures required to oversee the assessment and selection of potential suppliers as well as the subsequent stage involving interactions with the preselected VENDOR;

3) evaluated the organizational mechanisms and the resources devoted to the work by the party offering the service;

4) identified the instruments and the procedures (including contractual instruments and procedures) required for the board to intervene in timely fashion in the event that the services rendered prove inadequate;

c) the outsourcing operation does not adversely affect the FINANCIAL COMPANY'S capacity to oversee production processes and the risks deriving therefrom, particularly operational risks.

**Article VII.IX.19 Procedure for announcing the outsourcing operation**

1. In all cases where the outsourcing operation is not subject to authorization within the meaning of Article VII.IX.16, the FINANCIAL COMPANY shall at all events - within ten days after the date on which the outsourcing contract is entered into - forward a copy to the CENTRAL BANK attaching the following documents:

a) copy of the Board of Directors decision pursuant to the preceding article;
b) a report containing any and all information helping in characterizing the operation, and in particular:
   1) the reasons for the outsourcing decision;
   2) the rationale underlying the choice of VENDOR, with particular references to the requirements of financial viability, professional qualifications, and organizational adequacy;
   3) a description of any other links that tie the FINANCIAL COMPANY to the VENDOR;
   4) the mechanisms by which the delegation of authority will operate;
   5) the steps the FINANCIAL COMPANY will take to verify the VENDOR'S performance.

# Title X

# Distribution networks

## Chapter I

## Distribution network in the Republic of San Marino

**Article VII.X.1 Procedure for opening new branches**

1. A FINANCIAL COMPANY intending to open new BRANCHES on Sammarinese territory shall submit a request for authorization to the CENTRAL BANK, in the manner laid down in Article III.II.6.

2. The application shall contain any and all information necessary to submit the proposal, and in particular:

a) the exact location of the new BRANCH;
b) services provided, including ancillary services;
c) rationale for expanding the distribution network;
d) business plan, organization chart, and employment plan for the first three years of BRANCH operation;
e) lead times for commencing operations;
f) main clauses in the lease for the premises: IDENTIFYING PARTICULARS on the counterparty, price and form of payment in the event of purchase, due date and rent in the event of a lease, duration, rent and rate in the event of leasing, etc.

3. Within 60 days of the date on which the request is received, the CENTRAL BANK shall provide written notice of whether the request for authorization has been granted, or rejected.

4. In the event that the CENTRAL BANK asks the FINANCIAL COMPANY to provide supplementary information and/or documents in support of the company's application, then the normal running of the allowance of time shall be suspended, provided that such suspension is expressly provided for in the official message requesting additional information in support of the application.

**Article VII.X.2 Assessment criteria**

1. The CENTRAL BANK, pursuant to Article 48, paragraph 3 of the LISF, may deny authorization on the basis of assessments pertaining to the organizational adequacy, financial, economic, or administrative situation of the applicant FINANCIAL COMPANY.

**Article VII.X.3 Notification of start-up of operations**

1. The CENTRAL BANK shall be provided with written notification of the public opening of a BRANCH within 10 calendar days after the date of start-up of operations.

## Chapter II
## Distribution network abroad

**Article VII.X.4 Opening branches abroad**

1. Companies intending to establish new BRANCHES abroad shall file an appropriate application for authorization (referred to in Article 74 of the LISF) with the CENTRAL BANK in the manner laid down in Article III.II.6. In addition to the information listed in the preceding article, the application shall contain any additional information required to help submit the proposal, and in particular:

a) the FINANCIAL COMPANY'S international expansion plan;
b) particulars and CVs for the managers of the new BRANCH, specifying their assigned decision-making powers;
c) the mechanisms that will be used to perform the INTERNAL AUDITING FUNCTION as applied to foreign branches, by the parent company;
d) the amount of the endowment fund, where requested;
e) information reporting procedures and accounting procedures adopted by the foreign BRANCH and the extent to which they are consistent or compatible with the central information reporting and accounting system.

**Article VII.X.5 Provision of services without permanent establishment abroad**

1. The prior notification referred to in Article 74 of the LISF for purposes of engaging in operations abroad on a basis of freedom to PROVIDE SERVICES WITHOUT PERMANENT ESTABLISHMENT shall be submitted to the Central Bank in accordance with the methods established in Article III.II.6 and shall contain any and all information relevant to the presentation of the project, and in particular:

a) the country and the sector in which the activity in question is going to be performed;
b) type of service to be provided;

c) technical methods that will be used to carry out the operations.

**Article VII.X.6 Establishment of representative offices**

1. The prior notification referred to in Article 74 of the LISF for purposes of opening a REPRESENTATIVE OFFICE abroad shall be submitted to the CENTRAL BANK in accordance with the methods prescribed in Article III.II.6 and shall specify the foreign country in which the representative office is to be established, the date on which the representative office is to commence operations, and the resources allocated for this purpose.

**Article VII.X.7 Assessment criteria**

1. Pursuant to Article 74, paragraph 2 of the LISF, the CENTRAL BANK may refuse to permit foreign operations, even for FINANCIAL COMPANIES which are not FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, on the basis of assessments pertaining, in any event, to the administrative, financial, or organizational situation of the applicant FINANCIAL COMPANY, or on the basis of the extent to which the legal system encountered in the host country is capable of ensuring the effective performance of supervisory functions.

## Title XI
## Amendments to the Charter

**Article VII.XI.1 Application for authorization**

1. Under Article 47 of the LISF, a FINANCIAL COMPANY intending to modify its own charter shall submit an application for authorization to the CENTRAL BANK, containing the information required to describe its proposal and in particular:

a) precise details of the article or articles that are to be amended;
b) the full text of the charter article or articles in their pre-amendment wording and post-amendment wording, including if the amendment affects just a few paragraphs or parts thereof;
c) the reasoning behind the proposed amendment to the charter;
d) the date on which a meeting was called for the Meeting of Shareholders reporting in the agenda the charter amendment in question or, in the absence of a notice calling such a meeting, the date on which a plenary session is scheduled to discuss the matter.

2. Alternatively, the application may enclose a copy of the Board of Directors' decision and a copy of the notice convening the Meeting of Shareholders, provided these clearly and completely spell out all the information listed above.

3. Within 10 days of the date of the Meeting of Shareholders that is to debate the matter of the charter amendments referred to above, the FINANCIAL COMPANY shall e-mail the CENTRAL BANK the full text of the charter, as amended, in electronic form.

4. In order to simplify and accelerate the authorisation procedures under Article VII.XI.2 and VII.XI.3 below, the FINANCIAL COMPANY may substitute or correct, on its own initiative, pending the deadline under the article below, the petition previously submitted under and according to the terms of the first paragraph, with other hardcopy petitions, all in compliance with the preventive indications received via email from the Supervision Department, regarding the electronic revisions to the original text of the Charter, sent by the FINANCIAL COMPANY via email for such purpose.

**Article VII.XI.2 Deadline for the decision**

1. Unless the running of the period of time is interrupted, the CENTRAL BANK - within 30 days of the date or receipt of the application, or its subsequent substitutions or corrections - shall provide the requesting FINANCIAL COMPANY with written issuance or rejection of the authorization to amend the charter.

2. The CENTRAL BANK may deny authorization only in those cases where the charter amendment conflicts with the sound and prudent management and with the provisions set forth in Part III, Title III of these Regulations or at all events impedes the conduct of the supervision function.

**Article VII.XI.3 Resubmission of the application**

1. If the application is denied, the FINANCIAL COMPANY may submit to the CENTRAL BANK fresh requests for authorization focusing on the same portions of the charter albeit making to the proposed charter amendment the changes necessary to address the objections set out in the decision rejecting the application for authorization.

2. In the event that an application for authorization is filed a second time, the application need only contain the information referred to in Article VII.XI.1, provided that the fresh application makes reference to the earlier application.

3. The period of time allowed for granting the decision in cases in which a repeat application is applied—except in cases where the running of the allowance of time is interrupted for some reason—shall be 15 days from the date on which the application is received.

**Article VII.XI.4 Submission at the Meeting of Shareholders**

1. At the Meeting of Shareholders, the President of the FINANCIAL COMPANY shall present the decision authorizing the charter amendments as issued by the CENTRAL BANK, including for purposes of subsequent registration of the decision with the Office of the Clerk of the Court in accordance with Article 47(4) of the LISF.

**Article VII.XI.5 Change in the corporate capital**

1. In situations in which the charter amendment follows in the wake of an operation to change the corporate capital, the authorization application under Article VII.XI.1 shall also contain all the information needed to describe the reasons, methods and times of the operation.

2. In particular, in cases involving increases in the corporate capital, it will be necessary to specify whether this increase will or will not be for valuable consideration, or - if no payment is involved - which reserve funds will be used, and - if the operation is in return for payment - the methods and deadlines for subscribing to and paying up the new corporate capital.

3. In those situations in which the corporate capital is increased on a basis of payment, then the FINANCIAL COMPANY - within ten days after each operation has been completed - shall provide the CENTRAL BANK with written notification:

a) of the subscription to the corporate capital, including the composition of the new ownership structure (general details on shareholders and the equity interest subscribed for by each shareholder, both in percentage terms and in terms of overall nominal value and price), including when unchanged;
b) the payment of the capital, attaching copies of the accounting receipt(s) showing that the sums of money have been credited.

## Title XII
## Block acquisitions of assets and liabilities

**Article VII.XII.1 Scope**

1. The following rules apply to divestitures in favour of FINANCIAL COMPANIES, of:

a) COMPANIES;
b) BRANCHES OF BUSINESSES;
c) LEGAL RELATIONSHIPS IDENTIFIABLE AS A BLOCK.

2. The provisions referred to in this Title are applicable, to the extent compatible and in compliance with the provisions of Chapter I and II of Title IV of the CORPORATIONS ACT, also to the other extraordinary transactions of merger and demerger, which, absent any provision on the threshold of significance under article 52 paragraph 2 of the LISF, are always subordinated to the prior authorisation by the CENTRAL BANK.

**Article VII.XII.2 Publicity**

1. The FINANCIAL COMPANY to which the assets have been transferred shall report the transfer by means of a notification to the CENTRAL BANK.

