

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

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**YEAR 2014**





# **Summary report**

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

### **Year 2014**



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Publicly and privately owned entity

Economic Operator Code SM04262 – Endowment fund 12,911,425.00 Euro fully paid up

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May 2015.

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## COMPOSITION OF THE STATUTORY BODIES\*

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Giovanni Luca Ghiotti  
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Aldo Simoncini

### **Board of Statutory Auditors**

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### **Directorate General**

Mario Giannini - Director General  
Daniele Bernardi - Deputy Director General

### **Supervision Committee**

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Patrizio Ettore Cherubini  
Francesco Ielpo  
Fabio Mazza  
Andrea Vivoli

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

\* as at 27 May 2015



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## NOTICE

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



## LIST OF ABBREVIATIONS

ABS	Associazione Bancaria Sammarinese (Bankers Association of San Marino)
FIA	Financial Intelligence Agency
AML	Anti-money laundering
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
CENTRAL BANK	Central Bank of the Republic of San Marino
ECB	European Central Bank
CAUTA	Cartella Unica delle Tasse (Single tax bill)
COFER	Currency Composition of Foreign Exchange Reserves
CFT	Combating the Financing of Terrorism
CTU	Consulente Tecnico d'Ufficio (Court Expert)
EPC	European Payments Council
FATCA	Foreign Account Tax Compliance Act
IMF	International Monetary Fund
FONDISS	Supplementary Welfare fund of the Social Security Institution
O.G.	Official Gazette of the Italian Republic
LISF	Law no. 165/2005 "Law on companies and on banking, financial and insurance services"
NRA	National Risk Assessment
OECD	Organisation for Economic Cooperation and Development
RIS	Rete Interbancaria Sammarinese (San Marinese Interbank Network)
ROA	Return on Assets – ratio between net operating income and total assets
ROE	Return on Equity – ratio between operating results and net equity
SEPA	Single Euro Payments Area
SMAC	San Marino Card
SRD	Scambio Recapiti Domestici (Exchange of Domestic Contact Details)
SWIFT	Society for Worldwide Interbank Financial Telecommunication





## GENERAL INFORMATION OF THE GOVERNING COUNCIL

Dear Secretaries of State, Shareholders, Members and Statutory Auditors, this Report is hereby read out.

### **GENERAL SITUATION OF THE COUNTRY AND, IN PARTICULAR, THE FINANCIAL CREDIT SYSTEM: PROSPECTS AND PROGRAMMES**

2014 was also a difficult year for the country. The statistical data related to the real economy and unemployment are by no means reassuring. Tentative signs of recovery have been recorded in the early months of 2015. The GDP has shown a limited decrease (-1%) due to the lower value of 2014 (1,344 million) compared to that of the previous year (1,357 million). The general economic situation and the suffering social context have had an impact on the banking and credit system: the total (direct and indirect) collection of savings in banks amounts to 7,416 million, which increased compared to 7,209 million of the previous year. An opposite trend characterises gross loans to customers, also including leasing transactions, which dropped: in 2014, 3,976 million compared to 4,188 million of the previous year.

Banks must necessarily undertake, at the best of their potential, to stimulate and accompany the recovery and development of the local economy.

The current situation characterised by an economic and social crisis must spur a rethinking of the way in which banks should approach customers, not in an exclusively money-lending logic but as a collaborator and advisor to the subsidised undertakings, in order to jointly find the most appropriate loans for their activities, or formulas designed to bring under control exposures that do not bear conspicuous interest. It is thus necessary to give a sign of discontinuity with the past, showing acquired awareness of the fact that the western capitalist model has shown clear limits, and that the recovery of the real economy requires new approaches to finance, paying greater attention to social concerns.

Concurrently, – as we are now on track to achieve the full standardization of our financial system – it is necessary to create the essential conditions for a financial policy capable of attracting foreign investment in our country.

### **THE EVENTS THAT CHARACTERISED 2014**

We shall now highlight the most important events that characterised 2014 and saw the Central Bank engaged in a clear and decisive manner.

First of all, the handover – due to the expiration of the appointment - of the role of Head of Supervision from Mr Antonio Gumina to Mr Andrea Vivoli.

In 2014, the Republic of San Marino joined SEPA (Single Euro Payments Area). This is an important result for a country like ours, as it cancels the differences between national and European payments, which now take place equally easily and safely. It was not easy to join it: we had to speed up the timetable for adjusting certain European regulatory requirements, and we implemented operating procedures that tested, with positive results, the achievement of standards that up to a few years earlier had been inconceivable. This work for a complete overhaul of the financial and taxation system, in line with full transparency and propriety of operations, enabled San Marino to join the Italian fiscal *White List* and, in May 2015, also the anti-money laundering *White List*. All this will also have important consequences in the application of the so-called *Voluntary Disclosure* concerning the application of regulations on the voluntary repatriation to Italy of capital held abroad. The voluntary amnesty operations will in fact be subjected to ordinary conditions and not to the less favourable conditions provided for countries in the *Black List*. The Central Bank is attentively monitoring the repercussions on the San Marino financial system of the application of the Italian legislation on Voluntary Disclosure, for the consequences that these might have in terms of the banks' liquidity.



As regards the International Organisations, there are several changes: at the IMF, Alexander Tieman replaced Jacques Alain Miniane and Carlo Cottarelli replaced Andrea Paganino, while at the World Bank, Piero Cipollone was replaced by Patrizio Pagano.

The full, skilled and loyal collaboration of these two international Institutions has contributed to the growth of the Central Bank, both in professional and authoritative terms. With the active contribution of the Central Bank, the regulatory and administrative measures implemented in the Republic of San Marino have filled existing gaps and corrected some malfunctioning in the system, thus obtaining the favourable approval of the IMF, which, in the final reports of the Fund's missions last year and this year, publicly praised the work carried out by the Central Bank, emphasising its role and strengthening its authoritativeness.

In 2014, the Central Bank finally began its work for the implementation of the Central Credit Register. A company was appointed for its <<construction>> and an expert <<project manager>> was put in charge of monitoring its development and reporting responsibly on work progress. Regular meetings take place with the competent offices of the Bank of Italy, to ensure that when operations would commence (hopefully in March 2016), it will be able to communicate with the Italian counterpart.

Again, as regards relations with the Bank of Italy, we must tackle resolutely, and finalise rapidly, the contents of the Memorandum that will govern the relationships between the two Central Banks and, inter alia, the mutual operations of the banks in the two national territories. This was called for on several occasions by the San Marino credit institutions, which have the right to be able to expand their operating market also as a result of the Memorandum annexed to the Ecofin Agreement on the taxation of savings income signed by the Republic of San Marino as far back as 2003.

Various meetings were held – and are still being held this year, 2015 – with the Secretary of State for Health in relation to the FONDISS problem, in relation to which – by virtue of the legislative and regulatory framework that was created after the *referendum* – the Central Bank plays simultaneously the role of *advisor*, custodian bank and Supervisory Authority. This apparent anomaly was reported, as well as by this Central Bank already at the time when the first draft law was being discussed, also by the IMF. The observations of a purely technical nature made by the Central Bank by no means intend to interfere either with the will of the people nor with choices of a political nature. They are only meant to highlight problems concerning actual applicability.

Other important Central Bank activities in 2014 included the adoption of the first Regulation governing the professional exercise of financial promoter activities in the Republic of San Marino, and the financial promotion and cold-calling of financial instruments and investment (Regulation no. 2014-01). This measure implements the full alignment with international regulations. This is another sign of the progressive achievement of a *compliance* system that is transparent and attentive to the consumer's needs.

The reform of the system for the measurement of effective rates and for the calculation of threshold rates for anti-usury purposes (Regulation no. 2014-02) is implemented to promptly remedy certain anomalies that had been found in the actual implementation of the regulation and in court rulings on the topic.

Again, the process to achieve full transparency includes the institution (and the on-line publication) of the Register of Parent Companies (Regulation no. 2014-03) with the composition of the banking and financial groups operating in San Marino. We are projecting an image of efficiency and transparency, not only at the national level but particularly at the international level.

The new regulation (Regulation no. 2014-04) on payment and electronic money issuing services (payment institutions and EMI) fully incorporates the Community acquis (PSD - EMI Directive), also speeding up – at least in regulatory terms – the computerisation of services that must involve San Marino society as a whole.

We must point out the very important reorganisation of the “Protest Information Service” for banks and financial companies (Circular no. 2014-01), which provides them with an even more modern and sophisticated assessment instrument in the appraisal stage of customer requests.

The foregoing account, which acknowledges the actions taken by the Central Bank in terms of system-related measures and administrative regulations, is enriched with the information on those consultancy and support activities carried out for the Secretaries of State – in particular for the Secretary of State for Finance and – for the Single Court. This high-profile technical work, characterised by great and recognised professionalism, is not always obvious to the general public in all of its breadth and substance; this work is carried out with loyal spirit of service, in the awareness that the entire San Marino system is benefiting from it.

Finally, attention is drawn to the *restyling* of the internet website, which was not only formal, but also substantial, with the introduction of additional contents, and the variety of data and information that can be consulted: including – and that is no small feat – the English translation of all contents. This result had been enthusiastically pursued, since the website of the Central Bank can and must be a showcase for the entire country, and not only for the Central Bank. At the same time, it also shows that this Central Bank is one of the main Institutions of the country. A foreign visitor to the Central Bank’s website can find not only analytical information on the financial system and complete legislative and administrative documentation, but also information about the Republic and its main Institutions.

Our heartfelt thanks go to the Shareholders for the support that they expressed to the Governing Council on several occasions. Moreover, we would like to thank also on this occasion the operational structure of the Central Bank, for the work carried out and still ongoing, and the work to be carried out in the near future in a very challenging reference general context.



## 1 THE FINANCIAL SYSTEM

As at 31 December 2014, the financial system of San Marino comprised 10 banks, three of which are no longer active<sup>1</sup>, 10 financial/fiduciary companies, 1 investment company, 2 management companies (MC) and 2 insurance undertaking (duly authorised pursuant to letter G of Annex 1 of the Law on companies and on banking, financial and insurance services, the so-called LISF); at the same date, there were also 6 authorised parties to exercise the Office of Professional Trustee.

In 2014, 4 financial companies/fiduciary companies were cancelled from the Register of Authorised Parties, of which 1 for relinquishing the exercise of reserved activities, 1 following administrative compulsory liquidation, 1 following withdrawal of the authorisation to exercise reserved activities and 1 following a merger (into a bank).

Furthermore, in April 2015, the authorisation to exercise reserved activities was revoked from an already inactive bank.

As at 31 December 2014, 3 banks and 1 insurance company controlling the homonymous groups were entered in the register of parent companies. In the first quarter 2015, another bank was registered as a parent company.

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

Authorised parties	2012	2013	2014	31/03/2015
Banks	11 *	10 **	10 **	10 **
Financial/fiduciary companies	20	14 ***	10 ***	10 ***
Investment companies	1	1	1	1
Management companies	2	2	2	2
Insurance undertakings	2	2	2	2
<b>Total</b>	<b>36</b>	<b>29</b>	<b>25</b>	<b>25</b>
Insurance and reinsurance intermediaries	54	51	51****	48

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

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

\*\*\* One financial company, although still registered in the Register of Authorised Parties, was not active.

\*\*\*\* The number includes 10 natural persons, 27 legal persons, 14 banks and financial companies that also carry out insurance mediation activities; out of the 51 intermediaries, 4 are under suspension pursuant to Regulation no. 2007-02.

The framework of the financial system is completed by the insurance intermediaries registered in the Insurance and Reinsurance Mediation Register. As at the end of 2014, 51 intermediaries were registered, 4 of which suspended. In 2014, 3 new intermediaries were registered whereas 3 were cancelled. The list of foreign insurance undertakings, authorised to conclude insurance contracts in the Republic of San Marino through intermediaries, included 47 insurance companies, 29 of which are Italian and the remaining 18 from other countries.

In the first three months of 2015, with reference to the insurance intermediaries, 3 new operators were cancelled and 1 was suspended. During the same period, 1 insurance undertaking was cancelled from the list of foreign insurance undertakings qualified to operate in San Marino through intermediaries.

Table 2 details the breakdown of operators as at 31 December 2014 based on the authorisations issued, pursuant to Law no. 165 dated 17 November 2005 and no. 42 of 1 March 2010.

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



**Table 2 - Operators entered in the Register of Authorised Parties as at 31/12/2014**

Authorisations	Banks	Other financial undertakings	Total
Number of operators	10	15	25
<i>of which authorised to exercise the reserved activities pursuant to Law No. 165 dated 17 November 2005</i>			
A) Banking activities	10		10
B) Loan granting activities	10	7	17
C) Fiduciary activities	10	10	20
D) Investment services	10	10	20
E) Collective investment services		2	2
F) Non-traditional collective investment services		2	2
G) Insurance activities		2	2
H) Reinsurance activities			
I) Payment services	10		10
J) Electronic money issuing services	10		10
K) Foreign exchange mediation activities	10	7	17
L) Investment in equity interests	10	7	17
<i>of which authorised to exercise the Office of Professional Trustee pursuant to Law No. 42 dated 1 March 2010</i>			
Office of Professional Trustee	4	2	6

## 1.1 The banking system

### 1.1.1 Ownership structures

At 31 December 2014, the holding structure of four banks (two of which were inactive) comprised non-resident parties, mainly foreign companies, fiduciary companies, that is holding companies. At the same date, the assets of such banks amounted to 1.7 billion Euro (as at 31 December 2013) equal to 27.3% of the total assets.

2014 saw the continuation of the process, which had started in 2011, for the consolidation of the banking sector, through merger transactions, with the completion of further sales of assets and liabilities of Euro Commercial Bank S.p.A. to Banca Cis – Credito Industriale Sammarinese Società per Azioni, as well as assets and liabilities of IBS Leasing S.p.A. to Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A. (subsequently, 2014 also saw the merger by incorporation of the afore-mentioned financial company with the parent bank).

### 1.1.2 Size and structure of the system

During 2014, the consolidation phase of banks' financial statements was confirmed, which had been taking place since 2012. Volumes (total assets) stabilised at 6.1 billion Euro, a slightly lower figure than the one recorded at the end of 2013 (-1%).

In terms of capital, there was a significant decrease in equity (amounting to 83 million Euro, equal to -14.4%), which went from 577 to 494 million Euro, mainly due to the worsening of the operating results compared to 2013.

Total funding amounted 7.4 billion Euro, which increased compared to 2013 (+2.9%), both in the direct funding component (+2.5%), and in the indirect component (+3.8%).

Total gross loans for 4 billion Euro underwent a further drop of 5.1% compared to the end of 2013.

At the end of 2014, the number of employees in the banking sector increased as compared to 2013 (627 units compared to the 614 of the previous year); likewise, the relevant impact on the total employees in the Republic increased slightly, amounting to 3.5%.



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

Indicators	2012	2013	2014
<b>Size indicators</b>			
Total Assets	6,122	6,141	6,082
Inter-bank loans	503	473	539
Gross loans to customers*	4,472	4,188	3,976
Total funding	7,423	7,209	7,416
Direct funding	5,150	5,087	5,214
Collection of savings**	4,988	5,016	5,147
Interbank funding	161	71	67
Indirect funding***	2,273	2,122	2,203
<b>Structural indicators</b>			
Number of operators	11	10	10
Number of branches	59	59	56
Number of employees	614	614	627
% Employees on total employees	3.3	3.3	3.5
<b>Other statistical data</b>			
GDP (current prices)****	1,402	1,357	1,344
Resident population	32,471	32,572	32,789
Total number of employees	18,612	18,392	17,998
Population / Branches	550	552	586
Total assets / GDP	4.4	4.5	4.5
Total funding / GDP	5.3	5.3	5.5

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

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

\* The item includes the amounts relating to the financial leasing transactions and is shown gross of the value adjustments made on loans.

\*\* The collection of savings also includes the aggregate of the subordinated liabilities and is shown net of own bonds repurchased by the reporting entity.

\*\*\* Indirect funding is shown net of debt securities issued by the banks and of cash deposited with the intermediary. The same aggregate, on the contrary, is shown gross of any own shares, similarly to financial instruments and cash available related to custodian bank activities that were issued or deposited with other banks and connected with custodian bank activities.

\*\*\*\* The 2014 GDP figure is a projection calculated by the International Monetary Fund.

### 1.1.3 Assets and liabilities

**Assets.** - In 2014, the value of banking assets remained substantially unchanged, confirming the overcoming of the phase of strong disintermediation undergone by the system during the period 2009-2011, consequent to the approval of the Italian law on the settlement of financial assets held abroad (so-called "tax-shield") as well as to the well-known events that affected the country's largest banking institution and its Italian controlled company.

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

<b>Assets</b>	<b>2013</b>	<b>2014</b>	<b>Var %</b>	<b>Liabilities</b>	<b>2013</b>	<b>2014</b>	<b>Var %</b>
Cash and cash equivalents	24	26	5.0%				
Inter-bank loans	473	539	13.9%	Debts with banks	71	67	-5.5%
Customer loans*	3,654	3,361	-8.0%	Debts with customers	2,054	2,306	12.2%
<i>of which Financial leasing</i>	283	229					
<i>of which assets pending leasing</i>	31	34		Debts represented by financial instruments	2,827	2,720	-3.8%
Financial instruments	1,101	1,262	14.7%	Subordinated Liabilities	126	114	-9.6%
<i>of which debt securities</i>	954	1,044		Other liabilities items	485	382	-21.4%
Holdings	195	181	-7.4%	Capital and reserves**	551	524	-4.9%
Subscribed capital not paid in	11	3	-77.3%	Revaluation reserves	60	60	0.0%
Own shares	1	1	49.3%	Operating results	-33	-90	-169.6%
Fixed assets and other assets items	682	710	4.1%				
<b>Total assets</b>	<b>6,141</b>	<b>6,082</b>	<b>-1.0%</b>	<b>Total liabilities</b>	<b>6,141</b>	<b>6,082</b>	<b>-1.0%</b>

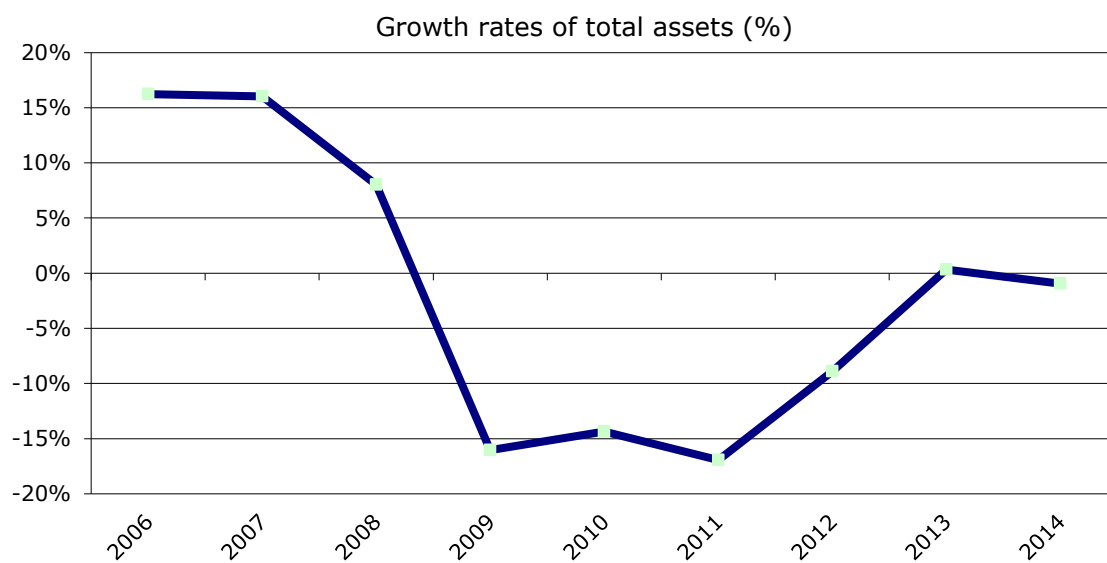
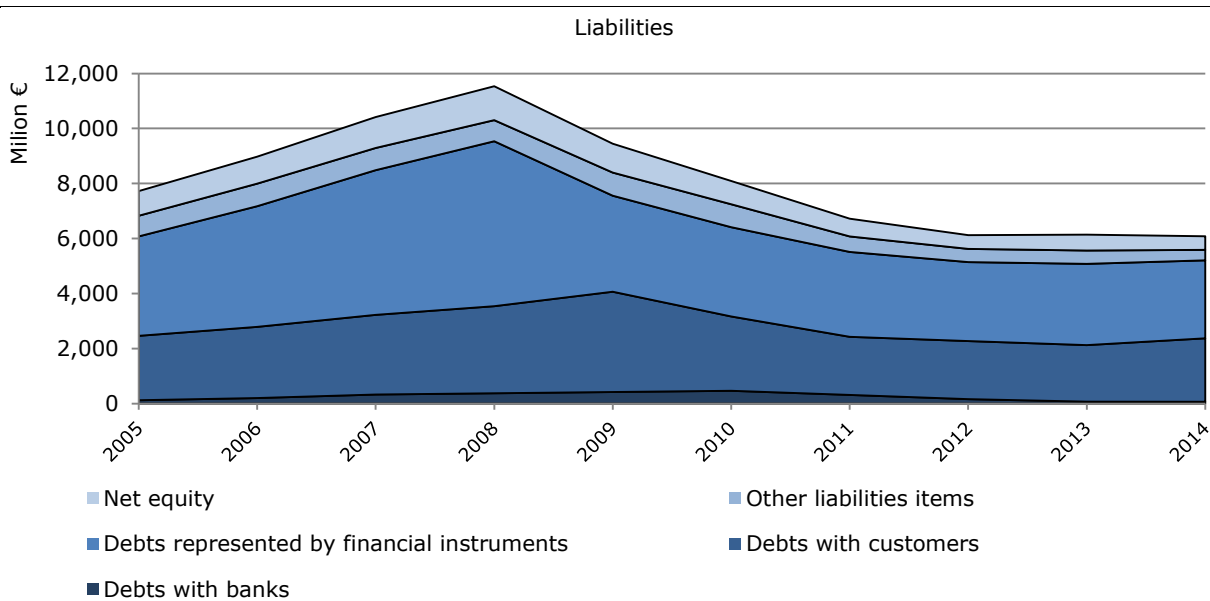
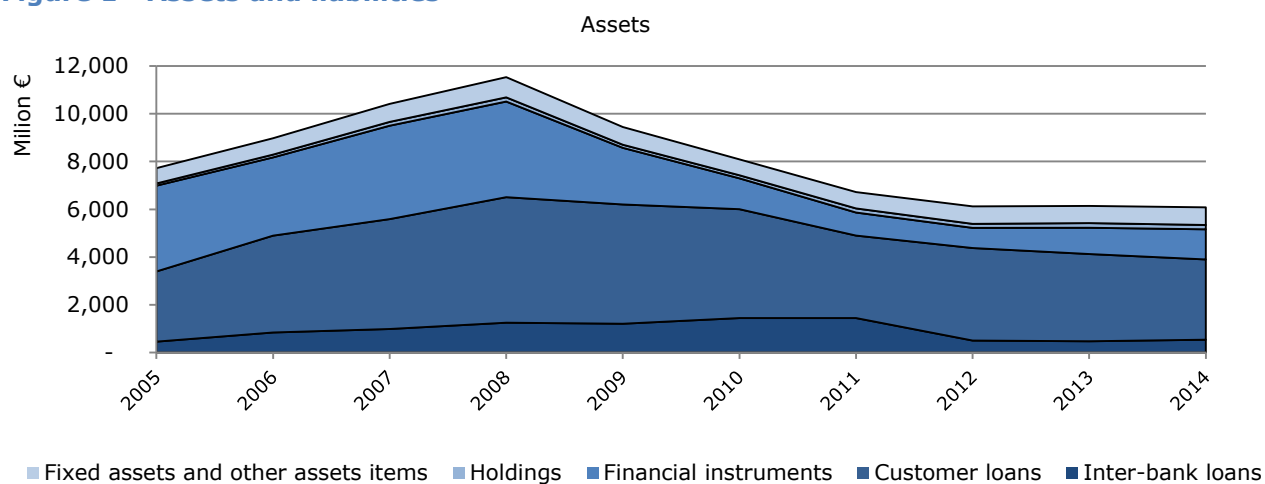
Notes: Figures in millions of Euro.

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

\*\* It includes the Fund for General Banking Risks, profits/losses carried forward and issue premiums.



**Figure 1 - Assets and liabilities**



In terms of assets, the equity dynamics concerned mainly the sector of loans to customers, whose net values decreased by 292 million, amounting to 3,361 million Euro (-8%). The contraction in loans was influenced, as well as by weak demand and prudent offer policies, by the continued transfer of problem loans originated by struggling credit institutions to mutual investment funds established under specific legislative measures<sup>2</sup>, the repayments received from the Delta group companies in performing the Restructuring Agreement pursuant to Art. 182 bis of the Italian Bankruptcy Law as well as the value adjustments made during the year, at system level, on credit exposures. In the context of loans to customers, attention is drawn to the reduced activity related to finance leasing transactions (which dropped from 283 to 229 million Euro), due, as well as to the dynamics of the redemptions in relation to the new disbursements, to the early redemption of positions classified as non-performing.

Against the above-mentioned decrease in loans, there was an increase in financial instruments held in the portfolio amounting to 161 million Euro, which grew from 1,101 to 1,262 million Euro (+14.7%), connected to the improved system liquidity situation (see *below*), the above-mentioned transformation of problem loans into mutual investment funds as well as to the favourable performance of financial markets that led to increased market prices, although this encouraged, in some cases, sales of securities. Debt securities constitute 82.7% of the total financial instruments held in the portfolio, decreased from the previous 87%. Therefore, there was a modest change in the composition of the portfolio to the benefit of capital instruments (shares, CIS, etc.).

The aggregate of holdings dropped by 14 million and amounts to 181 million Euro (-7.4%). The drop in the afore-mentioned figure is the result of the combined effect of the divestments that occurred in the year under review due to settlements and mergers within the banking group, and the losses recorded by subsidiaries, which exceeded the capital strengthening performed on certain interests.

Finally, the figure relating to "Fixed assets and other assets items", which increased by 4.1% compared to 2013 and now amounts to 710 million Euro, includes essentially the tangible and intangible fixed assets (net of financial leasing transactions) amounting to 122 million and the item "Other assets" amounting to 584 million Euro, the latter comprising, *inter alia*, the portfolio of bills subject to collection, amounts resulting from the recognition by the State of tax benefits (tax credits) in relation to transaction for the acquisition of assets and liabilities of banking intermediaries in a state of crisis that took place in recent years, as well as the prepaid tax referred to in Art. 40 of Law no. 150/2012.

*Liabilities and capital.* - As regards the collection of savings<sup>3</sup> (see *below*), there is a growth in debts with customers of 251 million, amounting to 2,306 million Euro (12.2%), partially compensated by the decrease in both debts represented by financial instruments equal to 107 million, dropping to 2,720 million Euro (-3.8%), and of the subordinated liabilities of 12 million, amounting to 114 million Euro (-9,6%)<sup>4</sup>.

The aggregate "Other liabilities items" amounts to 382 million Euro, indicating a drop of 104 million, partly due to the use of prudential funds appropriated during previous financial years and the activities connected to the subject to collection portfolio and to after-cashing.

Moreover, it is noted that the aggregates "Other assets items" and "Other liabilities items" include accrued revenues and deferred expenses and accrued expenses and deferred revenues

<sup>2</sup> These three funds specifically launched between 2012 and 2013, which are reserved exclusively for San Marino banks and were established pursuant to Decree-laws issued by the Republic, in relation to system operations and interventions to protect savings (see Paragraph 1.3.1 entitled "Management companies").

<sup>3</sup> The Collection of savings is reserved for the general public and does not include banks, whose figures are instead considered in the Inter-bank funding.

<sup>4</sup> The overall value of the aggregate is completed by the cheques in circulation, amounting to approximately 7 mln.



respectively, which decreased substantially as a result of changes in the procedures used to enter them in the accounts<sup>5</sup>.

Capital and reserves dropped by 27 million, reaching 524 million Euro (-4.9%) primarily due to a reduction in reserves amounting to 85 million Euro,<sup>6</sup> which more than compensated for the increase in share capital by 50 million, which concerned two banks over the period under review.

In 2014, the system's operating results showed a further worsening compared to the previous year, with net losses for the period that grew from 33 to 90 million Euro; the system's overall negative result is attributed in particular to some intermediaries and thus does not affect all banks in the same manner (see *below*).

#### **1.1.4 Review of loans to customers**

*Credit.* – As already noted, in 2014, the net loans granted to customers decreased, compared to 2013, both in absolute terms (-292 million Euro, amounting to 3,361 million Euro) and in relation to the total assets, down from 59.5% to 55.3%. The afore-mentioned loans constitute 65.4% of the total deposits and debt instruments issued, the latter having been placed almost totally with customers. From the end of 2009, the year in which the above aggregate reached its maximum extent, the amount of loans decreased by approximately 35%.

Credit exposures, with the exclusion of implicit credits on leasing<sup>7</sup>, went from 3,340 to 3,098 million Euro. As regards the technical form (Figure 2), there is a contraction in absolute terms of all the components, with the exception of (non-sight) current accounts in credit, which grew by 10.8% to 107 million Euro. This variation results mainly from the reallocation, operated by a bank, of credits previously included in another category. In particular, there is a decrease in both on demand / until revoked credits (-128 million Euro, equal to -10%) and the discounted and subject to collection portfolio (-68 million Euro, equal to -38,3%) as well as the residual category, but of greater absolute value, "Other loans" (-57 million, equal to -3.2%), which incorporates, among others, as well as mortgages, the restructured loans relating to the Delta Group referred to in the Restructuring Agreement pursuant to Art. 182 bis of the Italian Bankruptcy Law of the main bank of the system.

As regards the composition of the afore-mentioned technical forms, it is noted that the component "On demand / until revoked" accounts for 36.9% of the total, the categories "(non-sight) current accounts in credit" and "Discounted and subject to collection portfolio" constitute 3.5% each of the aggregate, while the "Other loans" account for the remaining 56.1%.

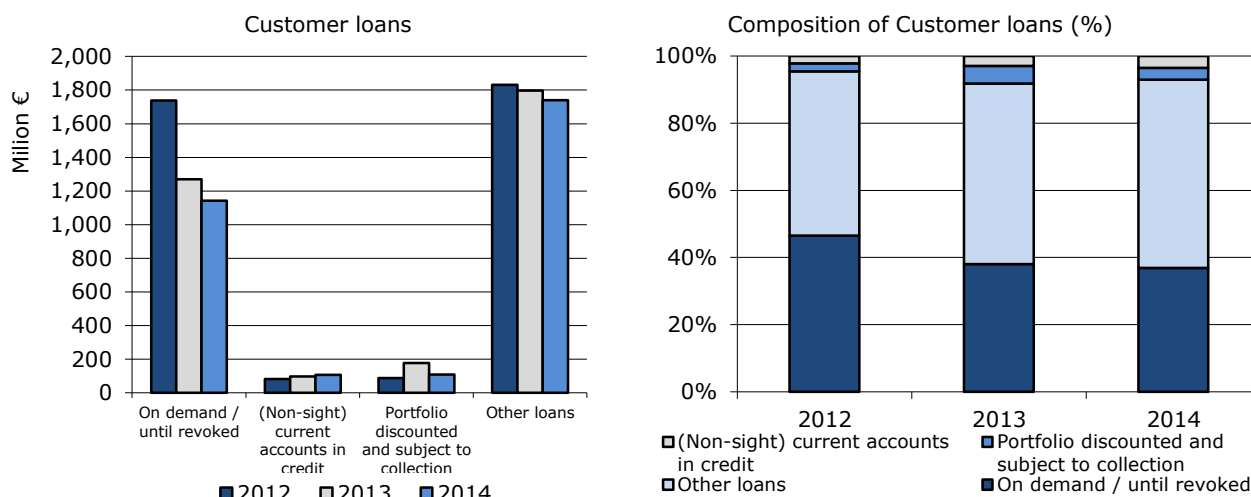
<sup>5</sup> In particular, accruals and deferrals relating to the interest accrued on credits and debts, also represented by financial instruments, as from December 2014, are included in the figures of the financial statement items to which they refer, as provided for by update II of Regulation no. 2008-02.

<sup>6</sup> These reserves had been established in 2013 as a result of the capital strengthening intervention by the State in favour of a banking intermediary.

<sup>7</sup> These values, therefore, do not include the amounts related to the outstanding claim on the financial leasing transactions, in its two components: leased fixed assets and fixed assets pending leasing.

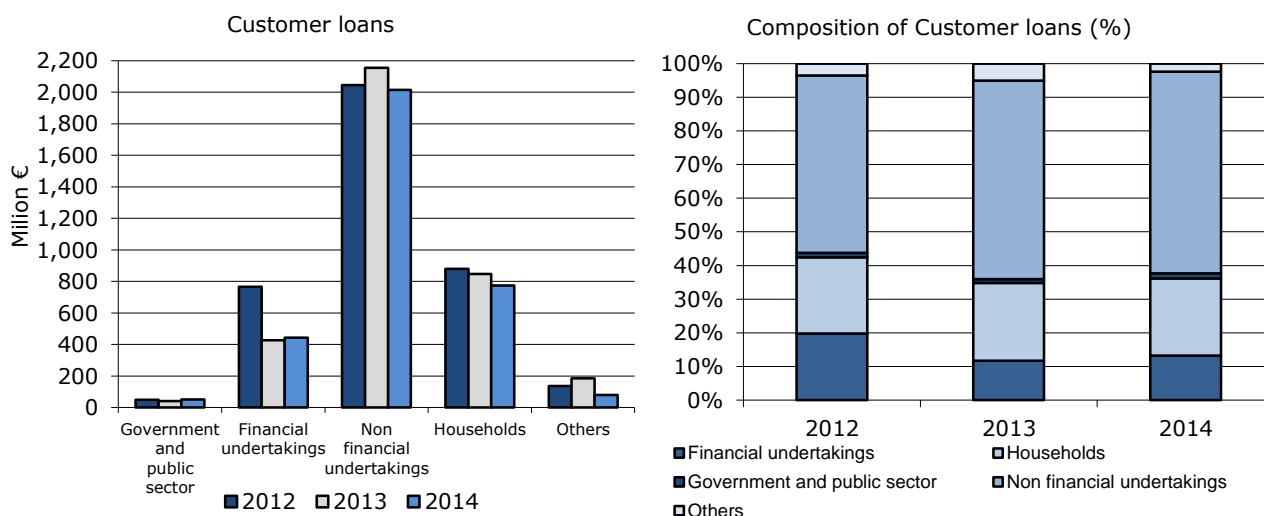


**Figure 2 - Breakdown of net Customer loans by technical form**



The breakdown by business sector of the loans, which also includes the finance lease figures (Figure 3), shows significant drops in exposures towards: non-financial undertakings (-140 million Euro, equal to -6.5%), households (-74 million Euro, equal to -8.7%) and other borrowers (-105 million Euro, equal to -56.8%). The trend was countered by the loans granted to financial undertakings and the Government and public sector, which increased respectively by 17 million Euro (+4%) and 9 million Euro (+23.4%).

