BANCA CENTRALE
DELLA REPUBBLICA DI SAN MARINO

REGULATIONS OF FUND RAISING AND BANKING ACTIVITIES

UPDATE NO. III

REGULATIONS OF LOAN GRANTING ACTIVITIES (FINANCIAL COMPANIES)

UPDATE NO. I

year 2012 / number 01

Article 1 – Common amendments to Regulations no.2007-07 and Regulations no.2011-03.

1. The following definition is added to article I.I.2, sub. 1:

"25. bis "**restructured loans":** cash and "off balance sheet" exposures for which a *[bank/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 *[bank/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 *[bank/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 *[bank/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;"

2. Article III.III.4, sub. 2 is replaced as follows:

"2. No contribution is allowed other than contributions in cash, except for the possibility, within the context of a share capital increase transaction, for other FINANCIAL ENTERPRISES, to contribute businesses, business units or individual legal relationships in block, provided they are instrumental to the receiving *[bank/FINANCIAL COMPANY]*."

3. Article III.V.9, sub. 1, letter a) is replaced 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 *[banking activities/LENDING ACTIVITIES];*"

4. Article IV.II.3, sub. 2 is replaced as follows:

"2. For the purposes of letter a), bankruptcy proceedings or extraordinary measures or equivalent foreign measures shall be meaningful only if initiated during the period in which the party in question had been performing, for at least one year, management, senior management or supervisory posts in said company or inthe year following the termination of such functions."

5. The following sub paragraph is added to article IV.II.3:

"4. For the member of the Board of Directors who, in the absence of the Director General, is elected to perform the functions of HEAD OF THE EXECUTIVE STRUCTURE, the relevant professional requirements are those referred to in the following article."

6. The following subparagraph is added to article V.II.6:

"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."

7. Article V.III.2, sub. 4 is replaced as follows:

"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 partieswho are mandators and/or CONTROLLING PARTIES, i.e. for those parties positioned respectively at the beginning and the end of the chain."

8. Article V.V.3, sub. 1 is replaced as follows:

"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."

9. Article V.V.4, sub. 1 is replaced as follows:

"1. For the purposes of the verification referred to in article V.V.1 above, THE SHAREHOLDERS of the *[banks/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."

10. Article VII.II.4, sub. 4 is replaced as follows:

"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 *[bank/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 ENTERPRISES which are subsidiaries of the *[bank/FINANCIAL COMPANY]*
- including legal entities or interposed shareholders of the *[bank/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."

11. Letters d), g) and h) of article VII.III.4, sub. 1, are replaced as follows:

"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;"

"g) 150% for equity interests in NON-FINANCIAL ENTERPRISES posting balance sheet losses for the two most recent fiscal years;

h) 150% for NON PERFORMING LOANS except for those referred to in letters d) and e) above for which the multiplying factor passes from 50% to 100%."

12. Subparagraphs 1 and 2 of article VII.VII.2 are replaced by the following:

"1. *[Banks/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:

- within 24 months from their acquisition, if vacant or in any case not used;
- within 36 months from their acquisition, if for residential use or used as office of the enterprise.

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."

13. Letter b) of article VII.IX.6, sub. 2 is replaced as follows:
"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;"

14. Subparagraph 6 of article VII.IX.11 is replaced as follows:
"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."

15. Letter b) of article VIII.II.5, sub. 2 is replaced as follows:
"b) recipient: Supervision Department;"

Article 2 – Specific amendments to Regulations no.2007-07

1. Article II.III.6, sub. 4 is replaced as follows:
"4. In the case of book-entry certificates of deposit, the minimum content referred to above should be reported in the template, signed by the CUSTOMER as application for issue, a copy of which must be delivered to said customer, signed by personnel of the bank vested with the necessary authority."

Article 3 – Specific amendments to Regulations no.2011-03

1. The following subparagraph is added to article VII.IV.4:
"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 EXPOSURES 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."

2. Letter b) of article VII.IX.1, sub. 1 is replaced as follows:
"b) availability, in quantitative and qualitative terms, of adequate human resources in possession, particularly with reference to STAFF RESPONSIBLE FOR ORGANISATIONAL UNITS, of professional qualifications consistent, as regards to educational paths and working experiences, with their assigned duties; "

3. Article XI.V.1, sub. 1 is replaced as follows:

"1. PRE-EXISTING COMPANIES must achieve compliance with the rules of prudential supervision, in the simplified form required for FINANCIAL COMPANIES WITH LIMITED OPERATIONS, 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;"

4. Article XI.V.2, sub. 4 is replaced as follows:

"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."

Article 4 – Specific amendments to Regulations no.2011-02

1. Pursuant to the provisions of article 1, sub. 11 of these Regulations, article 3, sub. 3 is replaced as follows:

"3. The new criteria for the verification of prudential supervision requirements for capital coverage of the borrowers' default risks and of operational risks must be applied according to the following multi-annual schedule:

- non-performing loans multiplication factor: 150% as of 01/01/2012;
- operational risks coverage ratio: 5% as of 01/07/2011 – 10% as of 01/01/2012 – 15% as of 01/01/2013."

Article 5 – Entry into force.

1. This regulation shall enter into force on 30 June 2012.