2. The CENTRAL BANK shall publish the notification by the following means:

a) a request to the Single Court [Tribunale Unico] post the notification in a prominent place by displaying it on the doors of the Public Palace (ad valvas palatii, to use the Latin expression) or at all the "Case di Castello" of the Republic of San Marino;
b) have the notification and its link to the pertinent official notice posted to the appropriate page on the CENTRAL BANK'S own internet site.

3. The publication shall indicate:

a) the distinguishing marks that make it possible to identify the item of property being transferred;
b) the effective date;
c) the arrangements (times, places, etc.) whereby any interested party may obtain information on his/her own situation, where necessary.

4. The transferee FINANCIAL COMPANY shall announce the transfer to the interested individual at the earliest opportunity, as part of periodic reporting or announcements pertaining to specific transactions.

**Article VII.XII.3 Utilization on the premises of the transferor**

1. If the technical and human resources being transferred are temporarily used by the transferee FINANCIAL COMPANY on the premises of the transferor, then the necessary demarcation between the activities performed by both parties must be achieved, in order to avoid spreading confusion among customers in regard to identifying their true credit counterpart as well as to avoid commingling of management operations.

**Article VII.XII.4 Acquisition of "reserved activities"**

1. If a party acquires an activity which requires initial authorization before the activity can be carried out, and the transferee FINANCIAL COMPANY is not yet in possession of such authorization, such authorization must be applied for in accordance with the provisions governing the specific activity in question.

**Article VII.XII.5 Branch acquisitions**

1. Acquisitions of the first BRANCH in the Sammarinese territory by foreign FINANCIAL COMPANIES shall be governed by the provisions set forth in Part III, Title VI, Chapter I; the acquisition of subsequent BRANCHES shall be governed by the provisions set forth in Part VII, Title X, Chapter I.

**Article VII.XII.6 Operations subject to authorization**

1. Authorization by the CENTRAL BANK shall be required in the case of operations involving the transfer of assets and liabilities when the sum of the latter undergoing transfer exceeds 20 percent of the total regulatory capital, as defined in Part VII, Title II, of the transferee FINANCIAL COMPANY.

2. In all other cases, or those cases in which the transfer is in favour of FINANCIAL COMPANIES but below the threshold specified in the preceding paragraph, and all those cases in which it is FINANCIAL COMPANIES that are transferring to third party COMPANIES, BRANCHES OF BUSINESSES or LEGAL RELATIONSHIPS IDENTIFIABLE AS A BLOCK, without prejudice to the provisions of Article III.VII.2 and the possible consequences under Article III.VII.3, the CENTRAL BANK must at all events receive prior notification from the FINANCIAL COMPANY at least 60 days in advance of the specified date on which the operation is to be entered into, for the purpose of verifying the criteria set forth in Article VII.XII.9.

**Article VII.XII.7 Content of the application**

1. The application for authorization shall spell out the subject matter of the transfer and illustrate the objectives that the FINANCIAL COMPANY intends to achieve. In particular, it will be necessary to provide information regarding the impact of the operation on compliance with prudential rules governing risk concentration and capital adequacy; in connection with the latter, account must be taken also of any items to be subtracted from the total regulatory capital of the transferee FINANCIAL COMPANY.

2. In situations in which the operation entails access to a new activity sector or else an expansion of the corporate structure, then it will be necessary to specify any reforms that will need to be taken in the organization of the FINANCIAL COMPANY.

**Article VII.XII.8 Period of time allowed for issuance of the decision**

1. The CENTRAL BANK shall issue the transfer authorization within 90 days after the application is received, provided that the Central Bank determines that the operation thenceforward shows no disregard for the rules of prudential supervision, specifically the rules governing capital and organizational adequacy and risk concentration.

2. Furthermore, the CENTRAL BANK may veto the operation if it finds that the operation is at variance with the sound and prudent management of the FINANCIAL COMPANY or with the structure and economic needs of the market.

3. The CENTRAL BANK may demand additional information. In such cases the running of the period of time for making the decision shall be suspended.

4. If the documentation presented is incomplete or insufficient, the running of the period of time shall be interrupted.

**Article VII.XII.9 Eligibility requirement**

1. FINANCIAL COMPANIES may neither sell nor buy COMPANIES, BRANCHES OF BUSINESSES OR LEGAL RELATIONSHIPS IDENTIFIABLE AS A BLOCK when such action results in violation of the prudential supervision regulations set forth in this Part of the Law.

## Title XIII

## Simplifications for financial companies with limited operational powers

### Article VII.XIII.1 General principles

1. FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, in relation to the restrictions set forth in Article I.I.2, are subject to the special provisions set forth below.

2. For all that is not otherwise governed, the provisions contained in this Part VII shall apply.

### Article VII.XIII.2 Regulatory capital

1. The regulations under Article VII.II.3 are simplified as follows:

"1. Tier 2 capital is composed of the following items:

a) Revaluation reserves;

b) Risk funds in respect of purely prudential credits (serving no corrective function);

2. The total amount of these components constitutes Tier 2 capital".

2. The provisions listed below shall not be applied:

- Article VII.II.7;
- Article VII.II.8;
- Article VII.II.9;
- Article VII.II.10;
- Article VII.II.11.

3. The regulations under Article VII.II.5 are simplified as follows:

"1. In calculating regulatory capital, total Tier 2 capital may not exceed 100 percent of Tier 1 capital".

4. The regulations under Article VII.II.6 are replaced with the following:

"1. Total regulatory capital may not be less than the higher of:

a) Euros 1 million;

b) the total minimum capital coverage under the following Articles VII.III.9 and VII.III.10."

### Article VII.XIII.3 Capital adequacy and solvency ratio

1. The regulations under Article VII.III.8 are simplified as follows:

"1. The credit risk weighting for off-balance-sheet operations shall be applied by means of a two-step process; first, the "off-balance sheet" assets are converted into credit equivalents based on the probability that a credit exposure will arise, through the use of credit conversion factors; second, the credit equivalent is weighted on the basis of the type of counterpart involved.

2. The credit conversion factors for calculating the credit equivalent are as follows:

a) 100 percent for commitments involving "full risk";

b) 50 percent for commitments involving "intermediate risk";

c) 0 percent for commitments involving "low risk".

3. Pursuant to the preceding paragraph, these include unused credit lines which are considered:

a) "low risk", if they include financing commitments involving uncertain utilization, which may be revoked at any time without prior notice requirements;

b) "intermediate risk", if they include financing commitments involving uncertain utilization, different from those under letter a);

c) "full risk", if they include financing commitments involving certain utilization.

4. The solvency ratio under Article VII.III.9, paragraph 1, is decreased from 8 percent to 6 percent.

**Article VII.XIII.4 Risk concentration**

1. Restrictions on major exposures under Article VII.IV.2 are amended as follows:

a) individual limit:: from 25 percent to 33 percent of regulatory capital;

b) aggregate limit: from 8 to 10 times regulatory capital.

**Article VII.XIII.5 Transactions with related parties and persons connected therewith**

1. The threshold for substantial interests under Article VII.V.2, paragraph 1, is increased from 5 percent to 10 percent of regulatory capital.

2. The limits under Article VII.V.4, both individual and aggregate, shall not be applied.

**Article VII.XIII.6 Limits on maturity conversion**

1. The provisions listed below shall not be applied:

- Article VII.VI.1, paragraph 2;
- Article VII.VI.2.

**Article VII.XIII.7 Equity interests that can be held**

1. The provisions listed below shall not be applied:

- Article VII.VIII.3;
- Article VII.VIII.5.

2. In paragraph 1 of Article VII.VIII.4, reference to the general limit is understood as reference to Article VII.VI.1, not to Article VII.VIII.3.

**Article VII.XIII.8 Block acquisitions of assets and liabilities**

1. The threshold for applying the authorization regime under Article VII.XII.6, paragraph 1, is increased from 20 percent to 40 percent of regulatory capital.

**Article VII.XIII.9 Overrun of the size threshold**

1. FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS which overrun the size limit of Euros 50 million for total risk-weighted assets, for two consecutive calendar quarters shall, by the end of the third calendar quarter, be in line with the ordinary prudential supervision requirements applied to other specialized FINANCIAL COMPANIES, including any increase in corporate capital up to the minimum of Euros 2 million.

2. Conversely, FINANCIAL COMPANIES whose total risk-weighted assets are lower than Euros 50 million for two consecutive calendar quarters, and are already in line with the remaining operational restrictions under Article I.I.2, may notify the CENTRAL BANK of their conversion, starting from the end of the third calendar quarter, into a FINANCIAL COMPANY WITH LIMITED OPERATIONAL POWERS.

# PART VIII
# SUPERVISION INSTRUMENTS

## Title I
## Introduction

**Article VIII.I.1 Legislative basis**

1. The provisions of this Part have their legislative basis in Articles 41 and 42 of the LISF.

**Article VIII.I.2 Administrative sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Article 18.

## Title II
## Off-site supervision

**Article VIII.II.1 Obligations to file regular reports**

1. FINANCIAL COMPANIES shall at regular intervals provide the CENTRAL BANK with PERIODIC SUPERVISORY REPORTS also for the purpose of controlling compliance with prudential supervision rules pursuant to Part VII of these Regulations, and more generally, with principles of sound and prudent management.

2. The amounts indicated, in conformity with the provisions set forth in the decisions referred to in Article VIII.II.3, as well as in the reporting templates and operational manuals under Article VIII.II.4, in the PERIODIC SUPERVISORY REPORTS shall be used by the CENTRAL BANK in determining and monitoring all the aggregates mentioned in Parts VII and XI of these Regulations.

**Article VIII.II.2 Obligations to file reports at other times**

1. In addition to the documents that are to be filed at regular intervals pursuant to the previous article, and in addition to those documents which must be submitted as and when the need arises, to accompany the messages and applications for authorizations envisaged in these Regulations, FINANCIAL COMPANIES must also send the following to the CENTRAL BANK:

a) a true and full copy of any minutes of meetings of shareholders , even when such meetings contain no decisions subject to disclosure or authorization requirements, together with the updated certificate of registration and good standing, when the decisions by the meeting of the shareholders have resulted in an update to the data contained therein;

b) business plans relating to any new sectors of business to launch, complete with the related decision of the Board of Directors and all useful indications on the matter of investments to be made, expected profitability in the first three years, human resources and logistics to be allocated, impacts on the company's organizational structure, with specific regard to the implementation of the SYSTEM OF INTERNAL CONTROLS.