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



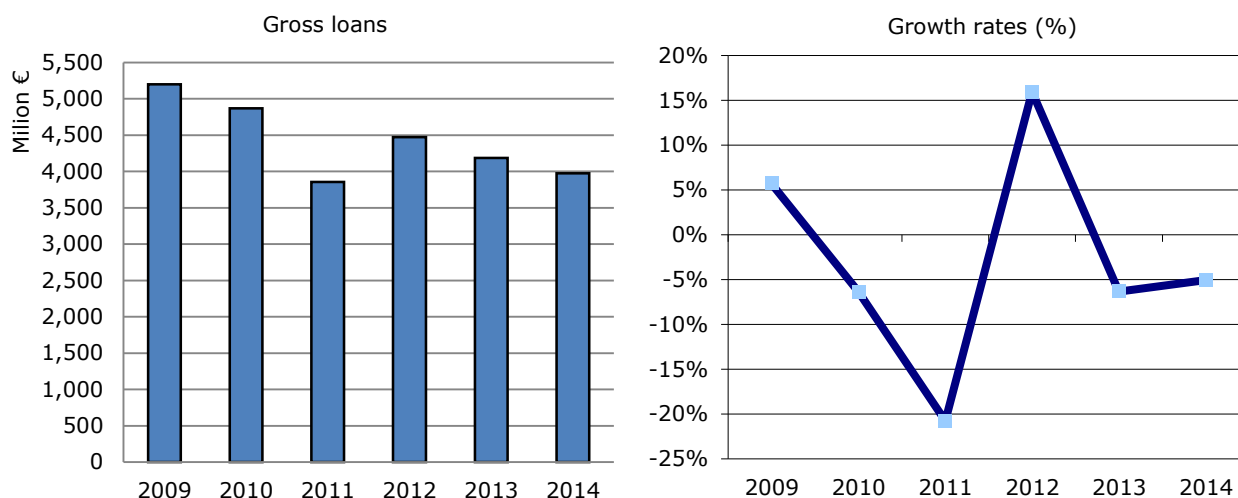
The review for the residual life of loans to customers (amounts including financial leasing transactions) shows that the 'sight' category amounted to 896 million Euro (26.7% of the total amount of credits), the category included between 1 day and 18 months amounts to 550 million Euro (16.4% of total), while medium- to long-term loans (which include exposures with residual maturity of more than 18 months) amounted to 1,582 million Euro (47.1% of total lending). The remaining 333 million Euro are without maturity (e.g. non-performing loans).

As regards the concentration of loans, measured by the ratio for individual intermediaries between the figure related to net exposures towards the first 30 borrowers (including credit institutions) and the figure of the corresponding net system loans, there are amounts ranging from a minimum of 45% to a maximum of 96%, corresponding to a small-size intermediary; the average system value, unweighted, is 59.8%.



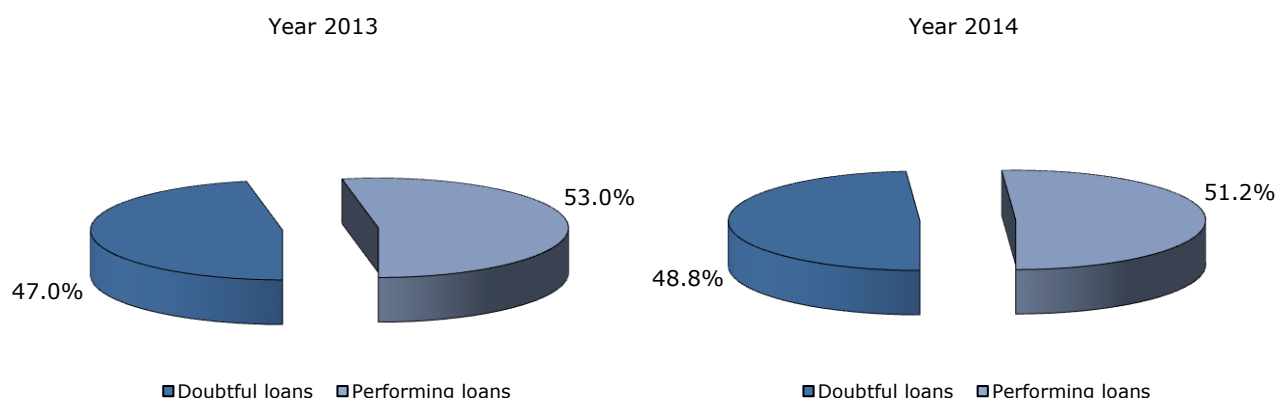
The data relating to gross loans (Figure 4) show a contraction of 212 million Euro (-5.1%), lower than that recorded in the previous year, amounting to 283 million Euro, reaching 3,976 million Euro.

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



*The quality of credit.* - As a result of the continuing crisis and its effects, the loan portfolio quality further deteriorated: the weight of doubtful<sup>8</sup> loans on the total gross loans to customers increased from 47%, registered at the end of 2013, to 48.8%. Therefore, there is a further erosion of the impact of gross performing loans, which fell, accordingly, to 51.2% of total loans (Figure 5)

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



In absolute terms, the gross doubtful loans amounted to 1,942 Euro million (Table 5), falling by 26 million Euro compared to the previous year, due, to a large extent, to the repayment of previous Delta loans. The greatest drop in net doubtful loans, amounting to 106 million Euro, compared to the gross values, was determined by value adjustments made in particular by some intermediaries; net doubtful loans amount in total to 1,339 million Euro. Figure 6 shows the trend of gross doubtful loans during the three-year period 2012-2014, highlighting the breakdown into the

<sup>8</sup> Pursuant to Regulation No. 2007-07, doubtful loans include the following: non-performing loans, substandard loans, restructured loans, expired and/or past due loans and unsecured loans towards countries at risk.

components of net doubtful loans and value adjustments, as well as the impact of the aforementioned impaired gross exposures on the total gross loans.

The increase in gross non-performing loans (+79 million Euro), which reached 726 million Euro and constitute 37.4% of gross doubtful loans (Figure 7), is due mostly to the reclassification of substandard loans, which show a decrease amounting to 75 million Euro, standing at 368 million Euro, equal to 18.9% of gross doubtful loans. The impact of these gross non-performing loans on the total gross loans amounts to 18.2% (15.4% in 2013).

Among gross doubtful loans, the largest component is represented by restructured loans, whose amount gross of the adjustments equals 753 million Euro (-66 million Euro compared to 2013), representing 38.8% of the entire aggregate, and is formed mainly by credits deriving from the afore-mentioned Restructuring Agreement concerning debts of the Delta group.

As regard the remaining non-performing loans, there is a significant growth of expired and/or past due gross loans, increased by approximately 2.5 times compared to the value registered in 2013 and amounting to 62 million, with a limited impact of 3.2% on the total gross doubtful loans.

In this regard, it is noted that, in general, the increase in impaired loans affects the profitability of banks, entails additional operating costs, causes an increase in capital requirements and reduces the willingness of banks to grant loans.

Net of value adjustments, doubtful loans constitute 39.8% of the total amount of loans. This value is substantially similar to that of the end of 2013, which amounted to 39.6%.

In absolute terms and net of value adjustments, doubtful loans amount to 1,339 million Euro, composed of non-performing loans equal to 283 million Euro (increased by about 10 million Euro compared to the previous year), substandard loans amounting to 259 million Euro (decreased by 77 million Euro), restructured loans totalling 706 million Euro (decreased by 73 million Euro) and expired and/or past due loans amounting to 59 million Euro (increased by 35 million Euro).

**Table 5 – Quality of credit**

	Loans gross of value adjustments				Hedging rate*		Portion on the total of loans net of value adjustments	
	2013	%	2014	%	2013	2014	2013	2014
Customer loans**	4,188	100.0%	3,976	100.0%	12.8%	15.5%	100.0%	100.0%
Performing loans	2,220	53.0%	2,034	51.2%	0.6%	0.6%	60.4%	60.2%
Doubtful loans	1,968	47.0%	1,942	48.8%	26.5%	31.1%	39.6%	39.8%
<i>Non-performing loans</i>	646	15.4%	726	18.2%	57.8%	61.1%	7.5%	8.4%
<i>Substandard loans</i>	443	10.6%	368	9.3%	24.1%	29.6%	9.2%	7.7%
<i>Restructured loans</i>	819	19.6%	753	18.9%	4.9%	6.3%	21.3%	21.0%
<i>Expired and/or past due loans</i>	25	0.6%	62	1.6%	5.2%	4.5%	0.7%	1.8%
<i>Loans to countries at risk</i>	34	0.8%	33	0.8%	1.2%	1.5%	0.9%	1.0%

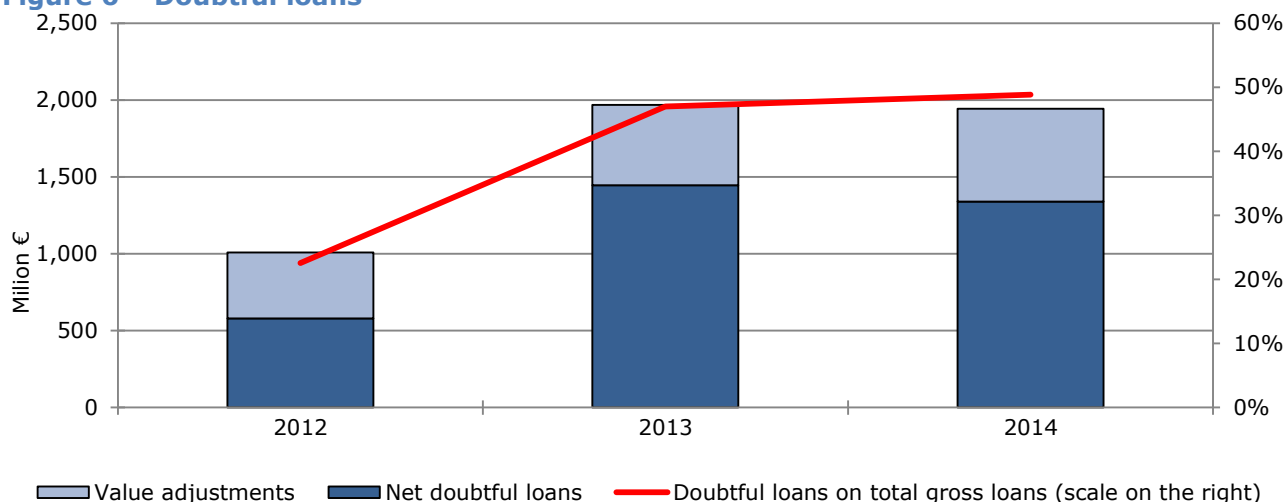
Notes: The data on "Loans gross of value adjustments" relating to the years 2013 and 2014 are expressed in millions of Euro.

\* The hedging rate is given by the amount of value adjustments in relation to the corresponding gross exposure.

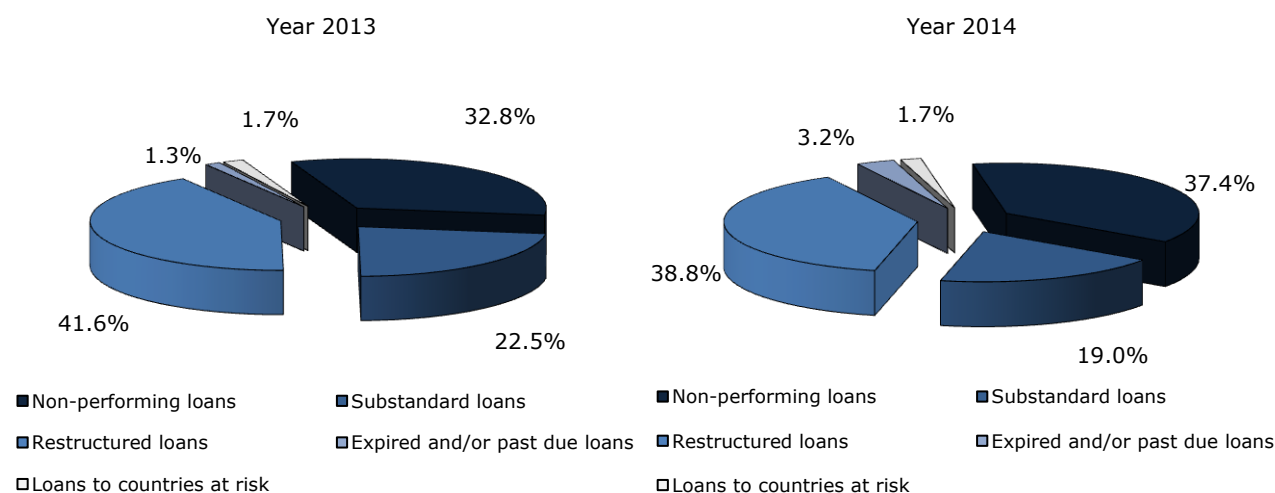
\*\* Inclusive of the amounts related to the financial leasing transactions included in the items "Financial Leasing" and "Assets pending leasing" of the financial statements.



**Figure 6 – Doubtful loans**



**Figure 7 -Breakdown of doubtful loans (gross figures)**



Net non-performing loans represent approximately 70.1% of the regulatory capital (54.6% in 2013); the significant worsening of the ratio is determined mainly by the considerable decrease in the above-mentioned capital aggregate, which decreased mainly due to the losses registered (see *below*).

The hedging rate of doubtful loans, measured by the ratio between the adjustments and the gross amount of the afore-mentioned impaired exposures, increased by 4.6 percentage points, to 31.1% (see Table 5), as a result of more prudent assessment policies by the credit institutions also following the supervisory activities of the Central Bank, implemented by means of targeted inspections as well as documentary checks<sup>9</sup>.

<sup>9</sup> In the first quarter of 2015, the Central Bank started, inter alia, with regard to the banking system, an articulated analysis on credit risk management and control procedures in order to assess: the conformity of internal procedures with relevant applicable legislation, the adequacy of the credit process and the associated control points, the awareness of the corporate bodies concerning exposure to risk of debtor default, the effectiveness of instruments prepared to mitigate the deterioration of positions at risk, and the adequacy of estimates on the presumed monetary value of credits and on capitalisation levels. The aforementioned analysis, implemented through an off-site

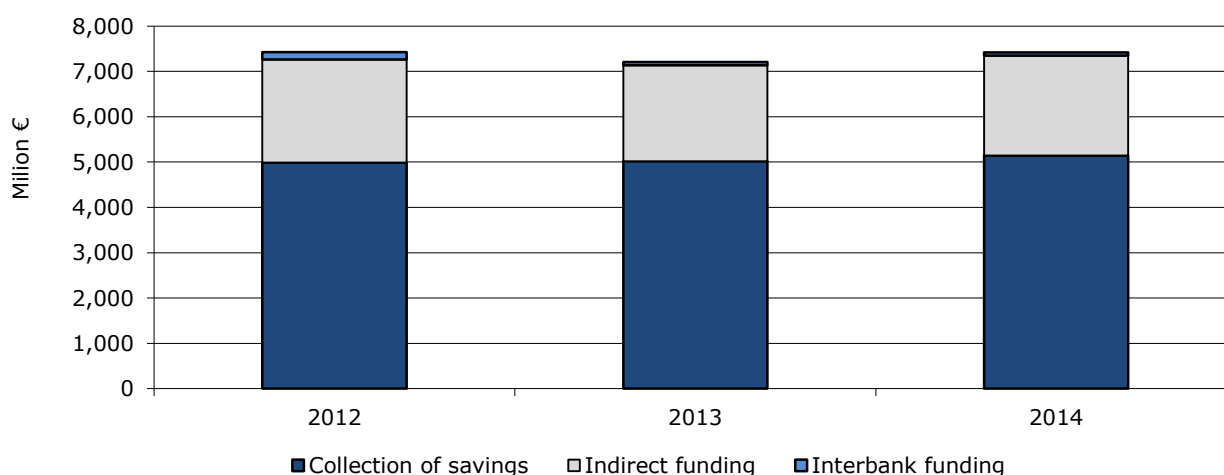
Within the above doubtful loans category, the hedging rate referred to non-performing loans rose to 61.1% from the previous 57.8%, and that on the substandard loans to 29.6% (24.1% in 2013). The hedging rate of restructured loans, which, as already mentioned, constitutes the most significant component of doubtful loans, thereby affecting their absolute value, is 6.3% (increased from the previous 4.9%). This category of assets, largely derived from credits arising from the Restructuring Agreement of the Delta group, is found to a great extent in the loans portfolio of one bank. Given that these are credits that have been already restructured, the *recovery rate* (on average) expected from banks is higher than that of other impaired loans categories, such as non-performing and substandard loans.

From the review of the breakdown of net non-performing loans by businesses sector<sup>10</sup>, it appears that the aforementioned category of problem loans is concentrated particularly in the households category (77 million Euro, equal to 26.8% of the total) and, especially, in non-financial undertakings (171 million Euro, or 59.7% of the total). In the context of the latter category, the afore-mentioned net non-performing loans are distributed in the services sector (82 million Euro), industry (60 million Euro) and construction (27 million Euro).

### 1.1.5 Funding

**Total funding.** - In 2014, the total funding<sup>11</sup> of the banking system amounted to 7,416 million Euro, increased by 207 million (+2.9% compared to the previous year). Direct funding, in the amount of 5,214 million Euro, increased by 2.5%, due to the increase in the collection of savings by 2.6%, which amounted to 5,147 million Euro and the decrease in the inter-bank funding by 5.5%, equal to 67 million Euro. Indirect funding, amounting to 2,203 million Euro, grew by 3.8% (Figure 8).

**Figure 8 - Total funding for the banking system**



intervention and completed in April 2015, is currently being examined by the competent services of the Supervision Department and may be followed by audits with the individual intermediaries.

<sup>10</sup> The item of net non-performing loans broken down by business sector is available from the end of the year 2014. This information is taken from the supervisory report called "Monthly statement of accounts for banks" referred to in Circular no. 2015-01 and therefore the data indicated therein may differ from the financial statements data.

<sup>11</sup> Total funding is obtained from the sum of direct and indirect funding. Direct funding is composed of the collection of savings with the general public and inter-bank funding. Indirect funding consists of the amount for financial instruments and cash and cash equivalents for customers administered and/or managed on their behalf, net of the amounts already included in the direct funding (see art/ I.I.2 of Regulation no. 2007-07).



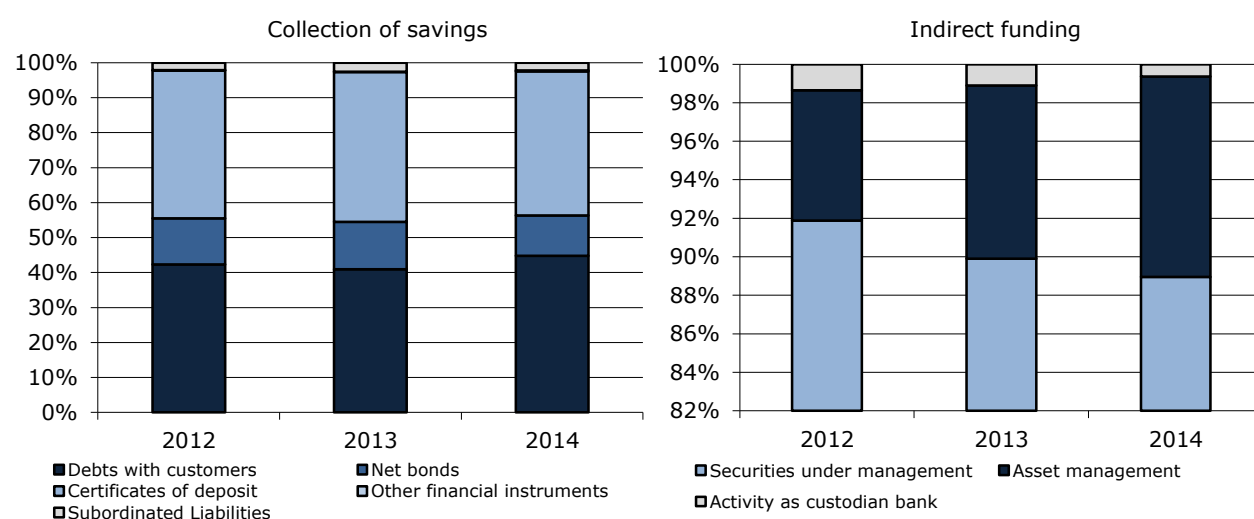
*Collection of savings.* - In the context of the collection of savings, which increased by 131 million Euro, we register the positive trend of, essentially 'sight', debts with customers (deposits), which grew by 251 million Euro and are placed at 2,306 million Euro (12.2%)<sup>12</sup>. By contrast, there is a 107 million Euro contraction of debts represented by financial instruments, equal to 2,720 million Euro (-3.8%), composed essentially of 2,121 million Euro in certificates of deposit, decreased by 1.3%, and of 595 million Euro in bonds, decreased by 12.2%. Among the remaining components of the collection of savings, the most significant is represented by subordinated liabilities amounting to 114 million Euro, dropped by 12 million Euro (-9.6%) due to repayments made that exceeded the new placements.

With regard to the aggregate under review, the impact of the debts with customers is equal to 44.8% (from 41% in 2013), followed by the certificates of deposit, which contribute by 41.2% (from the previous 42.9%). The weight of the bonds and the subordinated liabilities is equal, respectively, to 11.6% (from 13.5%) and 2.2% (from 2.5%) (Figure 9).

Thus, overall, given the increased collection of savings, the evolution of its components highlights a change in the composition, to the benefit of the more volatile components, resulting from the customers' greater propensity for instruments that can be more easily disinvested in.

*Indirect funding.* - Indirect funding grew by 80 million during the year under review, amounting to 2,203 million Euro (+3.8%). This aggregate is composed of securities under management, equal to 1,959 million Euro (+2.7%), asset managements amounting to 229 million Euro (20%) and financial instruments and liquidity related to custodian bank activities, carried out on behalf of collective investments and amounting to 14 million Euro (-39.5%). The impact of securities under management on the total of indirect funding is equal to 88.9%, while that of asset managements amounts to 10.4% (Figure 9).

**Figure 9 – Breakdown of collection of savings and indirect funding**



### 1.1.6 Fiduciary activities in the banking sector

As at 31 December 2014, 4 banks administered fiduciarily 144 million Euro. This figure had grown by 27 million Euro (23.3%) compared to the end of 2013. This volume represents 29.2% of

<sup>12</sup> A review by residual life of debts with customers shows that the 'sight' category amounts to 2,079 million Euro (90.2% of the total amount of deposits), the category included between 1 day and 18 months amounts to 207 million Euro (9% of total), while the medium- to long-term deposits (with residual maturity of more than 18 months) total 19 million Euro, amounting to 0.8%.

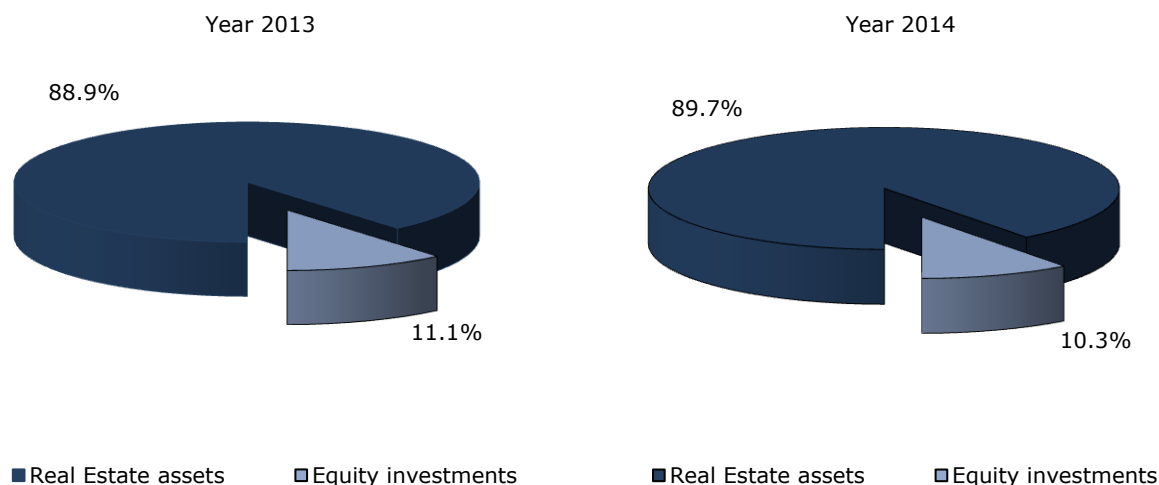


total fiduciary activities, noting that the remainder (70.8%) is managed by the financial-fiduciary companies segment (see Chapter 1.2).

With reference to the breakdown by technical form of fiduciary activities (Figure 10), the above amount is broken down mainly between fiduciary administration of real estate assets (type 1) amounting to 129 million Euro, increased by 25 million Euro compared to the previous year (with a ratio of 89.7% over the total) and the fiduciary administration of equity investments (type 2) amounting to 14.7 million Euro, which grew by 1.8 million and amounts to 10.3%.

The increase in the volumes of fiduciary companies is mainly explained by the new contributions and, with regard to type 1, by the increase in value of the underlying assets.

**Figure 10 – Composition of fiduciary activities by technical form**



Within the context of type 2 mandates referred to the fiduciary administration of equity investments, the figures show almost complete equity interests in San Marino companies (99.9% of the total amount); Italy is the second country as regards the establishment of companies fiduciarily held, with a residual 0.1%.

**Box 1: Approval of the prospectuses for the solicitation of investments in bonds issued under the laws of San Marino and issuance of financial instruments reserved to professional clients**

10 applications were submitted to the Central Bank during 2014 for the approval of prospectuses for the public offering of financial instruments, pursuant to the regulations on the solicitation of investments referred to under Title I, Part III of LISF, compared to 2 applications in 2013, with the reversal of the downward *trend* apparent from 2011, in the use of this form of collection of savings among the general public. The applications received concerned exclusively to prospectuses for the public offerings of bank bonds issued under the laws of San Marino amounting to a maximum approved nominal amount of 233 million Euro, compared to 60 million in 2013. Out of the 10 applications submitted, 9 concerned senior and subordinated type 1 bonds; all bonds have a fixed rate coupon structure and a duration of 3 to 7 years, with an average duration of 3 years and 10 months compared to the average duration of 3 years and 2 months of the senior bonds issued in 2013. The increase in the number of applications submitted and the marginal extension of the term of the bonds on offer highlight the renewed interest in the bond instrument as form of funding by banks. However, while in 2014 there was an increase in the frequency with which bond securities were issued, by contrast, at the end of 2014, the impact of this type of collection on the total

collection of savings fell from 16% in 2013 to about 14% in 2014, indicating that the increase in collection with the general public occurred mainly through technical forms other than issuance of bonds.

**Table 6 - Prospectuses approved by the Central Bank for public offers of bonds**

	2010	2011	2012	2013	2014
<b>Banks</b>	<b>32</b>	<b>19</b>	<b>18</b>	<b>2</b>	<b>10</b>
Senior	31	0	17	2	9
Subordinated	1	0	1	0	1
<b>Financial companies</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Senior	2	0	0	0	0
<b>Total</b>	<b>34</b>	<b>19</b>	<b>18</b>	<b>2</b>	<b>10</b>

The nominal amount placed concerning the 10 issues addressed to customers whose prospectus was approved by the Central Bank in 2014 was approximately 154.6 million. The data was updated as at 31 March 2015, given the fact that the placement of some of the obligations under review commenced in the latter part of 2014 but is still in progress. Given this clarification, it is noted that, as at 31 March 2015, the placed amount rate compared to the approved amount is equal to 66%.

**Table 7 - Nominal amount authorised and nominal amount placed with the public (for the year when the prospectuses were approved)**

	2013		2014	
	Nominal amount approved	Nominal amount placed	Nominal amount approved	Nominal amount placed
<b>Banks</b>	<b>60,000,000</b>	<b>48,166,000</b>	<b>233,000,000</b>	<b>154,629,000</b>
Senior	60,000,000	48,166,000	228,000,000	151,079,000
Subordinated	0	0	5,000,000	3,550,000
<b>Financial companies</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Senior	0	0	0	0
<b>Total</b>	<b>60,000,000</b>	<b>48,166,000</b>	<b>233,000,000</b>	<b>154,629,000</b>

There were 30 bond issues that reached maturity in 2014, where these had been placed with the general public in previous years, 28 of which had been issued by banks and 2 by financial companies.

Indeed, 3 approvals of bank bond prospectuses were issued in the first three months of 2015, referring to a total nominal approved amount of 95 million Euro.

Finally, as regards the use of bonds issued by non-supervised joint stock companies, it is noted that, during the first quarter of 2015, an application to the Central Bank, which is currently being evaluated, was submitted to request the Central Bank's authorisation referred to in Article 31, paragraph 3 of the Companies Law no. 47/2006. In this regard, it is noted that the last issue of bonds by unsupervised companies took place in 2009.

### 1.1.7 The capital

*Net equity.* - The net equity of the banking system at the end of 2014 amounted to 494 million Euro, which decreased by 83 million Euro compared to the previous year (-14.4%), consisting of 429 million in share capital, 8 million in issue premiums, 120 million in reserves (of which, 95 million for ordinary reserve), 60 million in revaluation reserves, 3 million in the Fund for General Banking Risks, 37 million in losses carried forward and 90 million Euro in operating losses.

The trend of the aggregate can be largely explained, on the one hand, by the increase by 50 million Euro in the share capital component (which has affected two intermediaries) and by 5 million Euro in issue premiums and, on the other hand, by the contraction of the reserves, which concerned mainly one institution, amounting to 85 million Euro<sup>13</sup>, to be added to the increase of 57 million of the net operating losses.

The ratio between net equity and total assets dropped to 8.1% from the previous 9.4% mainly due to the losses registered, which led to a drop in capital aggregate greater than that of the assets (-59 million Euro).

*Regulatory capital*<sup>14</sup>. - In 2014, the consolidated regulatory capital (RC)<sup>15</sup> amounted to 403 million Euro, decreased by 96 million compared to the previous year (-19.3%). In particular, the tier 1 capital registered a 67 million Euro contraction (-15.1%) falling to 376 million Euro, following the afore-mentioned decrease in reserves and the increased operating losses, partially offset by the increase in the return on equity and minor deductions from the tier 1 capital. The tier 2 capital also decreases by 29 million Euro, amounting to 144 million Euro (-16.7%), mainly due to the use of risk funds with no adjustment purposes as well as the reduction of the subordinated liabilities calculated in the above-mentioned aggregate.

The deductions from the total capital (the sum of tier 1 capital and tier 2 capital) remained substantially unchanged compared to 2013, standing at 117 million Euro, although it underwent a change in the composition in its components: the increase in holdings in financial undertakings and risk positions towards shareholders was compensated by decreased subordinated liabilities and hybrid capitalisation instruments held in the assets of banks and issued by other intermediaries.

*Risk-weighted assets*. - Credit risk-weighted assets decreased to 3,545 million from the previous 3,674 million Euro (-3.5%) due mainly to the contraction of the risk positions of related to loans (including leasing) that surpassed the growth (in weighted value) recorded by investment in financial instruments. Furthermore, the weighted average cash assets (excluding 'off-balance sheets' assets), measured by the ratio between credit risk-weighted assets and non-weighted assets (calculated at book value) appears to have decreased at the end of 2014 to 61.7% from the previous 64.6%, reflecting a change in the composition of the cash portfolios in favour of assets that absorb less capital.

*Solvency ratio and other capitalisation indicators*. - The overall trend described above has led to a worsening of the main capitalisation indicators (Table 8). The system solvency ratio<sup>16</sup> dropped from 13.6% to 11.4%, still remaining above the minimum requirement of the prudential supervision discipline that requires a *solvency* of at least 11%. In this regard, it is pointed out that 6 banks out of the 7 active ones have a solvency value higher than the minimum regulatory one. The impact of the tier 1 capital on the total credit risk-weighted assets amounts to 10.6%, down from the 12.1% registered at end of 2013.

The financial structure margin (FSM), calculated as the difference between regulatory capital and the components held as investment of the assets (constituted by durable capital goods

<sup>13</sup> In 2014, the reserves - increased in 2013 following the capital strengthening operation carried out by the State in that year in favour of one institution - were used to cover the losses incurred by the bank in 2013 and to increase the share capital.

<sup>14</sup> The regulatory capital represents the reference capital aggregate in the context of the prudential supervisory provisions, as a financial resource capable to absorb the possible losses caused by the bank's exposure to the risks typical of its activities, taking on a role of guarantee for depositors and creditors. The regulatory capital is obtained by adding the tier 1 capital (which represents the primary quality component) to the tier 2 capital and then subtracting the deductions provided for by supervisory regulations (for example, for disbursements granted by intermediaries to their shareholders).

<sup>15</sup> The following equity indicators are calculated on 7 banks, thus excluding the 3 inactive banks, in relation to both 2014 and 2013.

<sup>16</sup> The *solvency ratio* is calculated as the ratio between the regulatory capital and the total credit risk-weighted assets.



and holdings not deducted from the regulatory capital), showed a contraction, going from 281 million in 2013 to 195 million Euro in the year under review, by reason of the sharp drop in RC<sup>17</sup>.

Finally, the system's financial leverage, calculated as the ratio between the total assets, net of intangible assets, and the tier 1 capital, increased from 13.7 in 2013 to 16.0 in 2014.

**Table 8 – Capital adequacy of the banking system**

<b>Capital adequacy (end-of-period data)*</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net equity ( <i>Million Euro</i> )	499	577	494
Regulatory capital ( <i>Million Euro</i> )	352	500	403
Solvency ratio ( <i>percentage values</i> )	8.8	13.6	11.4
Tier 1 capital/credit risk-weighted assets ( <i>percentage values</i> )	9.8	12.1	10.6
Financial structure margin ( <i>Million Euro</i> )**	174	281	195
Financial leverage***	15.5	13.7	16.0

Notes: \* In the years 2013 and 2014, the data refer to 7 banks excluding 3 inactive institutions; in 2012, the data refer to 9 banks excluding 2 inactive intermediaries.

\*\* Calculated as the difference between the regulatory capital and the components held as investment of the assets.

\*\*\* The ratio between the total assets, net of intangible assets, and the tier 1 capital.

### **1.1.8 Profitability and efficiency**

The system's net operating results dropped by 90 million Euro, having worsened compared to the value, also negative, of 33 million Euro registered in 2013, due to the effect of total losses amounting to 94 million Euro registered by 8 banks (including the 3 inactive banks), and compensated to a minor extent by the profits from the remaining 2 banks totalling 4 million Euro.

The deterioration of the operating results is mainly due to the conspicuous value adjustments on credits and financial fixed assets carried out in the year under review, to align the value to the presumed monetary value, also taking into account the more prudent assessment policies adopted by banks.

In particular, a review of the Reclassified Profit and Loss Account of the banking system (Table 9) shows a slight improvement in the interest margin, amounting to 44 million Euro (+2.1%), which remains nonetheless penalised, in structural terms, by the high amount of non-interest bearing assets related to the Delta Restructuring Agreement (although decreased as a result of repayments made) by the existence of certain low-profitability exposures, by a significant cost of collection and by the presence of a conspicuous component of customer loans classified as non-performing.

Tables 10 illustrates the trend of the average interest rate on net loans to customers, and on collection: an examination of the table reveals that the difference between the two average rates, albeit increased to 1.25% from the previous 1.03%, remains on contained levels. In particular, the average rate on loans has grown by 10 basis points, reaching 3.10%, while the average rate on the collection of savings fell to 1.85% from the previous 1.97% (-12 basis points)<sup>18</sup>.

<sup>17</sup> The existence of a positive margin ("*free capital*") has positive effects on both the financial trend, for the surplus of resources that can be used in the management of liquidity, and on the creation of income margins, constituting a form of funding with no contractual cost and without the time restrictions of loan capital.

<sup>18</sup> The average interest rate on loans at time *t* is calculated by comparing the interest received on customer loans at time *t* with the arithmetic average of loans, calculated as values net of adjustments, at time *t* and *t-1*. The average interest rate on the collection of savings at time *t* is obtained by comparing the interest paid on debts with customers and on debts represented by securities (including subordinated securities) at time *t* with the arithmetic average of the collection of savings at time *t* and *t-1*.

The interest margin also affected the change in the composition of the interest-bearing assets from customer loans to the benefit of financial instruments, as well as the interest-paying liabilities, with an increase in deposits and a decrease in debts represented by financial instruments<sup>19</sup>. The ratio between interest-bearing assets and interest-paying liabilities at the end of the year was equal to 95% (100% in 2013), influenced by the reduction in customer loans, and by the simultaneous increase in deposits. The average yield of the interest-bearing assets stood at 2.76% (varied slightly compared to 2.79% in 2013), while the average cost of interest-paying liabilities decreased to 1.84% from the previous 1.95%<sup>20</sup>, highlighting the effort made by the banks to try and adapt the cost of the collection to changes in market interest rates while preserving the performance achieved in the assets.

Income from services show an improvement of 22 million compared to 2013, amounting to 73 million Euro (43.7%), due substantially to the increase of the "Other operating proceeds" item connected with the early redemption of leasing agreements made by two banks<sup>21</sup>.

The improved income from services is reflected in the mediation margin, increased to 138 million Euro from 105 million Euro in the previous year (+31.2%) also as a result of an increase of 11 million Euro in net profits from financial operations, amounting to 19 million Euro, thanks to the good performance of financial markets and the consequent increase in value of the securities on hand.