2. The deadline for transmitting that set forth in the above paragraph is 10 days from:

a) the date that the legal process for executing the deed is concluded, or from the most recent, in order of time, of the execution, registration, filing and enrolment in the Register of Companies;
b) the date that the related decision is made by the Board of Directors.

**Article VIII.II.3 Completeness**

1. The general provisions concerning the fulfilment of the information requirements are qualified in Regulation 2015-01 as subsequently amended and supplemented to which they refer.

2. The content, format, compilation criteria, form, transmission procedures and deadlines for the filing of all documents to be transmitted to the CENTRAL BANK are subject to specific provisions to which reference should be made.

**Article VIII.II.4 Reporting forms and guides for compilation**

1. For the proper compilation and submission to CBSM of supervisory reports, the reporting forms and related guides for compilation containing the instructions on how to compile and submit statistical data, are made available, according to the procedures provided for by Regulation 2015-01, referred to in the previous article.

2. Updates of the reporting forms and guides for compilation are introduced by decision of the Supervisory Coordination Department of the CENTRAL BANK, and disclosed to the interested parties suitably in advance of their taking effect, in relation to the importance and operational impacts of the changes made.

3. If in regard to a PERIODIC SUPERVISORY REPORT, or part thereof, there is no information to report to the CENTRAL BANK, the FINANCIAL COMPANY in question must nonetheless comply with the reporting requirement by confirming that there is an absence of information on the topic in question.

**Article VIII.II.5 Inquiries**

1. FINANCIAL COMPANIES may submit queries to the CENTRAL BANK to request clarification on periodic reports and pertinent implementing provisions, as well as requests for clarification, more generally, regarding the content of these Regulations and other supervisory provisions that have been issued.

2. Such inquiries must meet the following requirements:

a) Sender: Sammarinese FINANCIAL COMPANY, or Sammarinese BRANCH of a foreign FINANCIAL COMPANY;
b) Recipient: Supervision Department
c) Shipment method: letter or email message signed by the HEAD OF THE EXECUTIVE STRUCTURE or a person acting in their stead (Deputy General Manager) or due to express mandate received and previously notified to the CENTRAL BANK, in compliance with the maximum limit of 3 employees which can be delegated for each FINANCIAL COMPANY.

## Title III
## On-site supervision

**Article VIII.III.1 On-site inspections**

1. Inspections aim at ascertaining whether the activities of the FINANCIAL COMPANY satisfy the criteria of a sound and prudent management and are carried out in compliance with the provisions governing the exercise of such activities. Within this context, the inspection assesses the overall technical and organisational situation of the FINANCIAL COMPANY and verifies the reliability of the information provided to the CENTRAL BANK.
The investigations may relate to the overall corporate situation ("spread-spectrum"), specific operating sectors and/or compliance with industry regulations ("targeted") as well as the responsiveness of any corrective actions taken by the FINANCIAL COMPANY ("follow up").

2. At all events, those persons who in the name of the CENTRAL BANK visit the offices or BRANCHES of FINANCIAL COMPANIES to carry out investigations shall be required to produce:
a) a letter of appointment addressed to the inspected FINANCIAL COMPANY, signed by a member of the Supervisory Coordination Department of the CENTRAL BANK, and containing information on the assigned individuals;
b) an IDENTITY DOCUMENT that is currently valid, or an equivalent identification document issued by the CENTRAL BANK.

3. Investigations may focus on the entire set of information on the FINANCIAL COMPANY, without any exceptions, and on a basis of full exemption from banking secrecy requirements, in accordance with the provisions of Article 36(5)(b) of the LISF. The exercise of the inspection powers pursuant to Article 42, paragraph 2 of the LISF vis-à-vis persons to which the FINANCIAL COMPANY has outsourced corporate functions shall trigger investigations vis-à-vis the FINANCIAL COMPANY and shall be carried out pursuant to the same appointment letter as the one mentioned above.

4. CORPORATE OFFICERS and personnel of the inspected FINANCIAL COMPANY shall be required to provide maximum cooperation to those performing the investigations, and in particular, they shall be required to provide

such information and documents as the inspectors deem necessary, and shall do so in a timely and comprehensive fashion. The FINANCIAL COMPANY shall take steps to ensure that the information and documents required by the inspectors, but in the possession of other persons involved, are made available in a timely fashion.

**Article VIII.III.2 Inspection report**

1. The inspection report — drawn up upon the completion of the inquiries and intended for the FINANCIAL COMPANY — shall provide a detailed description of the corporate facts and actions encountered that are incompatible with the criteria of sound management or with the rules and regulations governing the performance of activity.

2. The closure of inspections is notified by the CENTRAL BANK to the FINANCIAL COMPANY by letter signed by a member of the Supervisory Coordination Department. The inspection report is notified within the 60 days following the date of closure of the inspections, to the CORPORATE OFFICERS of the FINANCIAL COMPANY or to the Commissioner appointed by the CENTRAL BANK, in the cases where the inspections result in the adoption of a decision under Part II, Title II, Chapter I or II of the LISF.

3. Within 30 days after receiving the inspection report, the inspected firm shall provide the CENTRAL BANK with its own responses to the comments and criticisms resulting from the inspection, and shall further advise the CENTRAL BANK of any steps which it has taken — or which it intends to take — to eliminate the anomalies and irregularities identified in the report.

4. The provisions governing the procedure for the imposition of administrative penalties in cases of violations identified in the course of the inspection inquiries shall remain unaffected.

# PART IX
# FINANCIAL GROUP

## Title I
## Introduction

**Article IX.I.1 Legislative basis**

1. The provisions contained in this Part have their own regulatory basis in Articles 53, 54, 55, 57, 58, 59, and 60 of the LISF.

**Article IX.I.2 Administrative sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Article 18.

## Title II
## Management of the Group

**Article IX.II.1 Regulatory functions**

1. The PARENT COMPANY, within the meaning of Article 57 of the LISF, shall incorporate into the group's own directives, binding upon GROUP MEMBERS, the general and special provisions issued by the CENTRAL BANK in the interests of ensuring the stability of the group, and shall ensure that these are complied with.

2. For purposes of the stipulations set forth in the preceding paragraph, the PARENT COMPANY may ask each GROUP MEMBER to provide information, data, and statements appropriate for the purpose, which the directors of the GROUP MEMBERS are required to provide.

**Article IX.II.2 Supervisory functions**

1. The PARENT COMPANY shall provide the Group with a SYSTEM OF INTERNAL CONTROLS allowing for the effective management of the Group from the strategic, managerial, and technical/operational standpoints.

2. In pursuance of the preceding paragraph, provision must be made for:

a) standardized procedures for coordination and linkage between the GROUP MEMBERS and the PARENT COMPANY for all areas of activity;

b) mechanisms for integration of the accounting systems, including for the purpose of ensuring the reliability of data surveys conducted on a consolidated basis;
c) periodic information flows that facilitate efforts to verify attainment of strategic goals as well as compliance with rules and regulations;
d) the duties and responsibilities of the various structures entrusted with the task of conducting RISK CONTROLS inside the Group and the coordination mechanisms;
e) procedures that ensure the centralized measurement, management, and control of all risks facing the Group at the consolidated level;
f) information systems that make it possible to monitor financial flows and credit ratios, with particular reference to situations in which the GROUP MEMBERS stand guarantee for one another.

3. The PARENT COMPANY shall further:
a) formalize and circulate among all GROUP MEMBERS the criteria for the measurement, management, and control of all risks;
b) validate the systems and procedures for RISK CONTROLS inside the group.

4. With reference to credit risk, the PARENT COMPANY, shall set valuation criteria for exposures and shall establish a collective database which allows all GROUP MEMBERS to determine customers' exposures to the Group as well as the valuations associated with borrowers' exposures.

5. In accordance with group strategies and in compliance with the provisions set forth in Article VII.IX.16, it will be possible to centralize, in whole or in part, the INTERNAL AUDIT FUNCTION at the PARENT COMPANY or at one of the GROUP MEMBERS.

6. In order to verify the degree to which the GROUP MEMBERS' are behaving in compliance with the directives issued by the PARENT COMPANY, and to determine the effectiveness of the SYSTEM OF INTERNAL CONTROLS, the PARENT COMPANY shall conduct periodic inquiries as well as provide the CENTRAL BANK each year with a report, containing assessments from the Board of Directors and Board of Auditors, and focusing on the inquiries mentioned above.

## Title III
## Consolidated and supplemental supervision

**Article IX.III.1 Completeness**

1. Without prejudice to the provisions set forth in this Part on issues of organizational adequacy, as well as in Articles VII.IV.1 and VII.V.2 on the matter of calculating INDIRECT EXPOSURES, the application on a

consolidated basis to FINANCIAL GROUPS of the measures set forth in Parts VI, VII, and VIII shall be dealt with in appropriate provisions to which the reader is referred.

2. In accordance with the regulations under the previous paragraph, in compliance with the general limits set in Article 53 of the LISF, the scope of FINANCIAL GROUPS shall exclude all companies which meet both of the following conditions:

a) subject to monitoring by the PARENT COMPANY, in the manner laid down in Article 2 of the LISF;
b) conduct of reserved activities or activities connected, instrumental or auxiliary to those carried out by the PARENT COMPANY, under Article II.II.4.

## Title IV
## Foreign financial group

**Article IX.IV.1 Obligations of Sammarinese financial companies to the foreign parent company**

1. FINANCIAL COMPANIES shall provide the FOREIGN PARENT COMPANY, authorized under Article V.II.6, paragraph 3, with the information and documents necessary to ensure compliance with obligations under rules and regulations governing supervision on a consolidated basis and to facilitate internal risk management.

2. The information disclosures referred to in paragraph 1, within the strict limits therein specified, may be provided either by the forwarding to the FOREIGN PARENT COMPANY of flows of information, whether in electronic or hard-copy form, whether at regular intervals or upon request, or by means of inspections which the FOREIGN PARENT COMPANY carries out on the premises of Sammarinese FINANCIAL COMPANIES.

3. Leaving aside the precise methods employed, the information disclosures referred to in paragraph 1 shall be conditional upon fulfilment of the following requirements:

a) the information and documents thus obtained shall be usable solely for the purposes indicated above;
b) the FOREIGN PARENT COMPANY shall be required not to disclose to third parties the information thus received, except for those cases explicitly envisaged in the current legal system encountered in the host country.

# PART X
# CUSTOMER RELATIONS

## Title I
## Introduction

**Article X.I.1 Legislative basis**

1. The provisions under this Part have their legislative basis in Articles 61 through 68 of the LISF.

**Article X.I.2 Administrative sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 9, 12, 13, 14 and 18.

**Article X.I.3 General principles**

1. In their dealings with customers, FINANCIAL COMPANIES must conduct themselves in a diligent, appropriate, and transparent fashion in accordance with the provisions of Article 66 of the LISF.

2. FINANCIAL COMPANIES shall provide their customers with at least the types of information specified in these provisions using methods tailored to the form of communication used, in a clear and exhaustive fashion, having due regard to the nature of the customer relationships and recipients involved. To this end, it may be useful to use a Glossary containing the definitions of technical terms used in the forms.

3. FINANCIAL COMPANIES shall explain to their customers, excluding the QUALIFIED COUNTERPARTS, the main general or specific risks connected with the loan or service offered.

4. FINANCIAL COMPANIES shall also inform their customers of their rights and redress procedures as well as other forms of out-of-court compliant for the settlements of disputes, when such mechanisms are available to CUSTOMERS, in addition to explaining the ways and means of gaining access to such mechanisms, without prejudice to the provisions of Article 68 of the LISF about the possibility for the CUSTOMER to send the CENTRAL BANK reports of alleged failures to comply with the provisions provided for in this Part .

5. The points made above must be brought to the attention of the CUSTOMER, even if the customer makes no specific request as such, by virtue of the standards of due diligence expected of FINANCIAL COMPANY.

6. Contracts shall be drawn up in a clear and intelligible fashion.

7. With regarding to financing contracts subject to special legislative treatment, the provisions set forth in this Part shall be applicable only to the extend they are compatible.

**Article X.I.4 Scope**

1. These Regulations shall be applicable to financing and to connected services rendered by FINANCIAL COMPANIES.

2. In connection with the code of conduct which FINANCIAL COMPANIES are required to comply with when engaging in the activities referred to in letter L of Annex 1 of the LISF, as well as engaging, as an accessory service, in the activities referred to in letter D6 of Annex 1 to the LISF, the reader is invited to consult the pertinent provisions.

## Title II
## Advertising

### Chapter I
### Applicable criteria

**Article X.II.1 Advertising shall be clearly identifiable as such**

1. ADVERTISING shall be clearly identifiable as such, specifying in their content - using methods compatible with the technical nature of the chosen medium - the specific type of advertising message for promotional purposes.

**Article X.II.2 Information shall be clear and accurate**

1. Contractual terms and conditions require that explicit reference be made to the applicable methods and information sources required to gain a full and accurate picture and appropriate understanding of the financing or other advertised service.

2. ADVERTISEMENTS pertaining to financing operations, which declare the interest rate or other figures concerning the cost of credit, shall also spell out the TEG [global effective rate] or TAEG [annual global effective rate], calculated in accordance with the prudential rules and regulations currently in force to combat usury – with the exception of only those cases where the type of financing is such as to permit the preventive, abstract calculation of said effective rates.

### Chapter II
### Precautionary measures and prohibitions

**Article X.II.3 Suspension of circulation**

1. In cases of well-founded suspicion that the articles referred to in the preceding Chapter have been violated, the CENTRAL BANK may order - under Article 63(2) of the LISF - the immediate suspension, as a precautionary measure, of the circulation of the advertising message in question.

**Article X.II.4 Ban on circulation of advertising**

1. In cases of verified violation of the articles referred to in the preceding Chapter, the CENTRAL BANK may order - under Article 63(3) of the LISF - all ADVERTISING containing false or misleading messages to be immediately ceased.

**Article X.II.5 Ban on marketing**

1. In the event of failure to comply with the orders referred to in the two preceding articles, the CENTRAL BANK, acting under Article 63(4) of the LISF, shall order the enterprise to carry out the immediate cessation of marketing of the loans or other advertised services.

**Article X.II.6 Forms and procedures**

1. The decisions referred to in Articles X.II.3, X.II.4, and X.II.5, shall be announced in writing, and a deadline shall be set for compliance which shall not be less than two business days, nor greater than seven business days, from the date indicated on the decision.

2. The FINANCIAL COMPANY may provide the CENTRAL BANK with written notification of its own opposition to the decision, indicating the grounds on which its opposition is based. However, the FINANCIAL COMPANY'S opposition to the decision shall not suspend the effects of the order that has been issued.

3. Including on the basis of the reasoning set forth in the opposition objecting to the decision, the CENTRAL BANK may revoke the precautionary measure or prohibition imposed, and shall do so by means of a written communication to that effect.

# Title III
# Precontractual information

## Chapter I
## Requirement to file information documents

**Article X.III.1 Entitlement to delivery of draft contract**

1. A CUSTOMER not meeting the definition of QUALIFIED COUNTERPART, which receives from the FINANCIAL COMPANY an INVITATION TO ENTER INTO A CONTRACT focusing on a LONG-TERM CONTRACT, including when this occurs as a result of a spontaneous initiative on the part of the CUSTOMER itself, shall be entitled, when it makes an explicit request to that effect, to receive and keep the documents prepared for the purpose by the FINANCIAL COMPANY until such time as the contract in question is signed.

2. The documentation referred to in the preceding paragraph shall be complete in every detail, from the regulatory and financial standpoints, in such a way as to enable the CUSTOMER to gain from the outset an adequate level of knowledge concerning the proposed contract.

**Article X.III.2 Obligation to maintain the proposed conditions**

1. In the cases referred to in Article X.III.1, paragraph 1, the FINANCIAL COMPANY shall be required in its dealings with the CUSTOMER to abide by all the terms and conditions set forth in the contract until the end of the second business day following the date on which the documentation is delivered, and to utilize the aforesaid documentation for purposes of entering into the contract.

2. Upon expiry of the period of time referred to in paragraph 1, the FINANCIAL COMPANY shall have the power to amend the terms and conditions initially proposed, both from the regulatory and financial standpoints.

3. In the event that the FINANCIAL COMPANY exercises the power vested in it pursuant to the preceding paragraph, the CUSTOMER shall re-acquire the entitlement referred to in Article X.III.1.

**Article X.III.3 Precontractual information reporting requirements in offsite offerings**

1. In the case of offsite offerings, the FINANCIAL COMPANY must:

a) provide the parties making the offsite offering with the data and documentation required to meet their information reporting requirements;
b) verify that the party in charge of the offsite offering meets the requirements in respect of transparency and accuracy as envisaged in this Part.

**Article X.III.4 Precontractual information reporting requirements in long-distance communication**

1. When LONG-DISTANCE COMMUNICATION TECHNOLOGIES are implemented for the promotion or offering of financing or other services, all of the provisions contained in Articles X.III.1. and X.III.2 shall be applicable.

## Chapter II
## Contents of information reporting documents

**Article X.III.5 "Financial terms and conditions" summary document**

1. The contract should include a summary document, entitled "*Financial terms and conditions*" ("Condizioni economiche"), designed to provide the CUSTOMER with all factors having potential financial impact [Tr.: price and fee information, etc.].

2. This document shall be drafted in accordance with methods, including graphic designs that can be readily grasped and understood, using a suitably legible font size, style and dimension, and format that are appropriately readable.

3. This document shall form an integral part of the contract and serve as its frontispiece.

4. The obligation to include the specific summary document on the financing terms and conditions applied to the loan or other service in the contract shall not be applicable vis-à-vis QUALIFIED COUNTERPARTS; in such cases the financing terms and conditions shall be set forth in the contract.

**Article X.III.6 Minimum content of the document**

1. The document referred to in the preceding article shall at least include the following factors having financial impact:

a) for bank transfer operations:
   1) loan payment plan, for loans repaid in instalments: amount of the instalment or lease rental, total and separately indicated principal and interest, also indicating the decreasing residual debt at each deadline;
   2) remunerative interest calculation methods: nominal annual interest rate (TAN) and global effective interest rate (TEG or TAEG), referring to the calendar year or the business year;
   3) for floating-rate operations: indexation criteria, methods and sources for recording the indexing benchmark, latest values of the benchmark and frequency of updating the interest rate;
   4) current anti-usury rate threshold during the period, applicable to the operation as a result of its type and amount range;
   5) moratory interest calculation and measurement methods;
   6) the price and any other ancillary charge, commission, or expense - howsoever denominated - assessed on whatever basis against customers, including fees for loan application review, termination, maximum overdraft, collection of instruments, transmission of notices or issue of copies;
   7) penalties;
b) for connected services:
   1) commission for ancillary collection operations;
   2) commission for ancillary payment operations;
   3) rates for renting safety deposit boxes and sealed safekeeping accounts (amount of the lease rental, frequency and any revaluation criteria).

# Title IV
# Contracts

## Chapter I
## Documentation

**Article X.IV.1 Procedural requirements and delivery obligations**

1. Except for operations carried out and services provided in execution of the provisions set forth in contracts drawn up in writing and in the forms permitted therein, for which an adequate documentary trail must nonetheless be provided for, all contracts entered into in the exercise of LENDING shall be in writing, with signatures in hard-copy form, complete in every detail and drawn up in at least two originals.

2. One original of the contract, or a true copy thereof, if entered into by way of public deed or certified private agreement, shall be delivered to the CUSTOMER at the time it is signed or at the time it is filed, in the event of public deed.

**Article X.IV.2 Relative nullity**

1. Failure to comply with the above-mentioned requirements shall cause the contract to be null and void.

2. Only the CUSTOMER may assert such invalidity as an argument.

## Chapter II
## Methods of drafting contractual clauses

**Article X.IV.3 Transparency**

1. Contracts shall be drafted in a clear and comprehensive fashion, including from the graphics point of view.

2. All contractual clauses holding greatest interest for the CUSTOMER inasmuch as they pertain to the latter's rights, obligations, and limitations shall be drafted with particular clarity, using fonts which by virtue of their type, style, and dimensions are in a format sufficient to ensure adequate readability.