2014 saw continued action for the containment of administrative costs, which fell to 72 million from 77 million recorded in 2013 (-5.6%), with the decrease in costs that affected both the "Other administrative costs" item (including mainly general fees and consultancy fees) and also due to the full effects of the merger transactions, and, although to a lesser extent, labour costs, decreased despite the increase in the number of employees grown by 13 units (end-of-period figure).

In spite of the above-mentioned decrease in administrative costs, operating costs still grew by 14 million reaching 125 million Euro (+13%) due to the increase in value adjustments on intangible and tangible fixed assets (increased from 34 million in 2013 to 53 million Euro), essentially attributable to the afore-mentioned early redemption of financial leasing contracts (see note no. 21).

The ratio between operating costs, and the mediation margin fell to 91% from 105.7% in the previous period, hence the gross operating margin went positive again, rising to 12 million from - 6 million Euro for the financial year 2013.

The above-mentioned gross operating margin was not enough to cover the substantial adjustments and provisions made in the year under review: in particular, the value adjustments on credits (including provisions for guarantees and commitments) rose from 74 million to 129 million Euro, as a result of the combined effect of the worsening of the exposures' quality and the adoption of more prudent assessment policies. This increase is not distributed homogeneously across the system, as it is concentrated on some intermediaries in particular. The year under review also showed a conspicuous amount of value adjustments made on financial fixed assets, which reached 25 million from 8 million Euro of the previous year, mainly concerning interest on San Marino and foreign subsidiaries and, to a lesser extent, the securities held in the investment portfolio.

<sup>19</sup> The interest-bearing assets consist of net customer loans, inter-bank loans and debt securities, while interest-paying liabilities include debts with customers, debts with banks and debts represented by financial instruments (including subordinated liabilities).

<sup>20</sup> The average yield of interest-bearing assets at time  $t$  is calculated by comparing the sum of interest received on: customer loans, inter-bank loans and debt instruments referred to time  $t$ , with the arithmetic average of the interest-paying assets at time  $t$  and  $t-1$ . The average cost of interest-paying liabilities calculated by comparing the sum of the interest paid on: debts with customers, debts with banks and debts represented by financial instruments, referred to time  $t$ , with the arithmetic average of the interest-paying liabilities at time  $t$  and  $t-1$ .

<sup>21</sup> Indeed, the above-mentioned redemption determines, on the one hand, the recording of the residual capital under the "Other operating proceeds" item, and concurrently, on the other hand, a reduction in the value of the asset granted on finance lease through registration of the corresponding value adjustment on (tangible) fixed assets.



The net operating income is down by 143 million, worsening compared to 91 million Euro of the financial year 2013.

The extraordinary operating balance has a positive balance of 49 million Euro, due to Euro 53 million in extraordinary proceeds, mainly determined by the release to the profit and loss account of previously established funds as well as profits from the sale of securities classified in the investment portfolio and extraordinary costs amounting to 4 million Euro.





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

Reclassified profit and loss account	2012	2013	2014	Absolute var.	Var. %
1 - Interest received and other proceeds*	178	142	138	-4	-3.0%
2 - Interest paid and other costs	-105	-100	-94	5	5.2%
<b>A - Interest margin</b>	<b>73</b>	<b>43</b>	<b>44</b>	<b>1</b>	<b>2.1%</b>
3 - Commissions received	28	27	26	-1	-3.0%
4 - Commissions paid	-5	-5	-5	0	5.5%
5 - Other operating proceeds	26	29	52	23	78.3%
6 - Other operating costs	-1	0	0	0	13.0%
<b>B - Service revenues</b>	<b>48</b>	<b>51</b>	<b>73</b>	<b>22</b>	<b>43.7%</b>
7 - Dividends and other proceeds	1	3	2	-1	-38.1%
8 - Profits (losses) from financial operations	12	9	19	11	125.7%
<b>C - Mediation margin</b>	<b>134</b>	<b>105</b>	<b>138</b>	<b>33</b>	<b>31.2%</b>
9 - Administrative costs	-87	-77	-72	4	5.6%
10 - Value adjustments on intangible and tangible fixed assets	-31	-34	-53	-19	-54.7%
<b>D - Operating costs</b>	<b>-118</b>	<b>-111</b>	<b>-125</b>	<b>-14</b>	<b>-13.0%</b>
<b>E - Gross operating margin</b>	<b>16</b>	<b>-6</b>	<b>12</b>	<b>18</b>	<b>306.5%</b>
11 - Provisions for risks and costs	-35	-6	-4	2	36.1%
12 - Provisions to the credit risk funds	-7	-22	0	22	-100.0%
13 - Value adjustments on credits and provisions for guarantees and commitments	-275	-74	-129	-54	-73.3%
14 - Value recoveries on credits and provisions for guarantees and commitments	7	25	3	-22	-89.1%
15 - Value adjustments on financial fixed assets	-55	-8	-25	-17	-216.4%
16 - Value recoveries on financial fixed assets	0	0	0	0	
<b>F - Net operating income</b>	<b>-349</b>	<b>-91</b>	<b>-143</b>	<b>-52</b>	<b>-56.9%</b>
17 - Extraordinary proceeds	75	100	53	-47	-46.9%
18 - Extraordinary costs	-4	-52	-4	48	92.0%
<b>G - Gross operating margin of extraordinary operations</b>	<b>71</b>	<b>48</b>	<b>49</b>	<b>1</b>	<b>2.7%</b>
<b>H - Gross margin</b>	<b>-278</b>	<b>-43</b>	<b>-94</b>	<b>-51</b>	<b>-116.6%</b>
19 - Income taxes for the financial year	57	0	5	5	6825.0%
<b>I - Net result**</b>	<b>-221</b>	<b>-44</b>	<b>-89</b>	<b>-46</b>	<b>-105.4%</b>
20 - Variation to the fund for general banking risks	15	10	0	-11	-104.4%
<b>Operating results</b>	<b>-206</b>	<b>-33</b>	<b>-90</b>	<b>-57</b>	<b>-169.6%</b>

Notes: Figures in millions of Euro.

\* 2012 includes the interest related to the exposures referred to in the Restructuring Agreement of the debts of the Delta Group, rectified concurrently in the profit and loss account under item 13. This interest was not calculated in the following years.

\*\* Gross of the variations of the Fund for General Banking Risks.



**Tables 10 – Average interest rates on loans and collection**

	2012	2013	2014
Average interest rate on loans*	3.44%	3.00%	3.10%
Average interest rate on collection of savings*	1.92%	1.97%	1.85%
Spread	1.52%	1.03%	1.25%

Notes: \* Interest is calculated by considering loans net of value adjustments. The value referred to 2012 does not take into consideration the interest related to the exposures referred to in the Restructuring Agreement of the debts of the Delta Group, rectified concurrently in the profit and loss account under item 13.

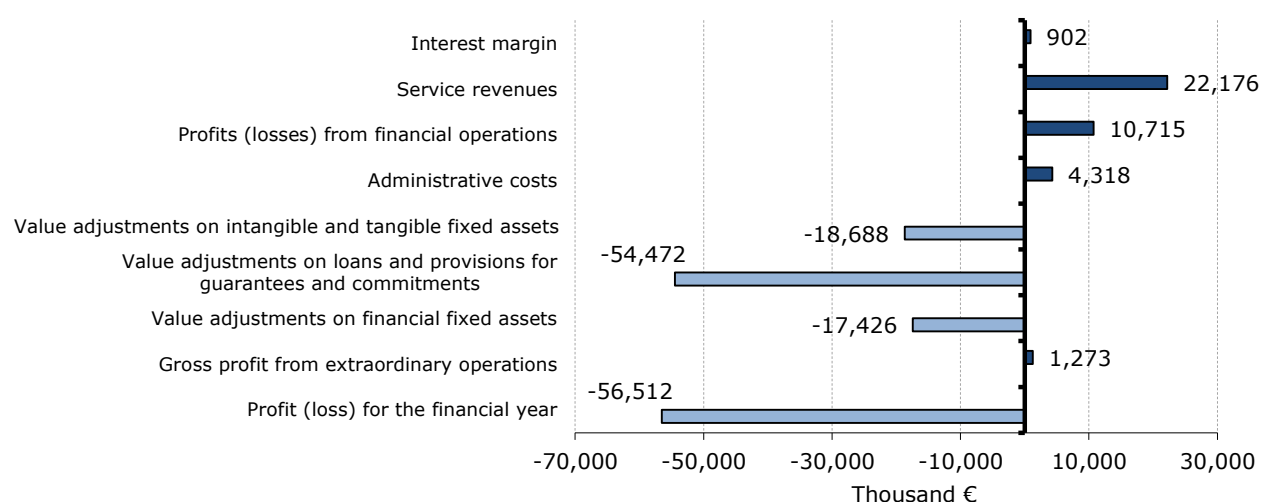
**Figure 11 – Contribution of the main profit and loss account items to the variation of the operating results between 2013 and 2014**

Figure 12 highlights the trend of the system operating results of the last 5 years.

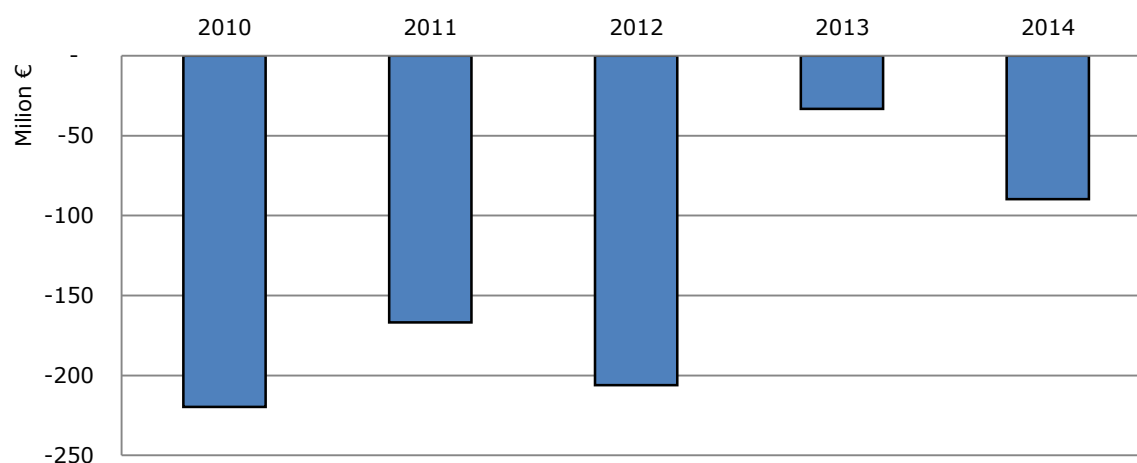
**Figure 12 - Losses**

Table 11 shows the main profitability, cost and efficiency indicators of the banking system, calculated for the three years 2012-2014. In this respect, as the profit and loss account registers a loss, the return of assets (ROA) shows, also in 2014, a negative value equal to -2.3% (-1.5% in 2013), and thus the return of assets to shareholders (equity), represented by the ROE (from -6.2% in 2013) is also negative and amounts to -16,8%. The ratio between interest margin and mediation margin, as an indicator of the contribution made by traditional activities to banking income decreased to 31.8% from the previous 40.9%. Given a stability of the ratio between interest margin and average assets (equal to 0.7%), there is an improvement in the impact of both the mediation margin and the gross operating margin on the afore-mentioned average total assets.

With reference to the cost and efficiency indicators, there is a decrease in both the average cost of staff, dropped from 75 thousand to 73 thousand Euro approximately, and on the impact of administrative costs per employee, which went from 125 thousand to 117 thousand Euro approximately. By contrast, operating costs per employee increased from approximately from 181 thousand to 202 thousand Euro, influenced by what has been highlighted earlier in relation to the early redemption of financial leasing contracts (which, however, had a positive effect on the mediation margin).

Both the mediation margin per employee and the gross operating margin per employee grew as compared to the previous year, amounting, respectively, to approximately 222 thousand and 20 thousand Euro. The average total funding per employee amounted to 11.8 million Euro, slightly decreased compared to the corresponding figure in 2013, equal to 11.9 million Euro. Average net customer loans per employee were reduced to 5.7 million from 6.1 million Euro in the previous year.

Finally, the Cost-Income Ratio efficiency indicator, which relates the structural cost (operating costs) to the result of the characteristic activity of the bank (mediation margin), shows a decrease to 91% (from the previous 105.7%), indicating, in short, despite the improvement, the system's inability to produce adequate flows of income to cover structural costs.



**Table 11 - Main profitability, cost and efficiency indicators**

	2012*	2013	2014
<b>Profitability indicators</b>			
Return on Average Assets (ROA)**	-5.4%	-1.5%	-2.3%
Return on Average Equity (ROE)***	-36.0%	-6.2%	-16.8%
Interest received/Interest-bearing assets	3.2%	2.8%	2.8%
Interest paid/Interest-paying liabilities	2.0%	1.9%	1.8%
Interest margin/Mediation margin	54.4%	40.9%	31.8%
Interest margin/Total assets	1.2%	0.7%	0.7%
Mediation margin/Total assets	2.1%	1.7%	2.3%
Gross operating margin/Total assets	0.2%	-0.1%	0.2%
<b>Cost and efficiency indicators</b>			
Labour costs/number of employees ( <i>Thousand €</i> )	79.4	75.1	72.8
Administrative costs per employee ( <i>Thousand €</i> )	138.2	125.0	116.7
Operating costs per employee ( <i>Thousand €</i> )	188.3	180.6	201.9
Mediation margin per employee ( <i>Thousand €</i> )	213.6	170.9	221.8
Gross operating margin per employee ( <i>Thousand €</i> )	25.3	-9.8	19.9
Total funding per employee ( <i>Thousand €</i> )	12,027	11,916	11,785
Net loans to customers per employee ( <i>Thousand €</i> )	5,850	6,131	5,653
Cost-Income Ratio (operating costs on mediation margin)	88.2%	105.7%	91.0%
Value adjustments on credits/Gross customer loans	6.6%	1.7%	3.2%

Notes: \* 2012 includes the interest related to the exposures referred to in the Restructuring Agreement of the debts of the Delta Group, rectified concurrently in the profit and loss account under item 13. This interest was not calculated in the following years.

\*\* Calculated as the ratio between net operating income and average total assets.

\*\*\* Calculated as the ratio between operating results and average net equity.

Indices are calculated based on the average figures for the period.

### 1.1.9 Liquidity

The liquidity risk<sup>22</sup> in the San Marino banking system continues to be constantly monitored by the Central Bank through the use of appropriate reports transmitted on a weekly basis by individual intermediaries, which allow for a review, with regards to each bank and obviously at the system level, of the performance of liquid assets that can be used to tackle any unexpected requests for repayment by the depositors (so-called *funding risk*), as well as the existence of *mismatching* due to maturity of assets and liabilities. These reports allow for the analysis, as well as of the profiles described above, also of the degree of deposit concentration, the relevant breakdown by geographic area of residence of customers, as well as the quality and characteristics of financial instruments held in the portfolio, to assess the so-called *liquidity risk*.

The liquidity available within 7 days<sup>23</sup> continued to grow in the year under review, as a confirmation of the positive trend in this component that can be used to cover sudden outflows, reaching, by the end of 2014, the amount of 1,092 million Euro, with an increase of 31.9%

<sup>22</sup> Liquidity risk is articulated essentially into two forms: *funding risk* and *liquidity risk*. The *funding risk* is connected to the risk that the bank may not be able to cope in an efficient way, without jeopardising its activity and its financial balance, with unexpected outflows (for example sudden and high request for the repayment of deposits or disbursement of funds for credit facilities granted); the *liquidity risk* is the risk that a bank, in order to monetise a substantial position in financial activities, ends up influencing its price significantly and unfavourably, due to the insufficient depth of the financial market in which these assets are traded.

<sup>23</sup> The liquidity available is calculated as the sum of the assets that may be liquidated within 7 days (cash and free financial instruments) and of inter-bank loans net of debts with bank (again, due and payable within 7 days). San Marino interbank relations are excluded from the calculation.

compared to the same period in 2013 (828 million Euro). This value is equal to 53% of total demand deposits of existing customers at the end of the year under review (see Figure 13).

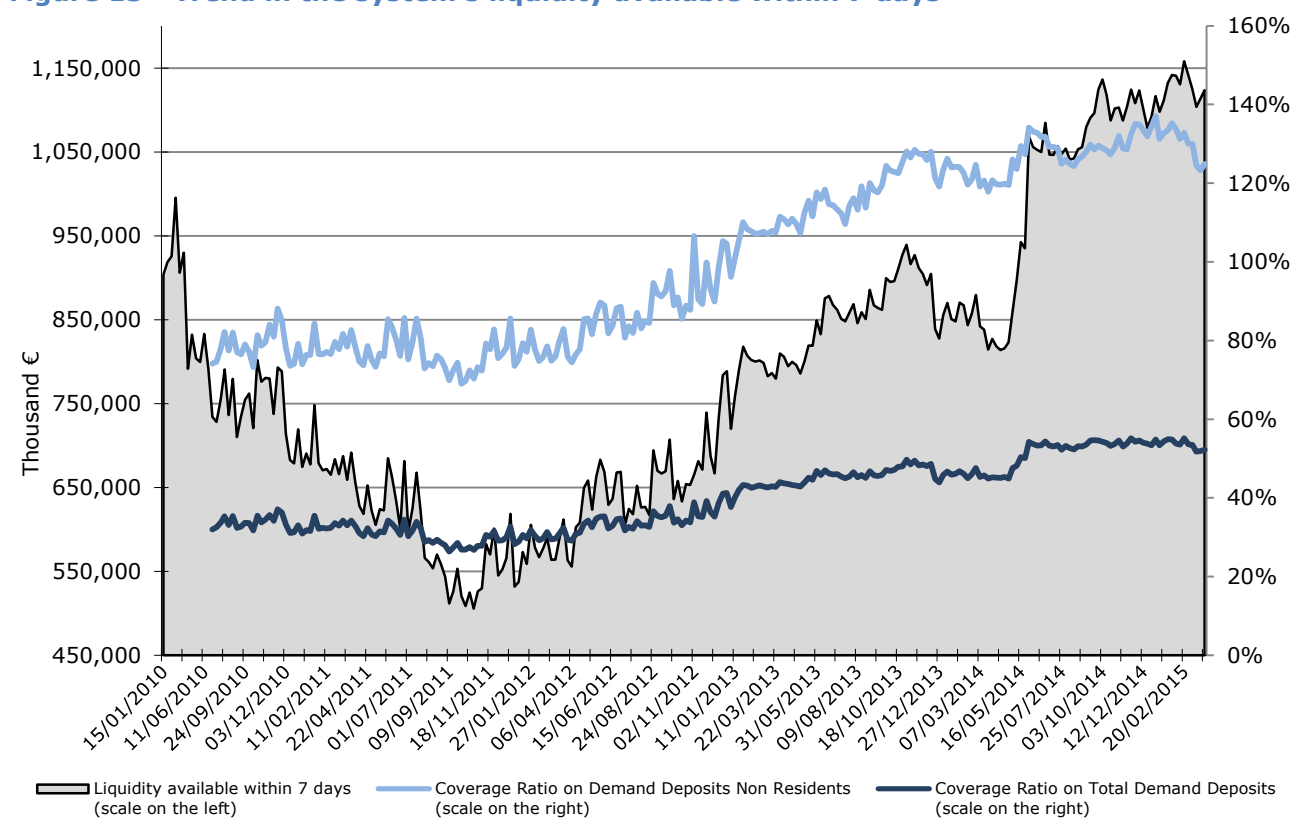
An examination of the aforementioned Figure shows that during the period April/May 2014 there was a significant increase in the liquidity available in 7 days, of approximately 250 million Euro. This increase was partly due to the cash and cash equivalents generated by former financial companies, now under liquidation, of the Delta group, which were channelled, following the conclusion of the extraordinary administration proceedings of Delta S.p.A., with a San Marino bank in the technical form of customer deposits.

An increase in liquidity available in 7 days is also reflected in the average values for the period: during 2014, the average aggregate was equal to 990 million Euro, with a maximum peak of 1,137 million Euro reached in October of the year under review. As is evident in Figure 13, overall, system liquidity stood at levels that were significantly higher than those recorded in early 2010, during the end phase of the tax shield ter.

The first quarter of 2015 confirms the positive trend, with the average value of liquidity available in 7 days increased to 1,126 million Euro and the maximum value increased to 1,158 million Euro.

At the end of 2014, the impact of liquidity available in 7 days on demand deposits referable to non-resident customers (so-called *coverage ratio*), which measure the ability to cope with possible outflows of sight deposits, was equal to 134.4%, having increased from 119.1% registered at the end of 2013. At the end of 2014, the *coverage ratio* on demand deposits referred solely to Italian customers amounts to 168% against 143.5% of the previous year.

**Figure 13 - Trend in the system's liquidity available within 7 days**



### 1.1.10 Data in the banking system concerning the use of cash

In the San Marino banking system, we find confirmation of the downward trend already recorded in previous years in customers' use of cash.

This decrease is confirmed by the turnover indicator of cash (obtained by comparing the sum of withdrawals at the counter, withdrawals at ATMs and deposits at the counter, compared to the total debts with customers), which has decreased values from 11.6% in the fourth quarter of 2013 to 9.1% in the same period in 2014. The decrease in the indicator is determined by the combined effect of the drop in the withdrawals and deposits and the increase in debts with customers.

**Table 12 - Cash movements**

Withdrawals and deposits	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
Withdrawals	125,778	130,519	131,542	136,093	116,609	117,292	114,765	120,944
<i>of which withdrawals at counters</i>	21,194	23,761	26,544	23,821	22,851	25,356	26,897	25,004
Deposits	103,563	107,566	118,385	102,353	90,211	89,957	100,446	89,090

Notes: Figures in thousands of Euro.

Specifically, during 2014, withdrawals of cash decreased by 54 million Euro, while cash deposits during the same period were reduced by 62 million Euro. In the year under review, the total withdrawals amounted to 470 million Euro, 100 million Euro of which were made through ATMs (up from 95 million in 2013), against deposits that, in the same period, amounted to 370 million Euro.

An examination of Figure 14 shows, on the one hand, the convergence, evident now for some years, between the values of withdrawals and cash deposits and, on the other hand, the decrease in the value of both aggregates. A marked correspondence is also observed, as from the last quarter of 2012, between withdrawals at the counter and deposits, with the difference between the total value of withdrawals and that of deposits explained by the value of "ATM withdrawals". These trends are also affected by the cash provision policies adopted by the Central Bank.

**Figure 14– Quarterly trend of withdrawals and deposits**

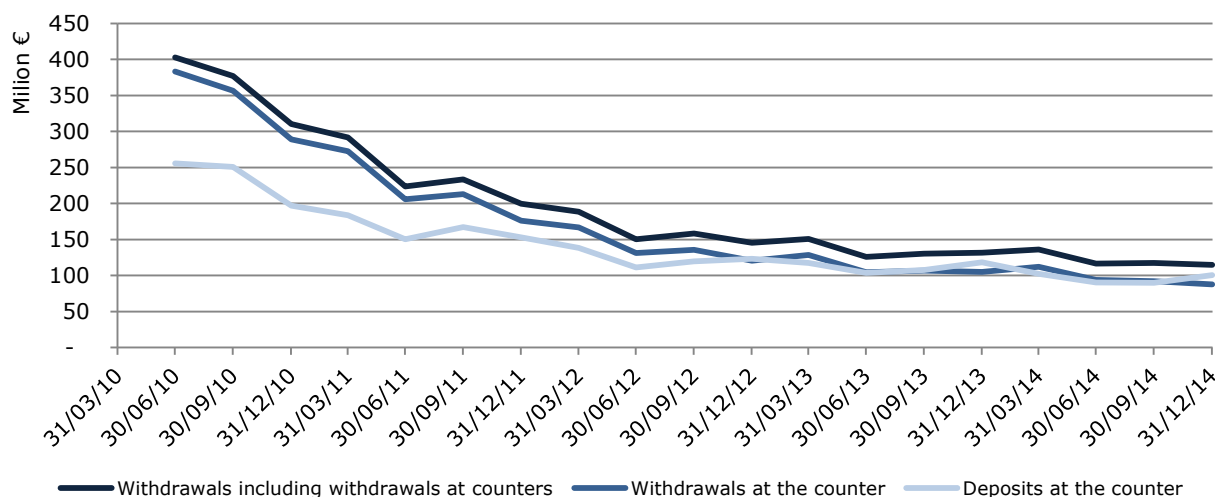


Table 13 summarises the trend in withdrawals and cash deposits made at bank counters from 1 January 2013 to 31 December 2014<sup>24</sup>. The analyses do not include transactions via ATMs as it is not possible to determine the residence and sector for transactions made via cards issued by parties other than the reporting party.

**Table 13 - Cash movements at bank counters (excluding ATMs)**

Withdrawals according to residence	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>
- of which residents in San Marino	67,365	69,638	68,789	73,038	60,472	60,651	57,445	61,659
- of which residents in Italy	35,259	34,538	33,512	36,834	30,962	29,026	28,258	32,028
- of which, resident in the EU Area excluding Italy	313	616	613	635	342	845	785	761
- of which residents in the Rest of the World	1,647	1,967	2,085	1,766	1,983	1,414	1,380	1,492

Notes: Figures in thousands of Euro.

Withdrawals by business sector	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>
- of which Public Administrations	451	125	112	188	163	133	107	220
- of which Non-banking financial undertakings	1,776	2,054	1,612	1,726	1,359	1,145	1,001	1,157
- of which Non-financial undertakings	15,215	15,733	14,635	14,976	12,714	11,869	10,715	11,776
- of which Households	86,604	88,359	87,915	94,813	79,045	78,209	75,576	82,274
- of which Other	538	488	725	570	477	579	469	513

Notes: Figures in thousands of Euro.

Deposits according to residence	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>
- of which residents in San Marino	87,340	93,015	104,695	89,170	78,773	80,735	90,125	80,517
- of which residents in Italy	14,821	13,361	12,293	12,072	10,471	8,525	9,697	7,906
- of which, resident in the EU Area excluding Italy	137	225	215	91	91	339	136	160
- of which residents in the Rest of the World	1,265	965	1,182	1,019	876	358	488	507

Notes: Figures in thousands of Euro.

Payments by business sector	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>
- of which Public Administrations	2,099	3,582	4,857	4,117	4,034	4,316	4,539	4,691
- of which Non-banking financial undertakings	3,879	3,558	2,586	1,589	1,364	1,578	1,143	2,195
- of which Non-financial undertakings	50,927	51,926	57,482	52,790	45,107	46,702	52,151	48,876
- of which Households	45,897	47,776	52,596	43,124	38,970	36,613	41,828	32,635
- of which Other	760	724	865	733	736	747	785	693

Notes: Figures in thousands of Euro.

<sup>24</sup> When analysing the data broken down according to customers' residence, it should be noted that transactions carried out by San Marino fiduciary companies on behalf of non-resident parties have been recorded as counterparties residing in San Marino.





From a review of the percentage breakdown of cash flows by business sectors, represented in Table 14, we note that, with regard to withdrawals, 2014 saw an increase of the portion relating to households, which grew from 83.5% to 85.3% and compensates for the decrease registered in the sectors of financial undertakings (excluding banks) and non-financial undertakings, which dropped, respectively, from 1.7% to 1.3% and from 14.1% to 12.7%. With regard to cash deposits, it should be noted, inter alia, that there was an increase in the portion allocated to non-financial undertakings from 49.3% to 52.2% and public administrations from 3.4% to 4.8%, and a decrease in the portion concerning households, which dropped from 43.9% to 40.6%, in line with the trend of previous years.

**Table 14 - Percentage breakdown of flows by business sector (excluding ATMs)**

Percentage of the withdrawals by business sector	2013	2014
<b>Withdrawals at the counter</b>		
- Public Administrations	0.2%	0.2%
- Non-banking financial undertakings	1.7%	1.3%
- Non-financial undertakings	14.1%	12.7%
- Households	83.5%	85.3%
- Other	0.5%	0.6%

Percentage of payments by business sector	2013	2014
<b>Deposits at the counter</b>		
- Public Administrations	3.4%	4.8%
- Non-banking financial undertakings	2.7%	1.7%
- Non-financial undertakings	49.3%	52.2%
- Households	43.9%	40.6%
- Other	0.7%	0.8%

A review of the breakdown by business sectors (Table 15) confirms the drop in cash withdrawals by households resident in Italy from 139 million Euro in 2013 to 119 million Euro in 2014 (-14.1%).

An even more marked drop is observed with respect to cash deposits by households resident in Italy, decreased by 42.2% on an annual basis. Cash deposits by households resident in San Marino, although decreased, register a more contained drop, equal to 15.1%.

**Table 15 - Breakdown of flows by residence and business sector (excluding ATMs)**

Withdrawals by business sector and residence	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>104,584</b>	<b>106,758</b>	<b>104,999</b>	<b>112,272</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>
<b>- of which Households</b>	<b>86,604</b>	<b>88,359</b>	<b>87,915</b>	<b>94,813</b>	<b>79,045</b>	<b>78,209</b>	<b>75,576</b>	<b>82,274</b>
- of which residents in San Marino	50,606	52,576	52,960	56,709	46,861	47,778	45,961	49,025
- of which residents in Italy	34,920	34,218	33,167	36,461	30,640	28,793	28,012	31,740
- of which, resident in the EU Area excluding Italy	291	598	556	596	332	766	733	676
- of which residents in the Rest of the World	787	967	1,233	1,047	1,212	873	871	832
<b>- of which Non-financial undertakings</b>	<b>15,215</b>	<b>15,733</b>	<b>14,635</b>	<b>14,976</b>	<b>12,714</b>	<b>11,869</b>	<b>10,715</b>	<b>11,776</b>
- of which residents in San Marino	14,162	14,499	13,611	13,961	11,826	11,114	9,978	10,809

Notes: Figures in thousands of Euro.

Payments by business sector and residence	2013				2014			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>103,563</b>	<b>107,566</b>	<b>118,385</b>	<b>102,353</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>
<b>- of which Households</b>	<b>45,897</b>	<b>47,776</b>	<b>52,596</b>	<b>43,124</b>	<b>38,970</b>	<b>36,613</b>	<b>41,828</b>	<b>32,635</b>
- of which residents in San Marino	33,821	36,588	42,369	33,347	30,622	30,849	35,018	27,599
- of which residents in Italy	11,603	10,591	9,457	9,220	7,699	5,205	6,298	4,434
- of which, resident in the EU Area excluding Italy	124	198	211	87	82	307	129	127
- of which residents in the Rest of the World	349	399	559	470	567	253	384	475
<b>- of which Non-financial undertakings</b>	<b>50,927</b>	<b>51,926</b>	<b>57,482</b>	<b>52,790</b>	<b>45,107</b>	<b>46,702</b>	<b>52,151</b>	<b>48,876</b>
- of which residents in San Marino	47,295	48,877	54,033	49,419	42,049	43,292	48,651	45,370

Notes: Figures in thousands of Euro.

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

### 1.2.1 Size and structure of the system

At the end of 2014, the segment referring to financial/fiduciary companies and investment companies consisted of 11 operators, namely 10 financial/fiduciary companies and 1 investment company. Among these operators, from August 2013, one financial company no longer operated in the reserved activities pursuant to D) K) and L) referred to under Annex 1 of LISF, continuing with loan granting activities and fiduciary activities in respect of existing customers pending the complete transfer and/or divestment of existing accounts to other authorised parties (e.g. with reference to property leasing agreements and/or fiduciary mandate contracts etc.).

Compared to 2013, the number of operators decreased by 4 units, which included 3 operators that left the system between November and December 2014. Specifically, 1 operator relinquished all reserved activities, 1 operator left the system as a result of merger by incorporation into another authorised party, 1 operator was subjected to administrative compulsory liquidation proceedings and, finally, authorisation to practice all reserved activities was withdrawn from 1 long-time inactive operator.

The sector, whilst characterised also during 2014 by a drop in operating volumes and the number of employees - a trend that had already been shown since 2010 - registered a more contained decrease than that of 2013.



Total assets amounted to Euro 346 million, dropping by approximately 63 million Euro compared to the previous year (-15.4%) and the volume of gross loans amounted to Euro 351 million (-10.6% compared to 2013). The number of employees came down by 10 units to 54 against the 64 at the end of 2013, which represents 0.3% of all employees in the Republic of San Marino.

The main indicators are reported in the following Table.

**Table 16 - Main size indicators of the financial sector**

Indicators	2012	2013	2014
Number of operators	21	15	11
Total assets	721	409	346
Gross loans*	734	392	351
Fiduciary activities	414	381	349
Number of employees	83	64	54
% Employees on total employees	0.4	0.3	0.3
Total assets /GDP**	0.5	0.3	0.3

Source: IT, Technology, Data and Statistics Office for total number of employees; Labour Office for number of employees of the Financial-Fiduciary Companies and Investment Companies segment.

Notes: Figures in millions of Euro.

\* The item includes the amounts relating to the financial leasing transactions and is represented gross of the value adjustments made on loans.

\*\* Please see note Table 3 on the updating of the GDP data.

At the end of the first quarter of 2015, the number of financial/fiduciary companies and investment companies remained unchanged. However, in April 2015, one financial/fiduciary company left the system following a disciplinary measure (administrative compulsory liquidation measure of 23/04/2015).

### **1.2.2 Assets and liabilities**

In 2014, the value of net loans (including financial leasing transactions<sup>25</sup>) went from 365 million Euro to 322 million, with a reduction of 42 million, equivalent in terms of percentage to 11.6% (Table 17)<sup>26</sup>. The contraction is primarily attributable to financial leasing transactions, amounting to about 38 million Euro, referring to both assets pending leasing, decreased from 110 million to 88 million Euro (-19.3%), and leased assets, which went from 200 million to 183 million (-8.7%).

The total net loans included tied-up loans, amounting to 36.9 million Euro, which increased by 3.5 million (+10.6%), and loans re-included in current assets, equal to 14.3 million, which decrease by 7.5 million Euro (-34.3%).

The downward trend is also evident in the further components of the assets: the securities of the unrestricted portfolio and those of the investment portfolio amounted to 14 million Euro, compared to 15.5 million Euro in the previous year (-9,6%), the holdings were substantially reduced from the previous amount of 10.5 million Euro as a result of the withdrawal of the significant interest held by a company that left the ranks of authorised parties and the tangible and intangible fixed assets, equal to 7.4 million Euro, decreased by 4.4% compared to 2013. Finally, the

<sup>25</sup> The loans item also includes the exposures referring to leased assets, which covered transactions recognised among the assets pending leasing, corresponding to items pending the initial leasing or relating to contracts terminated by the financial company.

<sup>26</sup> The net worth and profit and loss account data referring to the financial year 2013 underwent significant changes as compared to those given in the relevant Summary Report, following reporting adjustments of the 2013 financial statements data sent by some intermediaries to correct previous submissions.

other assets items (including cash and cash equivalents and accrued revenues and deferred expenses) decreased to 2.5 Euro million from the previous 10.9 million.

As regards liabilities, there is a reduction in total debt of 34 million (-10.3%), with a figure at the end of 2014 amounting to 293 million Euro. In particular, the short-term debts dropped from 302 million to 233 million Euro (-69 million Euro, equal to -22.7%), mainly determined by the reduction in debts with banks, which went from 274 million to 220 million Euro (-19.7%), due to the extension of the maturity of an existing loan related to a financial company. This operation had an impact on the increase in medium/long-term debts, which grew from 24.9 million to 59.9 million Euro, more than compensating for the decrease resulting from the redemption of two subordinated loans for the total amount of 15 million Euro.

A review of the composition of debt reveals that recourse to short and medium- to long-term loans from banks and financial institutions was confirmed as the main source of funding for the segment, amounting to 270 million Euro, equal to 92.1% of total debts. The rest of the debt is mainly due to bonds (9.5 million Euro, with a weight of 3.2%) and "Other debts" (11 million Euro, amounting to 3.8%).

The net equity decreased by 32.3 million, reaching 48.9 million Euro (-39.7%), due to the decrease in the number of operators in the sector, which resulted in a net reduction in capital of 23.8 million and, with regard to existing companies, mainly due to losses for the period.

The aggregate "Other liabilities items" amounted to 4.4 million, highlighting an increase by 2.7 million, due substantially to the increase in the "Provisions with special uses" item.

**Table 17 - Aggregate balance sheet for the financial/fiduciary companies and investment companies' sector**

Assets	2013	2014	Var. %	Liabilities	2013	2014	Var. %
Fixed assets	7.8	7.4	-4.4%	Short-term debts	301.7	233.2	-22.7%
				<i>of which: with banks and</i>	273.6	219.8	-19.7%
Total loans*	364.7	322.3	-11.6%	<i>financial institutions</i>			
<i>of which: leasing</i>	200.0	182.6	-8.7%				
<i>of which: assets pending</i>	109.6	88.5	-19.3%	Medium/long-term debts	24.9	59.9	140.3%
<i>leasing</i>				<i>of which: with banks and</i>	0.4	50.2	
Securities	15.5	14.0	-9.6%	<i>financial institutions</i>			
Holdings	10.5	0.0	-99.9%	Other liabilities items	1.7	4.4	162.5%
Other assets items	10.9	2.5	-76.6%	Net equity**	81.1	48.9	-39.7%
<b>Total assets</b>	<b>409.3</b>	<b>346.3</b>	<b>-15.4%</b>	<b>Total liabilities</b>	<b>409.3</b>	<b>346.3</b>	<b>-15.4%</b>

Notes: Figures in millions of Euro.

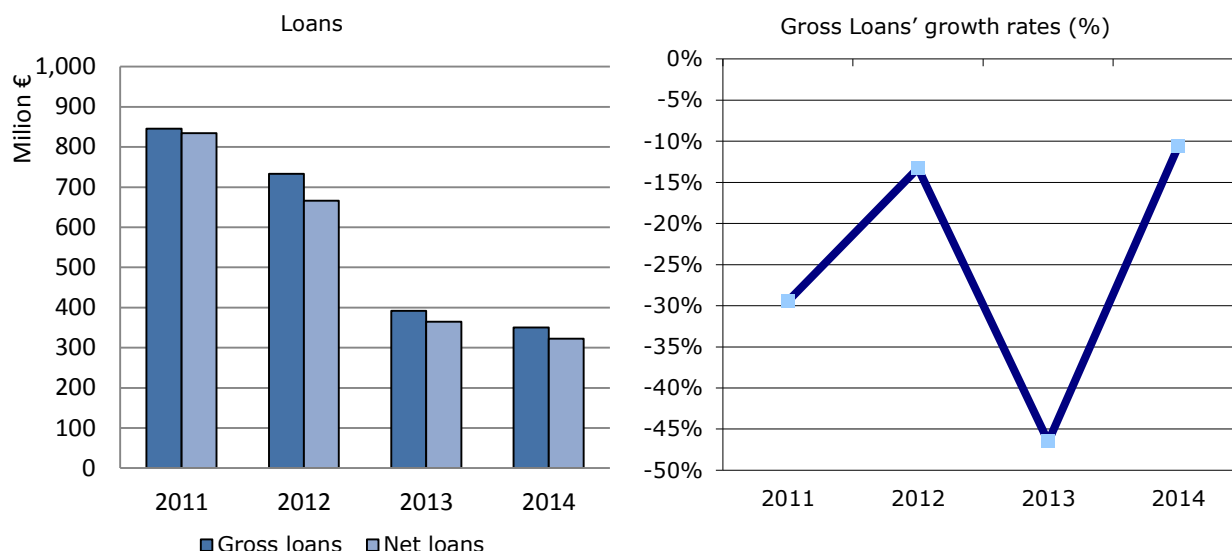
\* Includes assets under leasing and assets pending leasing; the values are net of the adjustment provisions.

\*\* It includes the profit/loss for the period and the general financial risk fund.

Gross loans, including financial leasing transactions (Figure 15), reach 351 million, registering a decrease of 42 million Euro (-10.6%) mostly due to the above-mentioned dynamics of the financial lease segment.



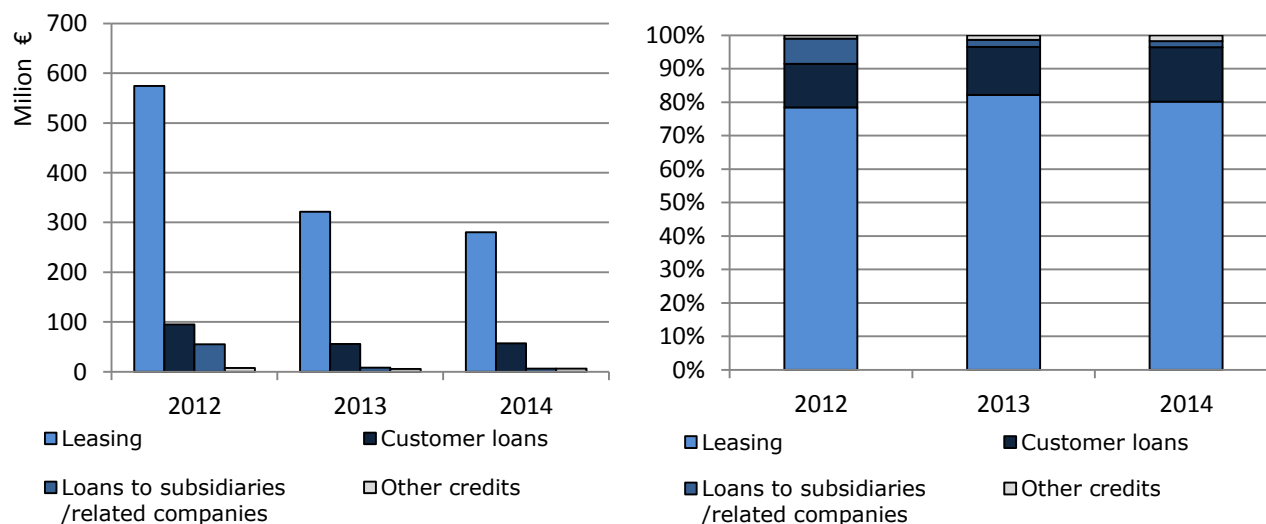
**Figure 15 - Loans for the financial/fiduciary companies sector**



The breakdown of gross loans by technical form (Figure 16) shows how the component attributable to finance lease is still largely predominant, amounting to 280 million Euro, although decreasing by 12.8% compared to 2013. With regard to the other main components, short and medium-long term customer loans amount to 56.9 million Euro, with a 1.7% increase, the credits towards associated undertakings amount 6.5 million Euro, with a 23.1% decrease and, finally, the "Other Credits" item, equal to 6.1 million Euro, registered a 13.4% increase.

As regards the impact of the afore-mentioned technical forms on the amount of gross loans, it is noted that the credits deriving from financial leasing transactions represent 79.9% of the total, decreased from 82% of the previous year, customer loans increase their weight by 14.3% to 16.2% as well as the "Other Credits", which go from 1.4% to 1.7% and finally, the credits towards associated undertakings reduce their impact from 2.1% to 1.9%.

**Figure 16 - Composition of gross loans by technical forms**



The impact of gross doubtful loans<sup>27</sup> on the total loans rose from 27.6% to 33.7% (Table 18). This increase suffers from the general economic trend and the Supervision action aimed at a

<sup>27</sup> The data relating to doubtful loans are found in the prospectuses supplementing the financial statements report.

more accurate classification of loans, implemented through inspections and documentary checks. In particular, there is a change in the composition of impaired loans, with an increase in non-performing positions and a decrease in substandard positions.

The amount of gross non-performing loans amounted to 63 million Euro, approximately 18% of loans gross of adjustments.

The risk provisions for loans amounted to 28.3 million<sup>28</sup>, with a slight variation compared to the value recorded in the previous financial year (+2.6%).

**Table 18 - Doubtful loans/Loans (gross figures)**

Indicators	2013	2014
Doubtful loans/Loans	27.6%	33.7%

### **1.2.3 Fiduciary activities**

As at 31 December 2014, nine companies were operating in fiduciary administration activities, with a total amount of 349 million Euro, showing, compared to the figure at the end of 2013, a decrease of 33 million Euro (-8.5%). This volume represents 70.8% of total fiduciary activities, noting that the remainder (29.2%) is managed by credit institutions (see Paragraph 1.1.6).

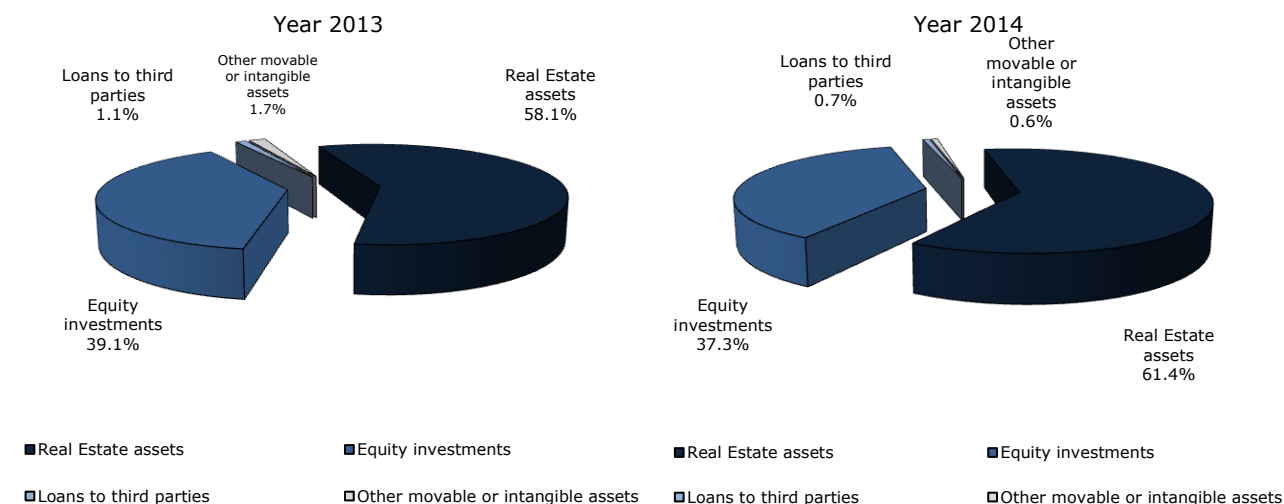
With reference to the breakdown of fiduciary activities by technical form (Figure 17), there is a prevalence of values attributed to the fiduciary administration of Real Estate assets (type 1), which amounted to 214 million Euro, with a 61.4% impact on the total, although decreased by 7.3 million Euro compared to the previous year. The fiduciary administration of equity investments (type 2) summed up the figures at the end of 2014 reaching an amount of 130 million Euro, with a 37.3% impact on the total, also decreased compared to the previous year by 19.3 million Euro. The remaining two types (fiduciary loans to third parties and fiduciary administration of other movable or intangible assets) show figures under 1%.

The decrement in the figures is mainly explained by withdrawals for redemptions and cancellation of fiduciary mandates, in line with the trend for the restructuring of fiduciary activities, which has been ongoing for some years.

<sup>28</sup> The calculation of the loan-adjustment risk provisions includes provisions for the devaluation of exposures deriving from financial leasing transactions, of tied-up loans and of loans of current assets.

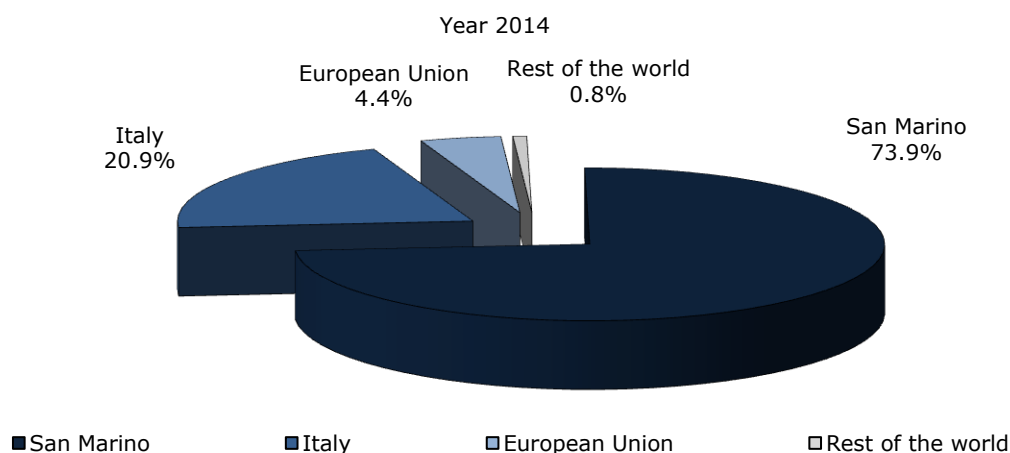


**Figure 17 - Composition of fiduciary activities by technical form**



The reclassification of the figures concerning the type 2 mandates called “Fiduciary administration of equity investments” by country of residence of the interest, shows a net prevalence of San Marino companies (73.9% of the total amount); Italy is the second country in terms of establishment of fiduciarily held companies (20.9%), whilst holdings in companies with registered office in other countries are marginal with a prevalence of EU countries, amounting to 4.4% of the total (Figure 18).

**Figure 18 - Fiduciary administration of equity investments– breakdown of value of units by country**



#### 1.2.4 The capital

The net equity of the system of financial and fiduciary companies and investment undertakings at the end of 2014 amounts to 48.9 million Euro, decreased by 32.3 million Euro compared to the previous year (-39.7%)<sup>29</sup>. Capital in the segment is constituted mainly by share

<sup>29</sup> The figure relating to the system capital referred to 2013 was reviewed upwards compared to that published in the “Report on the activities performed and on the performance of the financial system” of the year 2013, from 69.6



capital amounting to 50.4 Euro, ordinary reserve amounting to 1.5 million, extraordinary reserve amounting to 8.6 million, other reserves at 3.5 million Euro, losses carried forward amounting to 7.7 million and operating losses amounting to 7.9 million Euro.

The quoted exits from the system of some companies and the negative operating results have significantly affected the above-mentioned aggregate.

The ratio between capital and total assets dropped to 14.1% from the previous 19.8%.

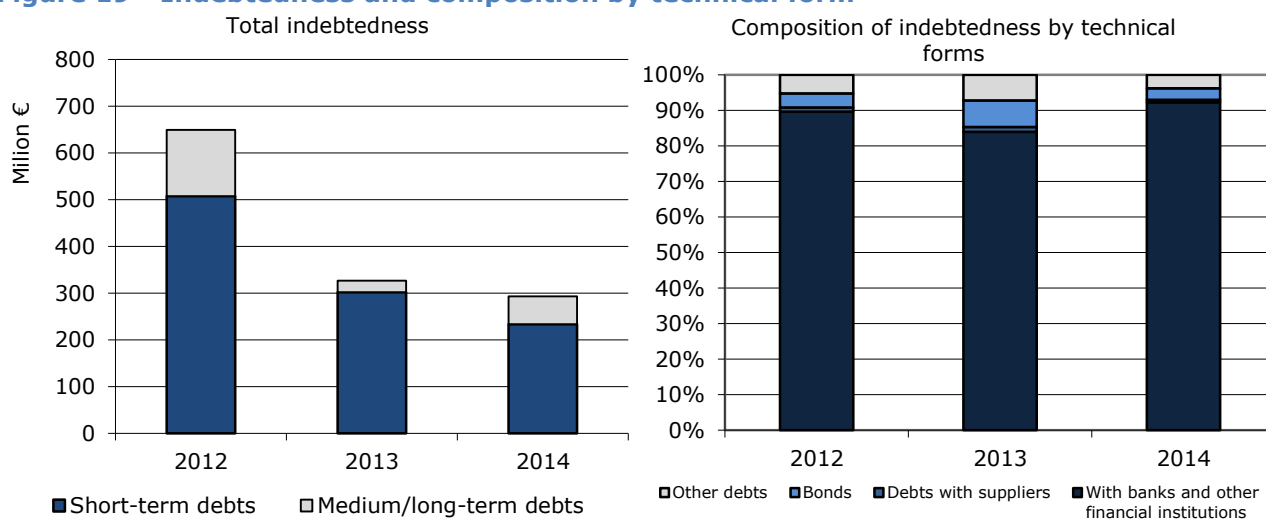
At the end of 2014, the consolidated regulatory capital of the segment amounts to 46.5 million Euro, indicating a decrease by 28.5 million Euro compared to the previous year (-38%), largely due to the same reasons affecting the change in net equity. In particular: the tier 1 capital registers a contraction of 28.3 million Euro (-39.5%), totalling 43.4 million Euro, the tier 2 capital appears to be more stable, amounting to 3.5 million from 3.7 million Euro of 2013 (-6.5%) and the total items to be deducted from the overall aggregate, amounting to 0.4 million, changed only slightly.

Credit risk-weighted assets decreased by 7.2%, and amount to 263.5 million Euro.

The overall dynamics described above determined a drop in the system *solvency* ratio from 26.4% to 17.6%. All financial companies, at the end of 2014, show, individually as well as on an aggregate basis, *solvency* values still greater than the minimum requirements of current regulations.

The ratios between regulatory capital/total assets and tier 1 capital/total assets amount to, respectively, 13.4% and 12.5%, decreased compared to the corresponding figures in 2013, amounting to 18.3% and 17.5%.

**Figure 19 - Indebtedness and composition by technical form**



### 1.2.5 Profitability and efficiency

The net operating results of the financial-fiduciary companies and investment companies segment recorded a reduction of 7.9 million, against a system net profit that, in 2013, amounted to approximately 14 million Euro<sup>30</sup>.

million to 81.1 million Euro, following receipt of the new data transmitted by some intermediaries, who sent reporting adjustments thus significantly changing the data supplied previously and already used to prepare the "Report".

<sup>30</sup> The operating results for the financial year 2013 was updated compared to the data in the "Summary report on the activities performed and on the performance of the financial system" concerning the afore-mentioned year 2013 for



The profit and loss account data, outlined below, are influenced by the decrease in the segment and mediated volumes occurring between 2013 and 2014.

An examination of the Reclassified Profit and Loss Account (Table 19) highlights a worsening of the mediation margin, which went from 10.7 million to 7.7 million Euro (-28%), influenced mainly by the drop in net interest margin, down to 5 million from the previous amount of 7.4 million Euro (-32.7%), due to a 7 million decrease in interest received, only in part offset by the reduction in interest paid by 4.6 million Euro. The trend in interest received is due primarily to the drop in interest on financial leasing transactions, due to the reduction of this technical form as already previously reported.

The decrease in income from services, which went from 3.2 million to 2.6 million Euro (-18.1%), relating primarily to the decrease in commissions received, also affected the variation of the mediation margin, although in a much less significant manner than the decrease in interest margin. Finally, the net profits from financial operations confirmed the value of the previous year, amounting to 0.1 million Euro.

Operating costs decreased by 2 million reaching 6.9 million Euro as a result of the decrease in value adjustments on intangible and tangible fixed assets, which went from 0.8 to 0.6 million Euro, and the decrease in administrative costs, which went from 8.1 million to 6.2 million Euro (-22.7%). The latter are mainly constituted by labour costs, which fell by 0.7 million Euro in view of the decrease in the number of employees by 10 units, and the costs for remunerations and consultancy fees, which also decreased by 0.7 million Euro.

The impact of operating costs on the mediation margin still went up to 88.8% from 83%, contributing to the decrease in gross operating margin, which went from 1.8 million to 0.9 million Euro (-52.8%).

The provisions and value adjustments amounted to 8.9 million Euro, increasing by 1.5 million Euro compared to 2013, being influenced by the increase in the devaluations on financial fixed assets (holdings). This component determines a negative net operating income of 8.1 million Euro, worsening as compared to the figure of -5.6 million Euro in 2013.

As mentioned earlier, the system of financial/fiduciary companies and of investment undertakings closed the financial year 2014 with an operating loss of 7.9 million Euro.

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the reasons expressed earlier. In particular, the profit and loss account entry under the "extraordinary proceeds" item for 2013 underwent a significant change associated with a transaction for the disposal of the assets and liabilities of a company to its parent company.

**Table 19 - Reclassified profit and loss account for the financial/fiduciary companies sector**

Reclassified profit and loss account	2013	2014	Absolute var. (2014-2013)	Var % (2014-2013)*
Interest received and other proceeds	16,599	9,584	-7,016	-42.3%
Interest paid and other costs	-9,188	-4,595	4,593	50.0%
<b>Interest margin</b>	<b>7,411</b>	<b>4,988</b>	<b>-2,423</b>	<b>-32.7%</b>
Commissions received	3,696	2,984	-712	-19.3%
Commissions paid	-169	-152	17	10.0%
other financial revenues/costs	-318	-205	113	35.7%
<b>Service revenues</b>	<b>3,209</b>	<b>2,628</b>	<b>-582</b>	<b>-18.1%</b>
Profits from financial operations	114	112	-3	-2.3%
Dividends and other proceeds	0	0	0	0.0%
<b>Mediation margin</b>	<b>10,735</b>	<b>7,727</b>	<b>-3,007</b>	<b>-28.0%</b>
Net administrative costs	-8,081	-6,245	1,836	22.7%
Value adjustments on intangible and tangible fixed assets	-827	-620	207	25.0%
<b>Operating costs</b>	<b>-8,908</b>	<b>-6,865</b>	<b>2,043</b>	<b>22.9%</b>
<b>Gross operating margin</b>	<b>1,826</b>	<b>862</b>	<b>-964</b>	<b>-52.8%</b>
Provisions and value adjustments	-7,446	-8,929	-1,482	-19.9%
<b>Net operating income</b>	<b>-5,620</b>	<b>-8,066</b>	<b>-2,446</b>	<b>-43.5%</b>
Extraordinary proceeds	21,379	949	-20,430	-95.6%
Extraordinary costs	-1,499	-712	787	52.5%
<b>Gross operating margin of extraordinary operations</b>	<b>19,880</b>	<b>237</b>	<b>-19,643</b>	<b>-98.8%</b>
<b>Gross margin</b>	<b>14,260</b>	<b>-7,829</b>	<b>-22,089</b>	<b>-154.9%</b>
Income taxes for the financial year	-272	-84	188	69.1%
<b>Operating results</b>	<b>13,988</b>	<b>-7,913</b>	<b>-21,901</b>	<b>-156.6%</b>

Notes: Figures in thousands of Euro.

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

The trends outlined above also affected the main profitability indicators: the ROA was -2.1% (from -1% in 2013), whilst the ROE went from 18.6% to -12.2%. As regards the efficiency profiles, administrative costs per employee went down from 126 thousand to approximately 116 thousand Euro, while the Cost-Income Ratio increased to 88.8% from 83% in the previous year (Table 20).

**Table 20 – Main profitability and efficiency indicators**

Indicators	2012	2013	2014
Return on Average Assets (ROA)*	-4.2%	-1.0%	-2.1%
Return on Average Equity (ROE)**	-32.0%	18.6%	-12.2%
Cost-Income Ratio***	44.4%	83.0%	88.8%
Administrative costs per employee****	62.8	126.3	115.6

Notes: \* Calculated as the ratio between net operating income and average total assets.

\*\* Calculated as the ratio between operating results and average net equity.

\*\*\* Calculated as the ratio between operating costs and mediation margin.

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



## **1.3 Rest of the system**

### **1.3.1 Management companies**

In 2014, the regulations governing collective investment services segment did not register significant changes, if not in certain parts concerning the honourability requirements of the shareholders and corporate officials, which were standardised to comply with those already provided for the banking sector with the issue of the more general Regulation n. 2014-05.

As regards the sector's structure, during the year, the number of authorised management companies remained stable and equal to 2 also in 2014. In the early months of the year, the Central Bank issued to one of the two management companies, which was up to that time qualified only to conduct the activity under letter F (non-traditional collective investment services), authorisation to operate also with reference to the reserved activities in D4 (management of financial instruments portfolios), D6 (placement of financial instruments with no irrevocable commitment) exclusively to units of funds own funds and in E (collective investment services) referred to in annex 1 to Law no. 165/2005.

During the final part of 2014, the Central Bank also received a new application - aimed at obtaining authorisations to carry out collective investment services - from a new management company. The application is still in the preliminary stage.

As regards the dynamics relating to the funds managed by the two MCs, at the end of the first half of 2014, the activation is reported of the first fund for the general public governed by San Marino law, with an investment policy in line with that provided for in the European Union for the so-called UCITS III funds and defined in Regulation no. 2006-03 in Chapter II, Title II of Part III. The fund, which adopts a flexible investment strategy, is regulated by the administrative regulations and by the information prospectus approved by the Central Bank in the early months of 2014 and prepared by the management company that was granted the above-mentioned extension of the authorisation to carry out collective investment services.

Taking into account the more recently activated, new and only fund intended for the general public operated under San Marino law, as well as the alternative mutual funds reserved for professional clients, which have already been active for a long time and whose number remained unchanged over the last year, at the end of 2014, a total of 16 mutual funds under San Marino law were managed by the two management companies. Out of these funds, 11 are alternative open-ended and reserved for professional customers, 1 is close-ended and also reserved for professional clients, 3 were set up - also pursuant to specific decree-laws - in the context of banking restructuring operations and are close-ended and held exclusively by San Marino banks and with investment mainly in impaired loans originating from banks, and finally 1 is open-ended and intended for the general public.

By the end of 2014, the net equity of the quoted 16 funds amounted to a total of 138.2 million Euro, compared to 132.2 million Euro in total at the end of 2013 (referring to the 15 funds of the time). The distribution of these managed volumes is rather inhomogeneous, as the volumes are mainly concentrated in the three closed-end funds reserved for San Marino banks that manage, as mentioned, largely non-performing loans resulting from a situation of banking crises. The net equity of the latter funds at the end of 2014 amounted to 116 million Euro, accounting for 84% of the volumes under consideration, confirming the growing focus registered over a number of years in the management companies segment for the management of assets other than financial instruments, non-performing loans, and the use of the instrument of the mutual fund as part of operations for the restructuring of the financial system. The assets under management referring to the remaining 13 funds were in fact limited in total, at the end of 2014, to 22.2 million Euro.

The marginal growth of managed assets in 2014 was also determined by rather divergent trends among the various types of managed products. Indeed, compared with an increase of about

22 million Euro in the three closed-end funds reserved for San Marino banks - determined by new provisions of non-performing loans arranged by the banks that invested in these funds during 2014 - there was also, in cumulative terms, a marked reduction of approximately 16 million Euro, connected to the redemptions of units, in the managed volumes included in the remaining 13 mutual funds.

Finally, it should be noted that also the supervisory activity on the management companies segment, taking into account the registered developments, was directed in particular to profiles relating to the management of the afore-mentioned three loan funds.

### **1.3.2 Insurance undertakings**

During the 2014 financial year, the two San Marino insurance undertakings continued their activities, working in synergy with the credit institutions of San Marino and the other intermediaries operating in the Republic.

The collection of premiums registered a decrease compared to the previous year. The gross premiums recorded in 2014 were around 76.5 million Euro, down by 33.7% compared to 2013.

As at 31 December 2014, the overall volume of the investments of insurance companies of San Marino is equal to approximately Euro 506.2 million.

During the year, the investments related to the class C<sup>31</sup>, whose risk is borne by the companies, increased from approximately 75.3 million Euro to approximately 98.1 million Euro (up by approximately 30.3%). In this regard, it should be noted that 75.7% of the total is invested in bonds and other debt securities.

At the end of the financial year 2014, the investments whose risk is borne by the insured, mainly connected to dedicated internal funds, amount to approximately 408.1 million Euro and registered a 5.7% increase during the financial year.

As regards the liabilities item, with reference to the technical reserves, they totalled approximately 501.6 million Euro as at 31 December 2014, with an overall increase of approximately 9.7% from the previous year.

Most of technical reserves (81.4%) referred to contracts, where performance was linked with dedicated internal fund and market indices, whereas the remaining 18.6% consisted of mathematical reserves and other Class C technical reserves that increased from 71.1 million Euro in 2013 to approximately 93.6 million Euro at the end of 2014.

As regards to costs related to accident claims, in 2014 they amounted, in aggregate, to approximately 51.4 million Euro, up by 113% compared with 24.1 million Euro registered in 2013.

From an economic management perspective, insurance companies recorded an aggregate profit of approximately 405 thousand Euro (compared to an aggregate loss of approximately 488 thousand Euro in 2013). The sixth year of operations<sup>32</sup> thus registered a positive economic result, with a consequent improvement in profitability compared with 2013; this was mainly due to the ordinary operating margin, which also determined an improvement of the ratio between gross operating margin and gross premiums recorded that went from -0.4% in 2013 to 0.5% in 2014.

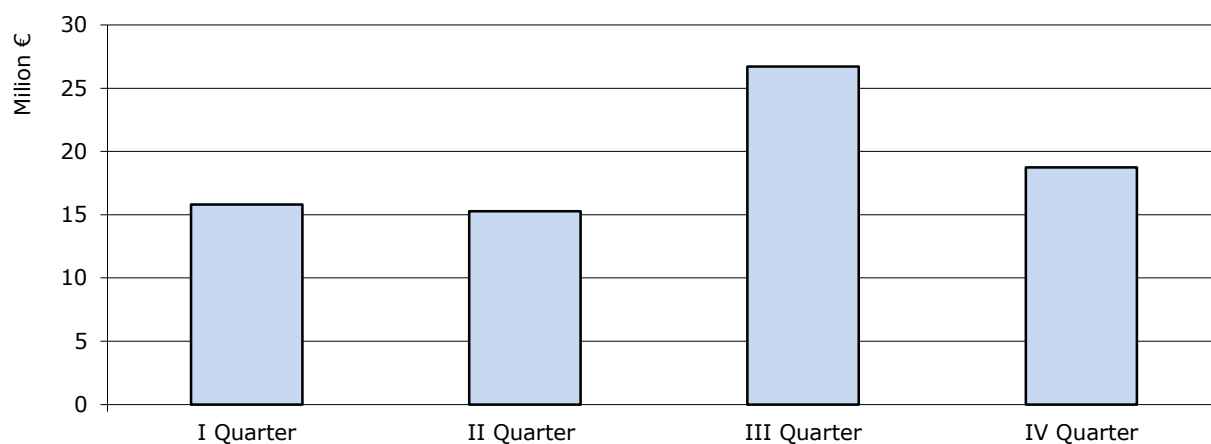
<sup>31</sup> Class C investments are related to real estate properties (lands and buildings) and financial investments in companies of the group and other subsidiaries as well as in other financial instruments (shares, investment funds units, bonds, etc.).

<sup>32</sup> Authorisation formalities for the two companies were completed in May 2009.

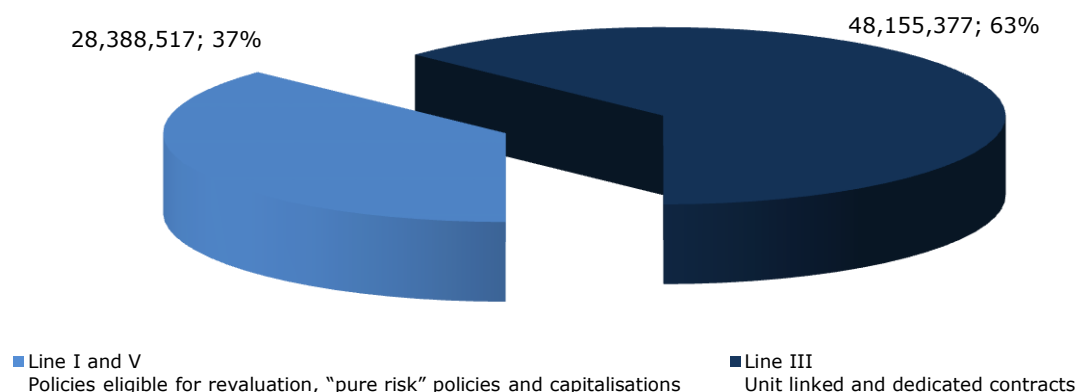


However, there was a worsening of the expense ratio efficiency indicator (ratio between operating expenses and gross premiums recorded) in 2014 coming in at 3.9% (around 2.7% in the 2013 financial year) due mainly to the reduction in recognised gross premiums detailed above.

**Figure 20 - Breakdown by quarter of the gross premiums recorded in 2014**



**Figure 21 - Breakdown by insurance branch relating to the gross premiums recorded in 2014**



### 1.3.3 Insurance and reinsurance intermediaries

At the end of 2014, an aggregate of 51 persons are registered in the Public Register of Insurance Intermediaries, divided into natural persons and sole proprietorships (10 persons), companies (27 persons) and banks and financial undertakings (14 persons).

The records in the Register as at 31 December 2014 are summarised in the Table below.

**Table 21 - Parties registered in the Register of insurance and reinsurance intermediaries**

	<b>Section A</b> Natural persons and sole proprietorships	<b>Section B</b> Companies	<b>Section C</b> Banks and financial undertakings	<b>Total</b>
Active	8	25	14	47
Suspended	2	2	0	4
<b>Total</b>	<b>10</b>	<b>27</b>	<b>14</b>	<b>51</b>

In 2014, there were 3 cancellations from the Register (2 of which related to previously suspended parties) and 3 new entries.

From the data supplied by the persons included in the Register, it emerged that the aggregate amount of the premiums mediated in 2014, with the exclusion of the funds collected on behalf of the two insurance undertakings incorporated in San Marino, was equal to approximately 43.5 million Euro, mainly concentrated on the non-life sector, remained unchanged compared with the total of premiums mediated in 2013.

#### **1.3.4 Cold-calling parties**

In January 2014, the Central Bank issued Regulation no. 2014-01 concerning financial promotion and cold-calling, with entry into force on 31 March 2014, whose main characteristics were illustrated in the 2013 Report by the Central Bank.

The public Register of Financial Promoters was established pursuant to Regulation no. 2014-01. This register includes a special section dedicated to employees of authorised parties engaged in cold-calling and was published on the Central Bank's website in July 2014 concurrently with the registration of the first cold-calling parties. The Register provides an element of transparency and protection for the general public, as it enables the acquisition of up-to-date information on natural persons - Financial Promoters or employees of financial intermediaries - authorised to carry out activities for the promotion and placement of financial instruments and investment services outside the registered office or not as employees of financial intermediaries.

In 2014, the Central Bank received 3 applications from 2 banks for enrolment as cold-calling parties of 58 employees in total. On the outcome of the investigation, aimed at verifying the existence of the honourability and professionalism requirements provided for by Regulation 2014-01, the Central Bank entered 17 employees in the Register of cold-calling parties suspended the authorisation process for 26 parties due to incomplete documentation and rejected the requests for inclusion concerning the remaining 15 employees.

Furthermore, at the end of 2014, only one (inactive) financial promoter was registered in the appropriate section of the register, whose registration had been arranged under Article 156, paragraph 5, of Law no. 165 of 17 November 2005 (LISF). At the beginning of 2015, upon request of a party, it was cancelled from the register.

The first quarter of 2015 saw the end of the investigation concerning the 26 employees of banks whose applications had been suspended in 2014 due to a lack of documentation, with the registration of 15 people and the withdrawal of the requests concerning the remaining 11 parties. Moreover, also in the early months of 2015, the Central Bank received two new applications, one concerning the enrolment in the Register of Financial Promoters, rejected because it lacked the requirements provided for by legislation and one submitted by an authorised party - also of the banking sector - aimed at the enrolment in the register of 9 of its employees, whose authorisation process is still in progress. For the purpose of providing complete information, it is reported that, also in the first quarter of 2015, a request was also accepted for removal from the register of an



authorised party's employee. Therefore, as at 31 March 2015, 31 employees of authorised parties and no promoter were enrolled in the register.





## 2 THE INSTITUTIONAL FUNCTIONS

### 2.1 The Supervision and protection of investors

#### 2.1.1 Supervisory policy

During 2014, a supervisory approach developed along four main lines of action:

- the consolidation of the positive acknowledgements achieved in international cooperation, for the purposes of a complete standardization of the banking and financial system in terms of supervisory regulations and operational practices. The contributions provided by the Central Bank in the bilateral (primarily with Italy) and multilateral meetings contributed to the achievement of important goals for the country system, such as the entry into force of the agreement on financial cooperation with Italy, admission to the Italian white lists on tax and anti-money laundering, and accession to the group of *early adopters* within the framework of the OECD;
- attainment of clear guidelines for documentary control and inspection activities, also notified to the intermediaries on several occasions for discussion during the period under consideration. They register, in particular, the requalification of periodic information requirement for banks, the launch of three inspection cycles aimed to verify – respectively – compliance with corporate book-keeping obligations, the timely implementation of the regulatory and contractual provisions concerning the transfer of payment transactions to and from the SEPA area, and the analysis of the quality of loans. In this latter regard, in line with the recommendations of the International Monetary Fund, in the early months of 2015, we acquired the company documentation that governs credit risk management and control procedures jointly with the statistical data on the most significant credit lines or granted to related parties (members, officials, and parties related to these);
- the strengthening of the controls designed to protect the country's financial stability also through the implementation of systemic projects. The first project concerns the Central Credit Register of San Marino, which will finally enable credit operators to thoroughly evaluate the risk level of borrowers, especially non-residents. This is a project whose functional analysis was started in November 2014, and which will lay the foundations for a complete and transparent integration with other markets, taking into account the possibility of exchanging, on a reciprocal basis, information on credit risks also with foreign Central Credit Registers, facilitating a more accurate evaluation of the risk level by both operators and supervisory Authorities. The second systemic project pertains to the constitution and authorisation of a payment institution capable of acquiring and managing the licenses required to issue San Marino payment cards, currently placed by foreign operators. Both cases saw the establishment of Central Bank-ABS-ASSOFIN joint technical committees, which discuss the technical-regulatory profiles connected with the two initiatives;
- the promotion of a regulatory supervisory framework facilitating both the development of the financial market and compliance with the requirements for safety, transparency and compatibility with its international commitments, starting from the Monetary Agreement signed in 2012 with the European Union.