**Article X.IV.4 Clauses holding greatest interest**

1. Key clauses include those focusing on the following issues:
   a) withdrawal;
   b) execution times for operations (in financing contracts, actual disbursement times for the amounts lent);
   c) the times it takes to pay workers their rightful remuneration;
   d) times for the exercise of powers or fulfilment of obligations;

e) tacit renewal of the contract upon its maturity;
f) acceptance of auxiliary contracts or services, particularly when for payment;
g) disclaimers of liability in favour of the FINANCIAL COMPANY;
h) jurisdiction competent to hear the case;
i) the methods, restrictions and costs for early termination;

as well as all clauses which may be changed unilaterally, specifying the FINANCIAL COMPANY'S right to change them.

## Chapter III
## Typical obligatory content of contracts

**Article X.IV.5 Financial terms and conditions**

1. Contracts shall specify the interest rate and any factor with potential financial impact, including moratory charges, commissions, and any expense to be borne by the CUSTOMER, closing costs, and fees associated with the CUSTOMER'S withdrawal, as well as in respect of the transfer of liquidity or securities.

**Article X.IV.6 Indexation clauses**

1. If the contract contains indexation clauses, it shall also state the value of the benchmark at the time the contract in question is entered into.

2. If some of the financial factors are determined by the listed price of securities or behaviour of foreign exchange rates at a future date, or else cannot be precisely identified at the time the written contract is drafted, the contract in question shall in each case spell out the pertinent benchmarks as well as the means for keeping track of such benchmarks (internet sites, specialized daily newspapers, etc.).

**Article X.IV.7 Effective rate**

1. In financing operations, it will be necessary to specify TEG (Global Effective Rate) or the TAEG (Global Effective Annual Rate) depending upon the various categories of operation, to be calculated according to the provisions contained in the measure concerning the measurement of the anti-usury threshold rates.

**Article X.IV.8 Redress procedures and out-of-court compliant for the settlement of disputes**

1. Contracts with the CUSTOMERS must provide and regulate the possibility for the customer to file redress with the office responsible for this purpose, as well as the possible existence of agreements between the parties for settling disputes using out-of-court methods other than redress procedures. Contracts must also provide the possibility for the CUSTOMER to submit reports to the CENTRAL BANK pursuant to and under the provisions of article 68 of LISF, as defined in Art. 7 of Reg. 2007-01.

**Article X.IV.9 Ius variandi in pejus**

1. The option to amend in a manner unfavourable to the CUSTOMER the interest rate and any other price or condition, including non-financial terms and conditions, governing the relationship, shall be explicitly spelt out in the contract.

**Article X.IV.10 Approval of the ius variandi**

1. The contractual clause under the preceding article, which grants the FINANCIAL COMPANY the option to unilaterally amend the contract in a manner unfavourable to the CUSTOMER, must be specifically approved by the CUSTOMER.

## Chapter IV
## Prevailing market interest rate clauses

**Article X.IV.11 Invalidity of prevailing market interest rate clauses**

1. Reliance on prevailing market rates when determining factors holding potential financial impact shall cause the clause in question to be null and void.

2. Only the CUSTOMER may assert such invalidity as an argument.

**Article X.IV.12 Consequences**

1. In cases in which the invocation of prevailing market rates concerns the interest rate, the Euribor 12-month rate, on a base of 360, shall be used, with a settlement value date corresponding to the contract date.

2. In all other cases, nothing shall be owed to the FINANCIAL COMPANY.

## Chapter V
## Right of withdrawal by the customer

**Article X.IV.13 Contract entered into offsite**

1. If a contract was signed offsite, the CUSTOMER shall be entitled to withdraw from the contract within eight days of the date on which the contract was entered into.

2. Compliance with the above allowance of time shall be documented by the postage stamp on the registered letter (with advice of receipt) sent by the CUSTOMER to the FINANCIAL COMPANY'S address, specified on the contract.

3. In cases of timely withdrawal, the CUSTOMER shall be entitled to restitution of any sum paid for performance of the contract and any expense incurred thereby.

4. The rules set forth in this article shall not apply in those cases in which the headquarters in question are those of the notary public entrusted with the task of drawing up or authenticating the instrument or contract in question.

**Article X.IV.14 Unilateral modification in pejus**

1. In cases of unilateral modification to contractual terms and conditions in pejus, under Article X.IV.9, the CUSTOMER shall be entitled to withdraw from the contract and to secure, at the time the relationship is liquidated, enforcement of the terms and conditions previously applied, including with reference to the period falling between the value date on which the modifications occurred, as set forth in the communication, and the date on which the relationship is liquidated.

2. The right of withdrawal under the previous paragraph, if exercised in the manner and on the terms set forth in Articles X.IV.19 and X.IV.20 below, must be granted to the CUSTOMER without applying any undocumented penalties or expenses for terminating the relationship.

3. Changes to contractual terms and conditions attributable to the application of indexation rules prescribed in a contract shall be excluded from the scope of the present rules and regulations inasmuch as such modifications do not constitute a case of IUS VARIANDI on the part of the FINANCIAL COMPANY.

## Chapter VI
## Requirements with respect to reporting and the issuance of documentation

**Article X.IV.15 Requirements for periodic rendering of accounts**

1. In LONG-TERM CONTRACTS, except for the leasing of safety deposit boxes and sealed safekeeping accounts, then FINANCIAL COMPANIES - upon the maturity of the contract, and at all events once a year - shall be required to provide their CUSTOMERS with a written itemized statement providing clear and comprehensive information on the performance of the CUSTOMER relationship and, in the event of any change therein (with the exception of those due to the application of indexation rules provided by contract), an up-to-date table showing the interest rates etc. applied, using the same document as the one mentioned in Article X.III.5.

2. The periodic issuance of statements shall be carried out through the sending or delivery of a statement of account, on paper and/or electronic, based on the provisions of the contract.

**Article X.IV.16 Power to revoke the requirement to issue periodic statements**

1. For mortgage contracts, financial leasing and other forms of instalment financing, when the information under the preceding article has already been provided during the year – specifically through payment notices or invoices issued for periodic instalments - the periodic rendering of accounts may be waived by joint decision of the parties, expressed in the contract.

**Article X.IV.17 Transparency of rendering of accounts**

1. The statements of account that are sent to coincide with interest settlements shall specify all of the elements of information necessary to verify the correctness of the interest calculation, including the interest rate applied.

2. Any provisions pursuant to which silence equals consent indicated on the statement of account shall not be invoked against the CUSTOMER in connection with operations other than those directly attributable to the rendering of accounts, such as, for example: the computation of fixed expenses or transaction-by-transaction costs, and interest calculations.

**Article X.IV.18 Issuance of duplicates**

1. The CUSTOMER shall have the right to obtain—at his/her/its own expense, and within a reasonable period of time not to exceed 90 days — a copy of the contracts and documentation associated with individual transactions executed over the preceding 10 years.

2. The same right may be exercised by a person who takes over from the customer on whatever basis and by any person who takes over the administration of his/her/its assets, having due regard for the provisions of Article 36(7) of the LISF.

## Chapter VII
## Exercise of the ius variandi

**Article X.IV.19 Individual unilateral changes**

1. By letter or other long-lasting media contractually accepted by the CUSTOMER through a clause under Article X.IV.9, the FINANCIAL COMPANY shall provide written notification, to the address specified by the customer, of any changes made to the clauses in the contract, and, in the cases under the aforementioned article, said notification shall indicate the period of time allowed for exercising the right of withdrawal, which period may not be less than 60 days from receipt of the specific notification.

**Article X.IV.20 Generalized unilateral changes**

1. In cases of GENERALIZED UNILATERAL CHANGES to contracts, the notification indicated above may be issued in an impersonal form, while concurrently disclosing such changes to the CENTRAL BANK for the purposes of publication.

2. The CENTRAL BANK shall publish the notification by having the announcement – together with a link to the notification - included in a specific webpage of its internet site, without prejudice to the FINANCIAL COMPANY'S own obligation to post the same notification at its headquarters and at all BRANCHES in a conspicuous place clearly visible to the public. Publication of the announcement by the CENTRAL BANK, as a mandatory deed, shall not prejudice the possibility for the CENTRAL BANK to verify, even subsequently, compliance of the text of the notification published and/or the unilateral changes applied by the FINANCIAL COMPANY with the rules of transparency and accuracy under this Part.

3. The FINANCIAL COMPANY shall send CUSTOMERS notification of the GENERALIZED UNILATERAL CHANGES made on sending the first useful statement of account.

4. In the event of GENERALISED UNILATERAL CHANGES in pejus, the right of withdrawal may be exercised within 60 days from the date of publication on the CENTRAL BANK'S internet site.

**Article X.IV.21 Provisions common to unilateral changes**

1. Unilateral changes that are unfavourable to the CUSTOMER, even only potentially, may not take effect retroactively before the date of direct notification to the CUSTOMER or, in the event of GENERALIZED UNILATERAL CHANGES, before the date of exhibition of the notice or, if subsequent, the date of publication on the CENTRAL BANK'S internet site.

2. Unilateral changes to interest rates in pejus are not permitted for LONG-TERM CONTRACTS with fixed expiries, except for that illustrated under Article X.IV.14, paragraph 3.

# Title V
# Distance communication technologies

## Chapter I
## General rules

**Article X.V.1 Ban on entering into contracts using long-distance communication technologies**

1. FINANCIAL COMPANIES may not enter into contracts with customers through recourse to LONG-DISTANCE COMMUNICATION TECHNOLOGIES.

**Article X.V.2 Execution of orders and delivery of services**

1. FINANCIAL COMPANIES may, however, avail themselves of LONG-DISTANCE COMMUNICATION TECHNOLOGIES in their dealings with their customers for purposes of executing transactions and delivering services, provided that:

a) this takes place in the context of contracts that have already been executed in writing;
b) the companies are equipped with organizational and IT systems that are sufficient to ensure CUSTOMER confidentiality and safeguard the security of operations.

## Chapter II
## Governance of internet sites

**Article X.V.3 Internet site use**

1. FINANCIAL COMPANIES with internet sites may use this instrument to provide data and news regarding their enterprise (main charter data, latest separate financial statements etc.), their organization (organizational chart, CORPORATE OFFICERS, heads of internal control functions, complaint/out-of-court settlement procedures and related contacts etc.) and the products and services offered, in compliance with the provisions of Title II above on advertising (corporate content). They may also provide site visitors with sections dedicated to general information, financial markets, both self-produced and through links to sites of accredited information providers, and extracted from these sites, provided that the source of the information is specified (financial content).