From a more general point of view, it is necessary for the comparison between institutions and operators to become a standard working method, capable of laying the foundations for an effective requalification of the San Marino banking and financial sector, overcoming the endemic divisions among intermediaries in terms of outlook that affect the successful outcome of system-related initiatives.

For example, the high number of non-performing loans and significant real estate assets accumulated against credit recovery, should facilitate the establishment of special vehicles (such as



real estate funds) specialised in the management and valorisation of these assets, overcoming the time constraints for disposal provided for by supervisory regulations, if these remain under the assets of banks. However, penalties of a fiscal nature and divergent views among the operators in relation to assessment and provision criteria make this scenario one that can be hardly envisaged at present.

A change of approach is therefore necessary, as well as a different coordination of initiatives, starting from the identification within competent institutions and sector associations of key figures who can contribute to the definition of a plan of action for the banking and financial sector, identifying the reforms considered to be a priority and to be implemented in the next 3/5 years, in order to adapt the legal framework, facilitating product innovation and attracting qualified investors.

### 2.1.2 The Supervision Committee

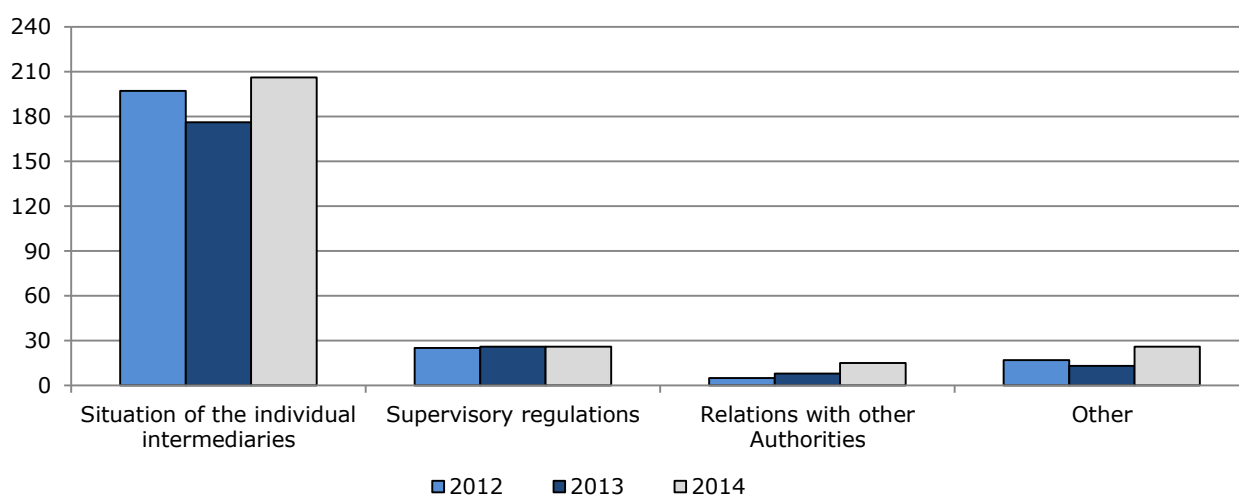
The Supervision Committee is the statutory body whose function is to manage supervisory functions. The resolutions adopted during 2014 were at times aimed to support the process of modernisation of the regulatory framework on supervision, to fully implement the Central Bank's sanctioning procedures, and measures concerning the corporate situation.

During 2014, the Supervision Committee carried out its activities and held 64 meetings, during which 273 decisions were taken, compared to the 56 meetings and 223 decisions of 2013.

During the year, many decisions related to the planning, authorisation to start, and the approval of auditing reports in relation to the on-site assessments carried out. In some cases, it was necessary to conduct further specific audits at the premises of San Marino banks for the analysis of movements made by some of customers, members or officials of authorised parties, in order to complete the auditing inspection process.

Furthermore, a careful evaluation was carried out on the situation of banks that were inoperative as a result of past business crises, in relation to which the most appropriate procedures for an orderly exit from the segment of authorised parties were defined.

**Figure 22 - Supervision Committee, number of resolutions according to issue**



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

### Premise

The implementation of disciplinary measures (suspending administrative bodies, extraordinary administration and administrative compulsory liquidation), as well as the frequency with which sanctioning procedures were imposed, have made it essential for the Central Bank, in recent times, to tackle resolutely any resulting judicial administrative proceedings. The same public objectives of protecting the banking, financial and insurance system's stability and safeguarding savers, which characterise supervisory activities, work towards defending the measures adopted.

### Disciplinary measures

The only disciplinary measure taken in 2014 (administrative compulsory liquidation of Fidens Project Finance, already under extraordinary administration) was not challenged and was therefore consolidated. In the meantime, on 20 January 2015, the ruling rejecting the appeal was filed through the extraordinary administration measure of the same company. This decision has now become final, in the absence of an appeal.

Among the disputes that were still pending, 4 in total, 1 was decided in the first instance (SOGEFIN), and its appeal was rejected. The judgement, filed on 24/12/2014, was not challenged, and has now become final. The first-instance judgement, out of the other 3 joint disputes (Credito Sammarinese and Polis), was favourable and nonetheless challenged by the plaintiffs in December 2013. The decision of the Administrative Court of Appeal, filed on 18 June 2014, confirmed the first-instance judgement.

Therefore, the disputes, which up to the previous report were still pending in respect of disciplinary measures, all ended favourably for the Central Bank, with confirmation of the legality of the measures taken. At the time of preparing the Report, no new appeals had been notified.

### Sanctioning procedures

As specified in box 4 (see *below*), 101 sanctioning procedures were commenced and finalised in 2014. Out of the consequent measures adopted, 8 were challenged before the Administrative Court of First Instance, 4 of which with first-instance decision (three in favour of the Central Bank and one against). The three favourable decisions were challenged. The Central Bank, by contrast, decided not to challenge the unfavourable judgement.

Overall, there are still 25 disputes relating to administrative sanctions, 7 of which were imposed in 2014. Therefore, there are 18 pending disputes concerning sanctions applied in previous years. Hence, the introduction of Decree no. 77/2014 had a positive effect on the regulatory framework, managing to limit the number of new appeals submitted and reducing litigation for existing disputes. Indeed, while the percentage of appeals in 2014 was quite limited compared to the number of sanctions imposed (approximately 8%), nonetheless the transitional regulations also facilitated the disposal of long-pending appeals. Indeed, in 21 cases, the plaintiffs paid the sanction with a settlement, with the consequent dismissal of the disputes and appeals.

### Other disputes

The Central Bank also defended the challenge of two letters sent to intermediaries in 2010 (Credito Sammarinese and Polis). This resulted in 4 disputes that were settled in 2014 with dismissal due to discontinuance of the disputes, as a result of the appeal verdict that confirmed the first-instance decision on appeals against the extraordinary administration and administrative compulsory liquidation provisions. (see *above*).



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

In 2014, despite the reduction in dedicated staff, the Department's activities were particularly intense in terms of off-site interventions and general investigations.

In this context, particular interest must be given to the analysis of requests brought forward by potential foreign investors for the acquisition of majority holdings in San Marino banks and financial companies, be these active or not.

With reference to this, it should be noted that the issuance of the authorisation to conduct reserved activities is governed by Law no. 165/2005 (LISF) and in the related implementing measures issued by the Central Bank, which detail analytically the documents to be submitted for the purpose of issuing the "authorisation to conduct the activity".

In this context, the Central Bank performs a comprehensive assessment not only on the validity of the industrial project but also on the honourability and suitability of the promoters/future shareholders to ensure sound and prudent management of the financial undertaking, by verifying the origin of the funds also in cooperation with other national and foreign supervisory authorities, if the promoters of the initiative are legal firms.

Only upon completion of the investigation, initiated by the Supervisory Authority in the presence of an application accompanied by all required documentary evidence required, can the Supervision Committee, which is the collective body competent on the matter pursuant to the Statutes, take a reasoned decision. Indeed, this context may see the emergence of possible prejudicial factors concerning promoters and/or the proposed industrial project.

If, by contrast, the authorisation process is completed successfully, the new party is entered in the Register of Authorised Parties, which is available on the Central Bank's website, and which has - inter alia - the purpose of providing information for the general public on the financial undertakings authorised to operate in the Republic of San Marino.

The regulatory framework entrusts the Supervisory Authority with the technical assessment of new initiatives in the banking and financial sector. This framework could be - in line with the applicable Community principles, - further strengthened, by removing the State Congress's power to issue - pursuant to Art. 12 of LISF - the permit to which the same authorisation issued by the Central Bank is conditional.

However, it should be pointed out that the analyses conducted on the projects and on the promoters of the initiatives, as had already happened in previous years, did not result in the authorisation of any initiative.

In organisational terms, during the year, also owing to the changed in the appointed Head of Department, some limits were identified in the production capacity of the resources involved in Supervision, given the increasing and qualified contributions required of the Department by other San Marino institutions on complex and varied issues ranging from the management of supplementary pension funds (FONDISS), international taxation, or the need to implement in the next three years 21 Community sets of legislation ranging from the adoption of International Accounting Standards to Basel III and MiFID.

In this regard, a plan for the reorganisation of the Supervision Department was adopted, in which, as from 1st April 2015, there are 29 active resources articulated in 4 services: Regulatory Supervision Service, Supervisory Reporting and Methodologies Service, Supervised Entities Service and On-site Supervision Service.

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

#### Premise

The previous report, concerning 2013, detailed some factors that had reversed the trend relating to the disturbing increase in the disciplinary procedures initiated by the Central Bank up to 2012.

It particular, it was pointed out that the comprehensive supervision action undertaken over the last three years – focusing on the one hand at strengthening the financial system, with the consolidation/concentration of intermediaries, and on the other, on facilitating the exit of marginal intermediaries wherever possible, from the supervisory context – had resulted in a significant drop in the number of procedures initiated during 2013 and the 1st quarter of 2014 (5 in total) compared to previous years.

This trend continued in 2014 and in the first three months of 2015. Over fifteen months, only one disciplinary procedure was started. This is the start of the administrative compulsory liquidation of Fidens Project Finance as a result of closure of the extraordinary administration of the company. During 2014, the administrative compulsory liquidation of Pradofin was also closed.

#### Criteria behind adopting measures

The adoption of these types of measures, which have been the exclusive responsibility of the Central Bank for some years now, have always been considered by the latter as a last resort to solving business problems. Wherever possible, the Supervision Authority tries to solve the corporate crises through the use of non-traumatic procedures, using preventive measures, provided for in LISF or, ultimately, inspired by moral suasion. The target is to make the owners and the management aware of the critical aspects of the situation of the company, so that the struggling intermediary would, spontaneously or by order of the Supervision Authority (for instance, Art. 46 of LISF), adopt the necessary corrective measures prior to the appearance of the crisis (such as recapitalisation, organisational restructuring, change in management, etc.).

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

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

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

#### Status of procedures outstanding in 2014 and outlook for the main business crises

In 2014 and in the first three months of 2015, the Central Bank continued its management of administrative compulsory liquidation proceedings. The following is noted in respect of the more significant:

- 1) **Credito Sammarinese S.p.A. (C.SA.).** The bank has been placed under administrative compulsory liquidation since 11 October 2011. As explained, assets were transferred between the end of 2012 and the start of 2013 by the transferee banks (of CSA assets and liabilities) to the “vehicle” company specifically established to manage the assets of the former CSA (Reserved close-end fund, called Loan Management). During 2014, the procedural bodies, inter alia, continued the negotiations for the transfer in block of residual assets, which would facilitate the conclusion of the procedure.



- 2) **Polis S.p.A.** During 2014, the liquidators of the company that has been under compulsory liquidation from 2 September 2011, continued the significant work to recover non-performing assets. The loans collected from the start of the proceeds amount to approximately 6 mln Euro at the end of March. The return of assets held fiducially has virtually been completed. The liquidation Commissioner is currently involved in negotiations to carry out a transfer in block of the assets (loans, movable assets, real estate property and liquidity) to the Loan Management Fund, which is the main creditor. This would make it easier, as in the case of the parent company Credito Sammarinese, to close the procedure.
- 3) **Fincapital S.p.A.** As is well-known, the liquidation procedure that started in January 2011, has been characterised by extremely complex and sensitive aspects, both due to the dimensions and multifunctional nature of the company's operations, and the significant criminal implications that have been widely covered in the national and Italian press. These complex aspects combined with the need to minimise any possible risk for the corporate image, are the reason for the delay in implementing the settlement for the transfer of assets signed in September 2011 by Procedure's authorities and the banking credit system. Nevertheless, also due to the simplification of the general situation (one individual bank became the transferee of the credits of other creditor banks), the transaction should be completed during 2015. In any case, the liquidators must complete the refunds of assets held in trust before closing the procedure.
- 4) **San Marino Investimenti S.p.A. (S.M.I.).** The previous reports referred to the serious problems emerged from the Company's administrative compulsory liquidation, especially regarding the international implications due to the network of companies in other countries that could be connected to SMI and/or the controlling shareholder, and which often had their registered offices in countries with a legal system lacking transparency and about which little is known. Despite this, the liquidators have continued to recover and settle assets, in order to make the first distributions/refunds to creditors. These refunds were authorised by the Central Bank during 2014. Also during 2014, the Central Bank authorised a bloc sale of real estate property. Despite this, it is still too early to provide an assessment on what the prospects for a speedy settlement of this procedure could be, given the obvious difficulties.
- 5) **Berfin S.p.A.** The bank has been placed under compulsory liquidation since July 2011. Following on from the filing of the Balance sheet liabilities in October of the same year, the liquidators with due authorisation from the Central Bank began returning assets held in trust at the end of 2011, with this completed during 2013. Even though the expected disposal of assets and liabilities that would have undoubtedly facilitated the settlement process was not finalised, the liquidators worked assiduously to recover assets, to the extent that during the 1st quarter of 2014, the Central Bank authorised the distribution to preferential creditors, based on the liquidators' request. It is expected that the procedure should be closed between the end of this year and the beginning of 2016.

### Other banking crises - Overview

Not all banking crises resulted in liquidation proceedings. It should be noted that in two cases it was possible to intervene with consolidation operations, in the presence of the tax benefits granted by the State, mainly in the form of a tax credit for the transferees who have taken a capital deficit. In the first case (Banca Commerciale Sammarinese) Asset Bank acquired the entire share capital of the afore-mentioned bank and then became the transferee of the assets and liabilities, making it possible for the extraordinary administration proceedings to be closed. The authorisation granted to Banca Commerciale Sammarinese to conduct authorised activities was withdrawn by the Central Bank on 2 April 2015. In the second case, Banca CIS became the transferee of the assets and liabilities of Euro Commercial Bank and its subsidiary Fincompany, which, during 2014, started a process of transformation and – after merger by incorporation – subsequent voluntary liquidation.



### **2.1.4 Regulatory interventions**

During 2014, the Central Bank issued five Regulations and one Circular in respect of its regulatory interventions.

As regards the Regulations, excluding:

- the first, "on financial promotion and cold-calling", whose main content and validity have already been described in the Report submitted to the Great and General Council in 2014, to which reference should therefore be made,
- the last, as the annual "miscellany of measures aimed at reviewing the supervisory provisions currently in force" that, except for some provisions concerning domicile for sanctioning purposes and for an extension of the supervisory rules to Ente Poste and the non-financial parent companies set out by the needs for reconciling the changed regulatory framework, is limited to revising, for the update and standardisation of regulations and circulars already in force,
- the remaining 3 are listed below in chronological order:
  - a) Regulation on the "measurement of the Anti-Usury threshold rates pursuant to Article 207 of the Criminal Code";
  - b) Regulation on the "register of parent companies";
  - c) Regulation on "payment and electronic money issuing services (payment institutions and EMI)".

With the Regulation referred to under letter a) supervisory regulations concerning the following:

- quarterly reporting, by banks and financial companies, for administrative/statistical purposes, of the effective average percentage rates on loans
- subsequent calculation and publication, also on a quarterly basis, by the Supervisory Authority, of the threshold rates referred to in Article 207 of the Criminal Code

was completely reformed and updated according to the more analytical criteria applied also abroad, but also introducing the procedures for calculating the thresholds of some specific cases (such as default interest and interest on loans in foreign currencies) that appear in line with the relevant best regulatory practice.

The Regulation specifically informs the operators of the credit sector, about the absolute autonomy between the two profiles, and precisely that of the evaluation of the conditions applied for legal purposes, which is the prerogative of the judicial authority, from that for the reporting of the entry for statistical purposes, which is under the responsibility of the administrative Supervisory Authority which the criminal law legislator has entrusted with the periodic calculation of the thresholds.

The Regulation referred to under letter b) establishes the Register of Parent Companies, thus implementing Art. 56 of LISF. The Register, which has already, for a long time, been available online on the Central Bank's website, certainly represents a further, crucial step forward in the transparency of the San Marino financial system, making the information about banking or financial groups operating in San Marino publicly available and easy to access.

In particular, the Register can be consulted to obtain information and documentation (for example "financial statements") concerning all the companies that are part of "relevant groups", also when they have not already been recorded in the Register of Authorised Parties as parties that are not carrying out reserved activities pursuant to LISF, be they non-financial "parent" companies (so-called holding companies) or simple non-financial "components", which are included in the



group as parties conducting instrumental activities or activities related to the group's financial activities.

The Register of Parent Companies, assuming the identification and definition of the banking and financial groups operating in the Republic of San Marino, in turn forms a pre-condition for the forthcoming launch of consolidated supervision, of which, so far, only some corrective measures to adjust the procedures for determining the regulatory capital have been disclosed gradually and in part (*proxy*).

Specifically, the third Regulation constitutes, among those that were issued in 2014, the most significant measure in strategic and systemic terms, as it concerns an entire sector (payment services and electronic money issuing services), which up until then had been the sole prerogative of banks.

This Regulation lays the foundations, at the legislative level, for the birth in San Marino of "payment institutions", i.e. financial undertakings other than banks that are specialised in the provision of payment services (as defined by the above-mentioned letter I of Annex 1 to LISF), as well as for the constitution of "electronic money institutions" (or, in short, EMI), i.e., institutions that, in addition to payment services, can also issue the services referred to under letter J of Annex 1 of LISF; hence, thanks to this new Regulation, today the regulatory conditions exist for the creation of new payment institutions capable of issuing and managing San Marino credit cards.

Furthermore, the Regulation represents a significant step forward in the complex and imposing process of transposition of the Community *acquis* provided for by the Monetary Agreement with the EU, signed by the Republic of San Marino in 2012. Indeed, the agreement already envisaged that, by September 2016, San Marino would be required to introduce in its legal system both the provisions referred to in Directive 2007/64/EC on payment services (so-called PSD) and those of Directive 2009/110/EC on electronic money institutions (so-called EMI [Electronic Money Institution] Directive). LISF's forward-looking choice of delegating the regulatory activities in the area of finance to the Supervisory Authority allowed, simply through the Regulation issued by the Central Bank, to incorporate both the directives into a single text (and earlier than scheduled) as well as to quote, in the annex to this Regulation, the new standardised text of the Regulation adopted a few months earlier for entry into SEPA, also expressly including therewith the rules concerning equal charges between national and cross-border payments referred to in (EC) Regulation no. 924/2009.

At least in this initial start-up phase of the sector for San Marino, it was considered, prudentially, that certain requirements should be introduced, compared to what is "authorised" by European standards, on the capital and organisational requirements for these new categories of entities (payment institutions and EMI), . Entry into the San Marino financial system of marginal operators, or operators with low capacity in terms of capital or internal auditing system, could in fact expose the entire system to high reputational risks, thus compromising the huge efforts made to obtain the deserved recognition at the international level (most recently, accession to SEPA).

The regulatory choices taken consider the critical issues found in other jurisdictions in operating the so-called "*money transfer*" counters or other intermediaries in electronic payments, and not only in terms of preventing money laundering and terrorism financing (fraud, computer scams, cloned cards etc.), therefore favouring an organisational model that can be compared, to some extent, to that of newly-regulated financial companies.

The only Circular issued relates to the Protest Information Service, i.e. the Central Bank's activities for collection from each bank, on a monthly basis, of the list of their protested cheques, and dissemination to banks and financial companies, also on a monthly basis, of data received from the system, after their aggregation. This centralisation services of information was already provided by the then Inspectorate for Credit and Currencies with effect as from 1996, as a result of the increased waiting times for publication in the Bulletin issued by the Court, since 90 days as required



by law must elapse for late payment, which was inconsistent with the precautionary requirements of banks. In 2004, the service, which was originally based on an inter-bank agreement, was regulated by a specific Circular issued by the Central Bank, and then in 2006, with the entry into force of LISF, the Service offered by the Supervisory Authority was also recognised at the legislative level. The new 2014 Circular, which replaced the previous one, could therefore update the procedures and templates for the monthly reporting of protests, concurrently regulating the exercise of those forms of guarantee for the parties registered therein, which the legislature subsequently provided for.

In closing, mention must also be made here, as it supports regulated activities per se, to the growing assistance and consultancy activity at the technical-regulatory level provided by the Central Bank, through the interpretation and analysis of the laws in force in the financial sector. Indeed, this activity is not only required by the “professionals” who operate in the San Marino financial system, through the submission of “Queries”, but also, and often, by resident and non-resident foreign persons interested in acquiring information on the peculiar aspects of our financial regulations, also for the purpose of comparing it with the legal system of their country. Against approximately thirty requests made in 2013, in 2014, the threshold of fifty requests was almost reached, with indeed a significant increase in applications from abroad, indicating a growing interest in the San Marino financial system after the recognition that it was recently granted at the international level.

### **2.1.5 Information supervision**

During 2014, supervisory reporting activity developed along three main lines: control and processing of supervisory reports, revision of the relevant regulatory framework and preparation of statistics for the International Organisations.

#### **2.1.5.1 Monitoring and processing of supervisory reports**

At the beginning 2014, control procedures for supervisory reports were subjected to internal review aimed to increase process efficiency and effectiveness. Control management and the exchange with the individual intermediaries was formally decentralised to individual analysts, concurrently strengthening, by means of appropriate manuals and specific control points, the degree of homogeneity of the controls and internal dissemination to the Supervision Department of their result. The review measures also concerned the methods of communication with the authorised parties, carried out by e-mail instead of fax communications, as was done previously.

The changes introduced have generally reduced the processing time-scale needed between detection of reporting anomalies in the Supervision Department and its analysis by the appointed persons in the individual authorised parties, also contributing to speed up the submission to the Central Bank of the reporting adjustments and/or clarifications requested, which for some supervisory reports is carried out by the business day following that when the Central Bank issued the request.

In 2014, there were 166 measures related to the analysis of data supplied by authorised parties. 79 of these measures, representing 48%, also concerned the verification of the phenomena underlying the data in supervisory reports (for example, anomalous trends or differing from consolidated trends of some accounting items), thus requiring specific clarifications about the intermediaries and, if necessary, contextual reporting adjustments.

#### **2.1.5.2 Review of the regulatory framework on reporting**

The most sizeable requirements for information and requests of statistical data by the International Organisations, including the European Central Bank subsequent to the Republic of San Marino signing the Monetary Agreement in 2012, constituted the main driver for the review of the



regulatory framework related to supervisory reports, aimed at pursuing goals for the centralisation and optimisation of the rules concerning periodic information requirements and therefore, ultimately, at further improving the quality and timeliness of the data provided by authorised parties.

The regulatory review focused on the banking sector, as the first context of action, not only due to its smaller size compared with other sectors of the financial system and to the larger amount and heterogeneity of the current information requirements, but above all, because it is the sector that provides the basis for the current statistics for the International Monetary Fund (IMF) as well as the forthcoming statistics for the European Central Bank (ECB), as from the third quarter 2016.

The regulatory review measures were preceded by an analysis of the current information requirements, which allowed for the outlining of measure-related guidelines in terms of:

- update of the monthly and quarterly reporting forms for banks, to increase the degree of homogeneity in terms of structure and information required compared to similar templates related to the (annual and semi-annual) financial statements of banks;
- identification of the different information requirements capable of converging in the monthly and quarterly reporting forms of banks, thus reducing the number of different templates to be compiled and sent to the Central Bank, with mutual benefit for the Central Bank and the authorised parties in terms of efficiency in compiling and checking data;
- definition of a new structured data coding capable of facilitating standardised data processing by the Central Bank, both in terms of quality control of data and subsequent processing;
- analysis and identification of any further information required by the statistics for the current (IMF) and the perspective (ECB) International Organisations, and definition of consequent changes to the existing reporting forms.

In the second half of 2014, measures were also activated for the organisational review of the information management methods concerning reporting data, following the acquisition of a specific application to carry out, in a regulated manner, the activities for the control and processing of all data of the supervisory reports received by the Central Bank (the project was launched in 2013 also in view of the need to prepare statistics for the ECB). The last quarter of 2014 saw the start of training activities for users of the Supervision Department and the analyses to determine the method of implementation of the new application in supervisory reporting processes, whose purpose is to redefine the overall information system for the analysis of quantitative data.

As regards the regulatory framework per se, the opportunity to issue a specific Regulation on supervisory reporting was preliminarily identified. This Regulation would include all the general rules relating to the supervisory reports of banks, previously reported in specific circulars, application manuals or other provisions. Firstly, the measure was directed to simplify and make even more homogeneous the framework of the existing general rules regarding information requirements, also allowing, given convergence of the rules into a single Regulation, for it to be more easily maintained in the future, if necessary. Furthermore, the roles and responsibilities of the business structures, administrative bodies and auditing companies - in the phases of processing, approval and monitoring of data to be provided to the Supervisory Authority - were conveyed into a single regulatory source, also introducing new players in the process, such as the supervisory reporting manager (unique for each bank, with a coordinating role for all information requirements) and the operational contact person for individual supervisory reports.

The Regulation about supervisory reporting was finally identified as the instrument to apply reconciliation measures on other regulatory sources (in particular Regulations 2007-07 and 2008-02), thus re-establishing for these the accounting treatment principles of some items, such as

finance lease transactions and classification and assessment of loans, allowing for the consolidation of provisions previously found in different measures.

The review measures specific of the information requirements of banks were instead outlined within a further regulatory source, issued as a circular, in which the provisions relating to 4 different supervisory reports were aggregated and merged in the new Monthly Statement of Accounts of Banks (*Situazione Contabile Mensile Banche*, or SCMB). In this context, reporting forms were preliminarily reviewed in accordance with the previously outlined guidelines, and the necessary regulatory provisions were then qualified, for a correct compilation of reporting forms, in compliance with the general provisions contained in the above-mentioned regulations.

The analysis activities outlined above were conducted by involving, for the first time since the phase during which the new templates were generated, the technical structures responsible for the statistical reports of the individual banks. In the fourth quarter of 2014, through meetings and specific communications, the internal appointed persons of intermediaries were able to view the reporting forms as they were being developed, also with the indication of the main changes in regulations, thus being able to express related evaluations and comments. The information received was used by the Central Bank to prepare the draft regulations for the subsequent formal phase of consultation, whose text could therefore consider the observations received, with particular reference to the time-scale for the implementation of the various changes at the individual intermediaries, in relation to which provisions were made for the gradual activation of some information requirements, functional for the processing of international statistics.

Following a phase of consultation lasting approximately one month, and the subsequent activities to analyse and review the evidence received, the Regulation concerning Supervisory Reporting and the Statement of Accounts of Banks were issued on 2 February 2015. Throughout the entire consultation period, as well as during the subsequent period up to issuance of the regulations, the Central Bank continued to support the intermediaries in providing clarifications and resolving any procedural doubts in the compilation of reporting forms, already shared as a template and not requiring any change during the phase of regulatory consultation.

Overall, the cooperation between the Supervisory Authority and the authorised parties has helped to reduce significantly the time required to activate the new Monthly Statement of Accounts of Banks, whose first reporting, referring to 31 December 2014, was transmitted by all intermediaries on 13 February 2015, nine working days from the formal issuance of the Regulation and the Circular that defined the (general and specific) information requirements.

#### 2.1.5.3 *The provision of statistics for International Organisations*

The ordinary activities of processing and sending periodic statistics for the International Monetary Fund continued throughout 2014: *Monetary Financial Statistics* (MFS), *Financial Soundness Indicator* (FSIs) and *Financial Access Survey* (FAS).

This ordinary activities were accompanied by analytical activities directed to develop new statistics for the ECB, which shall be supplied as from September 2016. Impact assessments were started in the second half of 2014, in order to take them into account in the development of new periodic reporting forms of banks (SCMB), and ended in the early months of 2015, with the submissions to the contact persons at ECB of an articulate proposal on the subject, on which work will concentrate during 2015 to divulge the information required.

#### 2.1.5.4 *Other assets*

In the first quarter of 2014, with an approach shared with the banks, a review was carried out of current legislation on the Compulsory Reserve (legal reserve), which reduced its calculation percentage from 8% (including the 'securities' component) to 4% (only deposit of liquidity). This



initial measure may be followed by others in the future, to further reduce the amount of the Compulsory Reserve, taking into consideration, inter alia, the need to preserve financial resources that may be used, if necessary, for actions in support of the financial system.

The maintenance activities concerning reporting forms and guides for compilation continued throughout 2014, with the purpose of maintaining these operational instruments constantly up-to-date. The measures were carried out in light of changes in the regulations or requests for interpretations received from the intermediaries, whose responses, using the guides for compilation, are made available to all authorised parties, thus facilitating the correct compilation of supervisory reports as well as the homogeneity of the data reported by individual intermediaries.

Throughout 2014, the Central Bank also responded to requests for information made by the International Monetary Fund, during and after the mission Art. IV of January 2014, and by the Fitch agency, which was in charge of issuing an assessment on the prospects of the medium- to long-term financial stability of the country.

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

### **2.1.6.1 Documentary controls**

As in previous years, in 2014 the Central Bank conducted ongoing documentary controls, based on the data, information and more generally, the documents that the Bank itself requires from intermediaries also on a regular basis.

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

Monitoring the above stated technical profiles, by also checking on compliance with rules and regulatory requirements, made it possible for the Supervisory Authority to intervene in the case of critical positions, in order to prevent a possible deterioration in the company's position, requesting from the corporate bodies to maintain or restore the adequacy conditions and remove any anomalies.

The documentary analysis and verification activities also support the investigations resulting from the applications filed by the supervised parties for the release of the authorisations reserved to the Central Bank (e.g., amendments to the Statutes, acquisition of relevant equity investments in the capital of authorised intermediaries, the outsourcing of corporate functions, issuance of mutual investment funds, etc.).

A substantial portion of the work was also dedicated to monitoring the processes for authorised parties' holdings in the share capital, to bring these in line with the regulatory changes relating to LISF on ownership structures and in the activities aimed to controls risks implicit in the exercise of reserved activities, therefore to the prudential parameters governed by supervisory provisions.

The action of the supervision service presents a scope of variation related to the real situations identified; however, in general, the possible measures adopted may be classified as follows:

- fact-finding, to expand the set of information available to the Supervisory Authority. These interventions made it possible to analyse the intermediaries' operations as required to prepare

the relevant corrective measures, and which aimed at removing any malfunctions and irregularities on the part of supervised parties that had emerged during previous controls;

- preliminary, aimed at soliciting the adoption by the supervised party of interventions aimed at preventing the deterioration of the technical profiles;
- corrective, when the measures are aimed at specific corrective actions that the supervised party is required to implement in order to remedy problems and anomalies related to the organisational, capital, income and financial profiles.

In 2014, 191 off-site supervision interventions of a fact-finding, preventive and corrective type, were carried out on the authorised parties of the banking, financial, insurance and asset management sector, including the supervised parties (insurance intermediaries). In the first three months of 2015, there were 63 measures.

The following Table summarises the off-site supervision interventions divided by purpose (preventive, fact-finding and corrective interventions) carried out in 2014 and in the first quarter of 2015 with regard to banks, financial/fiduciary companies and management companies only.

**Table 22 - Off-site supervision interventions**

Type of intervention	2014			2015 I Quarter		
	Banks	Financial companies Fiduciary companies	Management companies	Banks	Financial companies Fiduciary companies	Management companies
Fact-finding	73	24	10	28	16	2
Preventive	2	2	0	2	1	0
Corrective	24	12	4	5	3	0
<b>Total</b>	<b>99</b>	<b>38</b>	<b>14</b>	<b>35</b>	<b>20</b>	<b>2</b>

Another portion of the off-site activities referred to communications to intermediaries related to authorisation proceedings, responses to various types of questions and notices of sanctioning procedures, as well as those related to problems that arose in the context of disciplinary measures (extraordinary administration and compulsory administrative liquidation). In the period from 1 January 2014 – 31 March 2015, the following communications, inter alia, were sent:

- a) 371 connected to authorisation procedures<sup>33,34</sup>. Specifically, 161 authorisations were issued, whereas 15 were denied<sup>35</sup>, and there were 85 preliminary applications<sup>36</sup>. With regard to the main authorisation procedures, there were 23 authorisations issued and 3 were denied in relation prudential supervision, 16 authorisations and 3 denied in relation to ownership structure, 6 authorisations and 1 denied for amendments to the Articles of Association, 65 authorisation on determining the compulsory reserve deposit, 12 authorisations concerning the publication of prospectuses and regulations referring to issuing bonds, 10 authorisations concerning the publication of administrative regulations concerning mutual investment funds. Finally, in relation to the keeping of registers by the Central Bank as provided by State laws and regulations for insurance intermediaries and financial promoters, there were 86 registration procedures in total; during the period, book-keeping activities concerning the register of tax representatives,

<sup>33</sup> The scope of the authorisation procedures also includes the release of clearances and/or approvals or other authorisation-related actions, however described.

<sup>34</sup> The figure does not include the authorising measures issued within the framework of the disciplinary procedures referred to under the following letter e).

<sup>35</sup> Those denied included both the rejection of applications submitted, and the incorrect filing of applications where the authorisation procedures required by the regulations were missing.

<sup>36</sup> This figure does not include the interventions in the preliminary phase, which are already included with the fact-finding interventions.



established as from 1 December 2013, pursuant to State regulation no. 7 of 29 November 2013, were of particular importance;

- b) 126 related to replies to enquiries on different topics, especially concerning the interpretation of supervisory regulations;
- c) 173 referred to relations with other public authorities (FIA, Judicial Authorities, etc.);
- d) 298 related to the opening of sanctioning procedures and to the actual imposition and/or dismissal of the charges, against confirmed infringements of supervision regulations;
- e) 80 referred to exchanges with disciplinary procedure bodies, in the context of which directives are provided to the extraordinary Procedures body and/or liquidator, authorisations are issued and responses are provided to different kinds of queries.

As can be seen, off-site supervision was used significantly with regard to the supervision of regulatory procedures, e.g. suspension of the administrative bodies, extraordinary administration and administrative compulsory liquidation. During 2014, there were 17 ongoing proceedings. Two of which were closed and one was started during the same period. All three referred to financial companies; in particular, the new administrative compulsory liquidation proceeding was initiated following the closure of the extraordinary administration proceeding that had started in October 2013 (see Box no. 3: Disciplinary procedures and evolution of the current corporate crises).

During the same period, the authorisation for the conduct of reserved activities was officially revoked from two authorised parties, a financial company in 2014, and a bank in the first quarter of 2015, pursuant to Art. 10, Paragraph 1, letters a) and c) of Law no. 165/2005, while authorisation was granted to change the corporate purpose, which no longer includes the exercise of reserved activities, to a financial company during 2014, with its consequent removal from the Register of Authorised Parties.

Finally, subsequent to confirmed infringements of supervision regulations by intermediaries discovered during inspections and documentary checks, in 2014, 101 proceedings were started and closed. 3 new sanctioning procedures were started and closed and 2 investigations, which had been opened in 2014, were closed in the first quarter of 2015 (see Box 4: Sanctioning procedures).

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

##### **Premise**

During 2014 and the first quarter of 2015, the Central Bank continued to activate sanctioning procedures against corporate officials (Directors, Statutory Auditors, and Director Generals), in addition to auditors of authorised parties, pursuant to Decree No. 76/2006 as subsequently amended and supplemented, once the relevant prerequisites had been ascertained. Sanctioning procedures have been initiated and completed against insurance and reinsurance intermediaries.

As in previous years, also in 2014 and the first quarter of 2015, the irregularities found referred mainly to infringements of the prudential supervision rules, especially with regard to the provisions regarding organisational and internal control structures.

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

There were 101 sanctioning procedures that were started and completed in 2014, which related to 3 banks, 1 insurance company, 7 financial companies and 3 insurance and reinsurance intermediaries. Out of the 101 procedures, 5 were dismissed, and in 4 cases they were not completed due to the unavailability of the recipient. In 8 cases, the final sanctioning measure was challenged before the Administrative Court, and their impact is therefore pending. Overall, the sanctions imposed amounted to 626,500 Euro, 204,740 Euro of which were paid almost exclusively as a settlement. In 14 cases, no payment was made by the parties who received sanctions, nor did they submit an



appeal. Therefore, they will be entered in the Register, i.e. with the precautionary payments of the jointly and severally liable parties.

In the first quarter of 2015, 3 sanctioning procedures were started in relation to the shareholders of a bank, for which, as at 31/03/2015, no sanctioning (or dismissal) provisions have yet been issued.

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

The Central Bank conducted its activities in respect of the proceedings that started and were finalised in 2014 in the context of the regulatory framework provided by Law no. 165/2005 and Delegated Decree no. 76/2006, as amended by Decree no. 77/2014.

The main new developments, as known, concerned:

- a) the accurate identification of the parties that would potentially receive sanctions. In this regard, the most significant innovation refers to the extended definition for parties liable for sanctions, which was initially restricted to those that carried out administrative, management and controlling functions, and now also includes the employees that are entrusted with specific corporate operational and internal audit functions;
- b) the provision of a broader category of criteria that the Central Bank needs to adhere to in applying sanctions, as well as cases for exclusion and/or mitigation of the sanction;
- c) the introduction of a 9-month deadline from the time of reporting the infringement, for the sanctioning procedure to start;
- c) provision of the option of extinguishing the sanction with immediate voluntary payment, by paying half the amount imposed within 20 days from notification of the sanction;
- e) the introduction of an appeal in respect of challenges to sanctioning measures.

#### *2.1.6.2 Inspections*

As usual, the 2014 inspection plan was prepared by using a risk-based approach in compliance with the indications from all supervisory services, as well as the elements gathered during previous inspections. The planning was also based on the most important (in terms of potential impact) and recurrent critical issues detected during the investigations conducted so far, in order to make them more effective and efficient. For this purpose, during the planning stage three new targeted inspection cycles were identified, to be started during the year: two are specific for banks, one of which concerning exposure to credit risk, also to meet the asset quality review requirement recommended by the IMF, while the second is dedicated to the risks involved managing cross-border payment flows (mediation), and a third cycle is dedicated specifically to other authorised parties (financial companies, management companies and insurance undertakings and investment companies), aimed to verify proper corporate book-keeping.

As regards the investigations focused on credit risk, a first measure was carried out in the context of the inspection started in December 2013 on a bank of considerable size, while for the continuation of the cycle during 2014, an on-site investigation of data and information was carried out by the Supervisory Reporting and Methodologies Service, and another measure for the definition of standardised methodological aspects was carried out by the On-site Supervision Service, both to prepare for the continuation of the cycle at other banking entities in 2015 (and possibly in 2016).

The cycle of targeted measures on the so-called "mediation" concerned 2 banking entities in 2014, and will be continued in 2015.



The cycle on proper corporate book-keeping concerned: 1 bank, 3 financial companies, 2 insurance undertakings, 2 management companies and 1 investment company.

Finally, during 2014, a spread-spectrum inspection was carried out at a financial company, alongside another 9 targeted inspections on banks, to meet information requirements emerged from the results of other inspection activities, conducted in parallel with the Financial Intelligence Agency.

All activities carried out had supervisory purposes. There were thus 21 inspections in total in 2014, with an increase compared to 2013. The activity carried out also allowed for the achievement of the goal of subjecting all authorised parties to at least one inspecting visit.

Table 23 summarises the inspections carried out in the last three-year period (2012-2014) and in the first quarter of 2015.

**Table 23 - On-site supervision inspections**

	2012			2013			2014			2015 I Quarter		
	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other	Banks	Financial companies	Other
Total inspections	8	7	2	14	4	1	12	4	5	5	2	1
of which spread-spectrum	1	4	0	1	1	0	0	1	0	0	2	0
of which aimed	2	1	2	8	0	1	12	3	5	5	0	1
of which specific	5	2	0	5	3	0	0	0	0	0	0	0
<b>Total</b>	<b>17</b>			<b>19</b>			<b>21</b>			<b>8</b>		

In 2014, 10 reports of suspicious transactions were sent to the Financial Intelligence Agency (8 for banks and 2 for financial companies), as well as 12 exchanges of information by way of cooperation in anti-money laundering operations (7 for banks, 3 for financial companies and 2 for other entities). During the first quarter of 2015, 4 reports were sent to the Agency, 2 of which concerning suspicious transactions and 2 as part of cooperation in anti-money laundering activities related to banking entities.

The investigations carried out revealed situations that show how a culture of controls should still permeate the organisation and *modus operandi* of intermediaries. In some of the most serious cases, the merge between administrative bodies and control bodies in actual fact makes internal auditing system operations actually inefficient. In other cases, the lack of a dialectical comparison between the Board of Statutory Auditors and the Board of Directors resulted in taking uncontrolled risks that could lead to serious business crises. Finally, in some cases, the internal audit function proved to be lacking in autonomy and independence, both due to a substantial dependence on the administrative body and for lack of resources (people and tools) and skills. All this led to limited efficacy in the prevention and management of risks, and in the removal of the deficiencies found during the previous supervisory activities. In this scenario, situations of conflict of interest continue to emerge forcefully and outside an effective and efficient framework of control and management.

The topic of the identification of the actual recipients, both in relation to anti-money laundering issues and those for the composition of groups for the purpose of the proper quantification of exposure to credit risk, continues, in many cases, to be dealt with by the supervised parties only from a formal standpoint and not also through an in-depth analysis of a substantial nature.



With reference to inspection procedures, please note that during 2014 the decision was taken to entrust again, in order to optimise the most complex and general sanctioning procedure, the On-site Supervision Service with the first *follow-up* phase of the inspection reports and counter-claims of supervised parties.

As already mentioned, the main goals for 2015 are to continue the cycle of audits on credit risk in the context of the *asset quality review* advocated by the IMF and to complete the cycle on the risks connected to *cross-border* payments (mediation), as well as carry out spread-spectrum controls on some entities that, up to now, had been exclusively subjected to targeted inspections identified on the basis of the risk-based approach.

During 2015, guidelines must also be defined as to the methods for the exchange information with the Public Authorities involved in (income and single tax-bill) tax-related and anti-corruption issues, which, in accordance with the law, involve, as within the scope of their responsibility and should any irregularities emergence, also the Central Bank's inspection activities.

The Head of Service is a member of the National Anti-Money Laundering Technical Commission pursuant to Art. 15 bis Law no. 92/2008, and in such context s/he participated in the related institutional activities.

## **2.2 The role of the institutional representative in relation to International Financial Organisations, Central Banks and Supervisory Authorities**

During 2014, the Central Bank, in a manner consistent with its statutory function as institutional representative in relation to International Financial Organisations, Central Banks and Supervisory Authorities of other countries, was extensively involved in the relations with the International Organisations with which the Republic of San Marino has relations.

As in previous years, the Bank was involved in relations with the International Monetary Fund, with particular reference to the consultations conducted in accordance with Article IV of the Fund's Statutes, designed to issue an assessment on the state of health of the San Marino economy and on the financial system's compliance with international standards. The main comparisons with the Fund's analysts occurred both in the context of the consulting missions carried out in San Marino, and on the occasion of the Spring Meetings and the Annual Meetings of the IMF and the World Bank, in the context of which the issues under review were further investigated .

The meetings between the Central Bank and the IMF held in January 2015 revolved around the most important issues for the Supervisory Authority and for the banking and financial system. In particular, the main areas of discussion regarded:

- the evolution of non-performing loans and related classification, assessment and accounting methods;
- the system's liquidity situation and the likely impacts of international tax regulations;
- the technical profiles of banks of systemic relevance;
- the tools for the resolution of crises and the procedures for the management of the Guarantee Fund for the protection of the Depositors;
- during 2014, the main changes made to the regulatory framework of reference for the Central Bank, specifically with regard to the new provisions on sanctioning procedures, procedures for appointing extraordinary procedures bodies, Central Credit Register and supplementary welfare;
- the state of the relations with the Bank of Italy;



- the challenges in regulatory and supervision-related terms connected with the implementation of the new prudential rules provided for by Basel III.

In this latter respect, taking into account the fact that the provisions in this area shall be transposed by 2017, also pursuant to the Monetary Agreement in force with the European Union, the opportunity was envisaged for technical assistance from the IMF in support of the Central Bank and the San Marino banking system in the above-mentioned process of adjustment.

The comparison allowed the IMF experts to focus their attention on the analytical and interventional instruments available to the Central Bank and assess their adequacy in technical, organisational and financial terms with respect to the tasks carried out and the commitments undertaken internationally.

As well as the Directorate General and the members of the Supervision Committee, various resources from the Supervision Department, according to the topics handled, participated in the meetings on behalf of the Central Bank.

On the basis of the information and data acquired during the consultations that took place in San Marino from 19 to 28 January last, the delegation from the International Monetary Fund was informed that the San Marino economy is stabilising after several years of recession, highlighting the strategic points required to further strengthen it and for a greater recovery, noting, *inter alia*, in the mission's concluding statement:

*"San Marino has made significant progress to normalise international relations and emerge from a deep recession. On the back of the inclusion in Italy's tax white list and the conclusion of financial and economic cooperation agreements with Italy, there are signs that the economy is stabilising. Still, significant policy challenges remain. The fiscal efforts of the last two years represent important steps to begin rebuilding the buffers that served San Marino well during the crisis. The fiscal balance should improve further to adjust to the new post-crisis economic realities and to allow these buffers to be rebuilt over the medium term. In the banking system, liquidity conditions improved and steps were taken in an attempt to put Cassa di Risparmio della Repubblica di San Marino (CRSM) on sound footing. Nevertheless, some important problems related to CRSM and high portfolios of doubtful loans (NPL) present in the accounts of the banks, grown mainly due to the reclassification of the credits, remain to be solved. Continued commitment to openness, transparency, international cooperation, and further improvements in the business environment remain paramount to lay the foundations for future growth."*

The Fund also encouraged the Central Bank to continue the action taken to verify the quality of the banking assets and the adequacy of the value adjustments made on doubtful loans through inspections.

In this context, the Fund's experts emphasised the Central Bank's significant role in the process of strengthening the financial system, which necessarily involves challenges to overcome the critical situation of the past few years. Adequate resources and independence in their deployment are the basic elements for addressing the growing set of national and international responsibilities (also deriving from the Monetary Agreement in force) attributed to the Central Bank, based on a mission characterised by multiple functions supporting the San Marino economy.

At the request of the Fund, the Bank provided, through the International Relations Service, its cooperation in San Marino's response to different *surveys* aimed to acquire specific information on the characteristics of the different economic or financial systems of countries that are Fund members, on which the development of statistics and sectoral studies by the Institution was subsequently based. These include the *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER) and the *Currency Composition of Foreign Exchange Reserves* (COFER).

With reference to the World Bank, assistance and collaboration was provided to the Secretaries of State in charge of activities related to the update of the evaluation of San Marino in

the context of the *Doing Business* programme, in relation to which upgrades are ongoing concerning the project for the creation of a Central Credit Register for San Marino.

As regards bilateral relations with other Supervisory Authorities, there were intense contacts with the Bank of Italy, with which there is an ongoing verification of the technical-regulatory conditions required, based on reciprocity and the exchange of information on credit risks aimed to enhance the processes of evaluation of the creditworthiness of the San Marino financial intermediaries.

The project is part of a broader process of economic and financial integration between the two Republics, sanctioned by the entry into force, in early 2015, of the intergovernmental agreements signed in 2009. In this context, in line with the requests of the International Monetary Fund, the signing of a Memorandum of Understanding on banking and financial supervision constitutes a priority objective.

The completed progress made in the alignment of the Republic of San Marino with international standards concerning anti-money laundering and terrorism financing, saw the Central Bank's commitment, alongside other authorities, in contributing to the activities to implement the FATF standards, collaborating actively with FIA also in the relations with Moneyval. The wide and significant progress made since 2008 to date has created the conditions for a general international recognition of the conformity of the Republic of San Marino with these standards and the EU rules on AML – CFT. During 2014, the conditions required by the Italian Republic to finally consolidate the start of the process for the inclusion of the Republic of San Marino in the list of non-Community territories that impose measures on AML – CFT equivalent to Community measures. The measure for inclusion in the so-called “anti-money laundering white list” was adopted on 10 April 2015 and signed by the Italian Ministry of the Economy and Finance and published in the O.G. General Series No. 108 of 12/05/2015.

2014 was a very important year under the profile of San Marino's choices in the context of International Fiscal Cooperation.

In 2013, having undertaken a commitment with the European Union to start negotiations for the amendment of the San Marino – EU Agreement that introduces equivalent measures to that of directive EC/48 for the taxation of savings income, during 2014 negotiations were started to amend this agreement through the introduction of automatic forms of for exchange of information and the removal of the application of the so-called “Euro withholding tax”. The Central Bank took part in the negotiations through its representatives in the San Marino delegation, which met several times in Brussels and San Marino with DG TAXUD (Directorate General for Taxation and Customs Union) of the European Commission delegated to negotiate with San Marino.

During the year, the negotiating platform was changed in the light of the evolution of the international community's guidelines in relation to the topic of the automatic exchange of information. Many countries finalised intergovernmental agreements with the United States of America for the exchange of information based on the FATCA (*Foreign Account Tax Compliance Act*) model, which rapidly became the reference model according to which the OECD developed a global standard for the exchange of information (*Common Reporting Standard*). Following the definition of the new standard, a group of countries, among which San Marino, in October 2014 decided to undertake a formal commitment for the exchange of financial information for tax purposes, on the basis of the new standard, as from 1 January 2017 with reference to information relating to 2016. The commitment undertaken on 31 October in Berlin by these countries (the so-called *early adopters*) started what will be a revolution in the international tax cooperation among States, overcoming in evolutionary terms the classic model of exchange of information on request, which characterised the last decade.



Given the previously described developments during the year, San Marino has therefore undertaken important commitments in the area of the exchange of information on three different levels:

- with the United States of America, a specific letter of intent, undertaking to sign the FATCA agreement;
- with the OECD countries by adhering to the group of *Early Adopters* and signing the multilateral commitment of Berlin;
- with the European countries by agreeing to negotiate a new agreement replacing the one on taxation of savings income based on the new OECD standard for the automatic exchange of information.

Similarly to the negotiations with the EU, the Central Bank was strongly involved alongside the San Marino institutions in negotiations with the US Government for the implementation of FATCA and within the framework of the OECD. In addition to the contribution provided by the International Relations Service, there were also contributions from various offices and services of the Bank relating to investigational and analytical activities prior to the implementation of the new rules.

During the year, the Secretary of State for Foreign Affairs requested the cooperation of the Central Bank within the framework of the technical working groups organised in view of the start of negotiations with the European Union for the association agreement. As known, this agreement represents, after years of analysis, the solution reached to provide an effective response to the request from the European micro-States for greater integration with the EU. During the meetings, the characteristic elements of the so-called “four freedoms” on which the Community internal market is based, were examined in order to identify those elements that can constitute San Marino’s negotiating proposal. The contributions of the Central Bank were expressed particularly in relation to issues concerning the free movement of capital.

The Central Bank’s technical support was also required on various fiscal issues concerning relations with other States. With particular reference to the bilateral agreements with the Italian Republic, the entry into force of the double taxation agreement required the evaluation of the taxation profiles of financial products and instruments, while the hypothesis of Italy starting a programme of fiscal compliance (so-called *voluntary disclosure*) required impact assessments in relation to the potential outflows of capital at the systemic level.

As was the case in previous years, the International Relations Service was also involved in the relations with specialised agencies for the formulation of the rating of the Republic of San Marino.

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

Pursuant to Regulation no. 2013-04 of the Central Bank, called “Regulation on Euro banknotes and coins”, Euro banknotes and coins suspected of being counterfeit are sent by cash handlers to the Central Bank, which, as the relevant national authority, then forwards these to the corresponding analysis centres for checks and resulting intelligence activities.

For the electronic transmission of reports concerning suspected counterfeit Euro banknotes and coins, the Central Bank uses the Euro Falsification Findings Computer System (SIRFE); the procedure is made available by the Central Anti-fraud Payment Methods' Office (UCAMP), falling under the Ministry of the Economy and Finance (MEF).

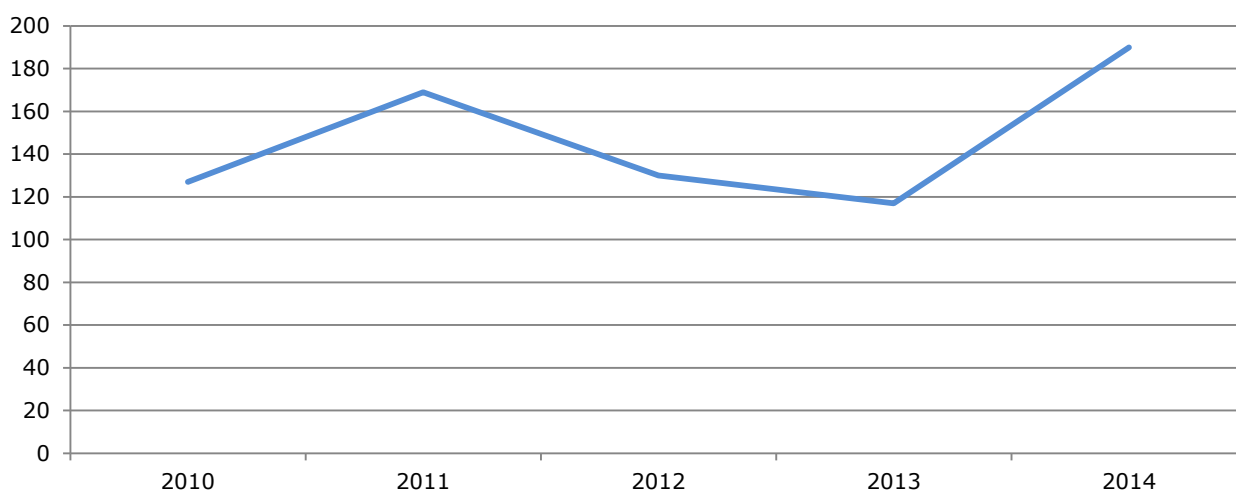
Suspected counterfeit banknotes and coins in currencies other than the Euro, by contrast, given that these do not fall under the scope of application of the quoted Regulation, are sent

directly by the cash handlers to the Anti-counterfeiting Central Office ("Ufficio Centrale per il Falso Monetario - UCFM"), established at the Central National Interpol Office of the Republic of San Marino.

The Figures below show, with reference to the activities carried out in 2014, the most significant data and their comparison with the values of previous years.

In 2014, 190 banknotes in Euro were withdrawn from circulation and found to be counterfeited, up 62.4% from the previous year (117 banknotes recognised as counterfeits in 2013). It is further noted that there were some cases of counterfeit Euro coins reported, which, however, do not present critical levels.

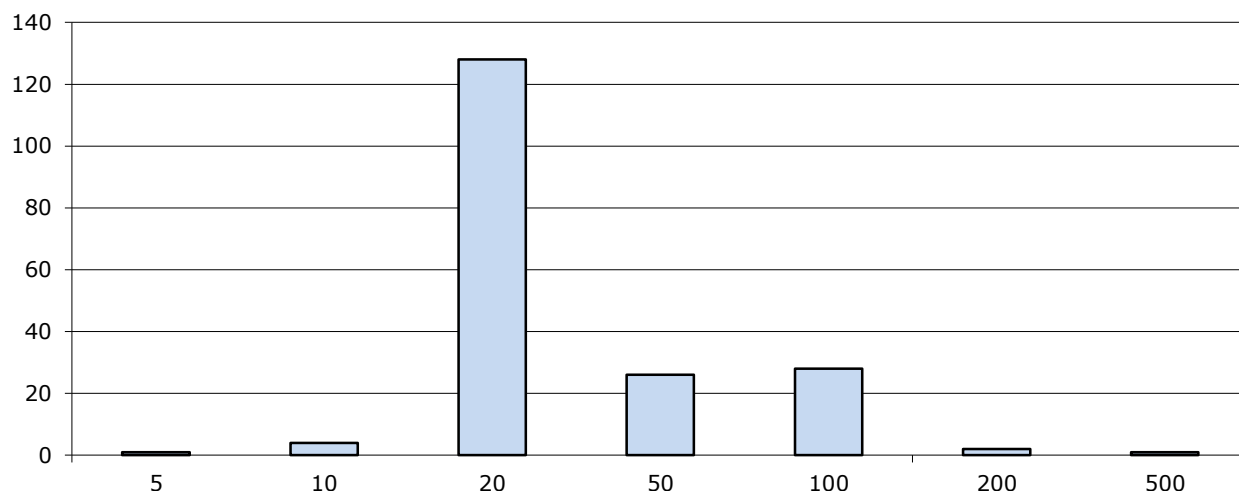
**Figure 23 - Number of counterfeit banknotes: comparison with annual data for the period 2010-2014**



The most instances of a counterfeited denomination referred to the 20 Euro banknote (128 pieces, equal to 67.4% of the total), followed by the 100 Euro banknote (28 pieces, equal to 14.8% of the total), the 50 Euro banknote (26 pieces equal to 13.7% of the total) and by the 10 Euro banknote (4 pieces, equal to 2.1% of the total); counterfeiting cases occurred, to a lesser extent, for 5, 200 and 500 Euro banknotes.



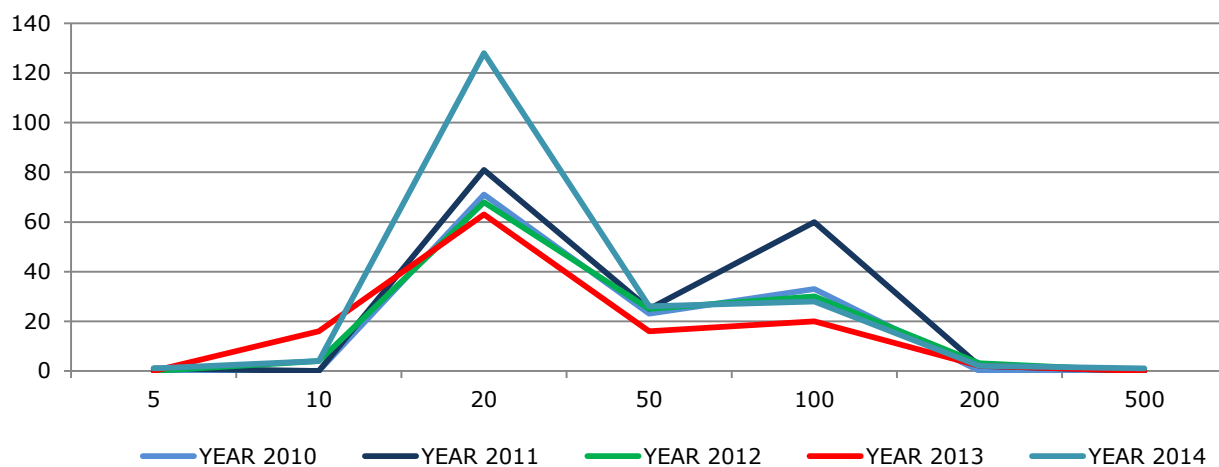
**Figure 24 - Counterfeit banknotes withdrawn from circulation in 2014: breakdown by denomination**



The 20, 50 and 100 Euro denominations represent 95.8% of the total counterfeited banknotes.

The same concentration of denominations of counterfeit banknotes is confirmed also over a wider time-frame (2010-2014), as shown in the following Figure 25.

**Figure 25 - Denomination of counterfeit banknotes: comparison with annual data for the period 2010-2014**



The numeric increase recorded in San Marino in 2014 is consistent with the trend in Italy, where the total increase for the 2014-2013 period was 27.6% (170,134 banknotes in 2014, compared to 133,388 banknotes in 2013). For the purpose of providing complete information, it should be added that data published by the Bank of Italy showed that the higher number of withdrawn banknotes in 2014 referred to the 20 Euro denomination (equal to 55.3% of the total), followed by the 50 Euro banknote (equal to 23.1% of the total) and by the 100 Euro banknote (equal to 14.5% of the total).

Finally, it is pointed out that the European Central Bank communicated that in the second half of 2014, 507 thousand false Euro banknotes were withdrawn from circulation, 97.5% of these in Eurozone countries. Please note that also the second half registered a 53.2% increase compared to the first half of the same year (331 thousand specimens). In general terms, in the second half of 2014, the 20 Euro (60%) and 50 Euro (26%) denominations were still the most counterfeited, and jointly represented 86% of the total, followed by the 100 Euro banknote (8%).

## **2.4 Cash handling**

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

Within the scope of the performance of this service by the Central Bank, please be reminded that the San Marino banking system has no longer required 500 Euro banknotes as from 2008 and 200 Euro banknotes as from the end of 2011.

The delivery of cash to the banking system is governed by a specific internal regulation of the Central Bank, which is subject to periodic updates aimed to improve the efficiency of the service and reduce operational risks. Finally, the service's high levels of security are maintained also thanks to the cooperation of the Police.

In compliance with the formalities required pursuant to the regulations of the respective countries involved, the specialised vectors in charge of cash transportation provided the competent Authorities with the declaration of cash transportation for an overall amount equal to or in excess of 10,000 Euro or its countervalue, pursuant to Regulation no. EC 1889/2005 and Delegated Decree no. 74 dated 19 June 2009.

In the context of the performance of the service for the supply of cash from Italy, the Central Bank informs the Bank of Italy about the date and amount of the provision, and instructs the corresponding Italian bank of which it avails for the provision of cash, specifying each time the amounts relating to the booking of cash by each San Marino bank, including the adjustment of the balance with the Central Bank. Similarly, on a monthly basis, the Central Bank sends formal communication to the above-mentioned corresponding bank, indicating the amounts of cash distributed to each San Marino bank, including the adjustment of the balance with the Central Bank.

In order to ensure the traceability and transparency of the European Central Bank's work, and keep clear evidence of the distributions to San Marino banks of cash received from Italy, as well as on all internal transfers in the country (for example, movements from the central deposit to branches of the same bank or movements from Bank to Bank), all operational communications, authorisations and the print-outs of reports related to cash management, are strictly defined, through an IT procedure called GestCash, which the Central Bank has made available to the San Marino banking system, as an instrument to be used exclusively.

From an analysis of the data extracted from the GestCash IT procedure, it should be noted that, during 2014, the Central Bank obtained cash at its corresponding bank 20 times; consequently, through 231 cash provisions, it distributed cash on the San Marino banking system. For the purpose of providing complete information, it should be noted that the requests received by the banking system registered a limited increase in value compared to the previous year, equal to 3.3%.

Pursuant to Law no. 101 of 29 July 2013, called "Collection of provisions on banknotes and coins", the Central Bank was endowed with the functions related to cash management. The latter





consequently issued "Regulation on Euro banknotes and coins" no. 2013-04 and the "Guide for compilation for statistical reports of cash handlers".

The above-mentioned regulation on cash, which is implemented in line with the reference European legislation as a mandatory act following the signing of the Monetary Agreement, identifies and governs the role of the cash handler who, inter alia, is required to submit statistical reports in the context of cash recirculation activities.

The statistical reports on cash recycling were transmitted by the cash handlers as from the second half of 2014, through a function specifically created as part of the IT procedure GestCash, already used by these operators. This function also provided for the reports concerning equipment (banknotes and coins) compliant with the ECB and European Anti-Fraud Office (OLAF) lists, with which cash handlers were provided.

In the early months of 2015, the Central Bank conducted distance documentary checks aimed to ascertain, in the context of the regulatory requirements of Cash Handlers, the correct correspondence of the reports on cash handling activities, as referred to in Regulation no. 2013-04, as well as the consistent allocation of equipment that conforms with the processing of banknotes and coins.

As a result of the application of rules on cash handling, the Central Bank managed all the problems deriving from the systemic detection of banknotes unsuitable for circulation made by cash handlers. In this context, a specific agreement was defined with the same corresponding bank to channel all unsuited banknotes withdrawn from circulation, which made it possible to direct to the Eurosystem an extraordinary remittance of banknotes found to be unsuited during the period prior to the enactment of Law no. 101/2013.

The Central Bank is working with the Bank of Italy in defining a specific memorandum of understanding on the complete cash issue, and specifically provide for a direct relation for the supply of cash, its repayment, the management of the suspected counterfeit specimens, the channelling of banknotes unsuitable for circulation, as well as static information for the Eurosystem.

## **2.5 Trust Register**

At the end of 2014, the number of trusts registered in the Register, net of cancellations stood at 97, showing a 6 unit increase compared to the end of 2013 (91 trusts registered as at 31/12/2013).

2014 confirmed the increased use of the trust as an institution, with 9 new trusts registered and 3 cancellations. This trend is consistent with the one recorded since April 2010 (the month in which the register was established and responsibility for this passed from the Office of Industry to the Central Bank).

During 2014, the Office received 2 administrative sanctions for infringement of Law no. 42/2010, totalling an overall amount of 9,890.20 Euro that, if added to the only sanction redeemed during the previous year, brings the total value of the sanctions so far collected and returned to the State to 10,890.20 Euro.

In 2014, as well as in previous years, the Office was involved in activities involving the response to questionnaires sent by various International Organisations - (lastly, in the National Risk Assessment - NRA) process promoted by FIA in cooperation with the World Bank experts - as well as in the active participation in the various working groups.

The required annual training activities for aspiring professional trustees or for maintenance of the training requirement were continued by the Central Bank Foundation by relying on the regular participation, as a lecturer, of the Head of Office who, in the 2014 session, highlighted the



recent amendments made to the current law on trust that affect the activities under the responsibility of the Office.

## **2.6 Regulatory advice activity**

The activities in question, during 2014, were particularly absorbed by the delicate and complex project for the reform of the sanctioning powers of the Central Bank and FIA. This project resulted in the adoption of the following measures:

- Delegated decree no. 24 of 4 March 2014;
- Delegated decree no. 77 of 19 May 2014 (which ratifies with amendments the previous one);
- Law no. 146 of 19 September 2014 (Articles 26 to 29).

In the context of this reform process, there were many technical meetings in which the Central Bank and FIA professionals participated at their offices or in those of the relevant Secretaries of State. Many repeated contributions and evaluations were provided on the texts of the various drafts that were carried out in order to search for the best compromise between two partly opposing goals, namely:

- the need, legitimately presented by the supervised parties and self-employed professionals that represent them, to ensure the transparency of the process, proportionality of the sanctions and timeliness of the disputes in relation to the irregularities detected,
- the equally fundamental need to ensure effective and supervisory action, also through the deterrence capability of the instrument of the sanctions, preventing excessive time constraints or formal limits to the sanctioning procedures from thwarting the verification activities performed or increasing administrative disputes, also for merely delaying purposes.

However, as regards the assistance activities in the regulatory context carried out by the Central Bank, mention should be made herewith also to the work carried out in the context of two important projects of the Executive Committee: FONDISS and Poste San Marino S.p.A.

They, as known, are legal entities of very high public interest and under public law, and more precisely

- FONDISS is the supplementary welfare fund administered by a Committee appointed by the Great and General Council, constituted within I.S.S., which avails of the same organisational structure,
- Poste San Marino is the Joint Stock Company created from the transformation of Ente Poste, whose sole shareholder is the State and with officials appointed by the board, which will issue financial services (including the collection of savings) in conjunction with the traditional postal services and with no capital and organisational separation.

Both entities are nonetheless subjected by law to the Central Bank's supervision, and on these grounds the Central Bank was asked to collaborate also with the preparation of the relevant regulatory frameworks of reference:

- for FONDISS, there were numerous meetings during the 2014, held to analyse the impact of the outcome of the referendum and coherently identify the resulting regulatory adjustments also in terms of the implementation of the law establishing the measure;
- for Poste San Marino, the collaboration developed mainly on two fronts; the prearranged one on the identification at the legislative level of the quality and quantity of public resources necessary for the establishment of the Share capital, and that aimed at drafting the Statutes of the S.p.A. (joint stock company), subsequently adopted with Delegated Decree no. 212/2014, searching, on the technical level, for the best compromise between the standards on the adequacy of the



Statutes imposed by applicable banking supervisory provisions (to which the law establishing the measure refers) and the peculiarities arising from the simultaneous provisions of public postal services and the public-law structure of governance.

Other more or less occasional cooperation activities on targeted actions were provided throughout 2014, similarly to previous years, whenever (in particular) the Secretary of State for Finance intended to implement measures in financial and sometimes tax-related matters that also affected the San Marino financial system.

Otherwise, for the two initiatives for a legislative proposal presented by the Central Bank in August and September 2013 pursuant to the requirements of Art. 45, paragraph 2, of its Statutes, respectively for the integration of LISF (prot. 13/7132) and the change in the law on trust (prot. 13/8101), the Central Bank is waiting to initiate the related comparison with the competent Secretary of State for Finance.

## **2.7 Cooperation with the Single Court**

### **2.7.1 *The preparation of expert reports***

Since 2007, the Central Bank has played, as a complement to the institutional functions provided by the law in force, technical support functions as Court appointed technical expert (CTU) on behalf of the Single Court of the Republic of San Marino in relation to economic and financial aspects in the context of civil actions and conciliation proceedings.

The implementation of this function, notwithstanding its institutional importance, generates an inappropriate overlapping of the role as CTU with the role of Supervisory Authority, particularly in the proceedings that involve the supervised parties.

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

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

By using the resources of the On-site Supervision Service, this collaboration did not result in 2014 in on-site activities being conducted and resulted in 2 inspections, significantly down from the previous years.

Some staff from the On-site Supervision Service who had been involved in the preliminary phases of international rogatory proceedings or who had carried out the resulting investigations in reports presented to the Court, were called on as witnesses during the hearings.

The Judicial Authority assigned only one project during the first quarter of 2015.

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

As the Supervisory Authority, once again, in 2014 the Central Bank was appointed by the Law Commissioner, pursuant to Art. 37 of Decree-law no. 134/2010 to act as custodian for the funds that had been seized by banks or fiduciary companies that assume judicial custody thereof on orders issued by the above stated Magistrate.

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

## 2.8 The Currency Authority

The Central Bank has the role of the Republic of San Marino's Currency Authority, monitors the provisions on currency (Law no. 96 of 29 June 2005 as subsequently amended) and, right from its very foundation, had been institutionally authorised to carry out currency transactions and operate in the foreign exchange market, with the authority and in the forms set forth in the current banking laws and regulations.