2. FINANCIAL COMPANIES that also include in their sites pages containing general information on the Republic of San Marino and its legal system, the Sammarinese financial system and its governance (institutional content) must notify the CENTRAL BANK within 10 days from the on-line publication of this information.

3. The notification under the previous paragraph is also due in the event of subsequent update or editing of the site's institutional content. It is not due when said information is accessible only through links to the internet sites of the CENTRAL BANK and Bodies and Entities which are part of the Sammarinese Public Administration.

4. FINANCIAL COMPANIES that decide to set up their own internet sites are required to ensure the prompt updating of content published, whether corporate, financial or institutional content. Any failure or delays in doing so, without prejudice to the application of the provisions set forth in this Part on the matter of accuracy and transparency in customer relations, may result in intervention of the CENTRAL BANK.

**Article X.V.4 Intervention of the Central Bank**

1. The CENTRAL BANK may require that the FINANCIAL COMPANY, under Article 44 of the LISF and for the purpose of containing risks, to fully or partially close down its site if one or more of the following circumstances are detected, and until such circumstances are removed:

a) the site has a domain name extension other than San Marino (.sm);
b) the home page fails to prominently display the required Legal Notices in accordance with the text attached to these Regulations under letter E;
c) the institutional section of the site provides incorrect or incomplete information;
d) the site contains links or banners that are inappropriate or wholly unrelated to LENDING;
e) the advertisements included do not meet the requirements under Title II.

# PART XI
# FINAL AND TRANSITIONAL PROVISIONS

## Title I
## Introduction

**Article XI.I.1 Legislative basis**

1. The provisions contained in the articles of this Part have their legislative basis in Articles 156 and 157 of the LISF.

**Article XI.I.2 Administrative sanctions**

1. Violations of the provisions contained in this Part shall be punishable pursuant to the SANCTIONS DECREE referred to in Articles 4, 5, 6, 7, 8, 9, 12, 13, 14, 15 and 18.

**Article XI.I.3 Effective date**

1. These Regulations shall enter into force on 1 July 2011.

## Title II
## Harmonization with the provisions of Parts II and III

**Article XI.II.1 Incompatible activities**

1. PRE-EXISTING COMPANIES may continue to carry out reserved activities, in compliance with the provisions of Article 156, paragraph 1 of the LISF, or submit an application for changes, under the preceding Article III.VII.1, in order to eliminate all reserved activities which, also having regard to new regulatory provisions regarding such activities, it is no longer interested in carrying out.

2. For PRE-EXISTING COMPANIES that waive or have previously waived the authorization to carry out LENDING and the activities under letter L of Annex 1 to the LISF, for the time being, and before additional regulations for

specialized segments under Circular no. 2008-06 are issued, these Regulations shall be applicable, with the exception of the provisions, including the transitional provisions, on the following:

a) minimum corporate capital under Article III.III.4;
b) prudential supervision in terms of "capital" under Part VII, Titles II, III, IV, V, VI, VII, VIII, and XIII and Article VII.IX.11;
c) customer relations under Part X, without prejudice to the general principles of law (Article 66 of the LISF) on accuracy, transparency and diligence, as well as the specific provisions, including regulatory provisions, on the matter, with regard to investment services and fiduciary services.

**Article XI.II.2 Activities that may be engaged in subject to authorization**

1. Within 90 days of the effective date of these Regulations, PRE-EXISTING COMPANIES shall be required to apply to the CENTRAL BANK for the authorization referred to in Article II.II.5, if they engage in activities covered by those provisions.

**Article XI.II.3 Harmonization of the charter**

1. Pursuant to Article 156(4) of the LISF, PRE-EXISTING COMPANIES shall be required to amend their own charter documents to bring them into line with the provisions contained in the LISF and in these Regulations, by 30/11/2011.

2. For this purpose, the application for authorization of charter amendments, of the type described in Part VII, Title XI of these Regulations, given the magnitude of the action involved, shall be submitted to the CENTRAL BANK at least 60 days in advance of the date of the meeting of shareholders.

3. The CENTRAL BANK shall issue authorization in cases where the amendments and supplements to the charters comply with the criteria set forth in Article III.III.1.

**Article XI.II.4 Transitional regime: strategy phase**

1. Without prejudice to the cases of waiver of the authorization to carry out LENDING, under the preceding Article XI.II.1, paragraph 2, or of voluntary early adoption of a specialized corporate purpose in compliance with these regulations, by 31 December 2012, PRE-EXISTING COMPANIES must submit to the CENTRAL BANK, according to the forms set forth in Article III.II.6 and based on true decisions of the Meeting of Shareholders, a new "strategic plan". The plan shall contain the plans for company reconversion (extraordinary operations under Title IV of the CORPORATIONS ACT and Article 52 of the LISF, capitalization operations and/or expansion of the shareholding structure, new production investments or disinvestments, expected changes to the distribution network and the range of services provided, etc.) and shall be implemented by way of a prior choice between:

a) the adoption of the new specialized FINANCIAL COMPANY model, under Article II.II.3, with no limitations to the enterprise's operational powers;

b) the adoption of the new specialized FINANCIAL COMPANY WITH LIMITED OPERATIONAL POWERS model, with the restrictions under Article I.I.2 and the related simplifications pursuant to Part VII, Title XIII;
c) conversion of the old, no - specialized model, under Article 156, paragraph 1 of the LISF, with the resulting application of the strengthened prudential supervisory provisions on the matter of capital adequacy, under Article XI.V.1, paragraph 2, below;
d) waiver of authorization for lending due to specialization in another financial segment, under the preceding Article XI.II.1, paragraph 2.

2. During the initial phase of the transitional period, from the time these Regulations take effect to 31 December 2012, without prejudice to the cases excepted from the preceding paragraph, the simplified prudential supervision envisaged by Title XIII of Part VII for FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS shall be applied to PRE-EXISTING COMPANIES, according to the terms of Article XI.V.1, paragraph 1 below, but the amount of fully paid-in corporate capital may not be reduced below the minimum threshold in force, equal to Euros 1,545,000.

3. As a result of the fact that PRE-EXISTING COMPANIES shall be temporarily and provisionally treated as FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS pursuant to this paragraph, during the initial phase of the transitional period, PRE-EXISTING COMPANIES:
a) shall be prohibited from operating outside of San Marino, both through opening branches and providing services without permanent establishment;
b) the multiplication factor of 40 percent pursuant to Article VII.III.4, paragraph 2, shall apply, starting from the date of effective adoption of the provisions under Article XI.V.1, paragraph 1, below, notified to the CENTRAL BANK, also for the purpose of publication in the Register of Authorized Parties.
During said period, PRE-EXISTING COMPANIES may, also having regard to the greater capital requirements:
a) exceed the size limit of Euros 50 million applied to total risk-weighted assets;
b) maintain own bonds issued until their natural maturities, which were placed with the public prior to the entry into force of these Regulations, in the amount exceeding the limits envisaged for FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS;
c) carry out all previously authorized reserved activities, including the branch of lending concerning the "issue of unsecured guarantees and commitments" within the prudential limit of three times the regulatory capital.

**Article XI.II.5 Transitional regime: execution phase**

1. PRE-EXISTING COMPANIES must amend their charters to render them compliant with the strategic decisions pursuant to the preceding article by 31 May 2013. Specifically, in addition to the resulting charter amendments concerning the corporate purpose, the article concerning corporate capital must comply with the minimum thresholds specified below:

a) Euros 2,000,000, in the event of adoption of the model under letter a) of Article XI.II.4, paragraph 1;

b) Euros 1,000,000, in the event of adoption of the model under letter b) of Article XI.II.4, paragraph 1;
c) Euros 2,500,000, in the event of retaining the model under letter c) of Article XI.II.4, paragraph 1;
d) minimum amount of corporate capital envisaged by the current supervisory provisions for other financial segments, in the event of alternative specializations under letter d) of Article XI.II.4, paragraph 1.

2. By 31 December 2013, the end of the second phase of the transitional period, PRE-EXISTING COMPANIES must ensure:

a) the full payment of corporate capital, as possibly increased for the purposes of the preceding paragraph;
b) the full adoption of the prudential supervisory provisions for the FINANCIAL COMPANY model the company opted for the previous year.

3. Except in the case of waiver of LENDING, during 2013 and until the provisions of the preceding paragraph are adopted, the transitional regime under Article XI.II.4, paragraphs 2 and 3 shall continue to apply, according to the specifications of Article XI.V.1, paragraph 1.

## Title III
## Harmonization with the provisions of Parts IV and V

**Article XI.III.1 Fit and proper tests for corporate officers**

1. Under Article 156(6) of the LISF, directors and statutory auditors of PRE-EXISTING COMPANIES that are still in office under pre-existing rules and regulations, may serve out their term normally, without any further supervisory formalities, and the new provisions shall be enforced starting with the first appointments subsequent to the effective date of the present Regulations.

2. With respect to the GENERAL MANAGERS of PRE-EXISTING COMPANIES, the Boards of Directors shall be required to comply with the provisions set forth in Articles included in Part IV, Title III, and shall achieve said compliance within 60 days after the entry into force of these Regulations. If the tests under Article IV.III.3 demonstrate the lack of the requirement of professionalism, the Board of Directors must replace the General Manager by 30 June 2012.

3. With reference to the possible lack of compliance with the requirement of independence under Articles: IV.II.7, paragraph 1, letter c); IV.II.8, paragraph 1, letter c); and VI.II.9, as a result of credit lines with fixed expiries granted by the PRE-EXISTING COMPANIES based on contracts recorded at a time prior to the date of issue of these Regulations, the portion of the credit line exceeding the threshold set forth by the articles referred to shall not be significant, limited to the residual term of the financing contractually agreed, for the purposes of the existence of the requirement.

**Article XI.III.2 Fit and proper tests for ownership structures**

1. In order for the Supervisory Authority to test the continuation of the requirements of good repute and the ability to provide sound and prudent management, the parties which are already EQUITY STAKEHOLDERS of PRE-EXISTING COMPANIES must carry out that set forth in Article V.V.4 by and no later than 31 December 2011, and continue to do so according to the frequency set forth therein.

## Title IV
## Introduction of the new system of rules contained in Part VI

**Article XI.IV.1 Financial statements**

1. Prior to the effective date of the decision mentioned in Article VI.II.5, PRE-EXISTING COMPANIES may continue using the financial statement templates currently in use, having due regard for the general principles contained in the LISF and in the general rules set out in Title VI of these Regulations, as well as the definitions set forth in Article I.I.2.

## Title V
## Harmonization with the provisions of Part VII

**Article XI.V.1 Prudential supervision of capital requirements**

1. PRE-EXISTING COMPANIES must achieve compliance with the rules of prudential supervision, in the simplified form required for FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, by 31 December 2012, except for the parameter provided for in article VII.VI.1 which, having regard to the supervisory provisions previously in force, must be met, with reference to the regulatory capital calculated pursuant to Part VII, Title II of these Regulations, starting from 30 September 2011.

Without prejudice to the maximum time limit of 31 December 2012, also having regard to the right of early adoption of the new supervisory provisions for the purposes set forth under Article XI.II.4, subparagraph 3, letter b), the details for gradual application are set forth below for;

a) the NON- PERFORMING LOANS multiplication factor:

- 100% until 31/12/2011;
- 150% as of 01/01/2012;

b) the capital coverage ratio for operational risks:

- 5% until 31/12/2011;
- 10% as of 01/01/2012;
- 15% as of 01/01/2013;

2. The strengthened prudential supervisory measures in relation to capital adequacy set forth in the preceding Article XI.II.4, paragraph 1, letter c), are as follows:
a) raising the minimum threshold of corporate capital and, as a result, of regulatory capital, from Euros 2,000,000 to Euros 2,500,000;
b) increasing the ration of minimum capital coverage of significant operational risks under Article VII.III.10, to 25%;
c) inapplicability of the simplifications under Part VII, Title XIII, reserved to FINANCIAL COMPANIES WITH LIMITED OPERATIONAL POWERS, provided that the conditions set forth in Article VII.XIII.9, paragraph 2 apply.

**Article XI.V.2 Prudential supervision of organizational requirements**

1. Within 180 days of the effective date of these Regulations, PRE-EXISTING COMPANIES shall provide the CENTRAL BANK with a copy of the GENERALIZED INTERNAL REGULATIONS, enclosing copies of the pertinent board decisions approving the internal regulations:

2. By 31 December 2012, PRE-EXISTING COMPANIES must be equipped with a suitable corporate organization to guarantee compliance with the organizational adequacy requirements defined in Chapter I, Title IX, Part VII of these Regulations.

3. The mandatory taking of the certification of identification of the CONTROLLING PARTIES, under Annex D, applies to all loan applications that PRE-EXISTING COMPANIES receive from the date of entry into force of these regulations. With regard to existing financing, granted on acceptance of applications prior to the entry into force of these Regulations, the abovementioned certifications must be obtained by the financial enterprise by 31 March 2012.

4. Without prejudice to the provisions set forth in the previous subparagraph, the credit disbursement processes adopted by PRE-EXISTING COMPANIES must, within 18 months from the entry into force of these Regulations, comply with the supervisory provisions of Article VII.IX.11

5. With respect to existing outsourcing operations, the requests and applications referred to in Article VII.IX.16 and the notifications mentioned in Article VII.IX.19 shall be filed with the CENTRAL BANK within 90 days of the effective date of these Regulations.

## Title VI

## Harmonization with the provisions of Part VIII

**Article XI.VI.1 Information reporting requirements**

1. Pending the adoption of the decisions referred to in Article VIII.II.3, PRE-EXISTING COMPANIES shall meet their own information reporting requirements in the manner and on the terms established in Uniform Letters and Circulars pursuant to Article 157(4) of the LISF, as well as the amended or replaced requirements, having due regard for the provisions of Articles VIII.II.4 and VIII.II.5 of these Regulations.

**Article XI.VI.2 Inspections**

1. The provisions contained in Part VIII, Title III shall be applicable also to PRE-EXISTING COMPANIES, and to those parties to whom functions are outsourced, with effect from the date on which these Regulations enter into force.

**Article XI.VI.3 Minimum operations**

1. PRE-EXISTING COMPANIES which lack outstanding contracts in the six months following the entry into force of these Regulations, according to the provisions of Article III.VII.3, paragraph 2, may have their authorization revoked under Article 10, paragraph 1, letter c) of the LISF.

2. Authorization may be revoked, under Article 10, paragraph 1, letter d) of the LISF, also for PRE-EXISTING COMPANIES which have obtained the necessary authorizations and approvals and make false or irregular declarations in their action plans or business plans.

## Title VII

## Harmonization with the provisions of Part IX

**Article XI.VII.1 Regulatory functions of the parent company**

1. The provisions set forth in Article IX.II.1 shall be applicable to the PARENT COMPANY with effect from the entry into force of these Regulations.

**Article XI.VII.2 Supervisory functions of the parent company**

1. The provisions set forth in Article IX.II.2 shall be implemented in full by the PARENT COMPANY by 31/12/2012.

**Article XI.VII.3 Foreign financial groups**

1. The provisions set forth in Title IV of Part IX shall be applicable to PRE-EXISTING COMPANIES having a FOREIGN PARENT COMPANY, with effect from the entry into force of these Regulations.

## Title VIII

## Harmonization with the provisions of Part X

**Article XI.VIII.1 Advertising**

1. The provisions of Part X, Title II shall be applicable with effect from the date on which these Regulations enter into force.

2. The broadcasting of advertising messages that prove to be not in conformity with the rules set forth in Articles X.II.1 and X.II.2 shall be suspended by PRE-EXISTING COMPANIES within seven days of the effective date of these Regulations, and provision shall be made, wherever necessary, for the withdrawal of advertising material from the company's own BRANCHES or the INDEPENDENT INTERMEDIARY. Broadcasting may resume only after the necessary corrections and additions have been made to the advertising message.

3. The suspension and resumption of the broadcasting of the advertising shall be reported to the CENTRAL BANK within five days.

4. Once the above-mentioned allowances of time have come to an end, the CENTRAL BANK may, including with reference to advertising messages broadcast previously, adopt the precautionary measures and prohibitions pursuant to Articles X.II.3, X.II.4, and X.II.5, in accordance with the methods and procedures set out in Article X.II.6.

**Article XI.VIII.2 Precontractual information**

1. The provisions referred to in Part X, Title III, Chapter I, shall be applicable to precontractual relationships subsequent to the date 31 December 2011.

**Article XI.VIII.3 Updating of contractual and precontractual forms in the interests of transparency**

1. PRE-EXISTING COMPANIES shall be required to standardize their own standard contracts and report forms to comply with the provisions set forth in Part X, Title III, Chapter II, and in Part X, Title IV, Chapters I, II, and III, of these Regulations by the date 31 December 2011.

**Article XI.VIII.4 Harmonization of existing contracts**

1. LONG-TERM CONTRACTS concluded prior to the entry into force of these Regulations, which prove to be not in conformity with the procedural and substantive requirements of Part X, Title IV, shall be unilaterally modified by PRE-EXISTING COMPANIES by the date 31 March 2012; once that period of time has elapsed, those contracts still not in compliance shall be subject to the penalties envisaged in Title IV and may incur administrative penalties under Article 141 of the LISF.

**Article XI.VIII.5 Conversion of distance contracts**

1. LONG-TERM CONTRACTS entered into prior to the effective date of these Regulations through the use of LONG-DISTANCE COMMUNICATION TECHNOLOGIES shall be converted back into contracts having written form and signed by both parties within 6 months of the effective date of these Regulations, in conformity with the new provisions governing contracts as set out in Part X, Title IV.

**Article XI.VIII.6 Notification of institutional content of Internet sites**

1. PRE-EXISTING COMPANIES which have internet sites containing institutional content must carry out the notification under Article X.V.3, paragraph 2 within 30 days from the effective date of these Regulations.

## Title IX
## Inapplicable rules

**Article XI.IX.1 Supervisory provisions**

1. Under Article 157(4) of the LISF, the entry into force of the present Regulations shall serve to render inoperative the following supervisory provisions, previously issued under rules abolished by the LISF:

a) Circulars: 1, 2, 4, 5, 6, 7, 8, 10, 13, 14, 16, 19, 20, 21, 22, 23, 24, 25, 26, 30;
b) Uniform letters: 1, 2, 9, 11, 15, 16, 19, 21, 22, 23, 25, 26, 27, 28, 29, 30, 32, 34, 36, 37, 38, 40, 41, 44, 51, 52, 53.

2. The entry into force of these Regulations shall also abolish Circular no. 2007-04 and the parts of Circular no. 2008-06 which, with regard to the new rules for structural supervision required in order to carry out LENDING, were transitionally applied to PRE-EXISTING COMPANIES.

**Article XI.IX.2 Legal provisions**

1. Under Article 157(5) of the LISF, the entry into force of the present Regulations shall serve to render inoperative the incompatible provisions contained in the following laws:

a) Law 24 of 25 February 1986;
b) Law 63 of 8 July 1994;
c) Article 78(1) of Law 172 of 16 December 2004.

***Annex A***

**PERSONAL CERTIFICATION OF REQUIREMENTS OF GOOD REPUTE**

I the undersigned _____, born on _____ in _____ and residing at_____ in _____, ISS/tax code _____, citizen of _____, in full cognizance of the civil and criminal liability I face with reference to the truthfulness of the statements listed below

I HEREBY DECLARE

under Law 165 of 17 November 2005 and implementing provisions issued by the Central Bank of the Republic of San Marino:

1) my address of record for the longest period in the last five years was as follows: _____;[1]
2) the attached certificate, issue by public authorities territorially competent based on the address of record declared in point 1 above, does not show any prejudicial elements on my behalf in terms of possession of the requirements of good repute envisaged by the current supervisory provisions in force;
3) I am currently unaware of prejudicial proceedings/procedures/acts against me, already concluded or still pending before any other jurisdiction other than that under point 2 above, which could compromise my possession of the requirements of good repute envisaged by the current supervisory provisions in force;
4) I do not fall under any of the impediments provided for by Article IV.II.1, paragraph 1, letter d);

I HEREBY AUTHORIZE

in the final analysis, the Central Bank of the Republic of San Marino to conduct on the premises of the appropriate offices such verification procedures as the Central Bank deems appropriate for ascertaining the truthfulness of the declarations which I have made herein.

In witness whereof.

_____

Republic of San Marino, [date] _____

*NOTARIAL AUTHENTICATION OF THE SIGNATURE*

[1] Enter: name Town (town name), street/square name and number.