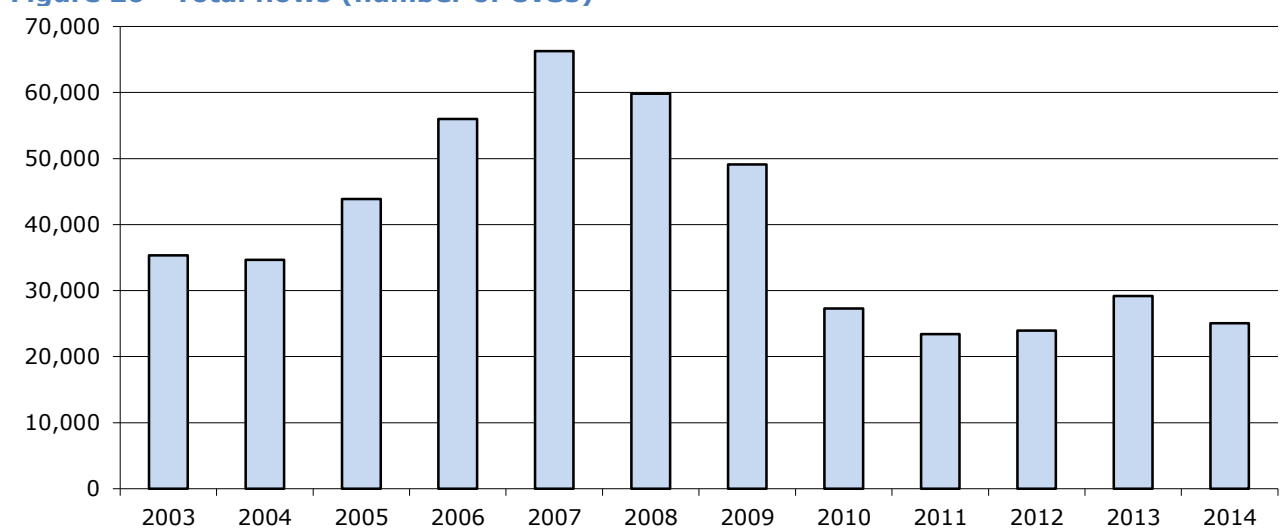
Moreover, the Central Bank has the power to authorise San Marino credit institutions to carry out currency and/or foreign exchange transactions, defining their limits and conditions pursuant to Law no. 41 of 25 April 1996 ("Provisions on currency") and in compliance with Art. III.V.12 of Regulation 2007-07 "Regulation on the collection of savings and banking activity" as subsequently amended.

The above-mentioned law also entrusts the Central Bank with the control and supervision of currency activities implemented by banking intermediaries.

As from 1 August 2000, the Central Bank receives information on a monthly basis from the qualified banks of San Marino that carry out foreign currency transactions for a value equal to or greater than 15,500 Euro, by means of the Comunicazione Valutaria Statistica form (CVS, Statistical Currency Notification form). There are 6 San Marino banks authorised to carry out currency and/or foreign exchange transactions directly with foreign entities, and they are required to submit the CVSs through the San Marinense Interbank Network (RIS), to the Currency Authority.

The flows transmitted by the banks of San Marino to the Central Bank during the period 2003-2014 are shown in Figure 26 and in Figure 27.

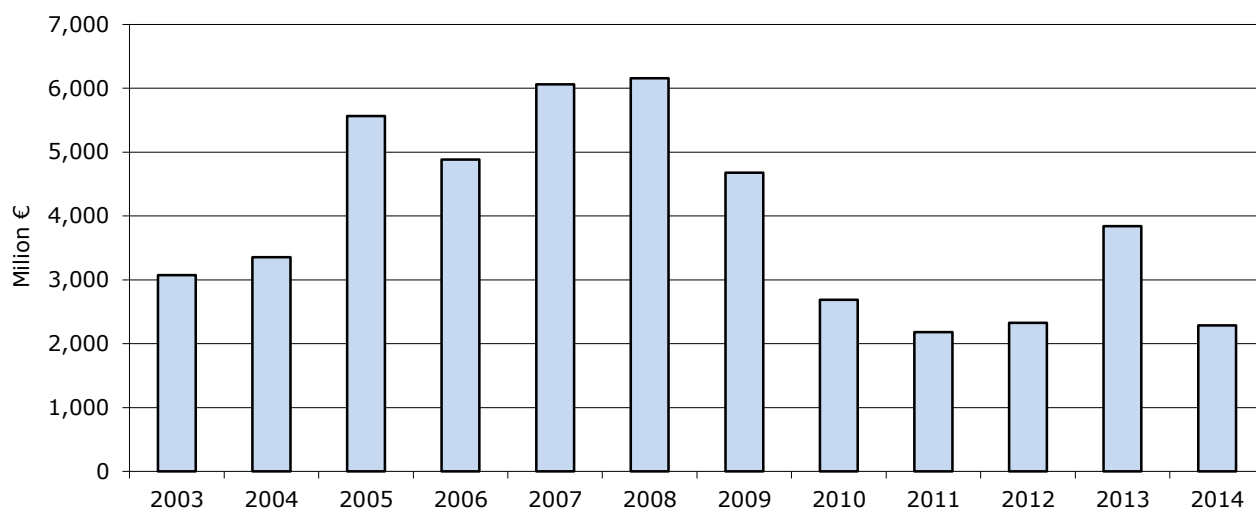
**Figure 26 - Total flows (number of CVSs)**



There were 25,089 CVSs received from banks in 2014, compared with the 29,206 registered in 2013, down by 14.1% (Figure 26), whereas the value of the amounts settled decreased from 3,841 million Euro to 2,288 million Euro, down by 40.4% (Figure 27).



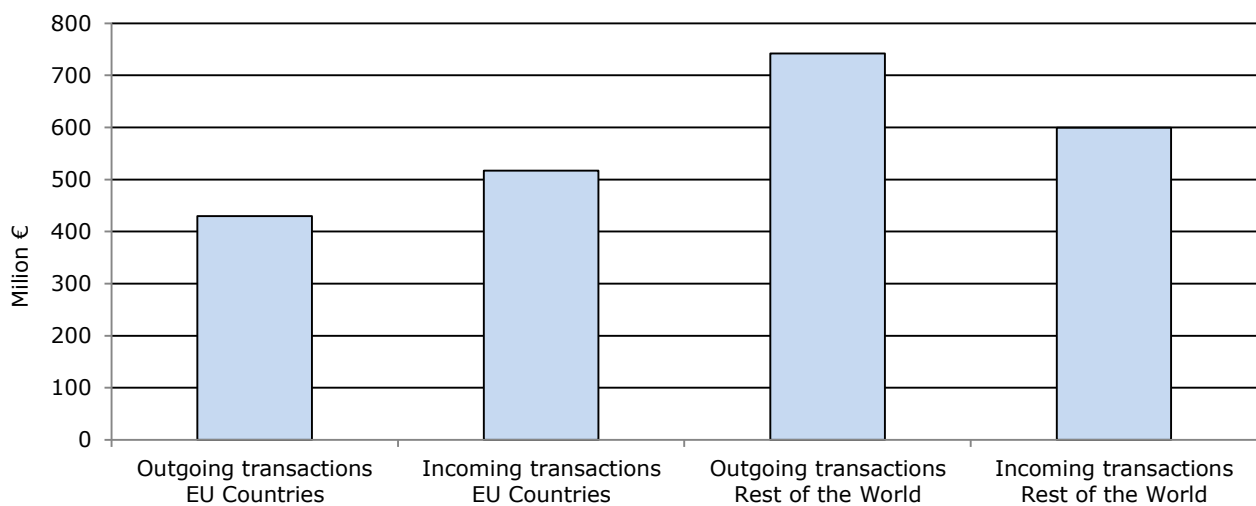
**Figure 27 - Amounts settled by the banking system of San Marino**



In 2014, CVS “incoming” transactions recorded a value of 1,116 million Euro, with a breakdown by geographical areas highlights transactions with EU countries amounting to 517 million, corresponding to 46.3% of the total incoming transactions and 599 million with the rest of the world, corresponding to 53.7% of the total incoming transactions.

In 2014, CVS “outgoing” transactions recorded a value of 1,172 million Euro, with a breakdown by geographical areas highlighting transactions with EU countries amounting to 430 million, corresponding to 36.7% of total outgoing transactions and, 742 million with the rest of the world, corresponding to 63.3% of total outgoing transactions.

**Figure 28 - Incoming and outgoing transactions broken down by geographical areas**



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

## 2.9 The payment system

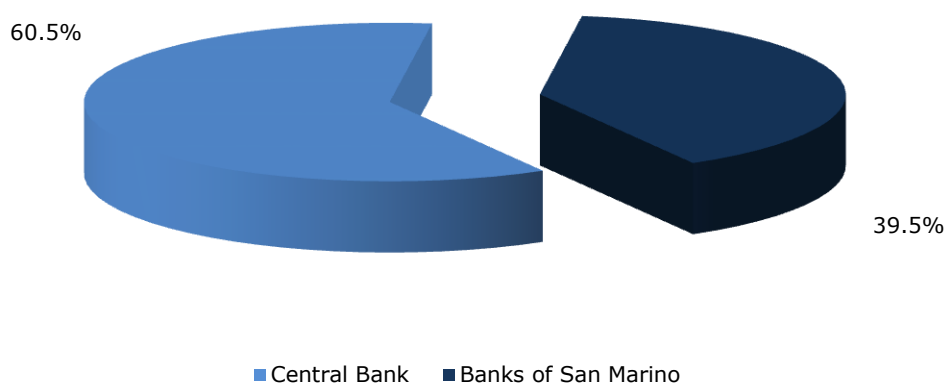
The management function of the payment system, assigned by the Central Bank Statutes pursuant to Articles 37 and 38, is implemented through the management, regulation and supervision of the payment system of the Republic of San Marino, with the aim of ensuring that San Marino banks have the opportunity to operate safely, stably and efficiently on the national payment system.

In respect of payment instruments channelled via the RIS, the national payment system registered a 7.9% increase in the number of payment transactions, against a drop by 4.4% in the global value of the amounts settled.

In 2014, the banking system transmitted approximately 389 national wire transfers, for a value of 949 million Euro. Figure 29 and Figure 30 show respectively the breakdown in percentages and in the amounts settled, divided by Central Bank and the banks of San Marino.

With reference to the high percentage impact of the number of national wire transfers transmitted by the Central Bank, compared with the aggregate number of national wire transfers, it should be noted that it is due to the characteristic features of the payment services made available to the public sector, such as the payment of salaries, pensions, suppliers of the Public Administration and transactions resulting from the use of the SMAC cards (San Marino Card), with the latter characterised in particular by a high number of transactions for small amounts.

**Figure 29 - Breakdown of the number of national wire transfers transmitted**



**Figure 30 - Amounts settled through national wire transfers**



From a comparison of the data for 2013-2014, the wire transfers transmitted on the national network increased by 11.5%, whereas their amounts decreased by 1.8%.

The national payment instrument *Direct Debit*, namely the payment instrument whereby the creditor requests to debit the debtor's account, in 2014 registered an increase in the number of transactions compared to the previous year. Approximately 351 thousand orders were recorded, for a value of approximately 60 million Euro; the increase from 2013 represents 11.8% of the number of *Direct Debits* transmitted by the Central Bank to the San Marino banks, an overall decrease of 1.6% of the amounts settled.

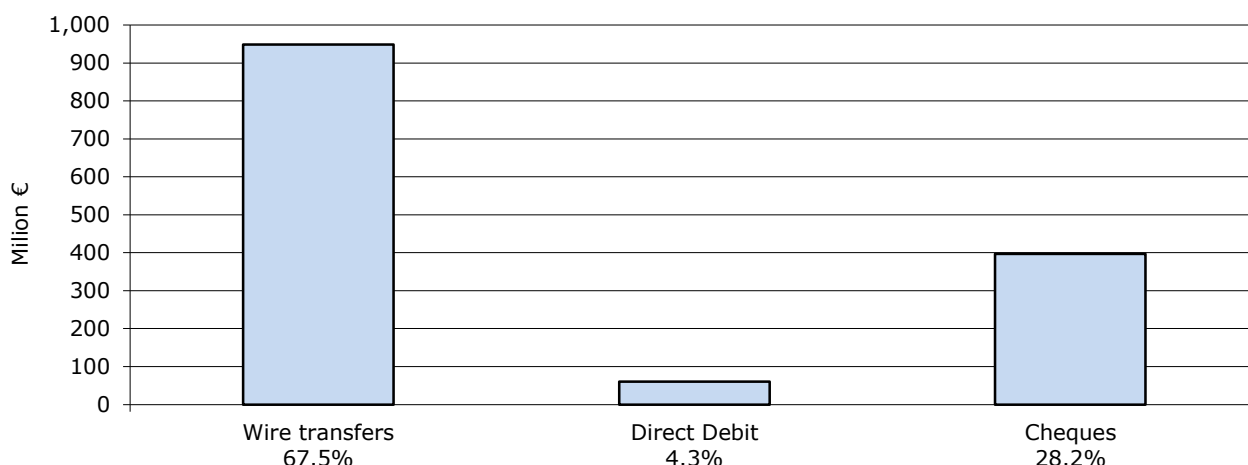
The Paper Based Transactions service (scambio recapiti domestici, or SRD), is carried out by the Central Bank pursuant to Regulation no. 2007-04 as subsequently amended, in the two-fold role of participant in and manager of the same service. The SRD service management aims to ensure that deadlines and methods envisaged for the exchange of securities, documents and correspondence are complied with by San Marino banks.

Within the context of the SRD service, the Central Bank has also managed the exchange of national cheques, traded and processed on San Marino banks, through the exchange of management activities which, in addition to the physical exchange, also provide for the electronic exchange of the accounting flows and images through the RIS, as a prerequisite for the completion of the daily exchange.

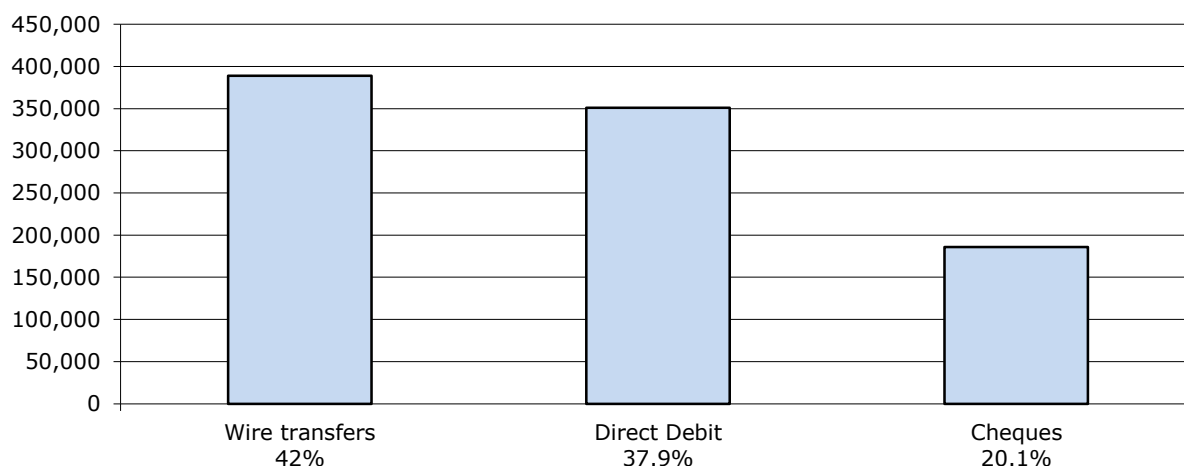
In 2014, the national cheques exchanged in the SRD service totalled around 186 thousand units amounting to a value of 397 million Euro; this means a 4.6% decrease in their number and a 10.4% decrease in value.

Figure 31 and Figure 32 respectively show the value and number of the payment instruments settled through wire transfers, *Direct Debit* and cheques channelled through the RIS for the year, as well as the percentage by type on total orders channelled.

**Figure 31 - Amounts settled through wire transfers, Direct Debits and cheques**



**Figure 32 - Number of orders settled through wire transfers, Direct Debits and cheques**



The Central Bank participates in the gross settlement payment system called TARGET2 via automatic access through the Bank of Italy as a CB Customer (Central Bank Customer). For TARGET2 participation, interbank communication is guaranteed through accession to the SWIFT network, which ensures the Central Bank's interbank accessibility at international level.

In the light of the undertaking by the Republic of San Marino with the signing of the Monetary Agreement on 27 March 2012, of the analyses conducted by the Central Bank starting from the same year, and of the meetings with the relevant European and Italian authorities for the purpose of jointly identifying the scope of adjustment needed considering the specific nature and steps required for San Marino in terms of procedures and deadlines for accession to the SEPA (Single Euro Payments Area), Regulation no. 2013-05 of the Central Bank on SEPA (connected with Regulation 2014-04) entered into force on 31 August 2013, while on 12 December 2013, the European Payments Council (EPC) reached its decision to include the Republic of San Marino among the countries participating in SEPA, with effect from 1 February 2014, from which date all the San Marino banks have been using SEPA payment instruments, credit transfers SEPA Credit Transfers and SEPA Direct Debits.



In this context, the role of the Central Bank was mainly finalised to provide support to the San Marino system in the process of standardising regulations and technical procedures within the deadlines set by the relevant European and Italian Authorities.

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

The Central Bank also manages the Data Bank, pursuant to Decree-law no. 65 of 14 May 2009, through which the transferor bank can proceed to the Customer Due Diligence of San Marino banks in relation to payment transactions to and from foreign countries regulated by the transferor bank.

## **Box 5: Single Euro Payments Area - SEPA**

### **Premise**

SEPA is a project promoted by the European Central Bank and the European Commission, with the European Payments Council responsible for its implementation. In this context, all retail payments in Euro are considered as domestic, since the distinction between national and cross-border payments within the area is no longer valid. SEPA aims to extend the process for the European integration of retail electronic payments in Euro made with instruments other than cash (transfers referred to as SEPA Credit Transfers and direct debits referred to as SEPA Direct Debits), for the purpose of facilitating efficiency and competition within the Eurozone.

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

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

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

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

As from 1 February 2014, the SEPA credit transfer (SCT) has been used to effect payments to and from the SEPA area. This is in addition to the transfer used up to now at national level, and is characterised by a pre-set execution time of 1 business day, in line with the provisions of the Directive on payment services (2007/64/EC of the European Parliament and Council dated 13 November 2007).

The provisions in the European Directives aim to computerise the transfer's processing on the bank's side, in order to reduce costs and execution times (the Directive stipulates that the beneficiary's bank should credit the transactions received "immediately thereafter", eliminating the banking practise of crediting on the day following receipt, and therefore the so-called "cleared value").

The SEPA transfer is an instrument that is harmonised at European level, and represents a basic service that intermediaries can supplement with additional functions. The costs for the transfer



transaction are shared between the ordering customer and the beneficiary, based on the agreements that they have with their respective banks: in this way, every customer knows the exact cost of the services beforehand, which will then be charged exclusively by his/her bank. Furthermore, so that the conditions relating to customers are explicit and transparent, commissions applied by intermediaries cannot be deducted from the transfer amount, but must be debited separately: the transfer amount is therefore credited in full without any deductions by the intermediaries processing the transaction.

The SEPA transfer was conceived to provide an easy-to-use service, and as such uses an IBAN code (International Bank Account Number). This has been in use in San Marino for some years now, and makes it possible to unequivocally identify the customer's account held at a financial institution. To put in place a SEPA transfer, the ordering customer must provide his/her bank with the beneficiary's IBAN and BIC codes. In order to simplify the transaction further, certain banks do not ask for the BIC code, but arrange this themselves. Obtaining one's IBAN code is very simple: it always appears on the bank statement, and can be requested at any time from one's bank. The IBAN guarantees that the processing of transactions are fully computerised, and this is why one needs to pay special attention when providing this code, which is more important than any other information provided (e.g. the beneficiary's personal details).

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

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

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

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

- authorising the creditor to put in place one or a series of debits on its account;
- authorising one's own bank to debit the account based on instructions provided through the creditor.

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

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

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

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



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

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

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

Pursuant to Article 11 (paragraphs 1 and 2) of Regulation No. 2013-05 (connected with Regulation no. 2014-04), direct transfers and debits have been standardised to SEPA regulations as from 1 February 2014. National transfers and direct debits in favour of the broader public administration sector are excluded (channelled on to the San Marinese payment system), where the harmonisation to SEPA regulations has been postponed until 1 February 2016. 1 February 2016 is also the effective date for Financial RIDs and RIDs with a fixed amount (see Article 7 paragraph 1 of Reg. 2013-05), intending as:

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

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

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

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

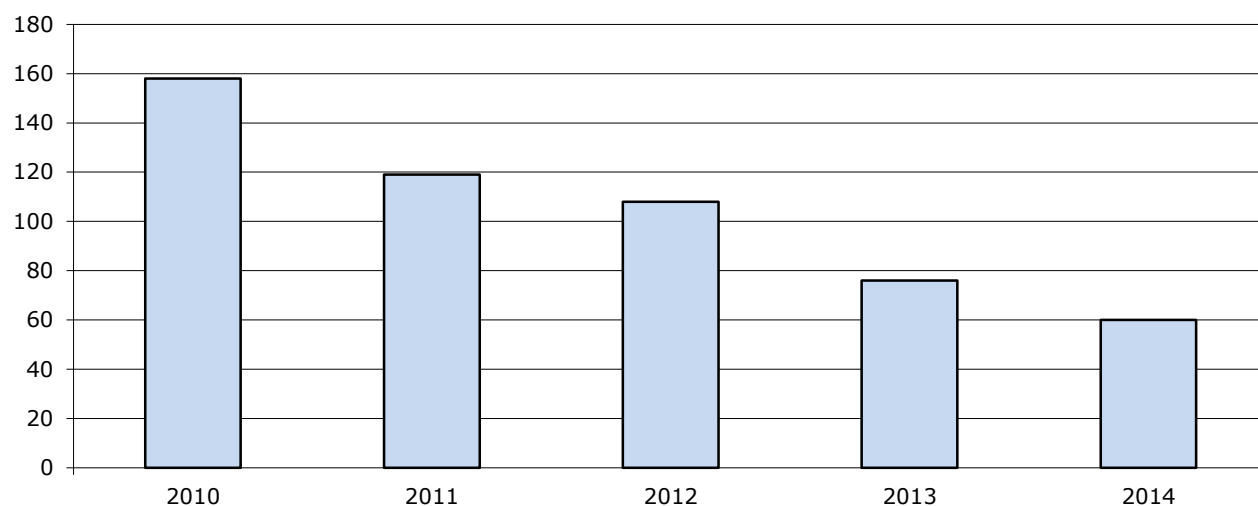
## **2.10 The Protest Information Service**

The Central Bank, pursuant to Circular no. 2014-01, carries out the Protest Information Service through the aggregation of the data provided monthly by the reporting parties (banks and Poste San Marino S.p.A., as drawee parties of the protested cheques) concerning the cheques protested during the reference calendar month and the transmission of the information report, with the same frequency, to the recipients (banks, financial companies and Poste San Marino S.p.A.).

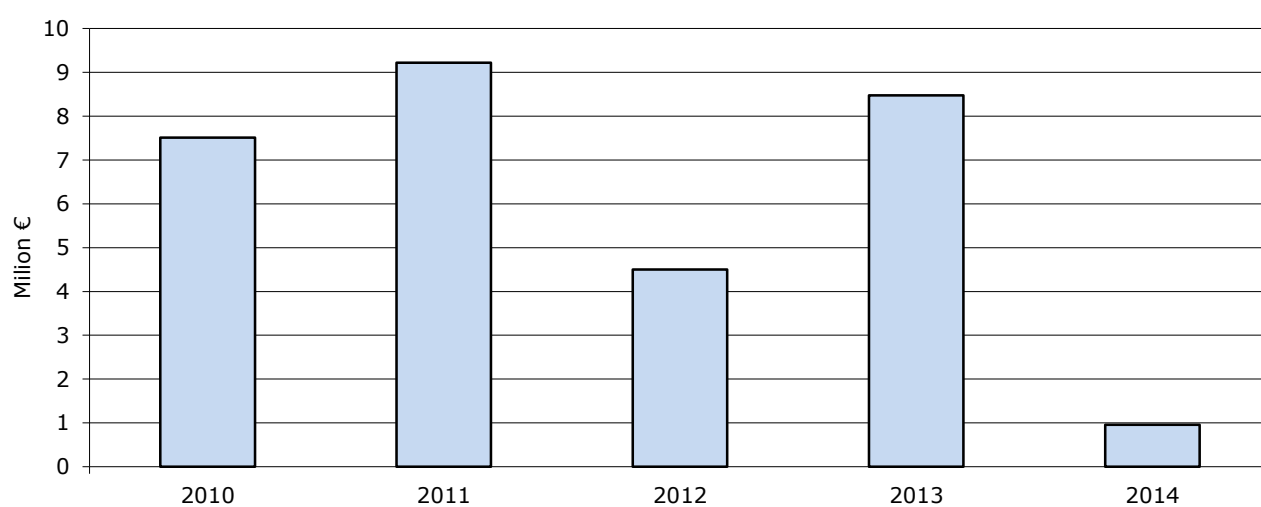
With effect as from 1 January 2015, to support the process for the acquisition, processing and provision of data relating to the names on protested cheques, in order to optimise the reports in terms of efficiency, correctness and completeness of the information contained therein, a computerised procedure called "Protest Information Service" was created. This service meets the security and confidentiality needs of processed data since it is placed in the context of the RIS technical infrastructure.

Figure 33 and Figure 34 show respectively the number of names concerning the protested cheques and the overall amount in millions of Euro for the years from 2010 to 2014.

**Figure 33 - Number of names related to protested cheques**



**Figure 34 - Protested amounts**



## Box 6: The Protest Information Service

On 6 December 2004, hence before Law no. 165 of 17 November 2005 (LISF), the Central Bank of the Republic of San Marino (Supervisory Division) issued Circular no. 41 (repealed by Circular no. 2014-01), concerning "Protest of cheques pursuant to Art. 1 of Law no. 47 of 24/11/1970", with which, as well as indicating the reporting procedures, to be executed by means of the delivery of the Annex to Circular no. 41, also provided for precise obligations concerning the issuance of the protest.

Subsequently, LISF, with Article 51, disciplined the subject-matter again, confirming the competence of the Supervisory Authority for the management of the Protest Information Service as well as the power of the Supervisory Authority to govern its organisation and operation.

On 9 July 2014, the Central Bank issued Circular no. 2014-01, with entry into force as of 1 January 2015, concerning the Protest Information Service.

In fact, as result of Circular no. 2014-01:

- a) the procedures for access to the information by the parties recorded in the Protest Information Service are accurately regulated;
- b) the purpose and therefore the responsibilities connected to the updating of the data supplied are better clarified;
- c) with an appropriate guide for compilation, the methods for the transmission of the information concerning the Protest Information Service - to and from the reporting parties (banks and Poste San Marino S.p.A., as drawee parties of protested cheques), and the recipients (banks, financial companies and Poste San Marino S.p.A.) and the Supervisory Authority (the Central Bank of the Republic of San Marino) - were revised;
- d) the list of data necessary for each reported protest is updated, providing for each a precise description;
- e) the Protest Information Service is extended to the postal cheques as referred to in Article 6 of Delegated Decree no. 175 of 27 December 2013, providing for the inclusion of Poste San Marino S.p.A. among the reporting parties and the recipients.

Reporting parties, by the tenth working day of each calendar month, according to the San Marino payments system calendar, must submit to the Supervisory Authority the report called "List of Protests", concerning information on protests that were elevated during the previous calendar month.

The List of Protests must be transmitted also if, during the reference calendar month, no protests were issued (so-called blank report), to confirm the absence of the latter.

The procedures for the compilation of the electronic form (List of Protests) and the channels for the transmissions are reported in the Guide for Compilation published on the website [www.bcsm.sm](http://www.bcsm.sm).

The Supervisory Authority, having received the information from the reporting parties with the submission of the List of Protests, proceeds to aggregate it:

- a) by rearranging the information received in alphabetical order of protested party;
- b) by integrating the protests referable to the same subject, so as to have a single total monthly entry at the level of the San Marino banking system;
- c) by making, as a matter of course or subject to verification with the reporting party, only the corrections to the evident material errors or discrepancies between data that may be referred to the same party.

The Supervisory Authority, having completed the aggregation of data received in the terms indicated above, transmits to the recipients, for prudential purposes, the monthly document containing all the information received with the exception of the identity of the reporting party, also in relation to aggregation procedures that have already been completed.

The List of Protests must indicate, with reference to each cheque protested in the month of reference, the following information:

- a) progressive number of the annotation;
- b) the surname and first name of the "drawer", i.e. the natural person who has drawn, by signing it, the cheque on the reporting party;
- c) the date of birth of the drawer;
- d) the place of birth of the drawer;
- e) the address of residence of the drawer;
- f) I.S.S. code or equivalent foreign identification code abroad of the drawing party;
- g) the name of the company on behalf of which the cheque was ultimately drawn;
- h) the Economic Operator Code or foreign equivalent of the company, in the cases referred to under the preceding letter g);
- i) address of the registered office of the company, in the cases referred to in the preceding letter g);
- l) amount of the cheque for which a protest was issued;
- m) identification number of the cheque;
- n) date on which the protest was issued;
- o) any further data, useful to complete the information:
  - o1) at the objective level, you must indicate if the cheque was protested for various or further causes other than lack of funds (apocryphal signature, counterfeit signature, terminated account, stolen cheque, seized cheque, cheque reported lost or stolen);
  - o2) at the subjective level, you must indicate:
    - in the case of a company: in which capacity the drawer has drawn the cheque in his/her name (chairman, director, attorney, owner);
    - in cases of a joint account: the full details of the other joint holders of the current account on which the cheque was drawn;
    - in cases of delegation: the complete details of the holder (or holders) of the current account that delegated the drawer to draw cheques debited to him/her;
    - in any other case of even partial non-coincidence between the drawing party and the name on the drawing current account, the exact registration of the banking relationship.

In the case of cheques drawn with an apocryphal signature that is completely different from the deposited specimen, or with a counterfeit signature, i.e. imitated but not compliant, the only data to be entered will be:

- a) progressive number of the annotation;
- b) "UNKNOWN";
- c) the amount of the cheque for which the protest was issued;
- d) identification number of the cheque;
- e) date on which the protest was issued;
- f) "cheque with apocryphal signature" or "cheque with counterfeit signature", followed by the complete details of the holder (or holders) of the current account on which the cheque was drawn ("..... drawn on current account payable to..... , born in ..... on..... and a resident of ..... in ....."), except in cases where the cheque had previously been reported as stolen or lost ("..... and previously reported").

In the case of a cheque drawn with joint signature, it will be registered in the List of Protests for as many times as the number of signatures on it.

## 2.11 Register of fiduciary holdings

Also during 2014, the activities related to the Register of Fiduciary Holdings referred mainly to receiving reports from San Marino and foreign fiduciary companies, and the exchange of information with the relevant offices and authorities.



The regulatory framework of reference concerning the exchange of information regarding the Register of Fiduciary Holdings, underwent a legislative amendment during 2014. In particular, Law no. 40 of 31 March 2014 "Discipline of the licenses to practice industrial activities, services, craft and commercial activities", with entry into force on 30 May 2014, in repealing Decree-law no. 179 of 5 November 2010 "Standardisation of the regulatory framework concerning Inadmissible Persons and the requirements for the license to exercise the business. Amendments to Laws no. 47 of 23 February 2006, no. 129 of 23 July 2010 and no. 130 of 26 July 2010", governed the procedures for access to the Register of Fiduciary Holdings by the Office of Industry, Small Businesses and Trade. In particular, Article 38, paragraph 4 of Law no. 40/2014 established that the afore-mentioned Office, for the purpose of issuing license cancellation certificates, can access the information collected and held by the Central Bank pursuant to Article 2 of Law no. 98 of 7 June 2010. This resulted in the impossibility for the Commercial Registry of the Single Court to access the same information held by the Central Bank pursuant to Law no. 98/2010.

In 2014, the Central Bank intensified its cooperation with Offices and Authorities that have access to the data contained in the Data bank. In particular, the activities concerned the exchange of information with the Control and Supervision Office on Economic Affairs and the Central Liaison Office pursuant to Law no. 98 of 7 June 2010, the Commercial Registry of the Single Court (up to 30 May 2014) and the Office of Industry, Small Businesses and Trade, of Decree-law no. 179 of 5 November 2010 (in force until 30 May 2014). Data was also provided to the Single Court and the Civil Police – Anti-Fraud Unit and Interforce Group, with this is in the context of criminal proceedings and/or international rogatory proceedings pursuant to Art. 29, paragraph 3 of Law No. 96 dated 29 June 2005 (Central Bank Statutes) and finally the Financial Intelligence Agency (FIA), regarding the functions assigned to this Authority on the prevention of and fight against money-laundering and terrorism financing, in accordance with Law No. 92 dated 17 June 2008.

The following Table contains the summary data for activities carried out, with reference to the 2014 financial year and the first quarter of 2015:

**Table 24 – Activities carried out: requests and disclosures received**

Reports/disclosures	2014	2015 I Quarter
Number of reports received from fiduciary companies and banks*	185	40
Number of requests for information received from responsible Offices and Authorities**	45	6

Notes: \* Moreover, management activities on reports led to the request for and postponement of some reports: 23 during 2014 and 6 in the first quarter of 2015.

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

The activity of managing the requests received by the above-mentioned Offices and the Authorities, aimed to ensure a more complete and continuous disclosure, also resulted in subsequent additions to the responses already provided: in particular, with reference to 6 of the 46 requests received during 2014, further analyses and communications were made.

During 2014, the Office of Industry, Small Businesses and Trade was notified of a failure to comply with notification requirements on the part of two companies, concerning information regarding fiduciary holdings in San Marino companies, according to the provisions of Art. 5 of Law no. 98/2010, for the purpose of applying monetary administrative sanctions.

## 2.12 State Treasury

During 2014, the Treasury Department carried out 77,059 operations on behalf of the Broader Public Administration, including 12,430 collection orders, 20,187 pending incoming items, 43,473 payment orders and 969 pending outgoing items.

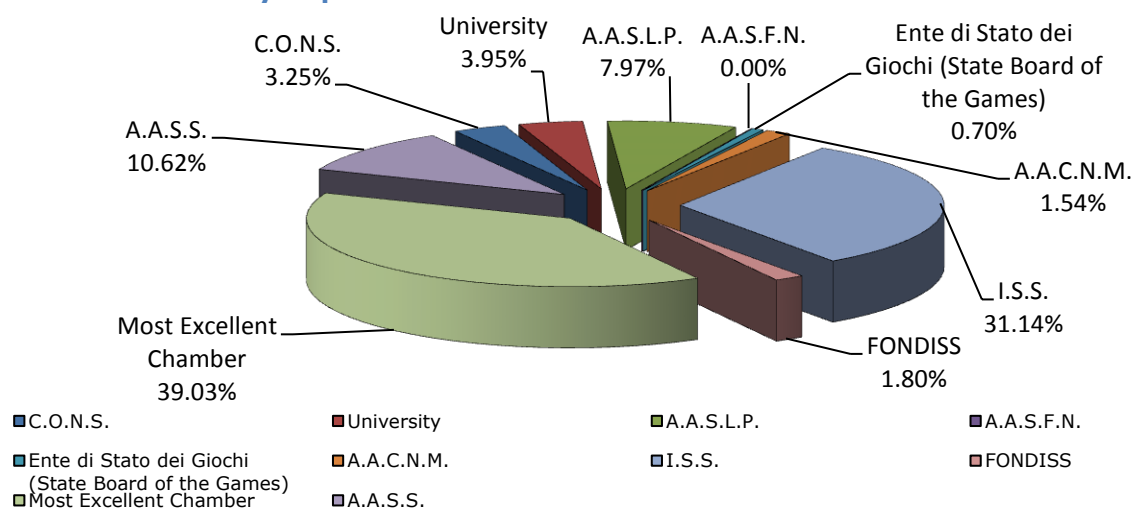
**Table 25 - Volumes processed expressed in relation to the number of orders**

Entity	2012					2013					2014				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	402	105	2,190	58	2,755	440	101	2,162	90	2,793	401	75	1,998	34	2,508
University	377	125	2,694	74	3,270	290	135	2,460	38	2,923	257	102	2,634	48	3,041
A.A.S.L.P.	556	322	5,734	74	6,686	612	357	6,088	88	7,145	604	363	5,080	94	6,141
A.A.S.F.N.	220	40	558	92	910	251	29	657	99	1,036	-	-	-	-	-
State Board of the Games	139	37	148	67	391	191	47	191	68	497	180	43	240	79	542
A.A.C.N.M.	413	229	123	36	801	545	298	176	37	1,056	654	307	180	42	1,183
I.S.S.	3,637	4,675	14,818	236	23,366	3,483	4,066	15,576	197	23,322	3,228	4,459	16,115	195	23,997
FONDISS	2	281	0	0	283	2	1,114	33	0	1,149	8	1,287	83	12	1,390
Most Excellent Chamber	6,730	13,551	11,770	597	32,648	6,774	13,589	10,917	629	31,909	5,933	12,695	11,172	275	30,075
A.A.S.S.	1,425	1,013	5,957	196	8,591	2,437	946	6,242	198	9,823	1,165	856	5,971	190	8,182
<b>Total</b>	<b>13,901</b>	<b>20,378</b>	<b>43,992</b>	<b>1,430</b>	<b>79,701</b>	<b>15,025</b>	<b>20,682</b>	<b>44,502</b>	<b>1,444</b>	<b>81,653</b>	<b>12,430</b>	<b>20,187</b>	<b>43,473</b>	<b>969</b>	<b>77,059</b>

Notes: Data updated as at 31/03/2015.