***Annex B***

**PERSONAL CERTIFICATION OF REQUIREMENTS OF PROFESSIONAL CONDUCT**

I the undersigned _____, born on _____ in _____ and residing at _____, citizen of _____, being fully cognizant of the civil and criminal liability which I face as a result of the truthfulness of the declarations listed below, for purposes of taking up the post of _____ of _____

I HEREBY DECLARE

under Law 165 of 17 November 2005 and implementing provisions issued by the Central Bank of the Republic of San Marino, that I meet the requirement(s) of professionalism specified below:

_____
_____[2]

I HEREBY AUTHORIZE

in the final analysis, the Central Bank of the Republic of San Marino to conduct on the premises of firms and the entities named in the attached CV such verification procedures as the Central Bank may deem appropriate for ascertaining the truthfulness of the declarations which I have made herein.

In witness whereof.

_____

Republic of San Marino, [date] _____

*NOTARIAL AUTHENTICATION OF THE SIGNATURE*

[2] Select one or more of the following:
- I have gained an experience of no less than [three/five] years within the context of administration, management or control activities with enterprises that do not meet the definition of "company in default";
- I have gained an experience of no less than [three/five] years within the context of professional activities or as university teacher for disciplines related to the sector or, in any case, sectors which are functional to the activities of the aforementioned financial undertaking;
- I have gained an experience of no less than [three/five] years within the context of administrative or managerial duties performed for public authorities or public administration with relevance to the credit, finance, securities or insurance sector, or for public authorities or public administration with no relevance to the aforementioned sectors provided they involve the management of economic and financial resources; - I have gained specific expertise and experience, achieved during a period of no less than five years of professional activity within the organisational units of financial enterprises that do not meet the definition of company in default.

***Annex C1***

**PERSONAL CERTIFICATION OF REQUIREMENTS OF INDEPENDENCE**

**needed to carry out management functions**

I the undersigned _____ born on _____ in _____ and residing at _____ in _____, and citizen of _____, being fully cognizant of the civil and criminal liability which I face in regard to the truthfulness of the declarations listed below, for the purpose of taking up the post of member of the Board of Directors of _____

I HEREBY DECLARE

under Law 165 of 17 November 2005 and implementing provisions issued by the Central Bank of the Republic of San Marino:

1) I hold no posts as auditor or statutory auditor on behalf of the same firm or in firms that are direct or indirect subsidiaries of said firm, or in firms that directly or indirectly hold equity interests in the capital of said firm;
2) I am not a spouse, relative or kinsman up to and including the fourth degree of persons meeting one of the criteria mentioned in the preceding item 1;
3) I am not a debtor of the firm, or of its subsidiaries or parent company, in an amount exceeding the limit set in the current regulatory provisions in force;
4) I am not an employee of the State, Public Entities, or Autonomous Public Enterprises;

I HEREBY AUTHORIZE

in the final analysis, the Central Bank of the Republic of San Marino to conduct on the premises of the appropriate offices such verification procedures as the Central Bank deems appropriate for ascertaining the truthfulness of the declarations which I have made herein.

In witness whereof.

_____

Republic of San Marino, [date] _____

*NOTARIAL AUTHENTICATION OF THE SIGNATURE*

***Annex C2***

**PERSONAL CERTIFICATION OF REQUIREMENTS OF INDEPENDENCE**

**needed to carry out supervisory functions**

I the undersigned _____, born on _____ in _____ and residing at _____ in _____, and citizen of _____, being fully cognizant of the civil and criminal liability which I face in regard to the truthfulness of the declarations listed below, for the purpose of taking up the post of statutory auditor/auditor of _____

I HEREBY DECLARE

under Law 165 of 17 November 2005 and implementing provisions issued by the Central Bank of the Republic of San Marino:

1) I do not serve as director on behalf of the same firm or in firms that are direct or indirect subsidiaries of said firm, or in firms that directly or indirectly hold equity interests in the capital of said firm;
2) I hold, neither directly nor indirectly, any substantial interests in the firms mentioned in item 1;
3) I am in no way linked to the firms mentioned in item 1 by relationships having potential financial impact, as defined in the current regulatory provisions in force;
4) I am not a spouse, relative or kinsman up to and including the fourth degree of persons meeting one of the criteria mentioned in the preceding items 1, 2, or 3;
5) I am not a debtor of the firm, or of its subsidiaries or parent company, in an amount exceeding the limit set in the current regulatory provisions in force;
6) I am not an employee of the State, Public Entities, or Autonomous Public Enterprises;

I HEREBY AUTHORIZE

in the final analysis, the Central Bank of the Republic of San Marino to conduct on the premises of the appropriate offices such verification procedures as the Central Bank deems appropriate for ascertaining the truthfulness of the declarations which I have made herein.

In witness whereof.

_____

Republic of San Marino, [date] _____

*NOTARIAL AUTHENTICATION OF THE SIGNATURE*

***Annex C3***

**PERSONAL CERTIFICATION OF REQUIREMENTS OF INDEPENDENCE**

**needed to carry out executive management functions**

I the undersigned _____, born on _____ in _____ and residing at _____ in _____, and citizen of _____, being fully cognizant of the civil and criminal liability which I face in regard to the truthfulness of the declarations listed below, for the purpose of taking up the post of General Manager of _____

I HEREBY DECLARE

under Law 165 of 17 November 2005 and implementing provisions issued by the Central Bank of the Republic of San Marino, that I am not a debtor of the firm, or of its subsidiaries or parent company, in an amount exceeding the limit set in the current regulatory provisions in force;

I HEREBY AUTHORIZE

in the final analysis, the Central Bank of the Republic of San Marino to conduct on the premises of the appropriate offices such verification procedures as the Central Bank deems appropriate for ascertaining the truthfulness of the declarations which I have made herein.

In witness whereof.

_____

Republic of San Marino, [date] _____

*NOTARIAL AUTHENTICATION OF THE SIGNATURE*

***Annex E***

**FORM IDENTIFYING THE CONTROLLING PARTY**

I the undersigned_____
*(full name)*

as _____
*(title)*

of _____
*(borrower)*

do hereby declare, for the purposes of assessing the loan application, that:

- the individuals currently identifiable as "controlling parties" of the borrower are:

| Surname | Given name | Birth place | Date of birth | Residential address |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Identification documents signed by me are attached hereto.

- there are no individuals currently identifiable as "controlling parties" of the borrower, therefore, in the final analysis, control is held by the following parties:

| Name | Registered Offices | ID Code | Type |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

The certificate of registration and good standing (or foreign equivalent) signed by me are attached hereto.

- there are no parties currently identifiable as "controlling parties" of the borrower.

The content of this declaration shall be deemed to be covered by bank secrecy, within the meaning of Article 36 of the Law of 17 November 2005; accordingly, its use is authorized within the limits of the requirements associated with current laws and supervisory Regulations.

I undertake promptly to notify you of any changes affecting the above details, by issuing a new declaration, using this template.

San Marino, [date] _____

In witness whereof.

_____

Underwriter's visa

***Annex E***

# LEGAL NOTICES

Access to and utilization of the materials contained in this site shall be governed by the legal notices indicated below, which must be taken carefully into consideration. By consulting the materials contained in the site, the user declares that he/she has understood and accepted the legal provisions herein contained and pertaining to the site known as XXXXXXXXXX.sm.

If the user is not in agreement with the terms and conditions set out below, he/she should not attempt to access the site or the materials therein contained.

**1. Purpose of the site**

The purpose of this site is to provide information to persons who agree to view the material therein contained, in accordance with the terms and conditions indicated in these legal notices.

The information contained in the site is not intended to be and should not be interpreted as an offer or solicitation to the saving public, intended to procure the sale or acquisition of financial products or services distributed by the titular firm or its associates/affiliates; rather, the information constitutes a message providing information on the site-holder's own products and services—a message intended for the persons referred to in item 2) of these notices.

The site-holder firm is responsible for ensuring that the data contained in the site are truthful and complete, and with this aim in view the site-holder shall proceed to carry out periodic updates, without ruling out the possibility that the update process may be delayed or set back.

**2. Recipients**

The recipients of messages contained in the pages making up this site are exclusively firms and individuals having their registered offices or residence in the countries in which XXXXXXXXXX has obtained authorization to operate as a financial company.

Currently, this financial company is authorized to engage in lending solely in the Republic of San Marino, and is subject to supervision by the Central Bank of the Republic of San Marino.

This site is accordingly not intended for individuals that have their registered offices or residence in different countries.

**3. Content of the information**

The information contained in the site:

1) shall be in Italian, as the official language of the Republic of San Marino;
2) may include valuations of financial products and/or services denominated in Euros, as a currency that is legal tender in the Republic of San Marino;
3) has no business-oriented character, and is not intended to market financial products or services with the public, but is instead purely intended to serve as a source of information for users;
4) may contain references to facts or circumstances pertaining to international financial markets, given that such markets of sectors of interests to the company in question;
5) is carried exclusively on a site with its domain in the Republic of San Marino.

**4. Liability**

The company known as XXXXXXXXXX does not guarantee that the information contained in this site, even though reported with supreme care, contains no inaccuracies, gaps, omissions, or errors. In particular, the user shall take note of the fact that the company in question declines all responsibility in regard to any loss or injury that may result from the direct or indirect utilization of information contained in the site.

More generally, the site-holder accepts no responsibility for whatever use may be made of information reported on this site.

**5. E-mail, data transmission and/or information transfer service**

The company known as XXXXXXXXXX, as site-holder, and/or its affiliates do not guarantee the privacy or confidentiality of the information.

The e-mail service or any other service connected with transfers of data and/or information may be interfered with by persons outside the site-holder company, and accordingly the information may not remain confidential.

The site-holder and/or its associates and affiliates may use procedures that make it possible to ascertain the source of contacts made by persons residing in countries other than the Republic of San Marino, and refuse any other subsequent contacts.

**6. Links**

The company known as XXXXXXXXXX accepts no responsibility for information contained in sites connected to this site.

**7. Jurisdiction**

The information reported on this site and its utilization is all subject to Sammarinese law. The competent authorities to hear any complaints, or try any abuses or violations of the law, shall be those of the Republic of San Marino.

If the user elects to enter the site, the above principles shall be deemed to have been accepted.

**The company known as XXXXXXXXXX may not be held responsible for users' disregard of any of the restrictions specified in these legal notices.**