Most of these operations were carried out on behalf of the Most Excellent Chamber (39.03%) and the Social Security Institution (31.14%); followed by the State Autonomous Authority for Public Services (10.62%), the Autonomous State Agency for Public Works (7.97%), the University (3.95%), the National Olympic Committee of San Marino (3.25%), FONDISS (1.80%), the Authority for Aviation and Maritime Navigation (1.54%) and, finally, the State Board of the Games (0.70%).

**Figure 35 - Percentage volumes for collection and payment transactions executed by the Treasury Department in 2014**



In terms of volumes, the overall transactions performed concerned financial revenue for about 1,130 million Euro, compared to about 1,340 million Euro in 2013 (-15.67%) and financial outgoing movements amounting approximately to 1,033 million Euro, compared to about 1,210 million Euro in 2013 (-14.63%).





**Table 26 - Volumes processed expressed in relation to total orders**

Entity	2012		2013		2014	
	In-coming	Out-going	In-coming	Out-going	In-coming	Out-going
C.O.N.S.	6,405,714.77	5,721,543.59	6,253,604.78	5,583,856.14	5,217,531.00	4,834,168.37
University	7,797,647.86	6,117,505.39	7,402,874.90	5,664,854.66	6,669,632.26	5,257,970.75
A.A.S.L.P.	43,747,511.01	41,757,422.76	38,650,744.17	36,800,962.63	33,572,268.10	32,394,381.64
A.A.S.F.N.	21,027,721.85	20,371,417.51	16,054,253.16	15,626,511.25	-	-
State Board of the Games	499,921.73	280,431.60	454,936.01	325,266.87	366,204.46	305,100.49
A.A.C.N.M.	667,437.57	351,656.64	657,821.84	328,668.81	747,557.75	292,952.93
I.S.S.	288,237,043.54	281,563,234.67	259,853,260.09	250,973,068.97	289,535,842.35	279,142,842.75
FONDISS	2,949,562.96	0	7,717,976.55	1,458,637.04	15,334,218.96	14,113,830.87
Most Excellent Chamber	684,729,478.97	611,846,181.32	694,109,941.41	638,217,343.33	534,723,533.77	494,316,207.24
A.A.S.S.	578,579,690.37	536,253,854.88	308,518,606.94	254,839,934.26	243,730,691.81	201,867,226.16
<b>Total</b>	<b>1,634,641,730.63</b>	<b>1,504,263,248.36</b>	<b>1,339,674,019.85</b>	<b>1,209,819,103.96</b>	<b>1,129,897,480.46</b>	<b>1,032,524,681.20</b>

Notes: Data updated as at 31/03/2015.

As regards incoming funds, they were collected both directly at the counter of the Treasury of the Central Bank, and through the network of bank counters in San Marino, as provided for by the Agreement signed on 24 February 2005 by and between the Central Bank and commercial banks. Also as regards the latter redemptions, the Treasury Department, having received the printed and/or electronic documentation, credited on the respective management accounts of the various entities and transmitted the accounting records, printed documentation and reports to them.

As regards the technical procedures for collection, the instrument of the "*direct debit*" is becoming increasingly wide-spread. It consists of a payment by the creditor to the current account of the debtor, following authorisation of the former to his/her bank. The advantages for the creditor include, on the one hand, the possibility to avoid having to send payment forms, the systematic nature and the greater regularity of the collections; on the other hand, this instrument has the advantage of allowing the debtor to make the payment without having to go in person to his/her bank and, except for situations of insufficient funds on the account, to avoid any fees for delayed payments. To date, this instrument is used for the utilities of the State Autonomous Authority for Public Services, for some services of the Social Security Institutions, for school meal services and for the management of discounts and the SMAC electronic purse. However, this instrument is not applicable to the types of incoming funds whose payment is made directly by the creditor, and not as "one-off" payment but on a regular basis.

In addition to the Treasury-related collections, the Department also managed, during 2014, on behalf of the Overdue Tax Collection Department, the collections related to tax collection notices (cartelle esattoriali) and the collections made by the Collection Officers within the scope of enforcements. Pursuant to Law no. 44 of 23 March 2007, 891 attachments on payment orders were managed, which were in favour of beneficiaries resulting in arrears with the Broader Public Administration for debts entered in the Register.

As regards outgoing funds, the most used payment instrument in 2014 was the bank transfer (approximately 85%); the use of drawing and receipt cheques was limited to specific types of payments and to some institutions. In particular, there was still a moderate use of cheques for payments of pensions and for tax refunds; for the latter, Art. 24 of Law no. 146 of 19 September 2014, paragraph 4, nonetheless introduced to the taxpayer the obligation to notify the financial administration of a bank account on which the refund is to be received. Consequently, the use of cheques will be greatly reduced in favour of bank transfers, with advantages in terms of security and traceability. The Treasury Department will continue its work to raise awareness in favour of transfers, which started several years ago and is slowly showing good results.

During 2014, the Treasury Department then continued to provide deposit services to the broader Public Administration, in the technical format of the current account, which was structured and formulated according to the Entity/Office's requirements.

As well as this, it produced and timely transmitted to the Broader Public Administration the periodic reports required by the legislation in force and the agreements between the parties. In particular, on a daily basis the cash ledgers with the summary of incoming and outgoing movements were provided for each Entity; on a monthly basis, the cash audits were arranged, with the balancing between processed volumes and the balances of the current accounts of the banks on which the funds of the Entity are deposited, in addition to the statements of account of such relationships and the reconciliation statements between such balances and the cash ledgers.

Finally, it should be noted that the Treasury Service is carried out in compliance with Law no. 35 of 3 March 1993 of the State' Accounting System referred to under Law No. 30 dated 18 February 1998, and with the Accounting Regulation under Decree no. 53 dated 24 April 2003 as subsequently amended and supplemented. It is also governed by the specific Agreement signed on 22 April 2004 by the Central Bank and the Public Administration, and by the three-year Economic Agreement for the services rendered by the Central Bank to the Public Administration of 30 December 2013, expiring on 31 December 2015.

## **2.13 State Tax Department**

The tax collection service is entrusted to the Overdue Tax Collection Department of the Central Bank pursuant to Law n. 70/2004.

With the adoption of Delegated Decree no. 131 of 2014, provision was also made for the collection on a tax-roll basis of fees, tariffs and administrative licence fee and sums due following leverage of State monopoly goods. As regards these credits, in 2015 the first entries, also of significant amounts, were made in the Register, especially for the supply of water, electricity and gas.

During these first ten years of activity, the Department has equipped itself, gradually, with new technical instruments supporting the conduct of the various activities, or has updated those already in use, especially software. This made it possible to accelerate the implementation of certain processes. At the end of the year, the website of this Bank was completely redesigned. In relation to the State Tax Department activities, this renovation clearly improved the part dedicated to auctions, with positive feedback from the users of this service.

The Tax Officials in charge of carrying out enforcement actions found themselves, on several occasions, having to deal with unacceptably critical situations: the behaviour of certain parties affected by the enforcement actions - with insults, threats, and also with personal attacks - led the former to file complaints with the competent authorities, with the subsequent initiation of legal proceedings, and sentencing and compensation for damages by the unsuccessful party.

### **2.13.1 Entries in the Register**

In 2014, due to the regular entries in the Register made by imposing Entities, the Overdue Tax Collection office sent 27,258 tax collection notices. During the first ten years of activity (from 2005 to 2014), the number of tax collection notices sent progressively increased from 17,800 in 2005 to about 27,300 in 2014.

Table 27 shows the entries in the Register made during 2014 by the imposing Entities, comparing them with those of previous years. Entries in the Register in 2014, amounting to 51 million Euro, were less than half of those of 2013<sup>37</sup>. The released entries, i.e. those that no longer

<sup>37</sup> Entries in the Register in 2013 are "anomalous" compared both to those of previous years and the entry for 2014. The Tax Office - indirect taxation section - recorded the largest number of entries, from 30.1 million Euro in 2012 to



need to be collected as already paid or settled at the counters of the imposing offices or for which an incorrect entry was detected, amount to 7.2 million Euro, 6.1 million of which released following collections made by the imposing Entities.

**Table 27 - Entries in the Register and releases**

Entries	2012		2013		2014	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Managed	47,664,898.12	31,361	112,584,441.58	34,324	51,206,975.08	33,435
Released	10,459,553.70	2,374	26,454,845.57	2,680	7,270,224.86	2,149
% Released	21.9%	7.6%	23.5%	7.8%	14.2%	6.4%

By analysing the distribution of the volume of entries in the Register among the different imposing Entities, it can be noted that the entries in the Register of the Most Excellent Chamber amount to 85.1% of the total, as opposed to 93.8% of the previous year. The Social Security Institution made entries in the Register amounting to 14.7% of the total in 2014 and 6.1% of the total in 2013.

By comparing the entries in the Register of 2014 with those of the previous year, it can be noted that while the entries made by the Most Excellent Chamber decreased by 58.7%, those made by I.S.S. increased by 10.5%. The reduced number of entries in the Register in 2014 is due to the almost total reduction of the number of entries made by the Most Excellent Chamber.

**Table 28 - Entries in the Register in 2013-2014 broken down by Entity**

Entity	2013			2014		
	Amount	Entries	Number of entries	Amount	Entries	Number of entries
Most Excellent Chamber	105,648,669.05	82	29,115	43,586,457.20	71	26,813
Social Security Institution	6,829,305.18	79	4,903	7,546,477.85	115	6,189
State Autonomous Authority for Public Services	20,031.57	9	269	25,831.46	9	415
Central Bank	16,235.78	5	23	48,208.57	3	18
Financial Intelligence Agency	70,200.00	2	14	0.00	0	0
<b>Total</b>	<b>112,584,441.58</b>	<b>177</b>	<b>34,324</b>	<b>51,206,975.08</b>	<b>198</b>	<b>33,435</b>

Table 29 shows the distribution of the entries among the various offices of the Most Excellent Chamber: the entries by the Tax Office, indirect taxation section, are the most conspicuous and amount to 79.1% of the total (the main taxation items are single tax bill notices amounting to 17.1 million Euro, annual single tax bills amounting to 7.9 million Euro, injunctions amounting to 3.9 million Euro, tax bill settlements amounting to 3.0 million Euro and interest equal to 1.1 million Euro).

Entries for Tax Office - direct taxation sections - recorded in 2014 came down compared to the previous year, going from 3.8 million Euro to 3.6 million Euro, amounting to 8.2% of the total.

99.8% of entries made by the Registry Office, amounting to 4.4 million Euro (10% of the total) concern the single tax bill. In 2014, no entry was recorded in relation to the fines that needed to be collected on behalf of Italian Entities.

95.6 million Euro in 2013. The main taxation items were: a) annual single tax bills amounting to 61.4 million Euro, b) single tax bill notices amounting to 19.8 million Euro, c) single tax bill settlements amounting to 2.1 million Euro, d) single tax bill injunctions amounting to 2.2 million Euro and e) interest for delayed payments amounting to 8.1 million Euro.

Subscriptions to the role of the other offices of the Most Excellent Chamber, performed mostly as a result of the imposition of sanctions, with the exception of the Office Register vehicles, which proceeds to non-payment of fees for use of motor vehicles and represent a percentage of at least 2.5% of the total.

**Table 29 - Entries in the Register in 2014 made by offices of the Most Excellent Chamber**

Office	Entry in the Register		Release from the Register	
	Amount	Number of entries	Amount	Number of entries
Indirect Taxes	34,495,302.55	6,374	6,669,146.40	1,562
Direct Taxes	3,580,160.85	767	21,757.14	11
Registry	4,376,943.85	18,733	47,411.75	148
Civil Police	339,911.86	648	25,660.42	25
Gendarmerie	10,970.25	16	1,009.75	3
Guardia di Rocca	35,577.74	31	157.34	1
Industry, Trade and Small Businesses	236,000.00	31	34,000.00	7
Labour	256,510.00	56	9,900.00	2
Vehicles Register	44,332.00	148	1,282.00	5
Town Planning Office	193,800.00	3	0.00	0
Inspectorate for the Control of the Territory	4,948.10	4	0.00	0
Central Liaison Office	12,000.00	2	0.00	0
<b>Total</b>	<b>43,586,457.20</b>	<b>26,813</b>	<b>6,810,324.80</b>	<b>1,764</b>

Entries made by the I.S.S. Tax Office went up compared to the previous year, going from 6.8 million Euro in 2013 to 7.4 million Euro in 2014. FONDISS, for which 2014 is the second year using the Register and whose entries compared to the other entities are negligible, also registered an increase: entries went from 46 thousand Euro in 2013 to 124 thousand Euro in 2014.

### **2.13.2 Collection activities**

The sum collected in total in 2014 amounted to 16.7 million Euro and is 1.1 million Euro greater than that of 2013.

Considering that the total collection from 2005 to the end of 2014 amounts to 140.5 million Euro and that the entries in the Register were 497.3 million Euro, the Bank, in the first ten years of Overdue Tax Collection activities, received 28.3% of the total entries in the Register. The obtained result is positive, also when compared with that of neighbouring contexts.

The sums collected as amounts incidental to those entered in the Register, concern the default interest, equal to 201 thousand Euro and monetary sanctions amounting to 98 thousand Euro.

A further incidental sum is provided by interest on deferred payments equal to 159 thousand Euro; this sum refers to granted deferred payments. The payment extensions granted by the Overdue Tax Collection Department from 2005 to the end of 2014 continued to register a gradual increase: while there were 11 on 31 December 2005, on 31 December 2014 there were 254, 218 of which guaranteed by mortgage on real estate property, while the remaining extensions were covered by bank guarantee. From the existing extensions at the end of 2014, there were still 8.2 million Euro outstanding, against an initial figure for extensions of 9.9 million Euro. When taxpayers have the possibility to choose the guarantee to provide, normally they prefer a mortgage on the real estate property as it is less expensive than a bank guarantee. The granted extensions



have a prevalent duration of 60 months equal to the maximum duration permitted by the legislation currently in force.

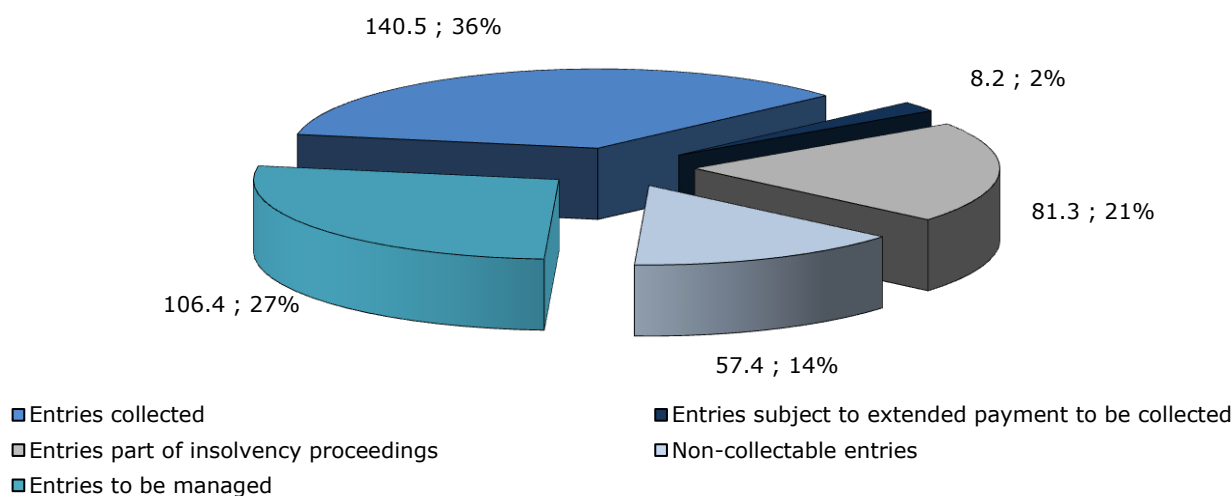
In 2014, insolvency proceedings and other similar proceedings were initiated against 41 taxpayers; the amounts lodged that year were equal to 7.1 million Euro. At the end of 2014, the total entries connected to insolvency proceedings amounted to 81.3 million Euro.

### 2.13.3 Enforcement procedures

In 2014, 908 enforcement actions were undertaken, 588 of which were attachment of debts: out of the remaining 320 enforcement actions undertaken, not all resulted in attachment reports, and the main reason for this is the payment of the pending amounts by the taxpayers. Most of the initiated actions led, however, to the preparation of reports; more precisely, during 2014 the following were executed: 194 attachments of assets, 15 attachments on salaries, 5 attachments relating to real estate. 53 negative attachments were also registered, which were due to unknown whereabouts or lack of means on the part of the tax payer.

Figure 36 details the summary of entries pending in the Register at the end of 2014. The summary provides a snapshot of the situation on that date and, essentially, the difference between the total entered in the Register in the first ten years of activity and the total released, equal to 394 million Euro, is distributed among the collected entries, equal to 140.5 million Euro, deferred entries to be collected, equal to 8.2 million Euro, entries connected to insolvency proceedings, equal to 81.3 million Euro, non-collectable entries, equal to 57.4 million Euro (these are the entries for which a negative attachment report - due to unknown whereabouts or lack of means - was prepared), and those being managed, amounting to 106.4 million Euro (7.4 of which not yet expired).

**Figure 36 - Summary of entries pending in the Register at 31/12/2014**



Notes: Figures in millions of Euro.

### 2.13.4 The Single Tax Bill ("*Cartella Unica delle Tasse*" - CAUTA)

The single tax bill is produced for heads of households (normally for the collection of the TV tax, equal to 20 Euro per year) and for economic operators (for the collection of the license fee and the tax on corporate measures). The single tax bill for a limited liability company, which is the prevalent corporate form on the territory, normally amounts to 1,000.00 Euro per year, while for a joint-stock company it normally amounts to 1,150 per year. The license duty for a sole

proprietorship is 80 Euro. The single tax bill may also contain the tax on advertising and the tax on the occupation of public areas. The deadline for the single tax bill payment is set by Law at 31 March of the reference year.

The entry in the Register for the CAUTA 2014 comprised 18,715 tax collection notices for a total of 4.4 million Euro.

In relation to that entry, normally, as can be seen also from Table 30, the percentage of collection at the end of the reference year is quite high, amounting to around 85% of the total entries in the Register. The high collection that can be reached is probably linked to the fact that the tax for households is rather low and is generally paid by all. "Healthy" economic operators are also very interested in regularising the payment of the license duty without any further charge since the rules in force (Article 29 no. 40 of 31 March 2014) provide for the suspension ex officio of the license if the license duty is not paid by 29 June of the reference year and, if the operator provides no payment of the tax even before 27 September of the reference year, the withdrawal of the license.

The CAUTA entry can be also paid by pre-authorised payment; with this method, in 2014, 8,596 notices were collected, totalling 1.1 million Euro.

**Table 30 - Comparison of CAUTA-related data**

Entries	2012		2013		2014	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Entered	4,689,104.75	18,653	4,516,204.27	18,746	4,366,566.06	18,715
Released	39,492.41	130	34,612.19	149	44,542.21	141
Collected by the Central Bank	4,142,247.90	17,106	3,898,048.34	16,930	3,676,674.15	16,756
To be managed	497,683.69	1,394	574,042.77	1,647	623,841.95	1,780
% Released	0.8%	0.7%	0.8%	0.8%	1.0%	0.7%
% Collected by the Central Bank	88.3%	91.7%	86.3%	90.3%	84.2%	89.5%
% To be managed	10.6%	7.5%	12.7%	8.8%	14.3%	9.5%

### **2.13.5 Auctions of movable assets**

In 2014, there were 2 auctions for movable assets; the first, held in the first half of the year, made it possible to cash in 223 thousand Euro, equal to 71.9% of the value of the attachments.

Through the auction of movable assets no. 2/2014, 474 lots were put on sale, for a total value of 544 thousand Euro, which allowed for the redemption of 176 thousand Euro.

The unsold assets, once the formalities required by law have been completed, are normally re-submitted in the subsequent auction.

The Overdue Tax Collection carried out two sales by private tender, which resulted in a return of 11,326 thousand Euro.

Table 31 shows the redemptions that the Overdue Tax Collection office obtained from auction sales of assets foreclosed during 2012, 2013 and 2014. These redemptions cannot be compared among one other as the success of the auction depends on many factors, primarily the type of assets for sale, on which it is not possible to intervene in any way.



**Table 31 – Redemptions from auctions**

	2012		2013		2014	
	I auction	II auction	I auction	II auction	I auction	II auction
Value of assets	970,225.98	411,184.51	326,031.00	312,427.00	310,567.00	544,371.35
Collected	151,046.78	181,033.53	171,273.37	234,968.05	223,230.12	175,827.96
% Collected	15.6%	44.0%	52.5%	75.2%	71.9%	32.3%

**2.13.6 Civil Actions**

The Overdue Tax Collection Department filed an appearance before the Court to defend the Most Excellent Chamber, the Entities and the Autonomous Authorities, in the legal actions initiated due to the collection. Specifically, the following should be noted:

1. a civil action for insolvency (revocation proceedings);
2. an administrative appeal pending judgement;
3. two administrative appeals rejected in the first instance for which the plaintiff proposed an appeal.

**2.14 Management of liquidity and the financial portfolio**

The world economy continued to expand at a moderate pace during 2014, gradually rebalancing the problems that had emerged during the economic-financial crisis of recent years.

The economic recovery and the process of gradually leaving behind the financial crisis were nonetheless put to the test by new challenges, represented mainly by the geopolitical conflicts raging in both Eastern Europe and the Middle East and Africa, but also by the strong fluctuations in the trends of currencies and of raw materials.

The Gross Domestic Product in OECD countries during 2014 grew by 3.3% compared with +2.9% recorded in 2013 (IMF source).

Also during 2014, the financial markets were extremely directed and driven by the monetary policies and decisions of the Central Banks of the major countries.

The Federal Reserve, as widely announced during the periodic meetings of its steering committee, competed, within the time limits set out, the programme for the purchase bonds (*Quantitative Easing*) while maintaining an expansive approach by maintaining the interest rates, Federal Funds, included in the range between 0% and 0.25%.

The European Central Bank, struggling with the still not expansionary economic data, which at any rate are not unique and homogeneous for all the economies of the Euro zone, and especially with a deflationary trend of prices for goods and services that has become increasingly marked and worrying throughout the year, decided to lower the key rate on two occasions by bringing the latter from 0.25% to 0.05%.

The ECB also introduced, for the first time in its history, also the negative payment of the liquidity deposits held with credit Institutions at national Central Banks that are part of the Eurosystem.

In the last period of the year, because of fears that the expansionary policies implemented in the Eurozone could prove insufficient to stop the deflationary trend of prices, the President of the ECB, Mr Mario Draghi, gradually announced the introduction of manoeuvres defined as "unconventional", thus opening the way to the use of the Quantitative Easing instrument also in Europe in 2015, and following the example set by the US where the measure has proven to be



effective to allow the banking and financial system to recover income and to revitalise economic growth and employment.

This perspective has led to the continuation of the downward trend of the returns of Germany's bonds, which has determined the squeeze of the returns of the majority of government-backed bonds of other countries in the Euro area.

The effect of a reduction in returns was gradual and constant throughout the year, so much so that, for many issuers and various deadlines, interest rates fell even below zero; for example, returns of the five-year German bond at the beginning of 2014 was 0.93% and at the end of the year it registered the level of 0.01%.

As regards the level of the three-month Euribor rate, which represents the index parameter for most floating rate securities of the securities portfolio of the Central Bank, it went from 0.28% at the start of the year to 0.08% by the end of the year.

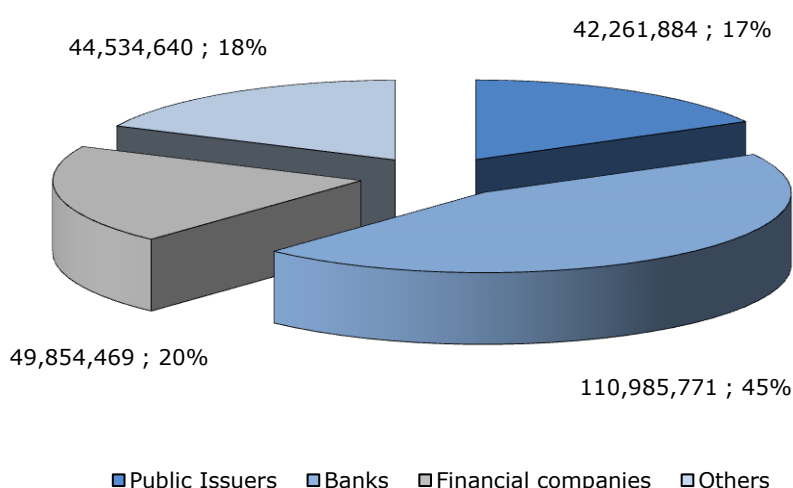
The return of the bond portfolio has registered during 2014 a yield of 1.92%, with a profit from financial operations amounting to 3.4 million Euro against 4 million recorded in 2013 and the amount of the portfolio managed at the end of 2014 was 247.6 million Euro against 266 of the previous year.

The interest margin on securities amounted to 2 million Euro against 2.5 Euro at the end of 2013.

Interest received from customers and banks fell to about 0.5 million Euro, compared with nearly 0.7 million in 2013, while interest paid rose to 0.6 million Euro, compared with 0.4 million Euro, due to the increase in interest rates that are applied to sight deposit current accounts, as a result of the review of the economic agreement for the remuneration for the services rendered to the Public Administration; overall, inter-bank loans and loans to customers decreased by approximately 55 million Euro, amounting to 100.7 million Euro, against 155.8 million of the previous year, while cash-in-hand liquid reserves did not undergo any noteworthy change and amounted to 11 million Euro.

The debts with banks and customers also decreased by an amount of 72.5 million Euro, amounting to 275.6 million Euro, compared to 348.2 million at year-end in 2013.

**Figure 37 - Composition of the bond portfolio**



Notes: Figures in Euro.



As can be seen from Figure 37 during 2014, the main component of the securities portfolio was constituted by bonds of banking issuers. However, its weight decreased compared with that of 2013, where it constituted 62% of the portfolio, and a greater percentage was also devoted to financial and corporate issuers, with a better apportionment of issuer risk.

## 2.15 Second social security pillar

As from January 2014, FONDISS – after a complex phase of review of the organisational processes adopted for the management and valorisation of managed assets – launched the investment activities concerning the social security contributions collected. Investment activity, considered to be the initial operating phase for FONDISS, was addressed on non-complex instruments, given that the available resources were used in term deposits with San Marino banks. In particular, investments were made in both the social security contributions collected in the period between July 2012 and December 2013 – for which collection activities were previously carried out, through reconciliation and balancing of data, also with the support of the Central Bank – as well as the contributions collected on a monthly basis.

The Central Bank, in the role of custodian of FONDISS pursuant to Article 14 of Law no. 191/2011, participated in the described investment operation by verifying compliance with the required investment limits, adjusting the financial flows related to the term deposit transactions that were activated, as well as verifying the correctness of the monthly unit value of the portion and of the related items (value of the net assets intended for benefits, number of units in circulation) determined by FONDISS.

Table 32 indicates the values as at 31 December 2014 with reference to custodian bank activities carried out by the Central Bank on behalf of FONDISS.

**Table 32 – Financial instruments and other assets linked to the activities as custodian bank**

Year	31 December 2014	31 March 2015
Liquidity deposited with the Central Bank	1,045	10
Other assets other than financial instruments and liquidity (term deposits)	13,993,000	17,073,000
<b>Total</b>	<b>13,994,045</b>	<b>17,073,010</b>

Notes: Figures in Euro, excluding accruals.

The Central Bank, as well as playing the role of custodian bank for FONDISS, has also supervisory functions in relation to it, pursuant to Article 13, paragraph 4 of Law no. 191/2011. In this context, particular attention was given to the actions arranged for the benefit of FONDISS participants, aimed at restoring the administrative and accounting processes required by operations, following their interruption that took place after the outcome of the referendum of 25 May 2014, which had resulted in a stalemate with negative effects on the operation of the supplementary welfare system.

Also in the light of the above-mentioned referendum results, the Central Bank, both in 2014 and in these early months of 2015, provided its cooperation and technical advice to FONDISS and to the Secretary of State for Health in order to identify technical and legal solutions aimed to ensure the efficient working of the San Marino supplementary welfare and the settlement of critical issues in Law no. 191/2011, including the attribution to the Central Bank of three mutually incompatible functions (consultant for direct investment, custodian bank and supervisory authority).

Finally, there was a contribution supplied for the definition of Delegated Decree no. 39 of 30 March 2015 that governs, pursuant to Article 5, seventh paragraph, point 7, of Law no. 191/2011, the criteria and procedures with which the FONDISS Administration Committee proceeds to select subjects to whom it entrusts the management of its assets.

### 3 INTERNAL RESOURCES

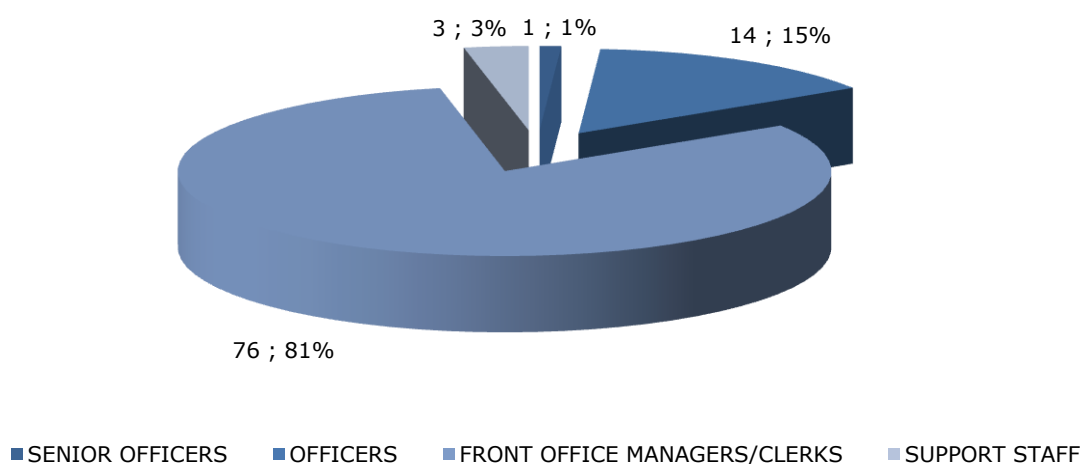
#### 3.1 Human resources and corporate staff

In 2014, the Central Bank's staff decreased by one resource and, at the end of the year, it included 94 employees (including the Director General), 15 of whom at the Financial Intelligence Agency.

If we were to take into account long-term leave and part-time work and long term absences, the average number of resources effectively working in the Bank amounted to 90.

The breakdown of staff according to contract category is detailed in Figure 38.

**Figure 38 - Breakdown of Central Bank and FIA staff according to contract categories as at 31/12/2014**

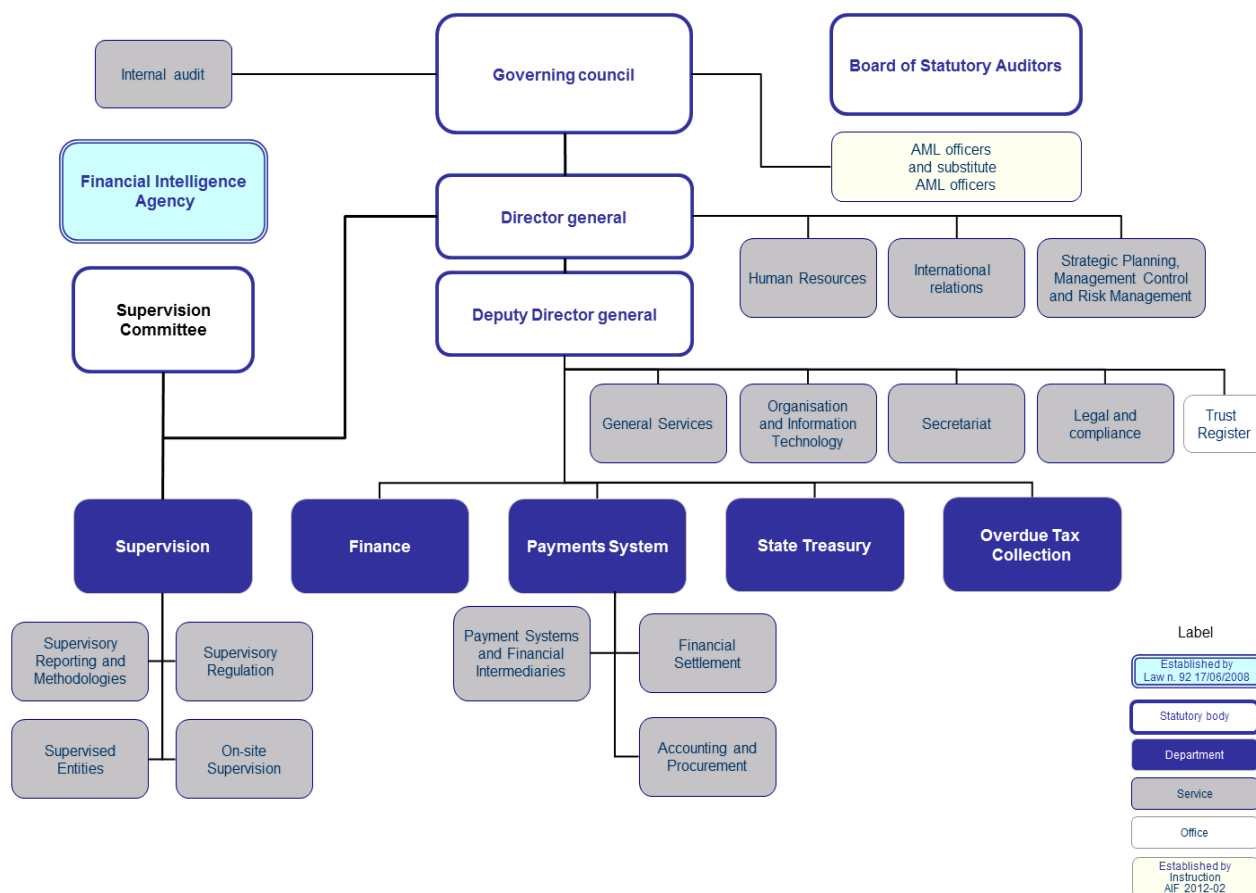


In February 2015, the Governing Council, on the Director General's proposal, in agreement with the Head of the Supervision Department, approved a plan for the reorganisation of the Supervision Department considered necessary in order to tackle the difficult challenges of adapting the rules and supervision procedures caused by the commitments made at the international level by the Republic of San Marino and by the evolution of the San Marino credit and financial market .

Given that there were no changes in the Central Bank staff, medium-term measures were taken. These were intended to overcome the current limits in terms of productive capacity of the Supervision Department, through a different distribution of tasks and resources, trying to capitalise on the already available expertise.



**Figure 39 - Organisational chart as at 01/04/2015**



The increase in workload had a negative effect on staff training in 2014, and went to an annual per capita average of about 7 hours of training compared to 19 hours of 2013. In this regard, priority was given to participation in *in-house* courses as well as in events organised by the Central Bank Foundation and supranational organisations such as the International Monetary Fund.

The training initiatives of the Central Bank Foundation also continued in 2014; also with the operational support of the Bank, the courses on the Trust - provided for by Regulation no. 2010-01 - were organised. These consisted of a series of meetings on anti-money laundering and terrorism financing for real estate agents, as well as a course titled "Internal checks and risk management in banking and financial institutions", with the objective to analyse in depth and study the processes characteristic of internal controls and risk management of financial institutions; the latter course, which finished in the current month of May, included various lectures given by employees of the Central Bank and attracted the participation of many representatives of supervised parties.





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